

CHAPTER 2: SOURCE OF INFORMATION

LEARNING OUTCOME

At the end of the chapter, you should be able to:

- TLO A2a.** Identify the principal internal and external sources of management accounting information.
- TLO A2b.** Demonstrate how these principal sources of management information might be used for control purposes
- TLO A2c.** Identify and discuss the direct data capture and process costs of management accounting information.
- TLO A2d.** Identify and discuss the indirect costs of producing information.

Introduction of Source of Information

Management information comes from multiple sources. The challenge for a business is to capture and use relevant and reliable information and the benefit of such information must exceed the cost of obtaining this information.

Modern IT systems have reduced these costs significantly but skilled highly-paid staff is required to run these information systems.

2.1 Sources of Management Information

Learning Outcome (ACCA Study Guide Area A)

A2a: Identify the principal internal and external sources of management accounting information

Table 2.1: Internal and External Source Management Information

	Types of source	Information
Internal Sources	Sales ledger system	Number and value of invoices, sales analysed by customer, sales analysed by product.
	Purchase ledger system	Number and value of invoices, purchases analysed by supplier.
	Payroll system	Number of employees, employees analysed by grade, position, department, Hours worked, output achieved, wages.
	Fixed asset register	Date of purchase, initial cost, location, depreciation, capacity.
	Production	Number of units produced, machine breakdown, rejects
	Sales and marketing	Type of customers, market result, product mix
External Sources	Suppliers	Product specification, product price
	Customers	Share price, competitor information, national and market surveys
	Government	Statistics, policy, economic data
	Newspaper & Journal	Product requirement, feedback, price sensitivity
	Employees	Wage demands, working conditions
	Banks	Interest rate, funding policy
	Business enquiry agents	Information on competitors, information on customers
	Internet	Public and private database

Database Information

A well-managed and maintained management information system (MIS) or database can provide managers with easy access to relevant information. Advancement in information technology allow business access to external organisations databases, such as online real time foreign exchange rates.

2.2 Use of Management Information for Control Purpose

Learning Outcome (ACCA Study Guide Area A)

A2b: Demonstrate how these principal sources of management information might be used for control purposes

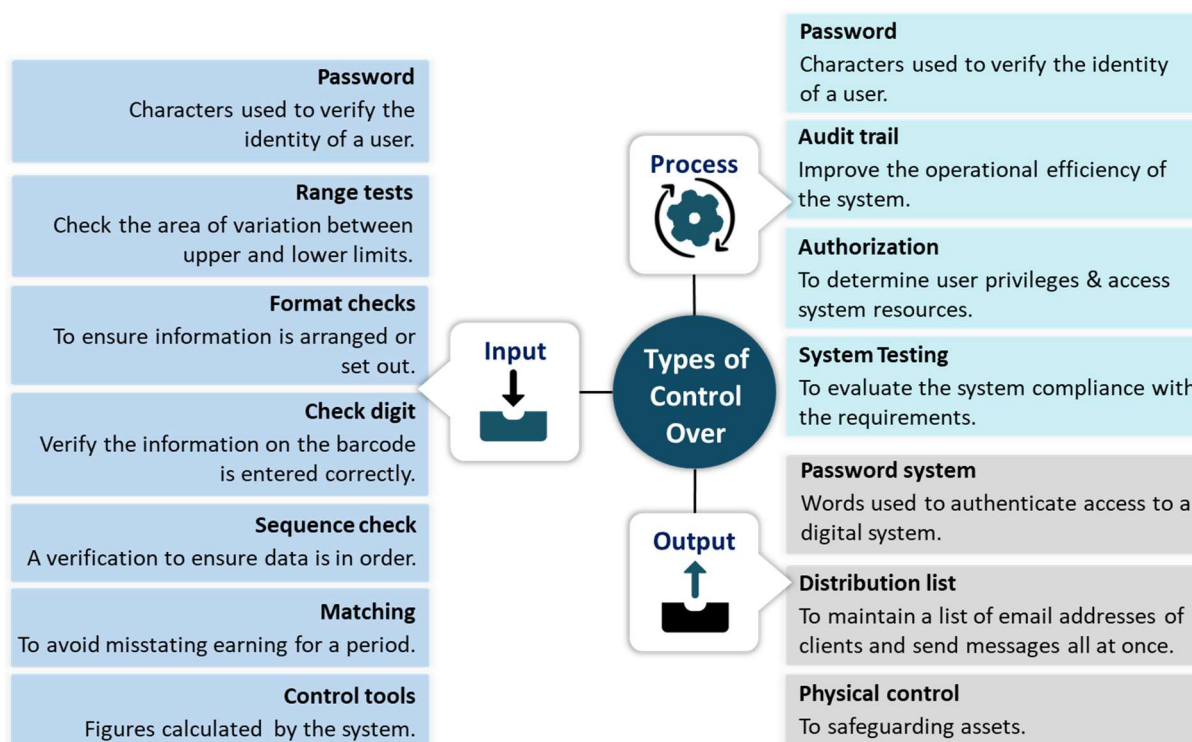
2.2.1 Information Cost

Table 2.2.1: The costs of information

Cost of information	Examples
Designing and set-up costs	<ul style="list-style-type: none"> System design, testing, installation & training. Capital cost of equipment
Running costs	<ul style="list-style-type: none"> Staff salaries Supplies (paper, ink & others)
Storage costs	<ul style="list-style-type: none"> Space Hardware costs Retrieval costs

2.2.2 Types of Control Over Management Report

Diagram 2.2.2: The types of control over management report



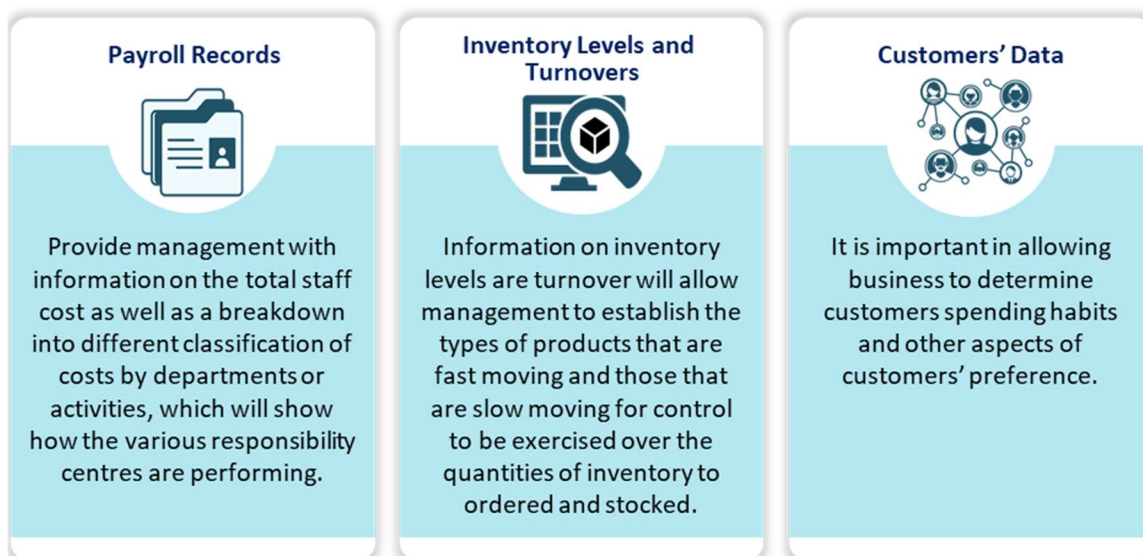
2.2.3 Information for Control Purpose

Plans based on internal information such as production costs need to be put in place for comparison against actual results achieved.

Internal information such as variances calculated through comparisons between actual results against budgets will enable management to carry out the necessary control action.

Data collected is processed into information in assisting management in their control decisions.

The following are information that help management in exercising the control:



2.3 Costs of Producing Information

Learning Outcome (ACCA Study Guide Area A, Topic A2c & A2d):

A2c: Identify and discuss the direct data capture and process costs of management accounting information.

A2d: Identify and discuss the indirect costs of producing information.

There are typically three types of costs incurred in the collection, processing and production of internal information by an organisation which are classified as **direct data capture costs, process costs** and **indirect costs**.

(i) Direct Data Capture Cost

Direct data capture involves real-time data capture and storage into database at the point of transaction itself. Hence, the database is updated as soon as the transactions occurred.

The direct data capture costs include:

- Cost of using direct data capture devices, such as barcode reader, scanners and RFID
- Time spent by employees to fill-up online timesheet while performing the job
- Cost of providing online portals to capture customer orders and feedbacks

(ii) Processing Cost

Data has to be entered into the system. This would then include costs related to processing and analysing the information, i.e. costs related to input data and to analyse that data to get more useful information.

(iii) Indirect Cost

These are costs not incurred directly as a result of collecting and processing the data, instead these are the costs of:

- Data collected but not used.
- Information distributed more widely than necessary
- Similar data collected from different sources.

2.4 Check Understanding

Learning Outcome (ACCA Study Guide Area A):

A2a: Identify the principal internal and external sources of management accounting information.

A2b: Demonstrate how these principal sources of management information might be used for control purposes

A2c: Identify and discuss the direct data capture and process costs of management accounting information.

A2d: Identify and discuss the indirect costs of producing information.

Question 1 (LO A2a)

Give two examples of internal data and information that come from the following departments:

- (a) Production
- (b) Sales and marketing
- (c) Stores
- (d) Accounting and finance
- (e) Research and development

Question 2 (LO A2a)

Give five examples of external data and information to a business organization.

Question 3 (LO A2b)

What is the primary use of:

- (a) Internal data?
- (b) External data?

Question 4 (LO A2c & A2d)

Outline ten examples of costs that can incur when capturing, producing and processing management accounting information.

2.5 Check Understanding: Answer

Answer: Question 1 (LO A2a)

Examples of internal data and information that come from the following departments are:

- (a) Production
Production volume, defect rate, labour efficiency rate, wages
- (b) Sales and marketing
Selling price, trade discount, sales volume
- (c) Stores
Inventory movement (receipts and issues), inventory level
- (d) Accounting and finance
Wage rate, cost of capital, investment appraisal results, creditor & debtor data
- (e) Research and development
Resources for new product, cost & benefit analysis data

(Any other suitable answers are accepted.)

Answer: Question 2 (LO A2a)

1. Supplier prices and product quality – from suppliers
2. Tax rates, incentives, inflation rate – from government
3. Financial statement format – international standards
4. Industry policies, procedures and standards
5. Market size
6. Product demand (from marketing research)
7. Any new idea or product or technology in the market

(Any other suitable answers are accepted.)

Answer: Question 3 (LO A2b)

Primary use of:

- (a) Internal data – very relevant for management, namely control purposes.
- (b) External data – most useful for benchmarking purposes.

Answer: Question 4 (LO A2c & A2d)

1. Bar code scanner
2. Time (for these activities)
3. Conducting market research – preparation of questionnaire, distribution, collection and analysis
4. Wasted time
5. Errors
6. Subscriptions to information sources – such as paid databases
7. Monitoring cost
8. IT set-up – hardware and software (information systems), licensing (for software use) and training
9. Filtering the relevant information (from abundance of it)
10. Wages of data entry and processing technicians

(Any other suitable answers are accepted.)

2.6 Chapter 2: Summary

Diagram 2.6.: Summary of Source of Information

