CHAPTER 1

MANAGEMENT ACCOUNTING MAIN OBJECTIVES WITHIN A COMPANY

LEARNING OBJECTIVES

- Review Financial Accounting, its mission as an external accounting system, its primary users, as well as the information it provides.
- Understand the limitations of the information provided by Financial Accounting and the consequent emergence of Management Accounting.
- Describe the concept of Costs Accounting as a part of Management Accounting specifically focused on calculating costs, listing its objectives and explaining its field of action as an internal accounting system.
- Give an overview of the major stages in the historical evolution of Management Accounting and present both the national and international organizations charged with the standardization of Management Accounting.

THE NEED FOR MANAGEMENT INFORMATION: A REAL CASE

Elevator Ltd. Company is a family business dedicated to the manufacture of components for elevators. Lately, due to mergers of companies in the sector, it has become the only company in the world that, as a manufacturer, offers the complete elevator. They produce practically all the components of the elevator, also customizing if needed the design for specific installations. Clients are small installer companies, whose customers are large construction companies and neighborhood associations. Elevator Ltd. owns

a market share of 15% in the national market and 2% in the world market. The company has factories in Seville and Zaragoza, branches in the main cities of the country, and affiliated companies in many countries of the world (Austria, the Czech Republic, France, Greece, Italy, the Netherlands, Poland, Portugal, etc.).

A crisis in the real estate sector would put the company in a delicate situation, because although global earnings are positive, production processes are expensive, and Elevator lacks information on the profitability of each of its product lines.

The organization is aware of this lack of information on internal processes, costs and results. The company would like to have more data to be able to make decisions regarding the possibility of outsourcing the manufacturing of components, and thus be able to focus mainly on design tasks. This would allow Elevator to develop greater relationship with its customers, mainly the installers, who are not only responsible for the installation but also for the maintenance of the elevators. Furthermore, strengthening customers' relationship would place the company in a more strategic position compared to its competitors, multinationals such as Otis, Schindler and Thyssen.

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1. Accounting System

The first scientifically-based accounting system appeared towards the end of the 15th century[1] with the specific purpose of recording the exchanges and trading balances between land and property owners.

However, during the course of the past two centuries accountancy has progressively turned into a formal and legally binding practice for businesses: on the one hand, because the Public Administration required the information provided by the so called Financial Statements in order to exercise fiscal control over corporations; and, on the other hand, because it provides a more complete system of information for managers to base their business decisions and for administrators and other interested parties to better understand the state of the business.

Overtime, with both scientific and technological development and with the transformation of business organizations, accounting has taken on an indisputable importance, to the point of becoming "the everyday language of business" and of being considered the primary source of information about a company.

The accounting system is constantly evolving: it adapts to new situations and offers increasingly broad and accurate information, driven by the integration of principles and rules coming from various private and public regulatory institutions, as a means of becoming of maximum usefulness to people inside and outside the company who are interested in the state of the business.

2. Financial Accounting. External Accounting System

General Accounting, the application of which is mandatory in all companies, is known as Financial Accounting, because it provides data on the real asset value of the company, as well as on the origin of funds to finance the company.

Moreover, Financial Accounting is designed to keep the market informed about the company's assets and records its dealings with the outside world, which is why it can be considered as an External Accounting System.

A substantial part of the data that Financial Accounting records is related to the world outside the company: sales and clients, purchases and suppliers, financing and financial institutions, relations with public bodies such as the Tax Authorities and the Social Security System, relations with shareholders, bondholders and all types of debtors and creditors; all of whom

[1] Treaty published in 1494 by Luca Paccioli in Venice.

are considered as "external" parties to the company, but to whom access to accounting information must be guaranteed.

Furthermore, the legal basis of a company's transactions operates through external documents: invoices, bills of exchange, financial promissory notes, contracts, title deeds etc.

In brief, both in the data that it records as well as in the users for whom the data is destined, Financial Accounting represents the external accounting system of a company.

2.1. Usefullness of Financial Accounting

The data provided by Financial Accounting is of interest not only to users outside the Company but also to its managers and directors, i.e. to internal users.

In summary, the users of Financial Accounting are the following:

– **External users**

Those who are economically or financially involved with the company, such as partners or shareholders, financing institutions, the Tax Authorities, as well as suppliers and clients.

The information provided by Financial Accountancy could also raise interest in other users: investors, financial market analysts, trade unions, private and public corporations, other companies and, society in general.

– **Internal users**

Primarily the management of the company; this is, either the owners or the managers, directors, executives, etc.

The remaining employees of the company due to their work connection.

2.2. Information provided by Financial Accounting

During the financial accounting fiscal year, which covers 12 consecutive months, all transactions that affect the business are recorded: all economic events and variations occurring from the beginning of the year. At the end of every fiscal year all the data gathered and appropriately presented and analysed is condensed into basic, legally required reports, such as Financial Statements which are composed of several documents.

The main objective of the Financial Statements is to present a faithful picture of the company's financial situation, as well as the results of the fiscal year. The information provided enables the users of the accounts to analyse the state of the company's business and to take consequent decisions.

In the area of finance, for example, one could decide whether it is better to depend on self-financing or external financing, or whether long- or short-term loans are appropriate; or to consider whether there are opportunities for taking on more debt and whether debts can be readily serviced; whether the assets are properly financed; or whether to take action on the principal elements of working capital, such as inventory, customers receivables and suppliers payables.

In the economic area, the data gives an overview of the process through which the business results have been achieved. This, in turn, facilitates decision-making in respect of the basic ingredients of these results, such as incomes and expenditures. Furthermore, it allows an analysis of the return on capital employed, both internal and external, and of the agreements on distribution of dividends to shareholders.

2.3. Drawbacks of financial Accounting

The management of a business is based fundamentally on decision-making. The information provided by financial accounting is insufficient to be able to make all these decisions. This inadequacy is mainly due to the important changes in business management models, which have increased substantially the demand for information needed for efficient and competitive management.

All levels of the business organization must make decisions and implement policies related exclusively to the internal sphere of management. Some of the most frequent can be:

- Product policy: Separate analysis on the profitability of each one of the products, and decisions on how to maintain and drive those which are most profitable, eliminating those that are not, or diversifying the range of products.
- Pricing and market policy: Setting the sales price based on production costs; possible lowering of prices in the face of competition; market research to determine which markets are most advantageous and which are most unfavourable to develop, as well as the viability of alternative markets.
- Process policy: choosing the most efficient production processes, reducing production costs, improving the different production methods, choosing the right suppliers and negotiating delivery deadlines to optimize the stock to be kept.
- Management policy: developing long-term strategic plans and short-term operating plans, through the implementation of budget systems and controls.

However, Financial Accounting has an essentially financial focus and is designed to generate the financial statements of a company, all in compliance with generally accepted accounting principles. But as a holistic system of information for managing a business it has its limitations.

If, specifically, we take a look at the Profit and Loss Account, the result is the difference between revenues and expenditures, with the data presented in a very aggregated way and providing only global information. Revenues and expenditures are classified only according to their nature and origin, but without any other kind of grouping specifying which of the various functional areas of the business they are destined to, or also without indicating how they have contributed to the final value of the products or services sold by the company.

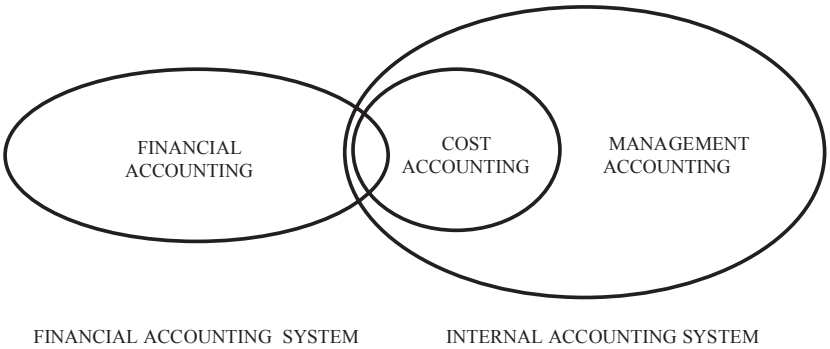
3. Cost accounting. The Internal Accounting System

Based on what has been presented above, it is clear that financial accounting has limitations for managerial decision taking. Due to this fact, management accounting emerged as a new system of accounting that would facilitate strategic decision making.

The expansion in accounting began with a new branch of accounting, namely cost accounting, whose original objective was to calculate the cost of products and services as a means of determining their profitability. Cost accounting was initially intended as an expansion of financial accounting and not as a distinct system of financial information.

With the development of corporations and the establishment of new forms of management, cost accounting split off from financial accounting, into the form of management accounting, expanding its scope to include the planning and control functions of corporate management, in addition to the calculation of costs and analytical results of a company.

The accounting systems in the company



Cost accounting is also often referred to as analytical accounting because it delivers data through a process of detailed analysis of generated costs and results; specifically, it aims to deal with the data that does not appear in the profit and loss account.

3.1. Definition and objectives of cost accounting

Analytical cost accounting can be defined as a branch of management accounting which analyses, appraises and records internal company transactions, calculating the costs of its products, services and functions and providing information that is useful for the control of costs and results, such as for decisions on cost and management control.

The most pertinent objectives generally assigned to cost accounting are, in brief, the following:

- Evaluation of goods and services produced by the company, based on the resources used to that end. This includes the costs of the products and services sold (cost of goods/services sold) and the cost of inventory (stocks). So it provides the inventory value for financial accounting.
- Analysis and evaluation of the activities undertaken for the production of goods and services, by assigning costs to the specific areas, departments and functions used in their production.
- Drawing up of an analytical income statement in which the process of generating the result is presented in a more detailed form than in the profit and loss account. On the one hand, vertical data which show the gross margin, the operating income and the net margin; on the other, horizontal data with a break-down of results per products sold and services rendered.

Table of analytical income statement

	Product 1	**Product 2**	**…**	**Product n**	**Total**
Revenue					
– Cost of goods/services sold					
Gross/industrial margin					
– Sales and distribution costs					
Commercial margin					
– General and administration costs					
Operating income					

3.2. Scope of cost accounting: value-creation within the company

When dealing with the scope of analytical cost accounting it is essential to introduce the study of the internal processes of value transformation within the company and the concept of value-chain.

The ultimate goal of any company is to obtain and sell products or to develop and offer services. To succeed in this, productive inputs are available and used:

- INFRASTRUCTURE: buildings, factories, machinery, tools, furniture, IT equipment etc.
- MATERIALS: for production, for selling and consuming.
- PERSONNEL: input of know-how and labour.
- EXTERNAL INPUTS: supplies and services required from outside parties

All the inputs used have a value: the purchase price, salaries or depreciation costs, which are turned into products or services of greater value. Within a company an internal movement of value creation is continuously produced.

VALUE CREATION WITHIN A COMPANY

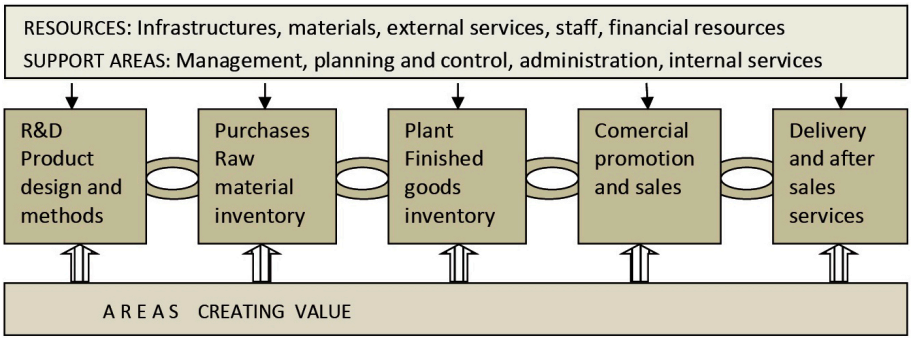
INPUTS	MOVEMENT OF INPUTS VALUES	ACCUMULATED VALUES
INFRASTRUCTURE MATERIALS PERSONNEL EXTERNAL SERVICES	Wear & Tear/ Depreciation Consumption Labour Expenses	Products and services

3.3. Value-chain analysis

The value chain, popularized by Professor Michael Porter of the Harvard Business School, is considered a strategic planning tool aimed at identifying value-generating activities and analyzing the competitive advantages and benefits they bring to the company.

At this point in the chapter, it is a matter of looking exclusively at the creation of value. The areas creating value transform the consumption of available resources, with the collaboration of the support areas, into added value products or services for the market. Value creation activities are carried out in a series of successive stages or processes that suggest the idea of a "chain" in which each link represents one of these stages of the process that incorporates and accumulates value until the end of the chain.

It is known as the value chain and its graphic representation is shown in the following scheme:



Analytical cost accounting produces an analysis of the movement of value within a company, which leads to a measurement and evaluation of the resources employed and of the goods and services obtained.

At first one might think that analytical accounting is applicable only in industrial or manufacturing companies, and that is how it was initially; but nowadays the process of calculating and controlling costs is used also in service and retail companies. All companies, whatever their nature, are similar in their operating processes and the way in which they create value.

4. Differences in Accounting Systems

a. Differences related to the application within the company and the regulations:

FINANCIAL ACCOUNTING	COST ACCOUNTING
Obligatory in all companies, whatever their legal status.	Application is voluntary for companies
Governed by legal requirements and universally accepted accounting principles.	Does not adhere to any legal requirements and is governed by principles suitable to the specific needs of a company's management.

b. Differences with regard to the scope, primary users and objectives of the reports.

	FINANCIAL ACCOUNTING	COST ACCOUNTING
Scope	Owner's equity Transactions recorded with third parties.	Internal process of value creation.
Objective	Financial Statements elaboration	Analytical Profit and Loss Account Cost reporting
Primary users	Outside/third parties. For internal use for decisions relating to the outside world.	Only for internal use

c. Other important differences.

Period covered	Maximum one year, required by law	Short periods, normally for one month
Measurement unit	Expressed only in local currency	Expressed in physical units of whatever nature and converted into monetary terms
Type of Information	Historical data	Historical and forecasted data

Although both accounting systems operate independently from one another since their reports have different objectives and primary users, they do complement one another in various aspects. On the one hand, financial accounting obtains data from cost accounting, the most important example of this being the valuation of final inventories in order to determine the variation in stock and the closing of the fiscal year.

On the other hand, cost accounting uses information available in the company's financial accounting system for making calculations as, for example, for purchases, expenses, sales and revenues, avoiding duplication in this process.

5. Historical Evolution of Financial Accounting System

The intention in this section is not to analyze in detail each and every of the different phases into which the historical evolution of this subject is normally divided, but rather to limit our study to a summary of the overall history of the discipline, highlighting its most important stages.

The development of financial information system, has followed a sequence which can be summarized in three stages, as follows:

1st STAGE: Cost Accounting as a complement to Financial Accounting

Cost Accounting began with the Industrial Revolution of the 19th century, when production systems evolved from hand-crafting to more complex processes which made it more difficult for management to distinguish between the cost of production and other intermediate costs. This is due to the fact that the increasing complexity prevented Financial Accounting, used until then, from offering sufficient information with the mere record of external data.

Accordingly, accounting was required, at minimum, to provide the calculation of the cost of products, transactions and of stock remaining in the company's inventory. It was more of an expansion of the scope of Financial Accounting than a different and new system of financial information.

2nd STAGE: Evolution towards Management Accounting

During the first half of the 20th century, mass production became the norm with the creation of large corporations and the diversification in the manufacture of many products. At the same time, corporations expanded the location of the production facilities to more distant geographical areas and markets, favoured by the development of new communication means.

Corporate activities began to organize themselves in hierarchical specialized departments and functions, led by functional managers who were assigned objectives in harmony with the overall objectives of the corporation. These changes, in turn, called for new styles of management and organization, which were supported by engineers and analysts at the launch of so called "Scientific Management", as a way of delivering better management and better productivity. The big challenge of this period was to control and manage these organizations efficiently and profitably.

From the beginning of this stage, the necessity arose for Cost Accounting to provide more and more appropriate financial information, to stay within the new styles of management via delegation. It could no longer be an integral part of Financial Accounting. Then, Cost Accounting had to acquire its autonomy, and a new branch of accounting i.e. Management Accounting was created. Cost Accounting remained an integral part of Management Accounting.

3rd STAGE: Incorporation of new accounting techniques

This third phase covers a long period, between the first half of the 20th century until today, during which internal accounting needed to develop and improve.

The characteristics of the evolution of Management Accounting and of Cost Accounting as an integral part thereof, were associated with the evolution

of the economical, technological and social environment, which had taken place during the second half of the 20th century and with a concurrent transformation undergone by corporations.

It is sufficient to list a few of the scientific methods applied by accounting, as by many other sciences, for a better understanding of the improvements introduced into the systems of financial information: statistical and quantitative methods, linear programming, decision-making theories, etc.

Regarding the technological advances, it is undeniable that the development undergone by information technology has enabled the systems of accounting information to provide its reports in a more appropriate and timely manner.

The corporations and models of management have experienced transformations in parallel to the economic and social changes created by uncertainty, risk and competition in the business environment, forcing management strategies to be increasingly risky and innovative: strategic planning, flexible production, total quality, individual product accounting, mass media advertising, standardization certifications, cost reductions, process-engineering, etc. At the same time, new forms of corporations have emerged which have transcended local and national boundaries and become multinational corporations with very decentralized activities and responsibilities.

All the changes noted above meant that all the systems of traditional accounting had to be improved in order to adapt to these changes. Accordingly, accounting has incorporated new techniques capable of complying with today's financial information requirements.

6. Management Accounting regulations

Accounting standardization is understood as the set of rules and criteria to which accounting must comply in order to present homogeneous information that allows its understanding and comparison.

The huge efforts dedicated to the development of regulations in Financial Accounting by different organizations and institutions, both national and international, are well known. In the majority of cases, these regulations are more than simple recommendations: they are legally binding regulations, backed-up by national and international legislation.

In the field of Financial Accounting, this effort is clearly necessary, given the absolute necessity to provide information that is understandable, uniform, comparable and relevant to outside users.

Management Accounting is a financial information system for internal users in which the latter can decide, at their discretion, what type of information they require for decision-making, and what format, composition

and structure their reports should take. Accordingly, not only the existence of norms and directions for presenting the financial information provided by Management Accounting, but also the mere existence of a generalized model valid for all organizations (given the enormous possible variety of internal value transformation processes within corporations) might seem impossible or inappropriate.

Notwithstanding the above, guidelines for the presentation of internal accounting data have been published by various renowned private institutions in this professional field. Clearly, these are recommendations of an indicative, advisory nature and not legally binding regulations, and generally with only national application. Moreover, in a few countries accounting regulations which govern certain aspects of internal accounting have been published by public authorities.

The answer to the question why it is necessary to publish regulations for the presentation of internal accounting information? can be found in the need to establish some basic guidelines for the calculation of costs which serve as an orientation to corporations for the most rational and useful calculation of costs, for the valuation of goods and services obtained and for obtaining internal analytical results.

Below are listed the organizations which have published recommendations for Management Accounting and which have had a major influence in the international field.

COUNTRY	ORGANIZATION
INTERNATIONAL	• FINANCIAL AND MANAGEMENT ACCOUNTING COMMITTEE (FMAC) FROM INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC)
U.S.A	• INSTITUTE OF MANAGEMENTS ACCOUNTANTS (IMA) • AMERICAN ACCOUNTING ASSOCIATION (AAA) • NATIONAL ASSOCIATION OF ACCOUNTANTS (NAA) • COST ACCOUNTING STANDARDS SUBCOMMITTEE (CASS) Y COST ACCOUNTING STANDARDS BOARD (CASB)
UNITED KINGDOM	• CHARTERED INSTITUTE OF MANAGEMENT ACCOUNTANTS (CIMA) • INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS (ICMA)
FRANCE	• CONSEIL NATIONAL DE LA COMPTABILITÉ - CHAPTER III (ANALYTICAL ACCOUNTING) OF FRENCH FINANCIAL ACCOUNTING PLAN (27th of April 1982). • CONSEIL SUPÉRIEUR DE L´ORDRE DES EXPERTS COMPABLES ET DES COMPTABLES AGRÉÉS (CEREDE)

6.1. Official Spanish Regulations

In Spain efforts to standardize management accounting have been made at two levels: official and unofficial.

At an official level the first proposal can be found in the work of Group 9 of the "Plan General de Contabilidad" of 1973 (O.M. of August 1st, 1978 – BOE of September 1978, number 2270). It proposes a dual system, independent of financial accounting, for recording the internal transactions of the corporation's accounts using the double entry system.

In the "Plan General Contable" of 1990 (R.D. 1643/1990 of December 20th), which replaced that of 1973 and was prompted by the need to assimilate the EU Community Directives applicable to Accounting, the work of the Group 9 was not yet reflected, nor were defined rules foreseen for cost accounting; however, there was also no explicit repeal of the Group 9's previous proposals.

However, in the final "Plan General Contable" of 2008 (R.D. 1514/2007 of November 16th), groups 8 and 9, which were left free under the previous Plan, were taken over by expenditures and revenues which are attributable to the net assets. And within the scope of standardization there is no express reference to management accounting.

The second proposal comes from the resolution of the Institute of Accounting and Account Auditing (ICAC) "Criteria for Determining Costs of Production" (May 9th, 2000 – BOE of June 13th, 2000, number 141). It establishes a number of rules and specific criteria for corporations to calculate their costs. These rules build on the general regulations contained in the "Plan General de Contabilidad" relating to the valuation of inventories (and to fixed assets) which are produced or manufactured by corporation.

6.2. Spanish Regulations in the professional field

In the profesional field, it is important to point out the standardization made by the "Asociación Española de Contabilidad Directiva (ACODI)" as well as the "Asociación Española de Contabilidad y Administración de Empresas (AECA)". Last of which has done so by emitting documents through its Management Accounting Comission since 1988.

You can consult these documents by accessing the following link: http/ www.aeca.es

7. Practical case study

DIFERENT DATA IN FINANCIAL ACCOUNTING AND MANAGEMENT ACCOUNTING

TRIO, SA, company which manufactures three products, X, Y, Z, which are sold mainly on the national market and a small part on the foreign market, presents the following financial accounting data corresponding to the last exercise:

Balance sheet (current year 000'€)

ASSETS		LIABILITIES AND OWNER'S EQUITY	
Land	234	Capital	1,200
Building	1,148	Legal reserve	142
Machinery	656	Voluntary reserve	165
Furniture	105	Assets providers' payable	302
IT equipment	72	ST bank debt	186
(Acumulated Depreiation).	(384)	Account Payable	294
Raw material inventory	186	VAT	114
Finished goods inventory	219	Public entities	163
Account receivable	406	Profit	184
VAT	73		
Bank	35		
TOTAL	**2,750**	**TOTAL**	**2,750**

Analytical income statement (previous year, current year 000'€)

	Previous year		Actual year	
NET REVENUES		3,450		3,840
– Product X sales	1,820		1,980	
– Product Y sales	1,140		1,340	
– Product Z sales	490		520	
PURCHASES		**(1,415)**		**(1,634)**
– Raw material purchases	(1,187)		(1,380)	

	Previous year		Actual year	
– Sundry materials purchases	(256)		(294)	
– Dicounts on raw material purchases	28		40	
PERSONEL EXPENSES		**(1,138)**		**(1,246)**
– Wages and Salaries	(873)		(962)	
– Social charges	(265)		(284)	
OTHER OPERATING EXPENSES		**(467)**		**(573)**
– Repairs and maintenance	(48)		(52)	
– Advertising and Public Relations	(-)		(100)	
– Transport	(214)		(235)	
– Supplies and services	(143)		(152)	
– Sundry expenses	(62)		(34)	
ASSETS DEPRECIATION		**(86)**		**(95)**
– Assets depreciation	(86)		(95)	
OPERATIONAL INCOME		**344**		**292**
(minus) Financial costs		**(23)**		**(18)**
EARNINGS before Taxes		**321**		**274**
(minus) Income Taxes		**(106)**		**(90)**
TOTAL EARNINGS		**215**		**184**

With the information provided by the Balance Sheet and the Income statement, external parties have sufficient data on the general situation of the company and its profitability. So:

- Shareholders and potential investors can sense that the company is in a position to distribute dividends.
- Tax office has information on benefits and taxes.
- Suppliers, customers and credit institutions can analyze whether the company has sufficient guarantees to meet its debts.
- The rest of users have enough financial material to carry out as many analyzes as necessary.

Internal users, especially managers, also have valuable information for some analysis and conclusions. The most notable are:

a) Only the total profit of the company is shown, especially the Operating Income which is the most interesting to analyze.
b) The profit is small, in absolute terms, compared to those obtained in previous years, always above € 200,000.
c) The profitability on sales is also considered low (184 / 3,840) = 4.8% versus a target of 6% considered to be achievable.
d) Sales of product Z are still much lower in relation to those of other products. After several years of commercialization it has just not taken off.
e) The effort in advertising and the opening to the foreign market, started this year with product Y, and has produced an increase in sales higher than that of the other products.
f) Personnel expenses continue to be the main item of expenses, well above other operating expenses.

The management, however, is asking itself a series of questions about certain issues not shown in the financial accounting income statement and that they consider essential to know. The following stand out:

1. The expenses used in the manufacture and sale of each of its products.
2. The operating income corresponding to each product, to be able to check if they are all similar, if they are different and even if some generate losses.
3. The profitability on sales of each product as support for a more defined study on sales and price policies.
4. More extensive information on the sales and expenses of product Z in order to be able to decide whether to eliminate its production and presence in the market or drop its price.
5. A detail of the results obtained from the export sales to decide if it is convenient to intensify the sales force or modify the market policy.
6. Breakdown of personnel expenses by activities carried out, the hours consumed in the elaboration of each product and in the different operations.
7. The efficiency of all areas of the organization of the company, etc.

Since financial accounting cannot provide more data to answer these questions, the accounting department is tasked to prepare new information in line with cost accounting approach.

The final report obtained is the analytical income statement that appears below:

ANALYTICAL INCOME STATEMENT

	Prod. X	Prod. Y	Prod. Z	Total
Sales revenues	1,980	1,340	520	3,840
– Manufacturing cost of goods sold	– 1,365	– 1,228	– 391	– 2,984
GROSS MARGIN	**615**	**112**	**129**	856
– Selling costs	– 115	– 182	– 49	– 346
COMMERCIAL MARGIN	**500**	**– 70**	**80**	510
– Administration and general costs				– 218
OPERATING INCOME				**292**
Profitability (Operating Income / sales)	25.3%	– 5.2%	15.4%	13.3%

The analytical income statement has the characteristics indicated in previous points, vertically, operating results broken down into gross margin and commercial margin, horizontally, the results of all products and the global one. All of which shows a very different vision of the company from the one offered by the financial accounting income statement. The main interesting points are the followings:

- The results (sales minus costs) offered by each of the products, both gross margin and commercial margin, are shown. At this last level, the negative commercial margin of product Y is highlighted. However, product Z is profitable although it represents a small volume of sales.
- The products have very different returns on sales and none is the same as the global one. While the return on sales of product Z is similar to the global one (13/15%), that of product X is almost the double (13/25%) and that of product Y is negative (-5%).
- The income statement allows to analyze the use of expenses in the manufacture and marketing of products. Thus, the proportion of expenses in relation to sales volume is considerably higher in product Z than in others, which is why it is not profitable.

In addition to the income statement, analytical accounting provides another enormous flow of information (not shown in this exercise as it is not the objective of this chapter as it will be revealed throughout the course) that allows us to answer the rest of the questions of General Management. As an example, the consumption and cost of the materials used in the production process of the goods, the distribution of personnel expenses by areas and by products, the expenses consumed by the various cost centers of the

company, the data to determine the efficiency of the different areas of the organization, and a long etc.

8. Activities

From annual financial statements of real companies with which the student has worked in previous financial accounting courses, describe the external users who would be interested in these reports. Likewise, the students must try to describe what they consider the internal users of these companies to be and what type of information they would need to be able to manage the specific company that is being analyzed.

9. Review Questions

1. Discuss the determining aspects to consider financial accounting as an external accounting system. Illustrate it with some examples.
2. Indicate two groups of external users of financial accounting indicating the interests of each of them with logical examples.
3. Indicate two groups of internal users of financial accounting indicating the interests of each of them with logical examples.
4. Describe the possibilities of analysis that the information provided by financial accounting allows from and economic and financial point of view.
5. List the main aspects for which the financial accounting information is considered insufficient. Indicate those that are considered as more determining.
6. Explain the reasons why management accounting is considered as the internal accounting system.
7. Indicate the fundamental objectives of analytical cost accounting and comment on the usefulness of each of them for the company.
8. Describe the internal creation of value in the company with an indication of the most common elements involved in the process.
9. Explain the value creation chain in the company. As an example, apply the explanation to the production of jeans and draw a scheme of the value chain.
10. Highlight and explain four essential differences between financial accounting and cost accounting.
11. Discuss whether or not it is convenient to standardize cost accounting and justify your answer.