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# Virtual Mobility: New Challenges for Management Accounting

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# MANAGEMENT ACCOUNTING

## The main role and advantages of Management Accounting in the services corporations and manufacturing corporations


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## 1.Introduction:

Management accounting is the process of providing managers with important financial and non-financial information for decision-making. It is involved with corporate operations planning, controlling, and evaluation. Management accounting is different from financial accounting in that it is focused on providing information to internal users, such as managers, rather than external users, such as investors and creditors. The objective of management accounting to use the statistical data and take better and more accurate decisions. On controlling the enterprise, business activities and development.

Management accounting is essential for all organizations, but it is especially important for service and manufacturing companies. These companies confront a variety of challenging issues, including as cost management, efficiency improvement, and the development of new goods and services. Management accounting can assist companies in dealing with these problems and achieving their goals and objectives. Management accounting is used in service companies to monitor service delivery costs, create and implement pricing plans, assess and enhance service quality, and maintain client relationships. Management accounting is used in manufacturing companies to create and execute budgeting and forecasting systems, track and assess performance against goals, and find and remove waste and inefficiencies. It also helps with product costing.

All things considered, management accounting is a crucial instrument for businesses engaged in both manufacturing and services corporations. It may help companies increase their productivity, profitability, and customer happiness by giving managers the knowledge they need to make wise decisions about every aspect of the company.

## 2.The main role of management accounting in service corporations:

Service companies of all sizes utilizes management accounting as an effective tool to boost performance. It is important for service providers since it enables them to make well-informed decisions on every aspect of their operations. This includes Identify and track the costs of service delivery, develop and implement pricing strategies, measure and improve service quality, manage customer relationships and make informed decisions about resource allocation and investment.

### 2.1. Identify and track the costs of service delivery:

Service corporations often have difficulty measuring and tracking costs, as their outputs are often intangible. Management accounting helps managers make educated decisions about pricing, resource allocation, and efficiency by developing and implementing systems to record and track the costs of service delivery. This covers both direct costs like labour and supplies, as well as indirect costs like overhead and marketing. Direct costs are those that may be directly associated with a certain service offering. The cost of a chef's labour, for example, is a direct cost of preparing a meal at a restaurant. Indirect expenses are those that cannot be directly linked to a specific service offering but are required for overall service delivery. Rent for a restaurant, for example, is an indirect expense of supplying meals.

Management accounting use a range of ways to identify and track the expenses of service delivery. Some typical ways are; a) Activity-based costing (ABC): ABC is a costing approach that assigns expenses to activities and subsequently to products or services based on their consumption of those activities. b) Time-driven costing (TDC): TDC is a costing strategy that estimates the amount of time necessary to accomplish each task using time studies. These time estimations are then used to assign expenses to certain items or services. c) Resource consumption accounting (RCA) is a costing system that records the use of resources like as labour, materials, and energy and then allocates those costs to goods or services.

## 2.2. Develop and implement pricing strategies:

Management accounting provides companies with the information they need to develop effective pricing strategies that take into account costs, perceived value, profitability and market competitiveness. It plays a key role in making strategic pricing decisions for products and services, which can have a significant impact on the company's overall performance. Indeed, it is useful in the detailed analysis of production costs, whether manufactured goods or services provided. By understanding these costs, companies can establish sales prices that cover costs while ensuring an adequate profit margin. Thus, it makes it possible to evaluate the profitability of each of them. This helps companies make informed pricing decisions by identifying the most profitable products or services and adjusting pricing accordingly.

In addition, management accounting helps companies to take into account a very important element, namely competition. Indeed, it makes it possible to analyze costs in relation to competitors, which helps companies determine their market position in terms of pricing. This allows them to adjust their pricing strategy to remain competitive while maintaining profitability. Finally, with good cost management, they can identify areas where costs can be reduced or optimized, allowing them to adjust their pricing to remain competitive while maintaining their profit margins.

## 2.3. Measure and improve service quality:

Management accounting offer a framework for measuring costs associated with service quality, assessing customer satisfaction, monitoring staff performance and identifying opportunities for improvement. By using this information, a company can implement initiatives aimed at enhancing the quality of service, which can lead to increased customer satisfaction, customer loyalty and overall improvement of the company's performance. Indeed, it is possible to track the costs associated with the quality of the service. This includes personnel training costs, quality control costs, error correction costs, etc. By identifying these costs, a company can assess its investment in service quality and take the necessary measures.

But management accounting can also help identify non-quality costs, such as costs related to customer complaints, product returns or non-compliant services. By quantifying these costs, an organization can take steps to minimize them and improve service quality. It is also possible to monitor and evaluate customer satisfaction. This can be done by analyzing the costs associated with solving service problems, customer retention costs, and measuring customer retention. We know that staff training is often essential to ensure the quality of service. Management accounting tracks the costs of training staff and assesses the effectiveness of these investments. This can, for example, lead to adjustments in training programs to strengthen the skills needed to deliver quality service. We can also compare the performance of different units, teams or employees in terms of service quality. This can lead to the identification of best practices and the implementation of measures to extend these practices throughout the organization.

## 2.4. Manage customer relationships:

Management accounting makes it possible to make strategic decisions to improve customer satisfaction and loyalty. Enables a more focused and results-oriented approach to client relationship management. This involves analyzing the costs associated with the different phases of the customer lifecycle, from acquisition to loyalty. This includes marketing costs, sales costs, customer service costs, etc. By understanding these costs, a company can optimize its expenses to maximize customer value and long-term profitability.

Moreover, it can be used to segment customers according to their profitability, needs and behaviour. This segmentation allows companies to customize their service and communication strategies, helping to strengthen customer relationships. In the relationship with customers, loyalty is very important. By allocating the costs associated with customer loyalty, management accounting can help assess the effectiveness of loyalty programs. This helps to make informed decisions about investments in customer loyalty and measures the return on investment of these initiatives. And finally accounting management facilitates the efficient allocation of resources. This means that companies can focus their efforts and investments on activities and initiatives that will have the greatest impact on customer satisfaction and loyalty.

## 2.5. Make informed decisions about resource allocation and investment:

Management accounting plays major part in decision making regarding both resource allocation and investments. By using real data as a tool, firm can work more effectively towards its goals. step-by-step guide for resource allocation would look somewhat like this: identify objectives -> collect data -> cost benefit analysis -> allocate resources according to priority -> monitor and adjust.

More in define the process includes defining the goals and understanding them in order to plan how resource allocation could be helpful in achieving them. Good examples of collectable data and information are current allocation of resources, budgetary constraints and of course performance metrics such as costs, revenue streams and efficiency of operational departments. With the given information it is possible to conduct cost-benefit analysis on different kind of resource allocation situations and compare them for example to the current situation and act regarding the best results. It is also very important to keep monitoring the situation after changes to resource allocation.

Investments in the other hand involve same kind of decision making. Here it is also needed to be familiar with goals and objectives company wants to achieve with the investment. Tools for the financial analysis and evaluating profitability of investment are Net Present Value, Internal Rate of Return and Payback Period of investment. All useful to understand the numbers before action. In addition to a good plan, one should also take note on risks the action will reveal. Think about financials and operational risks; what could be achieved by allocating the resources elsewhere.

## 3. The main role of management accounting in manufacturing corporations:

Facilitating the efficient use of financial resources, enhancing decision making processes, and contributing to the overall financial health and competitiveness of the organization is the main role of management accounting in manufacturing corporations. By providing accurate and timely financial information, management accounting helps manufacturing companies navigate the complexities of their operations and make informed strategic and operational decisions.

The main objective of management accounting stays the same when comparing manufacturing-companies to service-based organizations. Both use budgeting and forecasting to plan for future. Both utilize key performance indicators to assess the efficiency of their operations and from these management accounting actions they both can make strategic decisions based on facts and true information.

## 3.1. Cost products accurately:

Commonly used costing systems in manufacturing corporations are process-costing, activity-based costing (ABC) and standard costing. Usage of them depends on the nature of corporation and business. a) Process based costing is used when manufacturing involves continuous and mass production of same products. Costs are averaged over the production process and unit costs are calculated for each stage of production. b) Activity based costing (ABC) provides accurate view on the true cost of a product by taking the indirect costs a notice. It is suitable for more complex processes with multiple activities and cost drivers. c) Standard costing is the simplest system of these examples as it is applied for processes with repeatable and predictable components. It involves setting predetermined costs for various production samples and actual costs are then compared against these standards.

Costing systems are tools to make precise decisions. System suitable for some case might not fit for another, that's why companies sometimes combine parts from multiple different formulas. Always keeping in mind, the characteristics of each process.

## 3.2. Develop and implement budgeting and forecasting systems:

In manufacturing businesses, management accounting is essential to the development and implementation of forecasting and budgeting processes. It provides the necessary framework and tools to effectively plan and manage the company's financial resources, ensuring alignment with strategic objectives and achieving long-term sustainability.

a) Start with strategic goals; The most effective budgets centre around a clear set of strategic priorities. These stem from an executive-level vision for the organization, outlining the company's aspirations for the medium and long term, and defining a clear path to achieve those goals. b) Determine methodology; It's also important to carefully consider the budgeting methodology. Whichever approach the organization will choose, they have to be clear about the effort required.

c) Make it a Collaborative Process; Planning and budgeting are collaborative by nature. The entire process typically requires a lot of back-and-forth dialogue, which often takes place across a mix of different contexts–sometimes via e-mail, as comments within spreadsheet files, ideas embedded within slide presentations, or simply in person-to-person conversations around the office or over the phone. d) Monitor, forecast and adjust; The next key to success is to continuously monitor performance in real time, forecast outcomes based on current conditions and expectations, and adjust to optimize outcomes in the context of the current business environment. e) Sharpen tools; The final key to success is to invest in good tools and make sure that finance team has the resources they need to work efficiently and accurately.

## 3.3. Track and measure performance against targets:

It's important to manufacturing and service organizations to track and evaluate performance in relation to targets. The procedure includes establishing clear objectives, keeping track of results, and adjusting as necessary. The procedures for tracking and evaluating performance in manufacturing companies are as follows:

a) Set clear objectives; Set specific, quantifiable, attainable, relevant, and time-bound goals for the accounting department. Align accounting objectives with broader corporate goals. b) Establish key performance indicators; Identify and define key performance indicators that directly align with the objectives. c) Regular monitoring; Monitoring performance regularly, whether it is daily, weekly, monthly or quarterly depending on the nature of the business objectives. d) Budgeting and forecasting; Develop comprehensive budgets and forecasts. Regularly update these forecasts based on changing business conditions. Compare actual results against the budget and revise forecasts accordingly. e) Stakeholder communication; Regularly communicate financial performance to key stakeholders, including executives, managers, and relevant teams. Address any concerns and provide insights into future strategies.

## 3.4. Identify and eliminate waste and inefficiency:

Management accounting plays an essential role in assisting manufacturing companies in identifying and eliminating waste and inefficiency in their production processes. Management accounting helps managers to make educated choices by giving appropriate financial and non-financial information, which may lead to increased productivity, lower costs, and increased profitability. Here are some specific methods in which management accounting leads to waste reduction and increased industrial efficiency:

a) Product Costing; Product costing accuracy is essential for identifying waste and inefficiency. Product costing systems that capture all relevant costs involved with manufacturing a product, including direct labour, materials, overhead, and other expenditures, can be developed and implemented by management accountants. b) Activity-Based Costing (ABC); ABC is a complex costing system in which expenses are allocated to activities rather than items. Management accountants can identify non-value-added activities that lead to waste and inefficiency by examining the expenses associated with each operation. c) Value Stream Mapping (VSM); VSM is a visual tool that aids in the mapping of the complete manufacturing process, from raw material input to finished product output. Management accountants can detect bottlenecks, delays, and non-value-added stages that lead to waste and inefficiency by examining the flow of resources, information, and operations. d) Variance Analysis; variance analysis compares actual costs to budgeted or standard costs, allowing managers to identify areas where deviations have occurred. e) Performance Benchmarking; Benchmarking is the practice of comparing a company's performance to industry standards or best practices. Management accountants may assist managers in developing plans to increase efficiency and eliminate waste by identifying areas where the organization is falling short. f) Cost-Benefit Analysis; Management accountants can assist in evaluating the cost-effectiveness of proposed improvements or changes to the production process.

## 3.5. Make informed decisions about product development, launch, and pricing:

There's a lot more to successful product development than just production. First of all, we need to make the right decisions during product development. To implement this, we need to prioritize the issues on which you will base your design decisions. The most important thing is to take into account what the customer wants. To get this into the market, market research can be carried out to help shape the product to meet demand. The "Buyer’s persona" is a technique often used to determine the ideal customer, i.e., who they want to address and how.

Secondly, we need to find the right price in relation to costs and the added value the product brings. Thirdly, we need to consider the product's positioning in the market, for example, by mapping the competition. In other words, we need to highlight the similarities and differences with the competition, the products that are already on offer and those that aren't, and how we can differentiate ourselves from the competition. Once the product has been designed, it's time to prepare for launch. Sales depend on the quality of the launch. A good launch, therefore, predicts good sales, but just as a poor launch can impact not only the product's image, but also the company. It's at this point that marketing comes into play, with its emphasis on visibility and promotion to the right customer segment.

## 4. Advantages of management accounting in manufacturing and service corporations:

Through in-depth analysis of financial statements, a company can gain a better understanding of its financial situation. Management accounting offers a number of advantages; Improved cost management, with better resource allocation. But also, with budgeting. Simplified calculation of profitability, leading to better planning for future growth and improved cash management. Tax and legal compliance. Complete records of company activities enable compliance with legal and regulatory requirements. They can calculate tax liabilities, make decisions about deductions and meet their tax obligations. It also creates a good basis for resolving disputes and presenting financial information in court.

### 4.1. Improved decision-making:

Improved decision-making is a direct consequence of management accounting. Knowing one's strengths and weaknesses empowers companies. They can identify the risks and threats that could impact their business. A sustainable business is one that is able to seize the right opportunities and evolve without disillusionment.

### 4.2. Increased profitability:

Cost Control Management accounting provides a detailed analysis of costs associated with production or service delivery. This granular understanding enables businesses to implement cost control measures, identifying areas where expenditures can be reduced without compromising quality.

Profit Analysis by employing techniques like activity-based costing, management accounting allows for a more accurate assessment of the profitability of different products or services. This insight aids in strategic decision-making, focusing on offerings with higher profit potential.

### 4.3. Enhanced operational efficiency:

Resource allocation with a constant influx of financial data, management accountants assist in allocating resources optimally. This involves identifying areas that require increased investment for growth and those where resources can be reallocated or reduced, enhancing overall operational efficiency.

Performance measurement through key performance indicators (KPIs) and performance reports, management accounting facilitates the continuous monitoring of operational performance. This ongoing evaluation enables timely adjustments and improvements in processes to maximize efficiency.

### 4.4. Improved customer satisfaction:

Cost transparency is a transparent cost structures achieved through management accounting enable businesses to set competitive yet fair prices. Customers appreciate transparency, and knowing that prices are based on actual costs contributes to their satisfaction and trust in the brand.

Quality control in manufacturing, effective management accounting is instrumental in maintaining and improving product quality. For service corporations, it aids in refining service delivery processes, ensuring a consistently high standard that meets or exceeds customer expectations.

## 4.5. Competitive advantage:

Strategic Decision-Making in Management accounting isn't just about numbers; it's a strategic tool. It assists in evaluating different strategic options by providing financial insights. Businesses can make informed decisions on product development, market expansion, or technological investments that position them strategically ahead of competitors.

Flexibility and Adaptability is the ability to adapt to changing market conditions is a significant competitive advantage. Management accounting equips businesses with the financial flexibility to respond quickly to shifts in demand, technological advancements, or other market dynamics, keeping them ahead in the competitive landscape

## 5. Conclusion:

Management accounting plays a vital role in the success of both service corporations and manufacturing corporations. In service corporations, management accounting helps to improve efficiency, profitability, and customer satisfaction by providing information that can be used to identify and track the costs of service delivery, develop and implement pricing strategies, measure and improve service quality, manage customer relationships, and make informed decisions about resource allocation and investment. In manufacturing corporations, management accounting is essential for accurate product costing, developing and implementing budgeting and forecasting systems, tracking and measuring performance against targets, identifying and eliminating waste and inefficiency, and making informed decisions about product development, launch, and pricing.

Management accounting offers a number of advantages to both service and manufacturing corporations which are Improved decision-making, Increased profitability, Enhanced operational efficiency, Improved customer satisfaction, Competitive advantage. As businesses face increasing competition and an ever-changing global economy, management accounting will continue to be an essential tool for success. Businesses that adopt management accounting practices are more likely to be able to make informed decisions, improve their efficiency and profitability, and achieve their long-term goals.

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