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DEPARTMENT OF BUSINESS ADMINISTRATION

SUBJECT NAME: MANAGEMENT ACCOUNTING

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UNIT-I

MANAGEMENT ACCOUNTING

INTRODUCTION

One of the definitions of Management accounting says that it is the application of professional skills and knowledge in the preparation of financial and accounting information in a manner in which it will assist the internal management in the formulation of policies, planning, and control of the operations of the firm. The basic function of management accounting is to help the management make decisions. There is no fixed structure or format for it.

Financial accounting, costing, business analysis, economics, etc are some tools and techniques of management accounting. The only need for management accounting is that the data should serve its purpose, which is helping the management take important business decisions.

According to R. N. Anthony, "Management Accounting is concerned with accounting information that is useful to management."

Institute of Chartered Accountants of England and Wales defines management accounting as:

Any form of accounting which enables a business to conduct more efficiently can be regarded as Management Accounting.

American Accounting Association defines management accounting as:

Management Accounting includes the methods and concepts necessary for effective planning, for choosing among alternative business actions, and for control through the evaluation and interpretation of performance.

OBJECTIVES OF MANAGEMENT ACCOUNTING

Planning and Formulating Policies

In the process of planning and formulating policies, a management accountant provides necessary and relevant information to achieve the targets of the company. Management accounting uses regression analysis and time series analysis as forecasting techniques.

Controlling Performance

In order to assure effective control, various techniques are used by a management accountant such as budgetary control, standard costing, management audit, etc. Management accounting

provides a proper managerial control system to the management. Reports are provided to the management regarding the effective and efficient use of resources.

Interpreting Financial Statement

Collecting accounting data and analyzing the same is a key role of management accounting. Management accounting provides relevant information in a systematic way that can be used by the management in planning and decision-making. Cash flow, fund flow, ratio analysis, trend analysis, and comparative financial statements are the tools normally used in management accounting to interpret and analyze accounting data.

Motivating Employees

Management accounting provides a selection of best alternative methods of doing things. It motivates employees to improve their performance by setting targets and starting incentive schemes.

Making Decisions

Success of any organization depends upon accurate decision-making and effective decision-making is based on informational network as provided by management accounting. Applying techniques of differential costing, absorption costing, marginal costing, and management accounting provides useful data to the management to aid in their decision-making.

Reporting to Management

It is the primary role of management accounting to inform and advice the management about the latest position of the company. It covers information about the performance of various departments on regular basis to the management which is helpful in taking timely decisions.

A management accountant also works in the capacity of an advisory to overcome any existing financial or other problems of an organization.

Coordinating among Departments

Management accounting is helpful in coordinating the departments of an organization by applying thorough functional budgeting and providing reports for the same to the management on a regular basis.

Administrating Tax

Any organization must comply with the tax systems prevailing in the country they are operating from. It is a challenge due to the ever-increasing complexity of the tax structure. Organization need to file various kinds of returns with different tax authorities. They need to calculate the correct amount of tax and assure timely deposit of tax. Therefore, the management takes guidance from management accountants to comply with the law of the land.

CHARACTERISTICS OF MANAGEMENT ACCOUNTING

Management accounting provides data to the management on the basis of which they take decisions to achieve organizational goals and improve their efficiency. In this section, we will discuss the main characteristics of management accounting.

To Provide Accounting Information

Information is collected and classified by the financial accounting department, and presented in a way that suits managerial needs to review the various policy decisions of an organization.

Cause and Effect Analysis

One step further from financial accounting, management accounting works to know the reasons of profit or loss of an organization. It works to find out the causes for loss and also study the factors which influence the profitability. Therefore, cause and effect is a feature of management accounting.

Special Technique and Concepts

Budgetary control, marginal costing, standard costing are main techniques used in financial accounting for successful financial planning and analysis, and to make financial data more useful.

Decision Making

Studying various alternative decisions, studying impact of financial data on future, supplying useful data to management, helping management to take decisions is a part of management accounting.

Achieving Tasks

Financial data is used to set targets of the company and to achieve them. Corrective measures are used if there is any deviation in actual and targeted task. This all is done through management accounting with the help of budgetary control and standard costing.

No Fixed Norms

No doubt, tools of management accounting are same, but at the same time; uses of these tools depend upon need, size, and structure of any organization. Thus, no fix norms are used in application of management accounting. On the other hand, financial accounting totally depends on certain rules and principals. Therefore, presentation and analysis of accounting data may vary from one organization to another.

Increasing Efficiency

While evaluating the performance of each department of an organization, management accounting can spot the efficient and inefficient sections of an organization. With the help of that, corrective step can be taken to rectify the inefficient part for better performance. Hence, we can say that efficiency of a concern can increase using accounting information.

Informative Instead of Decision Making

Decisions are taken only by top management using information provided by management accountant as classified in a manner which is useful in decision making. Decision making does not come under preview of accountant, it is only the top management, who can take decision. Thus, decision of an organization depends on caliber and efficiency of the management.

Forecasting

Management accountant helps management in future planning and forecasting using historical accounting data.

Advantages of Management Accounting

There are many objectives of but the prime objective is to assist the management team of an organization in improving the quality of their decisions. Purpose of management accounting is to help the managerial team with financial information so that they can execute business operations and activities more efficiently. Following is the list of all benefits of management accounting –

1. Decision Making
2. Planning
3. Controlling business operations
4. Organizing
5. Understanding financial data
6. Identifying business problem areas
7. Strategic Management

Limitations of Management Accounting

- **Data based on Financial accounting** – Decisions taken by the management team are based on the data provided by Financial Accounting

- **Less knowledge** – Management has insufficient knowledge of economics, finance, statistics, etc.
- **Outdated data** – Management team receives historical data, which may change eventually when management is taking the decisions.
- **Expensive** – Setting up a management accounting system requires a lot of investment.

FUNCTIONS OF MANAGEMENT ACCOUNTING

The basic function of management accounting is to assist the management in performing its functions effectively. The functions of the management are planning, organizing, directing, and controlling.

Functions of Management Accounting

- Provides data
- Modifies data
- Communication
- Analyses and interprets data
- Serves as a means of communicating
- Facilitates control
- Uses also qualitative information
- To assist in Planning
- To assist in Organizing
- Decision-Making
- To assist in motivation
- To Coordinate
- To Control



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Management accounting is a part of accounting. It has developed out of the need for making more use of accounting for making managerial decisions.

- 1. Provides data:** Management accounting serves as a vital source of data for management planning. The accounts and documents are a repository of a vast quantity of data about the past progress of the enterprise, which is a must for making forecasts for the future.
- 2. Modifies data:** Management accounting modifies the available accounting data rearranging in such a way that it becomes useful for management. The modification of data in similar groups makes the data more useful and understandable. The accounting data required for management decisions is properly compiled and classifies. For example, purchase figures for different months may be classified to know total purchases made during each period product-wise, supplier-wise, and territory-wise.
- 3. Communication**

Management accounting is an important medium of communication. Different levels of management (top, middle, and lower) need different types of information. The top management

needs concise information at relatively long intervals, middle management needs information regularly, and lower management is interested in detailed information at short-intervals.

4. Analyses and interprets data

The accounting data is analyzed meaningfully for effective planning and decision-making. For this purpose, the data is presented in a comparative form, Ratios are calculated, and likely trends are projected.

5. Serves as a means of communicating

Management accounting provides a means of communicating management plans upward, downward, and outward through the organization.

Initially, it means identifying the feasibility and consistency of the various segments of the plan. The later stages it keeps all parties informed about the plans they have been agreed upon and their roles in these plans.

6. Facilitates control

Management accounting helps in translating given objectives and strategy into specified goals for attainment t by a specified time and secures the effective accomplishment of these goals efficiently. All this is made possible through budgetary control and standard costing, which is an integral part of management accounting.

7. Uses also qualitative information

Management accounting does not restrict itself to financial data for helping the management in decision making but also uses such information that may be capable of being measured in monetary terms. Such information may be collected from special surveys, statistical compilations, engineering records, etc.

8. To assist in planning.

Management Accounting assists the management in planning as well as to formulate policies by making forecasts about the production, selling the inflow and outflow of cash, etc.

Not only that, but it may also forecast how much may be needed from alternative courses of action or the expected rate of return from that place and at the same time decides upon the programmed of activities to be undertaken.

9. To assist in organizing.

By preparing budgets and ascertaining specific cost centers, it delivers the resources to each center and delegates the respective responsibilities to ensure their proper utilization. As a result, an interrelationship grows among the different parts of the enterprise.

10. Decision-Making

Management accounting furnishes accounting data and statistical information required for the decision-making process, which vitally affects the survival and the success of the business.

Management accounting supplies analytical information regarding various alternatives, and the choice of management is made easy.

11. To assist in motivation.

By setting goals, planning the best and economic courses of action, and also by measuring the performances of the employees, it tries to increase their efficiency and, ultimately, motivate the organization as a whole.

12. To Coordinate

It helps the management in coordination the whole activities of the enterprise, firstly by preparing the functional budgets, then co-coordinating the whole activities of the enterprise, firstly, by preparing the functional budgets, then co-coordinating the whole activities by integrating all functional budgets into one which goes by the name of 'Master Budget.'

In this way, it helps the management by con-coordinating the different parts of the enterprise. Besides, overall coordination is not at all possible without budgetary control.'

13. To Control

The actual work done can be compared with 'Standards' to enable the management to control the performances effectively.

DIFFERENCE BETWEEN MANAGEMENT ACCOUNTING AND COST ACCOUNTING

Management accounting collects data from cost accounting and financial accounting. Thereafter, it analyzes and interprets the data to prepare reports and provide necessary information to the management.

S.No.	Cost Accounting	Management Accounting
1	The main objective of cost accounting is to assist the management in cost control and decision-making.	The primary objective of management accounting is to provide necessary information to the management in the process of its planning, controlling, and performance evaluation, and decision-making.

2	Cost accounting system uses quantitative cost data that can be measured in monetary terms.	Management accounting uses both quantitative and qualitative data. It also uses those data that cannot be measured in terms of money.
3	Determination of cost and cost control are the primary roles of cost accounting.	Efficient and effective performance of a concern is the primary role of management accounting.
4	Success of cost accounting does not depend upon management accounting system.	Success of management accounting depends on sound financial accounting system and cost accounting systems of a concern.
5	Cost-related data as obtained from financial accounting is the base of cost accounting.	Management accounting is based on the data as received from financial accounting and cost accounting.
6	Provides future cost-related decisions based on the historical cost information.	Provides historical and predictive information for future decision-making.
7	Cost accounting reports are useful to the management as well as the shareholders and creditors of a concern.	Management accounting prepares reports exclusively meant for the management.
8	Only cost accounting principles are used in it.	Principals of cost accounting and financial accounting are used in management accounting.
9	Statutory audit of cost accounting reports are necessary in some cases, especially big business houses.	No statutory requirement of audit for reports.
10	Cost accounting is restricted to cost-related data.	Management accounting uses financial accounting data as well as cost accounting data.

DIFFERENCE BETWEEN MANAGEMENT ACCOUNTING AND FINANCIAL ACCOUNTING

S.no.	Financial Accounting	Management Accounting
1	Monitory transactions are the base of financial accounting.	Data as obtained from financial accounting is the base of management accounting.
2	Recognition, classification, recording of	Collection of data from financial accounting,

	financial transactions on actual basis, and preparation of financial statement are the main functions of financial accounting.	provision of necessary information to the management for planning, decision-making, and evaluation are the main functions of management accounting.
3	Support of relevant figures is required in preparing the financial reports.	Subjective and objective, both figures may be present in the management accounting report.
4	Success of financial accounting does not depend on sound management accounting system.	Success of management accounting depends on sound financial accounting system of a concern.
5	Financial reports are used by the management of a company, shareholders, creditors, and financial institutions.	Financial reports are exclusively used by the management only.
6	Statutory audit of financial statements of concerns is required as per applicable law.	No statutory requirement of audit for reports prepared by management accountants.
7	Financial statements of a concern are prepared at the end of every accounting period.	The reports are prepared as and when required by management of the concern.
8	To ascertain profit or loss of a concern on actual basis and to know financial position of a concern financial accounting is used.	Thorough management accounting evaluation of performance is done department and section-wise, as well as whole concern-wise.
