

ICAG BUSINESS LESSONS (WEEK 9)

Good morning

This is week 9 of the year 2022 in the Gregorian calendar. 43 weeks remain until the end of the year.

MONDAY MOTIVATION

“Whatever your life’s work is, do it well. A man should do his job so well that the living, the dead, and the unborn could do it no better.”

– Martin Luther King, Jr.

FUN FACT OF THE WEEK

Mondays are the most sleep deprived day. According to scientists, the extra sleep you get on a weekend makes you worse off on a Monday, as it throws off your body clock. When you wake up early on Monday, it’s more of a shock than waking up any other weekday.

However, Fridays are the least likely sick day. People are much happier and more likely to fulfill their duties on a Friday.

Don’t let the Monday blues ruin your week! Be cheerful!

MANAGEMENT QUOTE OF THE WEEK

“If I had to sum up in a word what makes a good manager, I’d say decisiveness. You can use the fanciest computers to gather the numbers, but in the end you have to set a timetable and act”.

Lee Laccocca

MANAGEMENT CONCEPT OF THE WEEK: MODELS OF EVALUATION PART 1

THROUGHPUT ACCOUNTING

“Throughput” is the rate at which a corporation converts its goods, services, and other offerings into sales and makes money out of it.

“Throughput Accounting” is a principle based and simplified management accounting approach that provides managers with decision support information for enterprise profitability improvement.

It is a technique used as the performance measure in the Theory of Constraints.

Eliyahu M. Goldratt proposed Throughput Accounting as an alternative to cost accounting.

Its main goal is to identify the limitations and constraints that can delay the production and related processes that can eventually lead to a delay in sales. The delayed sale will mean a delay in money realization.

It aims to increase sales, revenue, and eventually profits for any organization. Also, it takes into account the time factor and helps to minimize any time loss that can cause a delay in revenue generation.

Throughput Accounting applies also to not-for-profit organisations, where they develop their goal that makes sense in their individual cases, and these goals are commonly measured in goal units.

Throughput accounting is based on three concepts:

- a. **Throughput:** It is the rate at which an entity achieves its goals, measured in “goal units”. For in-for-profit entities, the goal is profit and throughput is measured by lessing total variable cost from net sales.
On the other hand, the goal for not-for profit entities could be measured in terms of a non-financial goal.
- b. **Investment (or Inventory):** it is the money tied up in the system. This is money associated with inventory, machinery, buildings, and other assets and liabilities.
The term *Investment* is preferred to *Inventory* because it includes not only the amount invested in inventories but also investment in non-current assets.
Inventory is eventually converted into throughput, but until it is sold, it is capital tied up earning nothing. When it is sold, throughput is created.
- c. **Operating Expenses:** It is the expenditures incurred to produce the throughput. It includes all costs except the cost of raw materials.

Performance measurement ratios in throughput accounting.

Performance measurements in throughput accounting include the following:

- Net profit
- Return on investment
- Throughput accounting productivity
- Throughput per unit of the bottleneck resource
- Operating expenses per unit of the bottleneck resource
- Throughput accounting ratio.

ENVIRONMENTAL ACCOUNTING

For some companies, environmental issues are significant, in terms of both strategy and cost.

- Poor environmental behaviour can result in significant costs or losses, such as fines for excessive pollution, environmental taxes, loss of land values, the cost of law suits, amongst others.

- Environmental behaviour can affect the perception of customers, and their attitudes to a company and its products.

Environmental management accounting can be used to provide information to management to help with the management of environmental issues.

Traditional management accounting techniques, can:

- Under-estimate or even ignore the cost of poor environmental behaviour ;
- Over-estimate the costs of improving environmental practices;
- Under-estimate the benefits if improving environmental practices.

Environmental management accounting provides managers with financial and non-financial information to support their environmental management decision-making.

The Main Applications of Environmental Management Accounting

- Estimating annual environmental costs such as cost of waste control
- Budgeting
- Product pricing
- Investment appraisal
- Estimating savings from environmental projects.

Environmental management accounting techniques

- re-defining costs

The US Environmental Protection Agency (1998) suggested terminology for environmental costing that distinguishes between:

- conventional costs:** This refers to costs of raw materials and energy that have environmental relevance.
- Potentially hidden costs:** These are environmental costs that might get lost within the general heading of 'overheads'
- Contingent costs:** These are costs that might be incurred at a future date such as clean-up costs.
- Image and relationship costs:** These are intangible in nature and include, for instance, the costs of producing environmental reports.

- environmental activity-based accounting

Environmental activity-based accounting is the application of environmental costs to activity-based accounting.

The cost drivers for environment-related costs may be:

- the volume of emissions or waste;
- the toxicity of emissions or waste;
- environmental impact added

iv. the volume of emissions or waste treated.

- environmental life cycle costing

This is a technique which requires the full environmental consequences, and, therefore, costs, arising from production of a product to be taken account across its whole lifecycle. It summarizes all the costs associated with the lifecycle of a product regardless of who bears those costs.

THIS WEEK IN HISTORY TOP 15 EVENTS

28/02/2013 - The brains of two rats successfully connected so that they share information

28/02/1948 – Christiansburg Cross-Roads shooting in the Gold Coast (Ghana), when a British police officer opens fire on a march of ex-servicemen, killing three of them and sparking major riots and looting in Accra.

01/03/1980 - Commonwealth Trade Union Council established

01/03/ 1977- Bank of America adopts the name VISA for its credit cards

01/03/ 1961 – Uganda becomes self-governing and holds its first elections.

01/03/1947– The International Monetary Fund begins financial operations.

1st March is **International Self-injury Awareness Day**

1st March is **Zero Discrimination Day**

02/03/1990 – Nelson Mandela is elected deputy President of the African National Congress.

02/03/1983 – Compact discs and players are released for the first time in the United States and other markets. They had previously been available only in Japan.

02/03/1972- Jean-Bédél Bokassa (Dictator Bokassa I) appoints himself President for life of Central African Republic

02/03/1901 – United States Steel Corporation is founded as a result of a merger between Carnegie Steel Company and Federal Steel Company which became the first corporation in the world with a market capital over \$1 billion.

03/03/1992 US President George H. W. Bush apologizes for raising taxes after pledging not to

03/03/1938 – Oil is discovered in Saudi Arabia.

03/03/1901 - US Congress creates National Bureau of Standards, in Department of Commerce.

3rd March is **World Hearing Day!**

04/03/1980 – Nationalist leader Robert Mugabe wins a sweeping election victory to become Zimbabwe's first black prime minister.

04/03/1957 – The S&P 500 stock market index is introduced, replacing the S&P 90.

4th March is **World Obesity Day!**

DID YOU KNOW?

Registration for the April 2022 CA Professional Examination is in session and ends on **Monday, 21st March 2022**. Students should visit <https://sms.icag.org> to register.

Have a fruitful week!

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