Management Accounting

PRACTICAL CLASS 2

NOVA SCHOOL OF BUSINESS & ECONOMICS

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Concepts & Formulas

GLOSSARY AND FORMULAS

MC : Manufacturing Costs

DM: Direct Materials

DL: Direct Labour

MOH: Manufacturing Overheads

COGM: Cost of Goods Manufactured

COGS: Cost of Goods Sold

FG: Finish Goods *(Inventory)*

WIP: Work in Progress

Δ: *Greek Delta – Means Change, usually (Closing – Opening)*

#: Units

MC = DM + DL + MOH

COGM = **MC - Δ WIP** stocks

COGS = **COGM - Δ FG** stocks

Closing DM = **Initial DM + Purchased – Consumption**

Closing FG = **Initial FG + Production – Sales**

Note: Prime Costs = DM + DL ; Conversion Costs = DL + MOH

P&L Statements

BY FUNCTION VS FINANCIAL ACCOUNTING

P&L by Function: purpose of the costs applied

P&L FA: where are costs applied

They **complement** each other into the analysis

Changes in Inventory 🥴? (WIP + FG Only)

Yes! While they are not a revenue *per se,* they are there to "adjust" the expenses to report the COGS

e.g. *Christmas Toys Manufacturer or Ice Cream Maker*

	P&L By Function
(+)	1. Sales
(-)	2. Cost of Goods Sold (COGS)
(=)	**3. Gross Profit**
(-)	4. Selling, General & Administrative Costs (SG&A)
(=)	**5. Operating Profit**
(-)	6. Financial Costs
(+)	7. Financial Revenues
(=)	**8. Profit Before Taxes (PBT)/EBT**

	P&L Financial Accounting
(+)	1. Sales
(+)	2. Δ Inventories
(=)	**3. Operating Revenue**
(-)	4. Cost of Merchandise Sold & Materials Used (C.M.S.M.U)
(-)	5. Miscellaneous Costs
(-)	6. Personnel Costs
(=)	**7. EBITDA**
(-)	8. Depreciation Costs
(=)	**9. EBIT**
(-)	10. Financial Costs
(+)	11. Financial Revenues
(=)	**12. Profit Before Taxes**

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Social Charges

EXAMPLES & HOW TO TREAT THEM

Monetary fee that an employer must pay for each person that they employ.

Examples:

- Health benefits

- Disability insurance

- Retirement benefits

- **Holiday pay (Christmas and Holidays)**

Management Accounting: Various costs related with labour are aggregated in the **theoretical social charges (TSC)** and spread equally over the year.

Financial Accounting: Take costs exactly when those are paid. Incorporate **real social charges (RSC)**.

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Theoretical Social Charges

SMOOTHING COSTS ALONG THE WAY

Companies have "spikes" in their **expenses with employees during the year** (Christmas and Holidays subsidies) p.e. which are **recognized in P&L by FA**

As a **manager**, it makes more sense to *iron out* those spikes and **"spread" the costs across the whole year**

BSC

Jan Fev Mar Abr Mai Jun Jul Ago Set Out Nov Dez
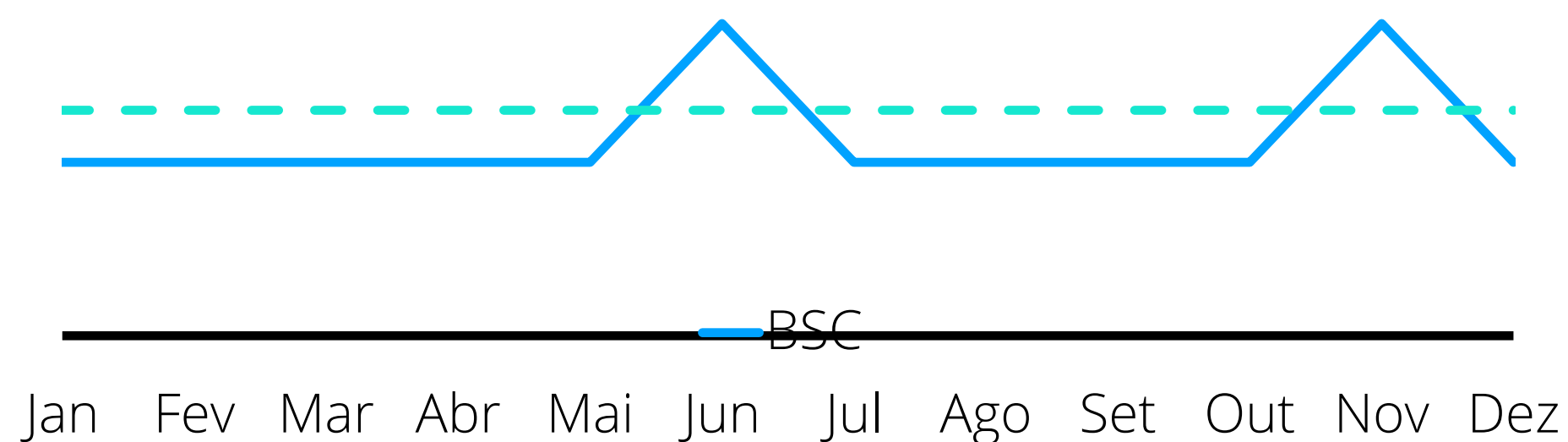
Due to the way that social charges are differently incorporated, there will be discrepancies between the Profit FA and Profit by Function **between periods,** but they **will be the same by the end of the year**

Relevant Formulas:

% TSC = Total Charges / (Total Salary & Wage)

π FA – π by Function = Base Wages x (%TSC - %BSC)

Labour Costs of The Period = Wages x (1 + %TSC)

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Exercise

5 – THE METALEX COMPANY