Managerial Accounting of Apple 2019

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Cost classification

Cost classification depends on the company. However, there is a standardized classification as per the international financial reporting standards. Costs incurred by an organization depend on the activities involved in the operations. Therefore, for Apple Inc. the cost classification depends on the activities. Costs classification in Apple Inc. assumes the headings, direct costs/Cost of sales, research and development, selling, general and administrative.

Cost of sales includes all the sales involved in the production process. It is easy to trace the costs to the units of production. Apple Inc. further categorizes these costs into products and service costs. Product costs include direct material, labour and direct overheads. The main products include iphone, mac, ipad, wearables. Apple Inc. books its costs as follows:

Cost of sales categorized into two reflects both the products of 144,996 Million dollars whereas services section reflects 16,786 Million dollars. Research and development section shows 16,217 million dollars utilized in the current period. Selling, general and administrative shows a figure of 18,245 million dollars in 2019.

Break even

The breakeven point refers to a point where the company does not make losses nor does it make profits. In other words, the company’s total revenue equals to the total expenditure. For Apple Inc. the breakeven point is difficult to obtain since the financial report does not reflect the line items for fixed costs.

Budgeting process and cash forecasting

Budgeting is a critical process in an organization. It helps organization to plan effectively and utilize their resources efficiently. Therefore, for budgeting to be complete, there is need to consider the functional/department expenditures. Apple limited operates with a pre-determined budget. The cash flow statement shows the movement of cash within the company. Besides, the forecasts influence the decision-making processes. The budgets cover departments within each segment that the company operates.

Cash forecasting is a function that aims at ensuring that the company has sufficient funds to support its operations. in addition, forecasting helps the management to know the sources of finance. They can either utilize internal or external sources to raise cash. This includes profits generated from the operations and loans from external people. Apple has sufficient funds and needs to budget properly in case of sales and expenditure fluctuations. Besides, the cash budget helps to analyse the financial performance of the company if it continues with operations into the future.

Budgeting challenges

Preparing a budget is never an easy task. When dealing with big corporations such Apple Inc. one needs to ensure accuracy. However, inaccuracy may affect the budgeting process. Sometimes the estimates change due to factors such as inflation. This leads to increase in prices of raw materials and costs the company more than planned.

Rigid decision-making is a challenge faced by Apple Inc. during the budgeting process. The process focuses on the management needs towards the end of the financial period. The decision made during this period for the next fiscal year does not mean that there will be no fluctuations. The decision to change the budgeted figures becomes difficult, as the management is reluctant.

Time is a constraint to any management decision-making needs. Management depends on limited time to ensure smooth operations of the business. Therefore, making budgets is time consuming.

Expense allocations vary from one function to another function. The company has several cost centres, which require the management to budget effectively. Some of the allocations made may be exceeding the expected expenditure while others may stall due to unlimited funds.

Static budget

The static budget is a budget that cannot adjust or flex in case of any changes that occur. This supports the issue of rigid decision-making since management is not in a position to adjust the budget.

This is disadvantageous to organizations in different ways. The budget may not support introduction of new markets, as the production estimates will exceed the budget. In addition, the budget may lead to losses occurring from the operations of the company.

Flexible budget

A flexible budget is a budget that allows adjustments in case of fluctuations. The budget can be adjusted to suit the current changes and absorb any market factors such as inflation and increased interest rates. Therefore, the adjustments are only on the costs with varying volume and activity.

This type of budget is relevant in case there is a problem with the economy and the economy is affected. When the prices of commodities increase, then company may adjust the budget to accommodate the changes. Where the demand is high, the budget needs adjustment to meet the production needs.

Performance evaluation

Entrepreneurs start businesses with the aim of making profits from their investment. They contribute or raise funds to finance the business operations with the expectation of a good return. Therefore, the management tasked with overseeing the operations of the company have an obligation to fulfil. They have a function of ensuring that the owners get a return on investment by ensuring that there is wealth and profit maximization.

Performance evaluation is a necessity in any business organization. This means that the busy can measure its net worth and the value addition on the investment made by the owners. Preparing financial statements contribute to performance evaluation of the business. A statement of financial position will measure the position of the business in terms of assets and liabilities. An income statement will measure the performance of the business. It will show whether the business makes losses or profits.