Management Accouning – Introduction

Introduction

Accounting is a part of information system which involves the collection, recording , classification and presentation of financial data for the benefit of the management , shareholders ,creditors , banker, debenture holders, tax authorities and others.

Definition of Accounting- According to AICPA [American Institute of Certified Public Accountants]"accounting is the art of recording ,classifying and summarising in significant manner and in terms of money, transactions and events which are in part at least of financial nature and interpreting the results there off.

The word accounting can be classified into three categories.

1. Financial accounting
2. Cost accounting
3. Management accounting

Financial accounting: it may be defined as the science and art of recording and classifying business transactions and preparing summaries of the same for determining year end P&L and the financial position of the concern. it is nothing but Accounting.

Cost accounting : It is a specialised branch of accounting which specialises in providing information about the detailed cost of products and services being supplied by the undertaking..Cost accounting provides information about the cost of individual products , services ,etc. It consists of principles and rules which are used for determining

1. The cost of manufacturing a product.
2. The cost of providing a service

The cost accounting information is mainly for internal use of the concern. It is not provided to external parties except govt agencies to whom cost information may have to be submitted.

Management Accounting:

The term management accounting comprises of two words 'Management' and 'Acounting'. It is the study of managerial aspect of accounting. It is a modern concept of accounts as a tool of management. In simple words the term management accounting is applied to the provision of accounting information for management activities such as planning , controlling and decision making etc. management accounting is the presentation of accounting information to management in order to formulate the policies and assist in its day to day activities. In other words it helps the management to perform all its functions .

The term management accounting was first used in 1950 by a team of accountants visiting U.S.A.under the auspices of Anglo American council on Productivity. The complexities of business in modern time necessitated the use of management accounting for planning , co-ordinating and controlling functions of management.

Definition of management acc ounting ;

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

The Institute of Cost and Works Accountants of India [ICWAI] ; has defined Management accounting as " A system of collection and presentation of relevant economic information relating to a enterprise for planning , controlling and decision making. "

According to National Associations of Accountants; (USA) Management accounting is "the process of identification , measurement, accumulation, analysis , preparation and communication of financial information used by management to plan, evaluate and control within the organisation and to assure appropriate use and accountability for its resources."

These definitions make it clear that management accounting plays an important role in providing necessary information to managers in performing their functions of planning ,controlling , organising and decision making . it serves as a decision support system to all levels of management.

Characteristics or nature of management Accounting

The following are the main features of management accounting.

1 .Providing accounting information; Management Accounting is based on accounting information. The information collected by accounting department is used by the management for taking policy decisions, .management accounting involves the presentation of information in a way it suits managerial needs.

2 Useful in decision making. The information provided to management by accounting department is used to take important decision by management. The historical data is studied to see its possible impact on future decisions.

3.Cause and effect analysis ; financial accounting is limited to finding out profit & Loss and financial status of the organisation. If there ia a loss the reason for the loss are probed. If there is a profit , the factors influencing profits are studied. So the cause and effect relationship study is possible in management accounting.

4. Use of special techniques and concepts. ; The techniques usually used in this accounting include financial analysis , funds flow , cash flow, standard costing , budgetary control, marginal costing, etc.the type of technique depends on the situation and need of the concern.

5. Internal use. The information provided by management is exclusively for management for internal use. These information are not disclosed outside.

6. Achieving of Objectives: Historical data collected by accounting department is used for formulating plans and setting up objectives. The actual performance is compared with the targeted performance through which the performance of individual department is ascertained. If there are any deviation between standard set and actual performance corrective measures can be taken at once.

7. No fixed norms followed. : No specific rules are followed in management accounting. Though the tools of accounting are the same the use differs from concern to concern so every concern has its own rules and by- laws for analysing the data.

8. Increase in efficiency: the efficiency can be achieved by setting up goals for each department. If the set goals are not achieved by the concerned department , the efficient and inefficient points are pinpointed and corrective measures are taken .this improves efficiency of the organisation.

9. supplies information and not the decisions; This accounting provides required information to the management in required form for decision making .the management accounting is only guide and not supplier of decisions. How effectively the data is utilised depends upon the calibre and efficiency of management.

10. Concerned with future : it is concerned with forecasting. It helps the management in decision making and forecasting. The information is provided to the management with the object of taking future decisions.

Objectives or Functions of management accounting

The following are the important objectives of management accounting

1, Planning : the main objective of management accounting is to supply necessary information to the management for formulating plans . planning is related to taking the decisions for futureit also includes forecasting, setting goals,and deciding alternative course of action. Management prepares short term and long term plans with the help of this data.

2 helpful in organising. : it is related to the establishment of relationship among different individuals in the concern. It also includes delegation of authority and fixing responsibility. It is also concerned with preparation of budget, preparation of cost control accounts and fixing of responsibility.

3 Coordination :it helps in coordinating business activities, for example while preparing various budgets of different departments like production , sales, purchases etc, there should be full coordination and no contradiction .management accountant acts as a coordinator and reconciles the activities of different sections.

4 Controlling: Management accounting techniques like standard costing and budgetary control are helpful in controlling performance. the work is divided into different units, and separate goals are set

for each unit. The performance of each unit is observed and actual performance is compared with the predetermined objectives .the deviations are are traced and corrective actions are taken.

5. Helpful in financial analysis and interpreting financial information: Financial information is of technical nature and managerial personnel may not be able to understand the techniques used management accountant explains these statements to the management in a simple language.

6 .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 there targets and further incentives may be given for improving there performance

7. Decision making: management accounting has certain special techniques which help management in short term and long term decisions. for example techniques like marginal costing , differential costing, discounted cash flow, help i decisions such as pricing of products, make or buy, capital expenditure etc.

8 .Reporting: One of the management accounting objective is to keep the management informed about the latest position of the concern. this helps management in taking proper and timely decisions. The management is intimated through the regular reports.

9.Tax administration.: management accounting helps in assessing various tax liabilities and depositing correct amount of taxes with the concerned authorities. various tax returns are filed under different tax laws by management accountant.

10. Communication : management accounting establishes communication within the organisation and outside the world. Management accountant prepares reports for the benefits of different levels of management. and employees.

11. Qualitative information : Apart from providing quantitative information management accountant also provides qualitative information . quality of goods, employees, and customers, legal judgement, opinion polls, logic, etc are some of the qualitative information supplied by management accountant.

Scope of Management Accounting

Management accounting has a very wide scope. It is an interdisciplinary subject It includes not only financial and cost accounting but also all types of internal financial controls, internal audit, tax accounting ,office services, and cost control and other methods .Thus scope of management accounting includes

1.Finanacial accounting: Accounting is the process of systematic recording of financial transactions so as to determine the true and fair view of p&l and financial position of concern. Financial accounting deals with the historical data. It helps the management to forecast and plan its financial activities for the future period. All statements of management accounting can be prepared only if proper p&l and B/S is available. For effective and successful management accounting there should be a well defined financial accounting system.

2. Cost accounting: Many of the cost accounting techniques like standard costing , budgetary control , marginal accounting etc are used by management accounting. It helps management in cost controland achieving managerial goals .

3. Financial management: It is concerned with the planning and controlling of the financial resources of the firm. It deals with raising of funds and their effective use. Its main aim is to use business funds in such a way as to maximise profits. Management accounting also uses financial management.

4. Budgeting and forecasting: budgeting means expressing quantitative plans for a future definite period. Forecasting is prediction of what will happen as a result of given situations. Budgeting is an objective but forecasting is judgement. Both are helpful for management accountant in planning various activities.

5. Inventory Control: Inventory means stock of raw materials, work in process and finished goods. Inventory control is very important as it involves large sums. Management should determine different level of stocks, i.e minimum level, maximum level, reordering level for inventory control. Controlling stock helps in controlling the cost. Management accountant uses inventory control to provide information to management to decide from where , and when to purchase the goods.

6.Tax planning: It is concerned with computation of taxable income .In order to take advantage of various provisions of tax laws, management accountant has to depend upon tax accounting and planning to minimise its tax liabilities and save more for business.

7. Reporting to management : for effective and timely decisions , there should be a system of prompt and timely reporting. The reports are presented in the form of graphs, diagrams, index numbers etc so as to make them easily understandable. The management accountant sends monthly , quarterly , half yearly reports covering profit and loss statement, cash and fund flow statement, stock reports, absentee reports etc to the management.

8. Cost control procedures. : Any system of management accounting is incomplete without effective cost control procedures like inventory control, budgetary control etc. these measures are required for using economic resources economically and efficiently. Standards are fixed and actual performance are compared with standard and varience will be measured to take corrective actions.

9.Interpretation of data : management accountant analyse and interpret various financial statements to the management. These statement may be studied in comparison to statement of earlier period or in comparison with the statement of similar other concerns .if the statements are not properly interpreted then wrong conclusions may be drawn leading to wrong decisions.

10 . internal control and internal audit. : These are required to judge the performance of every department. The actual performance of each individual and department is compared with

predetermined standards to know any deviations. Internal audit helps management in fixing individual responsibility.

11. office services. : management accountant is expected to maintain and control office routine and procedures like filing, copying, communicating, data processing and other services.

12. Management information system: The computers are very much essential for the organisation for storing and supplying the information to the management for decision making. The advancement in the technology has made management accountant job much easier and effective.

Management Accountant

Any person responsible for the supply of accounting information to management is known as management accountant. He is known by different names i.e Controller, Comptroller, Chief accountant, financial Adviser, Financial controller, etc.

Role or functions of management accountant

Role or functions of management accountant are as follows.

1. Planning for control: He establishes co-ordinates and maintains an integrated plan for the control of operations. He undertakes profit planning , capital investment planning, budgeting etc. such a budget provides cost standard ,sales forecast etc to make plan effective.

2. Reporting: management accountant prepares the reports and communicates it to all levels of management. The performance of all department are recorded and reported to the management.

3 .Evaluation :he should evaluate various policies and programmes. The success of the organisation depends on the calibre of the management accountant in evaluating policies

4.Administration of tax :he has to report to the government agencies as required under different laws and to supervise all matters relating to tax.

5. Appraisal of external effects: He is to assess the various economic and financial policies of the government and evaluate the influence of external factors on business goals.

.6. protection of assets : the protection of assets function is performed throughthe maintenance of internal controls, auditing , and proper insurance coverage of assets.

Relationship between Management Accounting and financial accounting.

Financial accounting and management accounting are the two branches of the accounting information. .Financial accounting is concerned with recording of day to day transactions of the business. These transactions are classified according to their nature. Profit and loss and the financial status is ascertained by financial accounting. Both financial accounting and management accounting are complementary to each other.

The main point of distinction between financial accounting and management accounting

1.Object: The object of financial accounting is to find out profit or loss and financial status of the organisation at the end of the financial year. These record are useful to share holders , creditors, bankers, debenture holders etc.on the other hand management accounting is essential to the management in formulating policies and planning.

2. Nature. In financial accounting historical data as well as actual figures are used. but in management accounting projected or estimated figures are used.

3 Subject matter: In financial accounting over all performance of the organisation is assessed. But in management accounting the results of different department are evaluated separately to find out their performance.

4.Compulsion:Financial accounting is compulsory as per companies act. A particular procedure is to be followed for preparing financial accounts. Management accounting is not compulsory. It is only a service function helpful to the management for decision making. There are no particular procedures laid down by any law for management accounting except cash flow statement (AS – 7).

5.Precision : in financial accounting only actual figures are recorded and there is no room for any approximate figures. In management accounting no importance is given to actual figures. For decision making approximate figures are considered to be more useful.

6. Reporting: financial accounts are prepared to find out profitability and financial status of the organisation .These reports are useful for company as well as outsiders . management accounting reports are meant for internal use only. These reports are used by different levels of management which are nothing but future projection of figures.

7. Description : It records those transactions which can be measured in monetary terms. On the other hand management accounting uses both monetary and non monetary events and informations.

8. Quickness : Reporting of financial accounting is slow and time consuming . management is able to know the profitability and financial position only at the end of the year. But reporting in management accounting is very quick. Management is fed with reports at regular intervals

9. Accounting Principles: It is governed by generally accepted principles and conventions. No set of principles are followed in management accounting. .

10. Period : Financial accounting are prepared for one financial year that is a particular period. Management accounting supplies information from time to time during the whole year.

11. Publication: financial statements are published for the benefit of the public. Management accounting statements are not published.

12. Audit : financial accounting audit is compulsory under company Law. Management accounts can not be audited.

Relationship between cost accounting and management accounting.

1.object: the object of cost accounting is to record the cost of producing a product or providing a service. The purpose of management accounting is to provide the information to the management for planning , coordinating , decision making and control.

2.Scope :Cost accounting deals primarily with cost ascertainment. The scope of management accounting is very wide. It includes financial accounting , cost accounting, budgeting , tax planning, reporting etc.

3. Nature : Cost accounting uses both past and present figures. Management accounting generally concerned with the projection of figures for the future.

4. Data used : only quantitative aspect is recorded in cost accounting. In management accounting both quantitative and qualitative aspects are recorded.

5. Development: The development of cost accounting is related to industrial revolution. Management accounting is developed recently that is after 1950.

6. Principles followed: Certain Principles and procedures are followed for recording cost of different products. No specific rules and procedures are followed in reporting management accounting.