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Contents

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What is management accounting?

Management accounting refers to the process of collecting, organising, and recording financial transactions with the aim of providing information for the management to make informed decisions about the operation of an organisation (Ameen, Ahmed, and Abd Hafez, 2018). Management accounting allows organisations to conform to the expectations of various financial agencies, such as tax agencies, by ensuring that all transactions that take place within an organisation are done correctly (Järvinen, 2016), thus enabling the organisation to meet its goals and objectives.

Role and principles of management accounting

Role of management accounting

The main role of management accounting is to provide the managerial team with the information that can be used to make decisions about the operation of any given organisation (Masoom and Zaman, 2017). The process of decision-making entails the use of information about the company, which includes financial information. Thus, the main role of management accounting is to provide insight for managers within a company to make a better decision regarding the financial operation of the company. This ultimately leads to the attainment of organisational goals and objectives. Additionally, managerial accounting helps companies manage risks during their operations by ensuring that they have the right information to aid in the strategic management of the companies (Appelbaum, Kogan, Vasarhelyi, and Yan, 2017).

Principles of management accounting

The principles of management accounting may vary; however, there are two main principles of managerial accounting: the principle of analogy and the principle of causality. The principle of causality is used in denoting the operational cost and how they affect the values of goods and services produced within an organisation (Martin, n.d). The causality principle allows managerial accountants to assign values to the quantities produced in a model that depends on a cause-

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effect basis. This principle looks at the number of inputs that are used in giving the desired output, thereby helping managers to make better decisions based on the logical facts presented. For example, for a product to be developed, there must be raw products; thus, the relationship between the raw products and final product can be analysed based on the input that is placed to produce the product, such as human labor. Therefore, the principle of causality looks at the cause and effect relationships between various aspects in managerial accounting.

Similarly, the principle of analogy in management accounting is used when making inferences to financial outcomes and how they may impact future events. This principle involves making a financial analysis with the aim of determining how future events are likely to occur. The principle of analogy is developed from looking at the cause and effects of various financial data and how they affect the decision-making processes within a company. Moreover, the principle of analogy allows managerial accountants to carry out optimisation of financial results by looking at the relationships between various costs. Managerial accounting uses this principle in carrying out the planning process by using the available data to help in designing future budgets and financial projects. If it were not for the principle of analogy, it would be difficult for organisations to carry out planning due to a lack of data on the relationships between various factors of production. The past outcomes of various interactions among factors of production are what help managers/organisations in coming up with plans and budgets on how the company can meet in intended goals and objectives. The principle of causality and analogy thus form the main principles of managerial accounting without which there would not be effective planning and control of financial projects. Without these two principles, managerial accounting would not have the basis for carrying out its duties, such as informing decisions making processes within organisations.

The distinction between management accounting and financial accounting

One of the main differences between management accounting and financial accounting comes in the way the financial information is used. In management accounting, financial information is purposely used to help managers in decision-making within the company (Saukkonen, Laine, and Suomala, 2018). As such, management accounting focuses on the internal processes that take place within an organisation. This means that every company may have its own way of carrying out its management accounting, and thus, they are not regulated. Moreover, the management accounting information can be tailored to meet the needs of the organisation at the departmental level, thereby ensuring that organisational goals and objectives are achieved. For example, departmental heads may demand different financial information and data to help them achieve their departmental goals. In this instance, the information provided will only be helpful to the department involved. Hence management accounting takes place at the organisational level.

On the contrary, financial accounting is used to help external agencies outside the purview of the organisation by providing them with the financial information of the company. The purpose of financial accounting is to gauge whether or not a given organisation conforms to the set standards and guidelines of accounting (Roychowdhury, Shroff, and Verdi, 2019). All public companies are expected to abide by the regulations defined by the Generally Accepted Accounting Principles (GAAP) whenever financial accounting is performed. These guidelines ensure that there is uniformity in the filing and reporting of financial transactions in all publicly listed companies. Comparing management accounting and financial accounting, it is clear that management accounting does not follow any set rules and regulations and can be done as per the wish of the company in question. However, financial accounting must be done according to the set standards of GAAP, thus allowing external entities to gauge the financial performance of the company (Dimitriou, 2020).

The different types of management accounting systems like

Cost-accounting systems

A cost-accounting system refers to an accounting system that focuses on the estimation of

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products costs with the aim of establishing profit analysis (Paff, 2021). Through cost-accounting, an organisation is able to determine the cost of their inventory, thereby helping them to know which products are profitable and at what cost. Moreover, cost accounting can also be used to estimate the values of inventory (both finished and in progress), thus allowing financial statements to be prepared.

Cost-accounting can also be categorised into two: process costing and job order costing. In process costing, an organisation carries out the cost of manufacturing a given product as it goes through a series of processes within the company. This type of costing accumulates all the costs involved in each step of the product development until it becomes a finished product. It is mainly done on products that require a series of processes through various departments for the product to be considered complete. In each section of production, different costs are incurred; thus, process costing allows an organisation to sum up all the costs involved in each process, thereby giving the company the ability to allocate costs in every step of production.

Job order costing is a cost accounting system that allows companies to accrue manufacturing costs for each job assigned to them (Jasim et al., 2020). In most cases, this method of cost-accounting is used when companies are working with unique orders/jobs that require specialised attention and input. Therefore job order accounting allows the company to accumulate all the manufacturing costs involved in the entire process, thus allowing the company to track its financial activities throughout the entire process. For example, companies that may use the job order costing process include industries that deal in machinery, food industries as well as garment factories, among others. These companies have the tendency to tailor their products to meet the needs of their customers; hence job order costing is the ideal type of accounting to be used in such scenarios. A combination of both process costing and job order costing gives rise to a hybrid cost accounting system. This hybrid system allows an organisation to deal with all the features of process costing and job order costing.

Moreover, cost accounting uses two forms of cost allocation: activity-based costing and the

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traditional costing system. The traditional costing system is based entirely on the cost of making a product such that a profit is generated. This type of accounting takes into consideration all the indirect costs of productions, otherwise known as an overhead cost, in determining the profitability of a product. The traditional costing system uses different elements of production to accumulate the costs involved in the entire process of developing a single product. It looks at factors such as the number of hours involved, managerial expenses, amount of materials needed, the kind of packaging used, and machine maintenance, among others. All these factors affect the costs of production and ultimately the profits generated. The traditional costing, therefore, uses the cost drivers to help in determining the cost involved in the production process. This is done by selecting a cost driver and estimating the impact it will have on the production line.

Activity-based costing is used in assigning overhead and indirect costs to products and services that are related. This costing method, therefore, is primarily based on the activities that are considered cost drivers. These activities have different impacts on the production of goods and services. Under this costing system, most companies are able to come up with their pricing strategies by looking at the overhead costs that are involved in the production of goods and services. Any activity that consumes resources within the company is considered an activity. Thus within companies, there are a series of activities that may affect the way costing is performed within the company. One of the benefits of using the activity-based costing model is that it allows many costs to be pooled together, thus enhancing the costing process. The pooling together of different costs helps in estimating the overhead costs involved in each activity that takes place during the production of goods and services.

Inventory management systems

When goods move through a supply chain, there are several factors that must be considered. As a result, most companies tend to track their goods from the production line all the way to the end-user. An inventory management system, therefore, allows the tracking of goods from the

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moment they come in as inventory to the time that they get finished and supplied to the market (Chebet and Kitheka, 2019); as a result, inventory management is crucial in any given company as it enables the company to keep good track of its inventory and goods during and after they leave the warehouse. The management of inventory requires special consideration such that any material that is used in the production of goods and services does not go to waste. A good inventory system ensures that the company gets the required materials at the right price and quantity. Moreover, it should be noted that inventory management aligns with the demand of customers within the market. This means that for a good inventory, the number of goods produced should meet the customer demands and minimise costs that may lead to overstocking or understocking. It, therefore, brings about the balance between the costs of production, including overhead and indirect costs, and the profit generated. The management of inventory should be part and parcel of any company that intends to keep track of its activities, especially in the way raw materials are handled.

Budgeting Reports

In managerial accounting, budgeting reports are used to compare the performance of budget projections by looking at how they perform within a given accounting period. In cost accounting, budgeting reports can therefore be used to determine the actual costs that a product incurs during its development by looking at the estimated costs against the actual budget. Budgets essentially represent the financial goals of a company that are made based on projections. However, these projections can sometimes be misleading; thus, managers have to look at the financial reports at the end of the accounting period and compare them with the budget projections that were done at the beginning of that period. This information allows managers to gauge their efficiency in drafting budgets and adjust their budget projections accordingly in the next accounting period. Moreover, the budget reports allow managers to look at the financial problems of the company and identify areas that need improvement. The budgetary reports are therefore essential for cost accounting as it helps to identify costs and help manages to adjust their financial goals according to the actual performance of the organisation.

Additionally, the budgeting reports allow managers to have control of the budgeting process. When budgets are prepared by a company, it is expected that the budget should align with the financial goals of the company. Therefore, the budget reports allow managers to be actively involved in the entire budgeting process, thus can lead to policy formulation. These policies will help the organisation to have budgetary plans as well as developing both financial and economic trends for the company to use. Hence budgeting reports are crucial in cost accounting given the impact they have on the decision-making within the organisation.

Account Receivable Aging Reports

The account receivable aging reports refer to the unpaid invoices tabulated against the duration that they have been outstanding. The account receivables reports help companies to identify the number of clients that have outstanding balances with the company, thereby helping the company to gauge its financial health. When a company has a high number of unpaid invoices, the financial health of the company is affected because the company has to operate on a constrained budget. The account receivables also indicate the urgency of collecting company debts from different clients. When the process of debt collection gets slower, the company takes a big risk as far as financial operations are concerned. Every company requires money to be flowing in and out of the company to ensure that the company's goals and objectives are met. However, if cash inflow is limited, the organisation becomes paralysed operation-wise, thus affecting the efficiency of the organisation. Managerial accounting, therefore, must look at the account receivable aging reports to gauge the period of outstanding debts and how they affect the efficiency of the organisation. Managers rely on the accounts receivables aging reports to know the credits worthiness of some clients/customers. This information will determine whether or not some clients get allowances on their debts or terminate any business transaction altogether.

In most cases, the account receivables aging reports are prepared on a 30-day schedule but can

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sometimes spread over 90 days. The tabulation of these reports allow managers to know the length of time that some receivables accounts have been overdue and by how much. This data can help managers to take control of the selling practices within the company by limiting some clients on cash-only business transactions. The information from accounts receivables aging reports allows companies to draft collection letters to their debtors, noticing them of the impending debts that need to be settled within the agreed period of trading.

In managerial accounting, the accounts receivables can be used to develop company policies (Adusei, 2017). For example, if a company realises that a majority of its clients do not pay their debts in time, then it could signal that the company policy is effective. As such, the managers may come up with stringent measures to help solve this issue. More strict policies can be developed and implemented to help in ensuring that clients pay their debts as agreed. The accounts receivables schedules can also help managers to pinpoint the cash flow problems within the company and devise measures that will ensure efficiency in the flow of cash within the organisation. Moreover, accounts receivable aging reports can help companies to assess their payment terms with different stakeholders like suppliers. This assessment helps managers to maintain a healthy financial status so that the business continues to operate efficiently.

Job-Cost Reports

Job-costing reports emerge from the process of allocating expenses to various projects within the company with the aim of determining the financial efficiency as well as the profitability of the projects. The costing process allows companies to track the expenses involved in each project that each company undertakes. The purpose of tracking such expenses is to ensure that the company is efficient in terms of financial analysis. Some of the major costs that are involved in job-costs reports include the cost of materials used, overhead costs as well as labor. All these costs have to be carefully recorded as the information that is collected can also be used for taxation purposes. Moreover, the financial reports that are generated from job-cost reports can be used to identify discrepancies in the financial reports of the company. The emerging information from these reports can be used to report the production outcomes of any given company.

Additionally, job costing can be performed in phases, thus allowing accountants and company management to gauge the performance of the project by comparing the estimated costs against the actuals costs incurred in each phase. Job cost reports are essential for managers due to the numerous benefits that they bring in managerial accounting. The first benefit of job cost reports is that they allow management to adjust its business model according to the prevailing changes within the business environment. For example, the prices of materials vary depending on various factors within the environment. These changes in prices ultimately affect the estimated costs, thus the need to adjust the business model to accommodate these changes. Secondly, the job cost reports are used by management to evaluate the performance of the company. This happens when a final product is developed at a higher or lower cost than the estimated cost. The resulting end product must therefore be evaluated using job cost reports to determine the factors that might have led to the low/ high cost incurred in the production process. Furthermore, the job cost reports help management to identify the variables that make the cost of production to be higher, thus leading to necessary adjustments in the budget.

Performance Reports

Performance reports always come when analysing the actual performances of various projects that a company may engage in. the performance reports give stakeholders information on how a given project is carried out by looking at the cost incurred, the schedule of work as well as the scope of the report. Many times stakeholders need to be briefed on the progress of the project, which is why the performance reports are essential in management accounting. There are several performance reports that can be generated whenever dealing with company projects. One of the performance reports that is used by management is the status report. These reports contain details on the current performance of the project by comparing it to the baseline that is set for any particular project. A status report thus gives the stakeholder a picture of where the project has reached. It is almost the same as the progress report, with the exception being that progress reports contain all the details of work that have been accomplished. The performance reports can also be generated based on the trend. Thus a trend report allows stakeholders to gauge whether the trend of the performance of the project is on an upward or downward trend.

One of the key elements of a performance report is a project management plan. The project management plan contains what is termed project baselines. These project baselines contain what is expected to be the reference points of the project such that the project managers can use them to gauge whether or not the project is on course. Therefore the project management plan is like a roadmap that allows a project manager to track the progress of the project while also ensuring that the project is carried out as planned. Moreover, the project management plan contains all the costs, schedules, and scope of the project that allows managers to assess the performance of the project. These parameters can also contain technicalities that may be involved during the execution of the project plan.

The second element of the performance report is the work performance information (WPI). The WPI is generated from the activities that take place in the project and include such deliverables as costs incurred and project progress. The data on the progress of the project is essential in determining generating the WPI as it shows the amount of work done against the cost incurred during the process. The performance report can contain several factors as long as they measure the performance of the company by looking at the attainment of goals and objectives. This means that the performance reports will vary depending on the goals and objectives of an organisation.

What is meant by cost?

Cost refers to the monetary values that are assigned to various expenses such as raw materials, equipment, labor, and services, among others. Each expenditure attracts a monetary value that is entered in accounting books to help in determining the profitability of any given organisation. Recording the costs of each expenditure within a company is essential because it helps

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management to strategise on how to minimise excess expenditures to realise profitability. Cost accounting helps in better decision-making within the company by looking at the values attached to every element of production and determining which aspect to increase and which one to reduce. This can only be possible by assigning monetary values to the aspects of production and keeping the records for future reference.

Different types of costs

There are four main types of costs used in accounting. The first type of cost is a direct cost. Direct costs refer to all the cost that is associated with the creation of a product (Davis, 2021). For example, in a manufacturing company, direct costs can include labor and the cost of raw materials used in the creation of the final product. The second type of cost is indirect costs. Unlike direct cost, the indirect cost refers to all the aspects of production that may not have a direct impact on the creation of the final product but are still necessary for production. The indirect costs may vary from one department to the next, but they still have an impact on the creation of the final product. The third type of cost is a fixed cost. In any manufacturing company, fixed cost refers to the aspects of production that do not change regardless of the output of the company (Schuh et al., 2019). An example of a fixed cost is insurance. Thus cost does not change regardless of the output that company generates. Moreover, something like the cost of building up the factory does not change and will not vary regardless of the output generated by the company. The fourth type of cost is a variable cost. The variable cost, unlike the fixed cost, is affected by the output produced by the company. For example, if a company's output increases, the variable cost also increases and may include such costs as packaging costs and transportation costs. Other types of cost include opportunity costs, operating costs, controllable costa, and sunk cost, among others.

The preparation of the income statement can be done using two approaches. The first approach would be to use the marginal costing technique, while the other option is to use absorption costing. In the marginal costing technique, the fixed cost and the variable cost are treated

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separately, while the gross profit is not tabulated (Agrawal, 2018). On the contrary, in the absorption costing method, the fixed and variable costs are not considered separately when determining the profitability of the company. The absorption costing technique treats both fixed and variable costs as product costs (Herath and Lu, 2018).

Consider the following information for a manufacturing Company X for the year ended 2020

	$
Sales	120000
Cost of raw materials	28000
Cost of labor	16000
Variable overhead cost	11000
Fixed manufacturing cost	9000
Variable administrative expenses	6000
Fixed administrative expenses	7000

To calculate the income statement of this company, both the marginal costing technique and the absorption costing technique will be used.

Marginal Costing Technique

Marginal Costing Income statement for Company X for the year ended 2020

	$	$
Sales revenue		120,000
Marginal costs: Direct materials Add labor Add variable overhead Add variable admin	 28,000 16,000 11,000	

expenses	6,000	(61,000)
Contribution		59,000
Less Fixed Costs: Fixed manufacturing cost Fixed Admin. Expenses	 9,000 7,000	 (16,000)
Net profit		43,000

Absorption Costing Technique

Absorption Costing Income Statement for Company X for the Year Ended 2020

	$	$
Sales revenue		120,000
Marginal costs: Direct materials Add labor Add variable overhead Add fixed manufacturing cost	 28,000 16,000 11,000 9,000	 (64,000)
Gross Profit		56,000
Less:		

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Fixed Admin. Expenses Variable Admin. Expenses	7,000 6,000	 (13,000)
Net profit		43,000

All the two techniques above give the same value in the net profit for Company X in the year 2020. Therefore marginal costing methods and absorption costing methods can be used in preparing income statements for companies.

Budgetary Control

Budgetary control involves the act of preparing a budget for future use, and they are associated with the actual definite performance to find out changes if any. The contrast of budgeted statistics with real figures will assist the management in discovering the difference and take appropriate actions with no delay. Some of the objectives of budgetary control include; defining an objective for an enterprise, correcting the differences that may occur between the actual figures and the estimated one, and also increasing profits. Despite the fact that coming up with an accurate budget is difficult, it aids in finding responsibilities, especially when dealing with management. This paper focuses on the types of standard common cost systems used for budgetary control, how they differ, and the pricing strategies that can be used for budgetary control, including the demand and supply considerations.

Costing System

Notably, the actual cost includes noting down costs of a product by use of factors such as; the material actual price, labor cost, and also the incurred overhead cost. The unique thing about the actual costing system is that it only uses the actual cost and is based on experience leaving out ant standards or budgeted amounts. An actual costing system is one of the easiest ways since it does not require pre-planning of the standard cost. The need for the actual cost to be compiled and allocated brings forth a waste of time when valuation for ending inventory and cost of goods are put into consideration. In an example where a company experiences a stable level of production every month, they are likely to experience fewer actual costing problems. After the actual cost is known to the managers, it is possible to change the production process to meet the budget.

Similarly, budgetary control uses a normal costing system during the derivation of cost. Normal costing systems use some components to derive cost. This includes; actual cost of material, standards overhead rates, and the actual cost of labor used in the allocation of purpose in a budgetary. Since the normal costing uses the overhead rates that are standard instead of actual rates, this technique helps define the cost product in a place where there is no abrupt increase of the mentioned costs. Normal costing is usually accepted, and it is allowable to derive the cost of a commodity using this technique under GAAP and IFRS. Therefore, using figures with the familiar nature of the numerators and denominators when costs are being calculated will control the budget. Although there are no rules in management accounting, it is advisable to use similar figures during cost calculation. (Normal costing, 2021, para. 3). Actual overheads are divided by actual quantity but not with the budgeted quantity. This formula brings reliable results since there is a comparison of similar terms in a budget. This rule, however, does not apply in the normal costing system.

Subsequently, a standard costing system involves creating an estimate. Variances are noted down to outline the variance between the expected and actual costs of a budget. The system shows a shortened substitute to cost systems, like the FIFO and LIFO methods, in which vast amounts of previous cost evidence are upheld for record items held that are in stock. Despite the fact that a standard costing system is not used by many companies, most companies use it to generate a report showing an inventory of a certain period of time. In the case of budgetary

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control, standard costing systems helps in compiling costs of a customer's products, especially the custom commodities. The standard costing system is in three categories: a basic standard cost that doesn't change over many years, an ideal standard cost that represents the best performance, and current which includes; a basic standard cost that doesn't change over many years, an ideal standard cost that represents the best performance and lastly, currently attainable standard costs, which involves those that should be attained in efficient working conditions (Kelly, n.d., para. 4).

Differences in Costing System

Actual and normal costing system both of them use actual amount when dealing with material and labor cost. The difference comes when overhead is being allocated to every item that has been produced. Actual costing and normal costing are different when the use of indirect costs rates that have been budgeted: Normal cost deals with direct costs and the cost object by use of actual direct costs multiplied by the actual quantities of direct cost input. It gives indirect price by the use of budgeted one so as to substitute of actual indirect costs rate which actual costing uses. Standard cost and actual cost differ depending on costing activities in many ways; first, the standard cost is not included in the financial statement of an organisation, while in the actual cost, they are mentioned as expenses incurred in the financial statement. Second, standard costs are noted down at the beginning of a year, the time when the new budget is being planned whilst actual prices are experienced during the entire year then noted down. Lastly, when there is an error in the data captured, it does not affect the standard cost, but instead, it becomes the variance. On the other hand, when an error occurs in the actual price, it results in distorted costs and actual inventory valuation (Thakur, 2020).

Suppose the gap between the overall sum of overhead charges given to goods and the number of actual overhead costs experienced, and the difference is known as the variance in a normal costing system while in the standard procedures if the actual costs differ only somewhat with standard charge, the subsequent adjustments will be added to the price of the

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commodities sold. However, if in the normal costing the variance is not noticeable, it will automatically be added to the cost of the commodities to be sold. In standard costing, when the differences are significant, they should be divided into the price of the product sold and to other records in relation to the amounts included in the standard costs.

Pricing Strategies

A pricing strategy accounts for the condition of the market, the capability of one to pay, skills of the participants, contribution costs, and trade limits. It is directed based on the definite customers and against the competitors. Price is the value that is put on a product that involves risk-taking, research, and complex calculations. A slight mistake done in pricing strategy will create a major impact on the overall profit that a company has intended to acquire; thus well-designed strategies are required for budgetary control to be effective. In other words, pricing strategies are explained as the exchange of the value of a product. It involves the amount of money required to acquire a product appropriately. Pricing plays a big role when dealing with a budget and marketing of a commodity. Pricing has become essential when it comes to an increase in market share and also the selling of large volumes of products. Pricing has increased in recent trends since it is one of the major elements in marketing. Some of the pricing strategies include;

First, we have the premium pricing strategy, which involves the act of giving out a good product at a high price. Most individuals go for this with the idea that it is fair for them to have the product. They fail in judging a product’s value and uses the price given to judge the quality of the product. This kind of pricing strategy is more efficient in sections and industries that involve a strong competitive advantage for an organisation; thus, budgetary control will be easy. Example: Porche in cars and Gillette in blades. A buyer is required to have the knowledge of his purchases; in some cases, specifications on the benefit of a product are to be indicated to assist the buyer on the commodity selected, and no one should underestimate the ability of the buyer in assessing the product's vulnerability (Aaliya, n.d.)Nevertheless, the benefits of a product

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have to be outlined so as to help the buyer decide to make a decision on the product to be purchased. When it is made easier for a customer to say yes, the seller will maximise profits, thus leading to efficient budgetary control.

Second, it is the penetration pricing strategy that intentionally offers ''super value''. It is to gain a grip in a market, and the price is used as the main weapon in cases where other products have already established a foundation in the market. Alternatively, penetration pricing can be used as an attempt to get shares of a new market, thus creating room for profits to be made easily. Those competitors who fail to see the profits made will deter, thus creating room for one to grow without competition. With time, the products establish and the product was raised to nearer levels of the market.

In some cases, the volume of the products increases as the supplier cost decreases. Customer gains due to the low prices trends. Penetration pricing is used prudently since it provides an extremely hard to false prices so as to be at par with price levels of the market. There are several examples of goods launched at a low price but missed momentous auctions volume when there was a rise in prices. In budgetary control, this strategy can be used by giving customers an initial discount and mentioning the idea that there will be an increase in price as time goes by.

Third, we have the economy pricing, where the overhead advertising and marketing costs are very low. It basically targets the mass market and those markets with high shares (The Economic Times, 2021). Economy pricing involves a no-frills product, and before it is launched, the marketplace of the product is decided, which will aid in how the product will be perceived by the customer before purchasing it. A product that contests only on price is susceptible to attack from more reputable yields. This kind of strategy makes the product appealing to the customer or rather the buyer. Despite all the benefits that come with economical pricing, it also has the negative side, which may bring a problem when dealing with budgetary control; economic pricing requires a steady stream of customers, or else the commodity will end up not being purchased, thus leading to low profits made. Moreover, economic pricing does not have a connection with the product value, and lastly, it totally depends on small margins for a product to grow.

The fourth strategy is the idea of price skimming. It is advisable to use this strategy during the introductory stage of a new product. The price of a product is set high so as to create an excellent initial cash flow that will balance other expansion costs. When an invention is new into the market, and rivalry has not occurred, the buyers might also pay an exception to a product that gives outstanding characteristics. An example is the drug market, where when new drugs are manufactured and launched, there is usually an increase in prices which are protected by the patents. When the patents become insufficient, the generic ones come into the market, and there is usually a subsequent fall in prices. In a case where one is dealing with budgetary control, price skimming can be used to exploit profit when a new product is introduced into the market. The main aim is to generate maximum profit within a very short period of time (Corporate Finance Institute, 2021).

Fifth, there is psychological pricing; the pricing is intended to get customers to reply on an expressive rather than coherent basis. It is less practiced in consumer markets since it is applicable in industrial markets. In other words, it can be described as setting prices lower than a whole number. This idea makes the buyer read the price a little bit lower than the exact price that it has. Psychological pricing can work best in some cases, such as during budgetary control, by boosting the attention of a product being sold, thus maximising on the profits made. It creates a platform where the decision-making process of the buyer is simplified due to the idea of the discount being laid out. In some cases, it gives a high return on investments done on one-time sales; a good example is during the peak season of a product. Psychological pricing tends to create some sense of agency. Thus the buyers tend to act faster so that they don't will the commodity. All this will aid in maximising on the return and making good profits for a budget to be controlled.

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Sixth, there is the product line pricing; it involves the entire products being offered by a company; rather than perceiving each commodity distinctly and coming up with its value, product-line pricing strategies aimed at maximising the selling of different goods by the creation of more harmonising rather than products that will bring competition in the market. If more than one product or service is being offered, one should put into consideration the effects that the product's or service's costs will have on the other products. When the value is perceived in a contest of product line pricing, there are those customers who will buy a product since it is the best and the customer is willing to pay no matter the cost, and there are also other buyers who look at the affordability of a product before making a purchase. When the creation of a product line indicates that there are products of low-end, middle-end, and high-end will automatically convince the buyer that the products are of distinctive value (Milano, 2019). Some businesses can sell their good at a lower price so as to attract many customers so as to receive good profits. Alternatively, one can sell the different outcomes of the same product.

Lastly, we have the pricing variations. This applies during the peak and low seasons of a product. The prices are lowered during the low season so as to ensure maximum sales and profits are made. There may be a variety of usual prices in a market, but a supplier may opt to have a product best for prices levels that are available, creating chances for a series of purchases to be made. It is evident that the price of a commodity during off-peak is not the same as during the peak seasons. With this idea, profits are able to be made since low rates attract more customers to the products in the low season.

Supply and Demand

However, the basics behind supply and demand are based on the observation that when the price of a product is lowered, most people tend to go for the lowered price, thus increasing the demand for the product. The basic idea on the supply curve is that the more the price of a commodity, the more it will supply. In budgetary control, the demand for a product is predicted by focusing on customs, taste, and preferences of the market being targeted. Not forgetting the

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customer's income level, the quality of goods being offered and also the kind of competition around your market. The supply of services and goods in the marketplace is based on numerous factors, which include production costs that involve wages, interest charges, cost of raw materials, product capacity, and the number of other dealings involved in the creation of the goods or services. Of course, some features that are essential in defining supply in an area may be insignificant in a different area. Weather, as an example, is an essential aspect in shaping the supplies of oranges, myriad wheat, and cherries, among other agricultural products. But weather seldom affects the processes of activities such as auto supply stores except under some extreme circumstances.

Moreover, when one is willing to buy more products, it is said that the demand has increased and prices need to be lifted so as to maximise on profits acquired. When the income of the targeted markets drops, so is the demand and the prices. In a budgetary control situation, the supply and demands considerations have to be overlooked effectively. The demand for goods depends on the price. How much the supply and demand will increase or decrease is frequently difficult to foresee. This quantity of a product or service's receptiveness to market changes is called elasticity. Elasticity involves the measuring of product responsiveness of one economic variable to another. When the rule of supply and demand perform as the overall guideline to the markets, they are not the main issues that impact circumstances such as availability and pricing. These values simply speak of a much greater wheel and, while tremendous significant, thus ending up assuming certain facts that customers are well cultivated on goods and that there are no controlling barriers that will get the products to the targeted markets (Kramer and Boyle, 2021). If a consumer has a piece of negative information about a commodity, the demand for the product with reduce.

Likewise, there might be an increase in demand for an advantage that a specific product offers, but if the concerned public is not aware of the piece, the demand of the product fails to affect the product's auction. If a product is not well known, the corporation that offers it frequently

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decides to lower the price. Laws of supply and demand specify that sales naturally rise due to reducing the cost unless clients are not informed of the decrease. The impact of supply and demand economics functions ineffectively when public insight is wrong. In some cases, price control is used to distort the effects of supply and demand on a market. Price inelasticity of goods might be due to the presence of various affordable substitutes in the targeted market or maybe due to the product being considered not essential by customers. The rise in price will reduce demand if clients are in a position to get the substitute that they need but having a minimum of influence on demand in cases where alternatives are not available to be used. In relation to health care services, for example, they have insufficient replacements, and the need for services still remains intact even when there is a price increase.

Therefore, firms that face inelasticity can increase the total revenue they receive by increasing prices so that they can attain their financial goal. It is the responsibility of a market to connect demand and supply by the use of a price mechanism (Kling, n.d.). If consumers wish to buy more of a good than the amount available at the usual value, they will try to offer the price up to the market. If they intend to buy less than the one available at the main worth, sellers will attempt to bring the costs down. Thus, there will be a propensity to go and deal with the equilibrium price. That tendency is called the market mechanism, and the subsequent balance that occurs between supply and demand is known as market equilibrium.

Comparison - ways in which organisations could use management accounting to respond to financial problems

Management accounting, as discussed above, is crucial in decision-making within companies. It allows managers to gauge the performance of the company by comparing the level of attainment of organisational goals as far as management is concerned. Different companies, therefore, use different management accounting in dealing with financial problems within their

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organisations.

Financial Governance

One of the ways that management can deal with organisational problems is through financial governance. Financial governance has been used by several organisations to track the performance of the organisation (Paniagua, Rivelles, and Sapena, 2018), thus helping the management to avoid financial problems that can lead to company downfalls. One of the ways financial governance can be used in dealing with financial problems at the company is by developing financial plans for the company. This can be done by implementing policies that will oversee the management of cash flow within the organisation. Most CEOs understand the need to have a functional plan in a company as it helps in managing the cash flow in and out of the company. Through financial governance, the management can look at the revenues as well as costs that the company incurs, thus helping in averting financial problems that may arise due to poor reporting.

Moreover, financial governance allows organisations to keep track of the assets of the company as well liabilities. When assets and liabilities are well managed, the company becomes efficient in the way it does business thereby, avoiding serious financial problems that may plunge the company into debts. Most of the time, companies find themselves in a serious crisis when the liabilities and assets are not managed properly. However, through financial governance, the management is able to control the company's assets and liabilities in such a way that profitability is realised.

Thirdly, financial governance allows companies to oversee the processes that provide information on the financial status of the company. In every company, when budgetary allocations are made, there are goals that a company aims to achieve within a specified period of time. These goals, both long and short term, require efficient management of company resources and assets for them to be achieved. Through the financial governance approach, the management is able to gauge the performance of the company by developing key performance

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indicators as far as company goals are concerned. Therefore through financial governance, managers get the opportunity to evaluate the efficacy of the company in realising its short and long-term goals using the allocated budgets and finances.

Financial governance also allows management to carry out financial auditing on the financial reports, thus ensuring that the recorded data is correct (Schultz, n.d). Through financial governance, an organisation can come up with a system that ensures correct data is entered on the financial statement of the company. The system can be used to keep tabs on the data as well as keeping logs on the number of data that is entered on the system. This will ensure that the data entered is accurate and correct.

Additionally, financial governance is crucial in the development of regulatory reports and measures (Wolters Kluwer, n.d). Managerial accounting may not be guided by international standards of practice. However, it still forms a key part of ensuring compliance with international standards of accounting. The data generated from financial governance can indicate whether or not an organisation conforms to healthy financial practices. The collection, calculation as well as reporting of financial data must always be done in accordance with accounting standards; thus, through financial governance, managers ensure that all the accounting methods are done correctly to avoid financial problems.

Financial governance has also been found to expedite the financial processes within the organisation. This ensures that management gets the required information on time, thus facilitating better decision-making. By automating most of the processes within the organisation, the management will able to manage workflows which leads to timely completion of tasks within the organisation, including meeting deadlines (Zhang, 2019).

Furthermore, financial governance inspires accountability among employees when it comes to financial reporting. Through financial governance, the organisation can determine the roles of every employee within the organisation, thus making it easy to identify the sources of errors or problems in financial reports. By creating a sense of responsibility and accountability, the

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financial governance approach helps in averting financial problems within the organisation, leading to accurate reporting among accountants.

Financial governance is also used to carry out risk assessments within organisations. This process leads to the identification of potential problems and outliers in the financial data, thus necessitating readjustment of financial reporting and aversion of financial problems. Most organisations use this approach to ensure that the level of risk exposure is minimal, leading to healthy financial practices within the organisations.

Development of Effective Strategies and Systems

Organisations can use effective strategies and systems to help in dealing with financial problems. These systems can help organisations in a variety of ways. One way that organisations benefit from well-laid information systems is that financial reporting becomes seamless and easy to follow. Many organisations have invested in sophisticated information management systems that allow the company to track all the financial activities that take place within the company. Therefore organisations must invest in better software and information system that will help in reducing the chances of financial errors occurring. Once these errors are limited, it becomes easy to get the true picture of the financial position of the organisation, thereby allowing the management team to make informed decisions. Through strategic planning, most organisations come up with budgetary allocations for every project that the organisation engages in (Kabeyi, 2019) and develop a road map on how these projects can be accomplished while ensuring that the budget is not constrained. Therefore through strategic planning, most organisations avoid getting themselves into financial problems by ensuring that they undertake only projects allocated within the budgets. Moreover, timely reporting of all financial activities helps management in consolidating all financial reports within the company for the purpose of decision making. If an organisation does not receive timely reporting of financial activities within the company, there are high chances that the management team would not have the right information to make informed decisions.

Additionally, organisations can also prevent getting into financial problems by encouraging accountability and disclosure of all financial information within the organisation. An organisation is composed of different departments which require different financial reporting techniques. However, through management accounting, organisations can develop a series of financial reports that shows the financial positions of the company at the departmental level. This strategy will allow all departments to be accountable and responsible when carrying out financial reporting.

Conclusion

Managerial accounting entails a series of concepts that can be used to help managers in decisions making. The discussion above has highlighted some of the key aspects of managerial accounting that can be used by organisations in dealing with financial problems. Therefore managerial accounting is crucial in the decision-making process of any organisation.

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