YEAR	SUBJECT TITLE	SEMESTER	SUBJECT CODE
2018-19 onwards	**Management Accounting**	**II**	**I8BBA23C**

UNIT I

Meaning - Definition - Scope - Objectives - Function - Merits and Demerits of Management Accounting -Distinction between Management and Financial Accounting - Distinction between Management and Cost Accounting.

UNIT – II

Financial statement Analysis - Preparation of comparative and common size statement - Analysis and Interpretation - Ratio analysis - Classification of ratios - Liquidity, profitability, and solvency - Inter firm comparison.

UNIT – III (Problems only)

Fund flow analysis - Cash flow analysis.

UNIT - IV

Marginal Costing -Break even analysis.

UNIT V (Problems and theory questions)

Budgeting and preparation of various budgets - Functional Budget - Cash Budget Flexible Budget - Production and Sales Budget.

(Theory carries 20% marks and problems carry 80% marks)

Text Book:

RK Sharma & Shashi K. Gupta - Management Accounting, Kalyani Publishers, Ludhiana.

Reference Books:

1. S.N Maheswari - Management Accounting, Sultan Chand & sons, New Delhi.

2. Manmohan Goyal - Principles of Management Accounting, Sahitya Bhawan Publishers.

UNIT I

SUBJECT NAME	SUBJECT CODE	SEMESTER	PREPARED BY
Management Accounting	**I8BBA23C**	**II**	**Dr.K.Karthikai, Assistant professor in BBA**

MEANING OF ACCOUNTING

Accounting involves the collection, recording, classification and presentation of financial data for the benefit of management and outside agencies such as shareholders, creditors, bankers and government. Accounting is the science of recording and classifying business transactions and events, primarily of a financial character, and the art of making significant summaries, analyses and interpretation of those transactions and events and communicating the results to persons who must make decisions or form judgements. This meaning emphasises financial reporting and decision-making aspect of accounting.

The word 'Accounting' can be classified into three categories:

(a) Financial Accounting ;

(b) Cost Accounting ; and

(c) Management Accounting.

FINANCIAL ACCOUNTING

Meaning

The object of financial accounting is to find out the profitability and to provide information about the financial position of the concern. Two principal statements of Financial Accounting are Income and Expenditure Statement and Balance sheet. The income and expenditure statement is prepared for a particular period, say a year. All revenue transactions relating to that period are included in this statement with a view to determine the profitability of the concern. The balance sheet is prepared on a particular date and it determines the financial position of the concern on that date.

FUNCTIONS OF FINANCIAL ACCOUNTING

Financial accounting is useful to management as well as to external users such as potential owners, creditors, government agencies and other interested persons. It provides information regarding the status of the business and results of its operations. The following functions of financial accounting are: Recording of Information, Classification of Data, making Summaries, Dealing with Financial Transactions, Interpreting of Financial Information, Communicating Results and Making Information More Reliable.

Making Financial Accounts Useful to Management – Despite of various limitations financial accounting is essential for every type of concern. Some steps can be taken to make the statements more useful. The following steps will make financial statements useful to the management,

1. **Up-to-date Accounts,** Financial accounts will be useful only if they are available up to-date. The late supply of information will reduce the utility of financial statements.
2. **Interim Reports to be Prepared.** In the usual course of business the financial statements like balance sheet and income Statement are prepared at the end of the financial year. Management will be able to know about the performance of the business only after preparing final accounts. Interim reports should be prepared during the financial year so that short period appraisal of working of the business is possible.
3. **Making Comparison of Financial Statements**, The utility of financial accounting will be more when the principle of comparison is applied. The comparison of different financial statements will enable us to see the trend of performance. Present financial statements may be compared to the statements of previous years.

Accounting as an Information System - Accounting provides information to vested interests in a business organisation - managers, shareholders, employees, creditors, customers, etc. Various parties are interested to know about the activities of the business. Managers may use accounting information as a managerial tool, shareholders will be interested in financial health and employees will like to share the prosperity, creditors will be interested in credit worthiness and customers will look for cheap and quality goods. The community at large has social and economic interests in the business organisation. Accounting supplies information to all interested parties and they use it according to their need.

COST ACCOUNTING

Cost accounting has developed due to the complexities of modern commerce and growth of factory system. Financial accounts are unable to meet informational needs about the cost structure of a product. Cost accounting records and traces the path of the cost as they are incurred in the day-to-day operations of the business enterprise. It provides more classified information than the financial accounts, the cost records are prepared for internal reporting of cost data for cost ascertainment, cost control and decision-making. The expenses on materials, labour and overheads are recorded for determining cost of a product. Cost accounting also helps in evaluating efficiency of different cost centres by comparing budgeted information with actual figures.

Definition

To understand the meaning of cost accounting, some definitions have been given:

Wheldon, Harold J: "Costing is the classifying, recording and appropriate allocation of expenditure for the determination of the cost of products or services and for the presentation of suitably arranged data for purposes of control and guidance of the management. It includes the ascertainment of the cost of every order, job, contract, process, service or unit as may be appropriate. It deals with the cost of production, selling and distribution."

Cost accounting is defined as the media of analysing cost data for determining the cost of a product or a service. It also acts as a guide to the management for setting up control devices.

Cost accounting is a device to determine the cost of production of a unit and also to see how that cost has been constituted. Cost accounting, no doubt, serves the internal management by directing their intention on inefficient operations and assisting in a day-to-day control activities of the enterprise. But even costing information fails to meet informational needs for managerial functions. The costing data needs to be arranged, re-analysed and processed further for playing more effective role in the managerial process. In addition to costing and accounting data, managerial functions need the use of socio-economic and statistical data (e g., population break-ups, income structures etc.). This information is beyond the scope of cost accounting and financial accounting. Management accounting provides all possible information required for managerial purposes.

MANAGEMENT ACCOUNTING

Meaning

Management Accounting is comprised of two words 'Management' and 'Accounting'. It is the study of managerial aspect of accounting. The emphasis of management accounting is to redesign accounting in such a way that it 1s helpful to the management in formation of policy, control of execution and appreciation of effectiveness. The complexities of business environment have necessitated the use of management accounting for planning, co-ordinating and controlling functions of management.

A small undertaking with a local character is generally managed by the owner himself. The owner is in touch with day-to-day working of the enterprise and he plans and co-ordinates the activities himself. The use of simple accounting enables the preparation of profit and loss account and balance sheet for determining profitability and assessing financial position of the enterprise. All informational needs four managerial purposes are met by simple financial Statements. Since the owner is both the decision-maker and implementer of such decisions, he does not feel the necessity of any communication system and no additional information is required for managerial purposes, The evolution of joint stock company form of organisation has resulted in large-scale production and separation of ownership and management.

The introduction of professionalism in management has brought in the division of organisation into functional areas and delegation of authority and decentralisation of decision-making. The decision-making no more remains a matter of intuition. It requires the evolution of information system for helping management in planning and assessing the results. The accounting information is required as a guide for future. The management is to be fed with precise and relevant information so as to enable in performing managerial functions efficiently and effectively.

Definition

Anglo-American Council on Productivity; "Management Accounting is the presentation of accounting information in such a way as to assist management in the creation of policy and the day-today operation of an undertaking."

Management accounting deals with the presentation of information so that it is helpful to management. Management will like to base its policy decisions on some information and the information should be presented according to the needs of management. The main emphasis of this definition is on presentation of information and it does not include in its purview the collection of it.

CHARACTERISTICS OR NATURE OF MANAGEMENT ACCOUNTING

The task of management accounting involves furnishing of accounting data to the management for basing its decisions on it, It also helps in improving efficiency and achieving organisational goals. The following are the main characteristics of management accounting :

1. **Providing Accounting Information.** Management accounting is based on accounting information. Management accounting involves the presentation of information in a way it suits managerial needs. The accounting data is used for reviewing various policy decisions. Management accounting is a service function and it provides necessary information to different levels of management

2. **Cause and Effect Analysis.** Financial accounting is limited to the preparation of profit and loss account and finding out the ultimate result, i.e., profit or loss Management accounting goes a step further. The 'cause and effect' relationship is discussed in management accounting. If there is a toss, the reasons for the loss are probed. If there is a profit, the factors directly influencing the profitability are also studied.

3. **Use of Special Techniques and Concepts.** Management accounting uses special techniques and concepts to make accounting data more useful. The techniques usually used include financial planning and analysis, standard costing, budgetary control, marginal costing, project appraisal, control accounting etc. The type of technique to be used will be determined according to the situation and necessity.

4. **Taking Important Decisions.** Management accounting helps in taking various important decisions. It supplies necessary information to the management which may base its decisions on it: The historical data is studied to see its possible impact on future decisions.

5. **Achieving of Objectives**. In management accounting, the accounting information is used in such a way that it helps in achieving organisational objectives. Historical data is used for formulating plans and setting up objectives. The recording of actual performance and comparing it with targeted figures will give an idea to the management about the performance of various departments, In case there are deviations between the standards set and actual performance of various departments corrective measures can be taken at once. All this is possible with the help of budgetary Control and standard costing.

6. **No Fixed Norms Followed.** In financial accounting certain rules are followed for preparing different accounting books. On the Other hand, no specific rules are followed in management accounting. Though the tools of management accounting are the same but their use differs from concern to concern. The analysis of data depends upon the person using it. The deriving of conclusions also depends upon the intelligence of the management accountant. The presentation of figures will be in the way which suits the concern most. So every concern has its own rules and by-rules fur analysing the data.

7. **Increase in Efficiency.** The purpose of using accounting information is to increase efficiency of the concern. The efficiency can be achieved by setting up goals for each department or section. The performance appraisal will enable the management to pin-point efficient and inefficient spots. The constant review of working will make the staff cost-conscious. Everyone will try to control cost on one's own part.

8. Supplies Information and not Decision, The management accountant supplies information to the management. The decisions are to be taken by the top management Management accountant is only to guide and not to supply decisions. The data is to be used by management for taking various decisions depend upon the calibre and efficiency of the management.

9. Concerned with Forecasting. The management accounting is concerned with the future. It helps the management in planning and forecasting. The historical information is used to plan future course of action. The information is supplied with the object to guide management for taking future decisions.

SCOPE OF MANAGEMENT ACCOUNTING

Management accounting is a new approach to accounting, It provides techniques for the interpretation of accounting data. It also helps management in its functions of planning, directing and controlling. The following facts of management accounting are of a greatest significance and form the scope of this subject.

1. Financial Accounting. Financial accounting deals with the historical data, The recorded facts about an organisation are useful for planning the future course of action. Though planning is always for the future but still it has to be based on past and present data. The control aspect too is based on financial data. The performance appraisal is based on recorded facts and figures. So Management accounting is closely related to financial accounting.

2. Cost Accounting. Cost accounting provides various techniques for determining cost of manufacturing products or cost of providing service. It uses financial data for finding out cost of various jobs, products or processes. The systems of standard costing, marginal costing, differential costing and Opportunity costing are all helpful to the management for planning various business activities. So cost accounting is an essential part of management accounting.

3. Budgeting and Forecasting. Budgeting means expressing the plans, policies and goals of the enterprise fur a definite period in future. The targets are set for different departments and responsibility is fixed for achieving these targets. The comparison of actual performance with budgeted figures will give an idea to the management about the performance of different departments. Forecasting, on the other hand, is a prediction of what will happen as a result of a given set of circumstances, Forecasting is a judgement whereas budgeting is an organisational object. Both budgeting and forecasting are useful for management accountant in planning various activities.

4. Inventory Control. Inventory is used to denote stock of raw materials, goods in the process of manufacture and finished products. Inventory control is significant as it involves large sums. The management should determine different levels of stocks, minimum level, maximum level, re-ordering level for inventory Control. Management accountant will guide management as to when and from where to purchase and how much to purchase. So the study of inventory control will be helpful for taking managerial decisions.

5. Reporting to Management. One of the functions of Management accountant is to keep the management informed of various activities of the concern so as to assist it in controlling the enterprise. The reports are presented in the form of graphs, diagrams, index numbers or other statistical techniques so as to make them easily understandable. The management accountant sends interim reports to the management and these reports may be monthly, quarterly, half-yearly or yearly. These reports are helpful in giving a constant review of the working of the business.

6. Interpretation of Data. The management accountant interprets various financial statements to the management. These statements give an idea about the financial and earning position of the concern, These statements may be studied in comparison to Statements of earlier periods or in comparison with the statements of similar other concerns. The significance of these reports is explained to the management in a simple language. If the statements are not properly interpreted then wrong conclusions may be drawn

7. Control Procedures and Methods. Control procedures and methods are needed to use various factors of production in a most economical way. The studies about cost, relationship of cost and profits are useful for using economic resources efficiently and economically.

8. Internal Audit. Internal audit system is necessary to judge the performance of every department. The actual performance of every department and individual is compared with the pre-determined standards. Management is able to know deviations in performance. Internal audit helps management in fixing responsibility of different individuals.

9. Tax Accounting. In the present complex tax systems, tax planning is an important part of management accounting. Income statements are prepared and tax liabilities are calculated. The management is informed about the tax burden from central government, state government and local authorities. Various tax returns are to be filed with different departments and tax payments are to be made in time. Tax accounting comes under the purview of Management accountant's duties.

10. Office Services. Management accountant may be required to control an office. He will be expected to deal with data processing, filing, copying. duplicating, communication, etc. He will also be reporting about the utility of different office machines.

OBJECTIVES OR PURPOSE OF MANAGEMENT ACCOUNTING

The primary objective of management accounting is to enable management ty maximise profits or minimise losses, this is done through the presentation of statements in a way that management is able to take correct policy decisions, The following are the important objectives of management accounting,

1. Planning and Policy Formulation. The object of management accounting is to supply necessary data to the management for formulating plans. Planning is essentially related to taking decisions for future. It also includes forecasting, setting goals and devising alternative courses of action. Management accountant prepares statements of past results and gives estimations for the future, The figures supplied and opinion given by the management accountant helps management in planning and policy formation.

2. Helpful in Controlling Performance. Management accounting devices like standard costing and budgetary control are helpful in controlling performance. The work is divided into different units and separate goals are set up for each unit. The management is able to find out the deviations and take necessary corrective measures, Different departmental heads are associated with preparing budgets and setting up goals, The management accountant acts as a co-ordinating link between different departments and he also monitors their performance to the top management. The management is able to control performance of each and every individual with the help of management accounting devices.

3. Helpful in Organising. Organisation is related to the establishment of relationship among different individuals in the concern. It also includes the delegation of authority and fixing of responsibility. Management accounting is connected with the establishment of cost centres, preparation of budgets. Preparation of cost control accounts and fixing of responsibility for different functions. All these aspects are helpful in setting up an effective and efficient organisational framework.

4. Helpful in Interpreting Financial Information. The main object of management accounting as to present financial information to the management in such a way that it is easily understood as of a technical nature and managerial personnel may not be able to understand the significance and utility Of various financial statements. Management accountant explains these statements to the management in a simple language, using statistical devices like charts, diagrams, index numbers, etc. so that the information is easily followed.

5. Motivating Employees. Management accounting helps the management in selecting best alternatives of doing the things. Targets are laid down for the employees. They feel motivated in achieving their targets and further incentives may be given for improving their performance.

6. Helpful in Making Decisions. The management has to take certain important decisions, like about the expansion or diversification of production, replacement of labour with machine or introduction of latest technological devices. Management accountant prepares a report on the feasibility of various alternatives and makes an assessment of their financial implications. The information provided by the accountant helps management in selecting a suitable alternative and taking correct decisions.

7. Reporting to Management. One of the primary objectives of management accounting is to keep the management fully informed about the latest position of the concern. This helps management in taking proper and timely decisions. The management is kept informed through regular financial and other reports. The performance of various departments is also regularly communicated to the top management.

8. Helpful in Co-ordination. Management accounting provides tools which are helpful in co-ordinating the activities of different sections or departments. Co-ordination is done through functional budgeting. Management accountant acts as a co-ordinator and reconciles the activities of different sections.

9. Helpful in Tax Administration. The complexities of tax system are increasing every day. Management accounting helps in assessing various tax liabilities and depositing correct amount of taxes with the concerned authorities.

FUNCTIONS OF MANAGEMENT ACCOUNTING

Management accounting is a part of accounting. It has developed out of the need for making more and more use of accounting for taking managerial decisions. Management accounting is assigned the functions of classifying, presenting and interpreting data in such a way that it helps management in controlling and running the enterprise in an efficient and economical manner. Some of the functions of management accounting are :

(i) Planning and Forecasting. Management fixes various targets to be achieved by the business in near future. Planning and forecasting are essential for achieving business objectives. One of the important functions of the management accounting is to help Management in planning for short-term and long-term periods and also in making forecasts for the future. Management accountants use various techniques such as budgeting, standard costing, marginal costing, fund flow statements, probability and trend ratios, etc. for fixing targets. These techniques are useful in planning various activities, So management accounting tools are useful in planning and forecasting.

(ii) Modification of Date. Management accounting helps in modifying accounting data. The information is modified in such a way that it becomes useful for the management. If sales data is required, it can be classified according to product, area, Season-wise, type of customers and time taken for getting payments, etc. Similarly, if production figures are needed, these can be classified according to product, quality, time taken by the manufacturing Processes, rate of production, etc. The modification of data in similar groups makes the data more understandable and useful. Management accountant classifies and modifies information according to the requirements of the management.

(iii) Financial Analysis and Interpretation Management accountant undertakes the job of presenting financial data in a simplified way. Financial data is generally collected and presented in a technical way. Top managerial executives may lack technical knowledge. Management accountant analyses and interprets financial data in a simple way and presents it in a non-technical language. He gives his opinion about various alternative courses of action so that it becomes easy for the management to take a decision.

(iv) Facilitates Managerial Control. Management accounting js very useful in controlling performance. All accounting efforts are directed towards control of the enterprise. The standards of various departments and individuals are set-up. The actual performance is recorded and deviations are calculated. It enables the management to assess the performance of everyone in the organisation. Performance evaluation is possible through standard costing and budgetary control which are an integral part of management accounting.

(v) Communication. Management accounting establishes communication within the organisation and with the outside world. He prepares reports for the benefit of different levels of management and employees. The activities of the concern are communicated to outsiders such as bankers, investors, creditors, government agencies, etc. The filling of various tax returns is also entrusted to the accountant.

(vi) Use of Qualitative Information. The field of management Accounting is not restricted to the use of monetary data only. It collects and uses qualitative information also , The use of qualitative information is as helpful as monetary information. Management can assess various aspects of a plan before finalising it.

(vii) Coordinating. Management accountant acts as a co-ordinator among different financial departments through budgeting and financial reports. The targets and performances of different departments are communicated to them from time to time, it helps to increase the efficiency of various sections thereby increasing profitability of the concern.

(viii) Helpful in taking Strategic Decisions. Management accounting helps in taking strategic decisions. It supplies analytical information regarding various alternatives and the choice of management is made easy. These decisions may be regarding seasonal or temporary stoppage of production, replacement decisions, expansion or diversification of works and a correct decision is taken.

(ix) Supplying Information to Various Levels of Management. Every management level needs accounting information for decision making and policy execution . Top management takes broader decisions and leaves day-to-day decisions for the lower levels of management. Management accountant feeds information to different levels of management so that further decisions are taken. The supply of adequate information at the proper time will increase efficiency of the management.

DISTINCTION BETWEEN FINANCIAL ACCOUNTING AND MANAGEMENT ACCOUNTING

Financial accounting is concerned with the recording of day-today transactions of the business. These transactions enable the concern to find out profit and loss for a particular period and financial position of the concern is also judged on a particular date through profit and loss account and balance sheet respectively. On the other hand, Management accounting uses financial accounts and taps other sources of information too; The accounts are used in such a way that they are helpful to the management in planning and forecasting various policies. The points of distinction between financial accounting and management accounting are discussed as follows:

1, Object. The object of financial accounting is to record various transactions with the purpose of maintaining accounts and to know the financial position to find out profit and loss at the end of the financial year. These records are useful to shareholders, creditors, bankers, debenture holders, etc. On the other hand, management accounting is essential to hep management in formulating policies and plans.

2. Nature. Financial accounting is mainly concerned with the historical data. It records only those transactions which have already taken place. Management accounting deals with projection of data for the future. It uses historical data only for taking decisions for the future. In financial accounting actual figures are used whereas in management accounting projected or estimated figures are used.

3. Subject-matter. Financial accounting is concerned with assessing the results of the whole business while management accounting deals separately with different units, departments and cost centres. In financial accounting overall performance is judged, while in management accounting the results of different departments are evaluated separately to find out their performance differently.

4. Compulsion. The preparation of financial accounts is compulsory in certain undertakings while these area necessity in others. Management accounting is not compulsory. It is only a service function and is helpful to the management in administration of the business. Under certain laws a particular procedure is to be followed for preparing financial accounts whereas there are no such procedures in management accounting.

5. Precision. In management accounting no emphasis is given to actual figures. The approximate figures are considered more useful than the exact figures. In financial accounting only actual figures are recorded and there is no room for using approximate figures.

6. Reporting. Financial accounts are prepared to find out profitability and financial position of the concern, "These reports are useful for outsiders like bankers, investors, shareholders, Government agencies, etc. These reports are prepared not only for the benefit of the concern but also for outsiders. Management accounting reports are meant for internal use only. These are prepared for the benefit of different levels of management.

7. Description. Only these things are recorded in financial accounting which can be measured in monetary terms. Management Accounting uses both monetary and non-monetary events. The competition in the market, impact of political changes, a situation of trade cycles and such other factors are also considered in management accounting, though these cannot be measured in monetary terms.

8. Quickness. Reporting of management accounting is very quick. Management is fed with reports at regular intervals. Various figures are required to take managerial decisions at different levels of management. On the other hand, reporting of financial accounting is slow and time consuming. Profit and loss account and balance sheet are prepared at the end of the financial year. Management is able to know the profitability and financial position only after the preparation of final accounts.

9. Accounting Principles. Financial accounts are governed by the generally accepted principles and conventions. No set principles are followed in management accounting. Management accounting is used for taking policy decisions, so form and method of presenting figures differs from concern to concern,

10 Period. Financial accounts are prepared for a particular period. All the items relating to that year are taken to P/L Account, Balance Sheet is prepared on a particular date. It reveals the financial position of the concern on that date Management accountant supplies information from time to time during the whole year. There are no specific periods for which management accounts are prepared.

11 Publication Financial accounts like profit and loss account and balance sheet are published for the benefit of the public. Under companies law every registered company is supposed to supply a copy of Profit and Loss Account and Balance Sheet Management accounting statements are prepared for the benefit of the management only and these are not published.

12. Audit, Financial accounts can be got audited. Under companies law auditing of financial accounts is compulsory. Management accounts cannot be audited. They are not based on actual figures and projected data are also used in management accounting. So, it is not possible to get management accounts audited.

It is clear from the earlier discussion that financial accounts are based on historical data and only actual facts and figures are recorded. Management accounting too uses historical data but the purpose is to use it for planning and forecasting. Both financial and management accounting are complementary end are necessary in running the concern efficiently.

DISTINCTION BETWEEN COST ACCOUNTING AND MANAGEMENT ACCOUNTING

Cost Accounting is the technique of determining cost of a product. It covers a number of processes and procedures required for determining cost. Cost accounting is a branch of general accounting and covers the application of accounting principles relating to the tracing, recording, Classifying and analysing of costs within the organisation." Cost Accounting affords the measurement of the manufacturing and business operations from the point of view of cost, in addition, it helps in the process of price fixation.

On the other hand, management accounting deals with. presentation of data to the management for taking suitable decisions. Although the development of cost accounting has been necessitated by the limitations of financial accounting but the systems are complementary in nature. Both the systems can be distinguished as follows ;

1. Object. The object of cost accounting is to record the cost of producing a product or providing a Service. Besides recording, it deals with cost control, matching of costs with revenue and decision-making. The purpose of management accounting is to provide information to the management for planning and co-ordinating the activities of the business.

2. Scope. The scope of management accounting is very wide. It includes financial accounting, cost accounting, budgeting, tax planning, reporting to management and interpretation of financial data. On the other hand, cost accounting deals primarily with cost ascertainment.

3. Nature. Management accounting is generally concerned with the projection of figures for future. The policies and plans are prepared for providing future guidelines; Cost accounting uses both past and present figures.

4. Data used. In cost accounting only those transactions are taken which can be expressed in figures.Only quantitative aspect is recorded in cost accounting. Management accounting uses both quantitative and qualitative information.

5. Development. The development of cost accounting is related to industrial revolution. Cost accounting was thus evolved as a supplementary accounting method. Cost accounting was able to provide information not only about cost structure but also for planning and decision-making. Management accounting has developed only in the last thirty years. Management accounting and cost accounting are both complementary subjects.

6. Principles followed. Certain principles and procedures are followed for recording costs of different products. The same rules are applicable at different times too. No specific rules and procedures are followed in reporting management accounting. The information is prepared and presented as is required by the management.

Tools and Techniques or Systems of Management Accounting

A number of tools and techniques are used to supply the information required by the management. No one technique can satisfy all managerial needs. The tools and techniques used in management accounting are –

Financial policy and accounting, Analysis of Financial Statements, Historical Cost accounting, Budgetary control, Standard Costing, Marginal costing, Decision accounting, Control accounting, Management Information system.

NEED AND IMPORTANCE OF MANAGEMENT ACCOUNTING

In the present complex industrial world, management accounting has become an integral part of management. Management Accountant guides and advises management at every step. Management accounting not only increases efficiency of the management, it also increases efficiency of the employees. The following are the advantages of management accounting:

1. Increases Efficiency. Management accounting increases efficiency of business operatives. The targets of different departments are fixed in advance and the achievement of these goals is a tool for measuring their efficiency.

2. Proper Planning. Management is able to plan various operations with the help of accounting information. The technique of budgeting is helpful in forecasting various activities. Budgets are prepared department wise firstly and then a master budget is pre-~ pared for the whole organisation. The work load of each and every individual is fixed in advance. The activities of the concern are planned in a systematic manner.

3. Measurements of Performance. The systems of budgetary control and standard costing enable the measurement of performance, In standard costing, standards are determined and then actual cost is compared with standard cost. It enables the management to find out deviations between standard cost and actual cost. The performance will be good if actual cost does not exceed the standard cost. Budgetary control system too helps in measuring efficiency of all employees.

4. Maximising Profitability. The thrust of various management techniques is to control cost of production and increase efficiency of each and every individual in the organisation. The steps of controlling costs are able to reduce cost of production. The profits of the enterprise are maximised with the help of management accounting system.

5. Improves Service to Customers. The cost control devices employed in management accounting enable the reduction of prices. All employees in the concern are made cost conscious. The quality of products becomes good because quality standards are pre-determined. The customers are supplied good quality goods at reasonable prices.

6. Effective Management Control. The tools and techniques of management accounting are helpful to the management in planning, co-ordinating and controlling activities of the concern. The setting of standard and assessing actual performance regularly enables the management to have ‘‘management by exception’’, Everybody assesses his own work and immediate actions are taken in case of deviations in performance.

LIMITATIONS OF MANAGEMENT ACCOUNTING

Though management accounting is helpful in providing guidelines for planning, directing and controlling functions, still its effectiveness is limited by a number of reasons. Limitations of management accounting are:

1, Based on Accounting Information. Management accounting is based on data supplied by financial and cost accounting. Historical data is used to make future decisions. The correctness and effectiveness of managerial decisions will depend upon the quality of data on which these decisions are based. If financial data is not reliable then management accounting will not provide correct analysis.

2. Lack of Knowledge. The use of management accounting requires the knowledge of a number of related subjects. Management should be conversant with accounting principles, statistics, economics, principles of management, engineering, etc., and only then management accounting can be effectively utilised. Deficiency in knowledge of any of these subjects limits the use of management accounting.

3. Intuitive Decisions. Though management accounting provides scientific analysis of various situations and enables decision taking based on facts and figures, there is a tendency to make decisions intuitively. Management may avoid a lengthy course of deciding things and may take an easy course of arriving at decisions using intuitions. Intuitive decisions limit the usefulness of management accounting.

4**. Not an Alternative to Administration.** Management accounting does not provide an alternative to administration . The tools and techniques of management accounting provide only information and not decisions. Decisions are to be taken by the management and their implementation is also done by management. So management accounting has supplementary service function and has no final say neither in taking decisions nor in their implementation.

5. Top Heavy Structure. The installation of a management accounting system needs an elaborate organisational system. A large number of rules and regulations are also required to make this system workable and effective. Introduction of management accounting system is a costly affair and can be used by big concerns only. Smaller units cannot afford to use this system because of heavy cost.

6. Evolutionary Stage. Management accounting is only in a developmental stage, it has not yet reached a final stage. The techniques and tools used by this system give varying and differing results. The conclusions taken from analysis and interpretation are not the same and will take some time before management accounting takes a final shape.

7. Personal Bias. The interpretation of financial information depends upon the capability of interpreter as one has to make a personal judgement. There is every likelihood of personal bias in analysis and interpretation. Personal prejudices and bias affect the objectivity of decisions.

8. Psychological Resistance, The installation of management accounting involves basic change in organisational set up. New rules and regulations are also required to be framed which affect a number of personnel and hence there is a possibility of resistance from some quarters or the other.