

## Getting more out of your Accounting System

Accounting systems today are focused on helping businesses create the reports they need for their bank or to prepare their tax return. In all but the most basic businesses, these systems will simply not provide the information we need to make informed decisions about where we should invest and where we should cut. To do this you must have a system that provides reliable information on both the “what” and “where” for your revenue and expenses. These systems are called management accounting systems (and yes, sometimes they are called cost accounting systems) since their primary goal is to provide information managers need to run their business. Companies have often shied away from using management accounting system due to their complexity. AVMAN solves this problem with its Expert Assistant, “EA” (read all about EA in Expert Assistant: Taming the ERP).

AVMAN has both a management accounting system and a financial accounting system and they are completely integrated. AVMAN is outfitted with a robust management accounting layer which exists beneath the general financial accounting system. A management accounting system is one that collects and reports on revenues and expenses and therefore, the profitability of individual business efforts in the company. Discrete business activities such as a contract to perform a service is tracked using job cost accounting. This might include tasks such as performing an annual or overhauling an engine on an aircraft. Non-discrete business activities are tracked using activity based accounting. An example of a non-discrete business activity would be fuel sales. You would not want to try to track the profitability of each individual fuel sale. Instead using activities, you can track the profitability of all fuel sales over a specified period of time such as a month.

### ***Direct vs. Indirect Costs***

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In both jobs and activities (called cost objectives) the expenses tracked are those that are directly related to the cost objective. For example, the cost of the fuel sold would be a direct cost of the fuel sales activity. The cost of new cylinders for an engine overhaul job would be a direct cost of that particular job as would the labor to install that engine. However, not all costs incurred by your organization are directly related to a job or activity. Those costs are called “Indirect Expenses”. Indirect expenses or costs present two problems. First, how do we collect those expenses? Second, how do we assign them to jobs or activities in a manner that truly represents how they benefit from those expenses?

The solution comes in the form of overhead pools. Overhead pools are simply buckets into which indirect expenses are grouped. For example, you can group indirect expenses by department. In an FBO with a maintenance and repair business you might have an airframe shop, a paint shop, an avionics shop, and an engine shop. You could create an overhead pool for each one and collect the indirect expenses of those shops or departments in those overhead pools. Now as an aircraft repair job moves through those shops, the direct costs of labor and materials can easily be assigned to the job that represents that aircraft. But how do we assign a portion of the overhead costs in the airframe shop and the paint shop to the job as the aircraft moves through? Without the proper assignment of those costs you do not truly know how much it actually costs to conduct that repair job. We know we have to assign those costs, but how? Using a simple method, we could assign the costs equally. If three aircraft moved through the paint shop in a given month we could simply assign one-third of the indirect expenses to each aircraft. If the amount of work done on each aircraft was equal this would be fine. However, what if one aircraft was only in for two hours and the

other two had one hundred hours of work conducted. We now overstated the cost of the first repair and understated the other two. Not a good situation when you are trying to make business decisions about the profitability of the various jobs that were quoted.

AVMAN solves this problem with its Overhead Management system, and yes EA does a lot of the heavy lifting here. This component allows the automated application of the costs accumulated in overhead pools to final cost objectives and/or other overhead pools. The Overhead Management component supports both Simple (companywide) and Departmental application methods.

By utilizing the features of this component, you can instruct AVMAN to apply the overhead costs of a department to jobs and activities based upon the number of hours or dollars charged to each job or activity by the employees in the department. You could also instruct AVMAN to apply the overhead costs of a service department (such as Information Systems or Maintenance departments) to the overhead pools of other departments which utilize the services of these groups. You could also apply overhead costs such as fringe benefits across all jobs, processes, and overhead pools in accordance with the labor consumed by the jobs, processes or overhead pools.

In our example above, we could apply the overhead of the paint shop based upon the number of hours of labor employees in the paint shop worked on each of the three aircraft. This would provide a much more accurate division of the costs and improve our ability to measure profitability.

These are only a few examples of the many cost application methods supported by AVMAN's Overhead Management component. Many complex overhead application structures are possible using the user defined overhead definition capability.

### ***Management Reports***

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To get the value out of your management accounting system, you need reports specially designed to deliver the information necessary to measure the performance of jobs, activities, products, departments, and divisions. AVMAN delivers an extensive management reporting system that includes:

- **Activity Reports** that show all costs and revenues attributable to any cost objective which is accounted for on a process cost basis. An activity can represent a profit center, a production process, or any definable entity for which you desire to employ process cost accounting techniques.
- **Job Reports** show all costs and revenues attributable to any cost objective which is accounted for on a job cost basis.
- **Job Class/Activity Reports** show costs and revenues attributable to a user selected combination of job classes and activities. This report is useful for preparing reports which contain a subset of the business lines or departments of the company. It allows you to combine both the jobs and activities of a particular line of business or a department within the company.
- **Overhead Pool Reports** show costs distributed to the various overhead costs pools.
- **Expense Analyses** list all distributed expenses in the Chart of Accounts. Distributed expenses are those expenses which are distributed to jobs, activities, or cost pools. Expenses designated as Other Expenses are not included in this report.
- **Revenue Distribution Reports** show revenue attributable to jobs and activities. You can elect to "Group" revenue for each job in its corresponding Job Class. Otherwise the revenue for each individual job will be reported.