

## **Management Accounting**

### **More Visibility for Decision Making**

Tougher competition and shrinking margins demand visibility for individual operating costs and business returns. Central to management accounting is decision-making, planning, and control of the processes that convert production costs into operating profits. proALPHA<sup>®</sup> delivers timely and accurate information to the decision maker, no matter how diverse the task or at what management level.

The high degree of integration among the proALPHA modules allows feasible alternative decisions to be weighed with respect to their impact upon all areas of the business. This applies to sales forecasting as well as to the creation of production programme schedules. Quantities and values circulate throughout the system not just in one single accounting module. Thus, for example, the cost of services performed by various departments (cost centres) involved in the manufacturing process are automatically allocated, as each stage is completed, to the activity base (cost driver) that caused the costs to be incurred and the cost centre accounts are credited accordingly.

The object-oriented structure of proALPHA underpins a highly flexible design that supports a variety of theoretical and practical cost management models. The proALPHA Management Accounting system is appropriate for many organisations, regardless of the branch of business activity. In fact businesses engaged in the manufacturing, retail or, service industries sector will find proALPHA an excellent match

### **Functions that Accountants Love**

The ability to structure costs into the appropriate fixed and variable portions is a prerequisite for many accounting models, an example would be the calculation of marginal costs. With proALPHA the fixed and variable portions of the same cost driver can be assessed separately. In this way, calculation of step fixed costs or a break-even analysis is child's play. Certain types of costs may have relevance only for production or tax purposes or, for general interest. Therefore, the capability exists to apply special tax rates when pricing in-factory produced goods - while eliminating the non-value added portion of the costs.

Cost centres, cost drivers, and profit centres can be structured and consolidated into virtually any number of alternatives. This applies to cost and profit categories as well. In this way, whatever the assessment demands of the accountant, the information is readily adapted to meet those needs.

The data flow between the accounting modules can take place automatically or manually. A typical automatic data flow is the transfer of surpluses or deficits from a cost centre to an earnings report that is set up as a contribution income statement. A practical example of manual booking is the recording of engineering services provided to a development project which has been set up as cost driver account: the project is debited and the servicing cost centre is credited.

## Departmental Costing

Apart from measuring profitability, one of the essential functions of a cost accounting system is to assist managers in controlling costs and determining the overhead allocation rates for product costing. Costs and overheads are allocated directly to the cost drivers in proportion to the amount each consumes.

With proALPHA's Cost Management System, costs and overhead rates can be determined easily. The user can define formulae while deciding if rates should apply universally to all cost centres or if certain centres are better served using a different procedure.

Costing and performance measures can be set up and applied plant-wide, or to specific cost centres. Every cost centre can have an unlimited number of parameters associated with it. The level of integration in the proALPHA system is reflected in the application of overhead rates. When standard cost rates are updated manually, actual and budgeted rates are projected with each cost allocation sheet, if the user so desires. In addition, complete rate histories are maintained so that, for example, the application rates for machine hours, or the labour rates in effect at the date that a stage of the manufacturing process was completed will be used.

A fundamental part of all cost accounting systems is the internal allocation of service costs. Both of the proALPHA cost allocation procedures satisfy the needs of all practical requirements. Besides the step-down method, the reciprocal services method is available. The reciprocal method lends itself to the situation where some service departments receive a large measure of service from other departments. proALPHA automatically prepares linear equations and solves them. Compared to simple iterative models, this mathematically exact method performs sophisticated computations and ensures the accuracy of the allocation rates. Both methods may be used in combination.

## Goal Attainment through Planning

Management accounting is vital in safeguarding the economic profitability of the business. Budgeting is an elementary part of control and is basis of variance analysis. In proALPHA you will find budgeting tools required to meet the needs of different business profiles, that can vary significantly depending on size, type, and market.

The term analytical planning in proALPHA refers to "Zero-Based Budgeting". Costs, services, and profits for each measure and each cost category are determined for each budget item - be it a cost centre or a cost driver. User definable budget distribution periods means the allocation of the annual budget can be broken down to monthly figures.

If historical data is available, the budget process can be significantly accelerated. Using financial planning models, budget figures can be calculated determined through applying multiplication factors based on selected reference year values. Any number of budget variations for cost centres, cost categories, services, or time-periods can be analysed using different indices.

Financial forecasts can be prepared for any time-period. Actual values replace the budgeted amounts and, on that basis, future results can be projected. The continuous adjustment of budget data is easily accomplished by static or flexible methods.

## **Cost Drivers - Orders, Products, Processes**

The proALPHA Cost Driver System has none of the restrictions normally associated with terms like unit of output costing, cost unit period accounting, and full or partial costing.

Cost drivers can be at the level of individual orders, product or product lines. Conversely, a cost driver can be a large, long-term project, or, a process, such as a complete customer order from quotation to billing. With consistent management of multiple cost structures, the theoretical debate over full and variable costing methods can be left to the academic community.

Accounting results are presented in user defined costing schemas. Often, a period is irrelevant to the decision, as in the pre-costing of an order to determine the quotation prices. An investment, on the other hand, is concerned with the total figures over time for a long-term project. With proALPHA® costs as well as revenues can be reviewed across the life of a project such as total costs from the start of a project, actual costs per month and cumulative costs for the current year.

The value of finished goods, work in progress, and services can be established in a variety of ways. Trade regulations and domestic and international tax laws leave plenty of room when determining the financial interpretation of production costs. Because proALPHA® makes it possible to simulate the asset value of inventory under many conditions, the business possesses a very flexible and powerful tool.

### **Results that Managers Love.**

A special feature from the cost driver perspective is the financial income statement. It is specially set up to analyse results over time. Short-term profit calculations, break-even analyses, or the computation of step-down fixed costs are typical of its calculation possibilities.

Managing a company requires information, useful information based on data aggregated and differentiated by elements such as customer, branch, or product group. In proALPHA® managers have a proven product with which to analyse these and other relevant factors. Whether "bottom-up" or "top-down", all corporate information, can be consolidated at any level - from its point of capture to total earnings.

### **Reports - the Information and Controlling System**

All analyses, from cost centre apportionment sheets, to break-even analyses - can be conveniently displayed in a choice of formats. The accountant can determine the information to be included and its level of consolidation.

With proALPHA's on-line querying capability, all transactions that are needed in decision-making can be called up on a screen. It does not matter at what "level" in the hierarchical structure of information that the query originates. The user can access the relevant data and create a report from any entry point in the structure, moving up, down or sideways through the tree structure.