(8) Cost accounting helps management in periods of trade depression and competition by determining actual cost of the product.

(9) It provides cost data for comparison in different periods.

(10) Costing aids in inventory control.

(11) It is a useful tool of managerial control and helps in cost reduction and cost control.

***(b)* Advantages to Employees :** An efficient costing system reduces cost and increases the profits of a concern thus ensuring greater security of service and increased wages to the employees. Cost accounting also helps in introducing incentive wage schemes and bonus plans which bring more reward to efficient employees.

***(c)* Advantages to the Creditors, Investors and Bankers :** Creditors, investors, bankers and others who lend money to the business are also benefited by the introduction of cost accounting in a concern. It enables the creditors, bankers and investors to judge the financial position and solvency of a concern by providing reliable cost data. Cost accounting thus helps bankers and others in evaluating the performance of a customer. The various cost reports can be analysed before lending money to a concern. A concern having a good costing system can attract more investors than a concern without an efficient system of costing.

***(d)* Advantages to the Government and the Society :** Cost accounting increases the efficiency of a concern, reduces costs and increases its profits. Thus, it promotes the overall economic development of the country. Better and cheaper goods are made available to the public. With the reduction in wastages and increase in profits the revenue of the Government in the form of taxes is increased. The techniques of costing are also useful in preparing national plans.

To conclude we can say that all, i.e. management, employees, creditors, investors, bankers (lenders), Government and society at large are benefited with the introduction of efficient cost accounting system.

■ LIMITATIONS OF COST ACCOUNTING

Cost Accounting, despite its many advantages to various parties, suffers from certain deficiencies or limitations.

Some of the important deficiencies and limitations of cost accounting are given as follows :

(i) It is not an independent system of accounts.

(ii) It is based largely on estimates like absorption of indirect expenses or apportionment of expenses on estimate basis.

(iii) There is a scope for subjectivity on items like depreciation, valuation of closing stock, etc.

(iv) It does not take into consideration all items of expenses and incomes, e.g; items of purely financial nature such as interest, finance charges, discount and loss on issue of shares and debentures, etc.

■ MANAGEMENT ACCOUNTING

Cost accounting, no doubt, serves the internal management by directing their attention on inefficient operations and assisting in a day–to–day control of 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 which pave the way for emergence of management accounting. Management accounting provides all possible information required for managerial purposes.

■ MEANING AND EMERGENCE OF MANAGEMENT ACCOUNTING

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 is helpful to the management in formation of policy, control of execution and appreciation of effectiveness. It is that system of accounting which helps management in carrying out its functions more efficiently.

The term 'Management Accounting' is of a recent origin. This term was first used in 1950 by a team of accountants visiting U.S.A. under the auspices of Anglo–American Council on Productivity. The terminology of cost accountancy had no reference to the word management accountancy before the report of this study group. 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 coordinates 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 for 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 it in performing managerial functions efficiently and effectively.

■ DEFINITIONS OF MANAGEMENT ACCOUNTING

1. 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."

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.

2. Robert N. Anthony : "Management Accounting is concerned with accounting information that is useful to management."[1]

Anthony associates management accounting with accounting information and its utility to management. The financial information should be collected, complied and presented to management in such a way that it is helpful in solving various problems.

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1. Anthony, Robert N., "Management Accounting".

3. T.G. Rose : "Management Accounting is the adaptation and analysis of accounting information and its diagnosis and explanation in such a way as to assist management."

According to this definition, management accounting adapts financial information. The information is selected, classified and analysed in such a way that it helps the management in carrying out various operations systematically and efficiently. The information is made more useful by giving details and explanations.

4. J. Batty : "Management Accounting is the term used to describe the accounting methods, systems and techniques which, coupled with special knowledge and ability, assist management in its task of maximising profits or minimising losses."[1]

Batty has given a wider definition of management accounting. He uses the word Accountancy instead of accounting so as to give a wider meaning to the subject. Various accounting systems and techniques are designed to meet the needs of the management. The information should be recorded and presented in such a way that management is able to arrive at right conclusions. The ultimate aim of the management is to increase profitability or reduce losses. Management accounting is a tool to achieve the objectives of a business enterprise. The term 'special knowledge' used in the definition includes economics, laws, statistical metods, psychology and other related subjects. All these subjects are useful for the management in planning, forecasting and controlling business activities.

5. Brown and Howard : "The essential aim of management accounting should be to assist management in decision making and control."

According to these scholars the primary aim of management accounting is to help management in managing the business properly. Management accounting is a tool which helps the management in planning and controlling various business activities. This definition describes the purpose rather than the meaning of management accounting.

6. Broad and Carmichael : "The term 'Management Accounting' covers all those services by which the accounting department can assist top management and other departments in the formation of policy, the control of its execution and appreciation of its effectiveness."

The thrust of this definition is on the services provided by accounting department. This department collects and stores financial information and feeds it to the management and other departments whenever they need it. The information provides a base for taking policy decisions and then evaluating the implementation of such decision.

7. H.M. Treasury : "The application of accounting knowledge to the purpose of producing and of interpreting accounting and statistical information designed to assist management in its functions of promoting maximum efficiency and in formulating and coordinating future plans and subsequently in measuring their execution."

Mr. Treasury is of the opinion that management accounting is the use of accounting knowledge by management for enhancing its efficiency and planning and executing various policies for the benefit of the business.

8. Smith, R.L. : "Management Accounting is a more intimate merger of the two older professions o management and accounting wherein the informational needs of the manager determine the accountin means for their satisfaction."

According to Smith, management accounting is nothing new but the bringing together of accountir and management. The accounting information is given in such a way that information requirements of tl

1. Batty, J, "Management Accounting , Fourth Edition."

■ 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 :

CHARACTERISTICS OR NATURE OF MANAGEMENT ACCOUNTING	
1.	Providing Accounting Information.
2.	Cause and Effect Analysis
3.	Use of Special Techniques and Concepts.
4.	Taking Important Decisions
5.	Achieving of Objectives.
6.	No Fixed Norms Followed
7.	Increase in Efficiency.
8.	Supplies Information and not Decision.
9.	Concerned with Forecasting

1. Providing Accounting Information. Management accounting is based on accounting information. The collection and classification of data is the primary function of accounting department. The information so collected is used by the management for taking policy decisions. 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 loss, the reasons for the loss are probed. If there is a profit, the factors directly influencing the profitability are also studied. The figures of profits are compared to sales, different expenditures, current assets, interest payables, share capital, etc. So the study of cause and effect relationship is possible in management accounting.

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. The implications of various alternative decisions are also taken into account while taking important 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 take 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. Every concern uses the figures in its own way. The presentation of figures will be in the way which suits the concern most. So every concern has its own rules and by–rules for 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. An effort is made to take corrective measures so that efficiency is improved. The constant review of working will make the staff cost–conscious. Every one 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. The information is classified in the manner in which it is required by the management. Management accountant is only to guide and not to supply decisions. The data is to be used by management for taking various decisions.'How is the data to be utilised' will 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 in developing realistic approach to future course of action. The main aim is to help management in its functions of planning, directing and controlling. Management accounting is related to a number of fields. At the Seventh International Conference of Accountants held in Amsterdam in 1957, the main emphasis was on Cost Accounting, Budgetary Control, Materials Control, Interim Reporting, Determination of the most efficient and economical accounting system, Special cost and economic studies and assisting management in interpreting financial data.

The following facts of management accounting are of a great significance and form the scope of this subject.

SCOPE OF MANAGEMENT ACCOUNTING	
1.	Financial Accounting.
2.	Cost Accounting.
3.	Financial Management
4.	Budgeting and Forecasting
5.	Inventory control
6.	Reporting to Management.
7.	Interpretation of Data
8.	Control Procedures and Methods.
9.	Internal Audit
10.	Tax Accounting
11.	Office Services.

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.

Cost accounting also helps in finding out economical and non–economical fields of production. The efficiency of different departments is judged by setting up standards and finding out variances. So cost accounting is an essential part of management accounting.

3. Financial Management. Financial management is concerned with the planning and controlling of the financial resources of the firm. It deals with raising of funds and their effective utilisation. Its main aim is to use business funds in such a way that earnings are maximised. Finance has become so much important for every business undertaking that all managerial activities are connected with it. Financial viability of various propositions influence decisions on them. Although, financial management has emerged as a separate subject, management accounting includes and extends to the operation of financial management also.

4. Budgeting and Forecasting. Budgeting means expressing the plans, policies and goals of the enterprise for 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.

5. Inventory Control. Inventory is used to denote stock of raw materials, goods in the process of manufacture and finished products. Inventory has a special significance in accounting for determining correct income for a given period. Inventory control is significant as it involves large sums. The management should determine different levels of stocks, *i.e.,* minimum level, maximum level, re–ordering level for inventory control. The control of inventory will help in controlling costs of products. Management will need effective inventory control for controlling stocks. 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.

6. 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. The reports may cover profit and loss statement, cash and fund flow statements, stock reports, absentee reports and reports on orders in hand, etc. These reports are helpful in giving a constant review of the working of the business.

7. 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. So interpretation is as important as compiling of financial statements.

8. 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.

9. 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.

10. 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.

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

■ OBJECTIVES OF MANAGEMENT ACCOUNTING

The primary objective of management accounting is to enable management to maximise profits or minimise losses. This is done through the presentation of statements in such 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 deciding alternative courses of action. Management accountant prepares statements of past results and gives estimations for the future. He also gives his assessment of various facets and gives his preference for a particular alternative. The figures supplied and opinion given by the management accountant help 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 performance of every unit is made the responsibility of a particular person. The required authority for getting the work done is also delegated to the concerned persons. The actual results are compared with predetermined objectives. 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 coordinating 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 centers, 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 is to present financial information to the management in such a way that it is easily understood. Financial information is 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. If necessary, he uses 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.

OBJECTIVES OF MANAGEMENT ACCOUNTING	
1.	Planning and Policy Formulation
2.	Helpful in Controlling Performance
3.	Helpful in Organising
4.	Helpful in Interpreting Financial Statements
5.	Motivating Employees
6.	Helpful in Making Decisions
7.	Reporting to Management
8.	Helpful in Co–ordination
9.	Tax Administration

6. Helpful in Making Decisions. The management has to take certain important decisions. A decision may have to be taken about the expansion or diversification of production. There may be a question of 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 coordinating 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. Various tax returns are to be filed under different tax laws. Tax administration is carried on with the advice and guidance of the management accountant.

■ 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.

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 decisions 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.

■ RELATIONSHIP OF MANAGEMENT ACCOUNTING WITH FINANCIAL ACCOUNTING

Financial accounting and management accounting are the two branches of the accounting information system of business enterprises. Financial accounting is concerned with the recording of day-to-day transactions of the business. These transactions are classified according to their nature. 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. Thus, financial accounting has a significant influence on management accounting. Further the principles of financial accounting are equally useful in management accounting also. It should also be noted that management accounting is only an off-shoot of financial accounting. Both financial and management accounting are complementary and are necessary in running the concern efficiently.

Despite the close relationship, there are certain points of distinction between financial accounting and management accounting. The main points of distinction between financial and management accounting are discussed as below :

1. Object. The object of financial accounting is to record various transactions with the purpose of maintaining accounts and to know the financial position and to find out profit 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 help 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. Financial accounts are concerned with details whereas management accounting is concerned in analysing data from different angles.

4. Compulsion. The preparation of financial accounts is compulsory in certain undertakings while these are a 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. The management is free to use or not to use management accounting. Under certain laws a particular procedure is to be followed for preparing financial accounts whereas there are no such procedures in management accounting. It is the suitability of the management which is important while using 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. The transactions are recorded only when they have taken place so exact figures are used.

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. Financial reports such as profit and loss account and balance sheet are prepared for a specific period and on a particular date. On the other hand, there is no such binding for preparing management accounting reports. The main idea for preparing these reports is to enable the management to have a view about the position of the concern and no consideration is given to the period. Management accounting reports are rather future projections of figures.

7. Description. Only those things are recorded in financial accounting which can be measured in monetary terms. Anything which cannot be recorded in figures is outside the scope of financial accounting. 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. The requirement and expediency of the situation determines the mode of information to be presented.

10. Period. Financial accounts are prepared for a particular period. Profit and Loss Account is generally prepared for one year. 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 to the Registrar of Companies at the end of the financial year. 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 Company 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 and are necessary in running the concern efficiently.

DIFFERENCE BETWEEN FINANCIAL ACCOUNTING AND MANAGEMENT ACCOUNTING

Point of Distinction	Financial Accounting	Management Accounting
1. Object	The object is to record various transactions and to know the financial position and to find out profit or loss at the end of the financial year.	The main objective is to provide information to management for formulating policies and plans.
2. Nature	It is mainly concerned with historical data. It records only those transactions which have already taken place.	It deals with projection of data for the future. It uses historical data only for taking decisions for the future.
3. Subject Matter	It is concerned with assessing the results of the business as a whole.	It deals separately with different units, departments and cost centres.
4. Legal Compulsion	The preparation of financial accounts is compulsory in certain undertakings while these are necessity in others.	It is not compulsory. It is only a service function and is helpful in administration of the business.
5. Precision	In financial accounting only actual figures are recorded with perfect accuracy and precision.	In management accounting, no emphasis is given to actual figures, the approximate figures are considered more useful.
6. Reporting	Financial reports are prepared not only for the benefit of the concern but also for outsiders.	Management accounting reports are meant for internal use only.
7. Description	It records only those transactions which can be measured in monetary terms.	It uses both monetary and non-monetary events or information.
8. Quickness	Reporting of financial accounting is slow and time consuming.	Reporting of management accounting is very quick.
9. Accounting Principles	It is governed by generally accepted principles and conventions.	No set principles are followed in management accounting.
10. Period	Financial accounts are prepared for a particular period.	It 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 accounts can be got audited. Under company law, audit is compulsory.	Management accounts cannot be audited.

■ RELATIONSHIP BETWEEN COST AND MANAGEMENT ACCOUNTING

The purpose of cost accounting is not merely ascertainment of cost, it is also performance evaluation and management decision–making. Management uses cost data to minimise the costs and evaluate the performance as a basis for decision making. It is for this reason that most of the cost accounting concepts are also used in management accounting. Although there is some overlapping in the areas of cost accounting and management accounting, the two are not synonymous. Management accounting connotes a much wider field than cost accounting. The function of management accounting is much more than simply the accumulation of cost data. However, both cost and management accounting systems are complementary in nature. In the absence of a well established costing system the cost data will not be available and management accounting system cannot function efficiently.

The following are the main points of distinction between cost and management accounting :

1. Object. The object of cost accounting is to record the cost of producing a product or providing a service. The cost is recorded product wise or unit wise. 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. Financial accounting could not satisfy information needs of management. 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. Principle 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.

DIFFERENCE BETWEEN COST AND MANAGEMENT ACCOUNTING

Point of Difference	Cost Accounting	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 information to the management for planning coordinating, decision making and control.
2. Scope	The scope is limited as it deals primarily with cost ascertainment.	The scope is very wide. It includes financial accounting, cost accounting, budgeting, tax planning, etc.
3. Nature	Cost accounting uses both past and present figures.	It is generally concerned with the projection of figures for the future.
4. Data used	Only quantitative aspect is recorded.	It uses both quantitative and qualitative information.
5. Development	The development of cost accounting is related to industrial revolution. It evolved as supplementary accounting method.	It has developed only in the last forty years.

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.

■ COST REDUCTION

Cost reduction may be defined as the permanent reduction in the unit cost of goods manufactured or services rendered without impairing their quality and suitability for use. The Chartered Institute of Management, London defines cost reduction as " the achievement of real and permanent reduction in the unit cost of goods manufactured or services rendered without imparing their suitability for the use intended or diminution in the quality of the product."

The definition given above reveals the following characteristics of cost reduction where one should focus :

(i) The cost reduction must be real say through increased productivity, improved design, better methods or new layout etc.

(ii) Cost reduction must be of permanent nature. It should not be temporary or short lived. Temporary reductions in costs due to certain factors such as decrease in prices of raw materials, reduced tax rates etc. do not fall in the preview of cost reduction.

(iii) Cost reduction should not impair the quality and suitability of essential characteristics of the products or services. If the quality of the product is declined due to change in raw material etc; it may result in lower cost but cannot be termed as cost reduction in real sense.

The cost reduction should, thus, aim at elimination of wastages, increase in productivity and improvement in efficiency. It is a planned and positive approach for the improvement.

■ COST CONTROL

Cost control is simply the achievement of predetermined costs. In other words it is the function of keeping costs within prescribed limits. The Chartered Institute of Management Accountants, London defines cost control as "the regulation by executive action of the cost of operating an undertaking, particularly where such action is guided by cost accounting." Cost control is exercised through setting standard or target costs and comparing the actuals with the predetermined, planned costs so as to reduce inefficiencies and wastages. Thus, cost control is to compel the actual costs to conform to the planned costs.

It invovles :

(i) The determination of standard (planned) cost.

(ii) The recording of actual cost.

(iii) The comparison between predetermined (standard cost and actual cost).

(iv) The finding out of variances.

(v) The analysis of variances to fix responsibilities

(vi) The reporting of variances to find out inefficiency.

(vii) The taking of corrective action or measures so that future performance conforms to standards.

(viii) The periodical review of standards.

There are many tools used for cost control purposes, the two most popular are standard costing and budgetary control.

■ COST CONTROL VS. COST REDUCTION

The term 'cost reduction' is often confused with 'cost control'. But the two terms do not mean the same thing. Cost reduction and cost control are two effective tools of management to improve efficiency but both differ in their concepts and procedures.

The main points of distinction between the two are as follows :

(i) **Object.** The aim of cost control is to achieve the predetermined costs whereas cost reduction aims at real or permanent reduction of costs by adopting new methods, technology etc.

(ii) **Method.** Cost control is concerned with determination of standard costs, ascertaining actual costs, comparing the standard with the actual costs, analysing the variances and taking corrective action for the future. On the other hand, cost reduction is not concerned with maintenance of performance according to predetermined standards.

(iii) **Nature.** Cost control is static in nature in the sense that it is a routine exercise carried out to achieve the fixed predetermined standards, whereas cost reduction is a continuous exercise to reduce costs further on permanent basis.

(iv) **Approach.** Cost control aims to seek adherence to standards, whereas cost reduction challenges the predetermined standards themselves.

(v) **Function.** Cost control is a preventive function, whereas cost reduction is a corective function.

(vi) **Phase.** Cost reduction begins where cost control ends. It is a more dynamic approach as compared to cost control for improving the efficiency, productivity and elimination of wastages.

■ ADVANTAGES OF COST REDUCTION AND COST CONTROL

The major advantages of exercising cost reduction and cost control programme are given below:

1. Proper utilisation of resources.
2. Minimising costs.
3. Reasonable prices for customers.
4. Increased profits.
5. Better market position.
6. Increased efficiency.
7. Improved productivity.
8. Higher rate of return on investment
9. Increased capacity to cope competition.
10. Improved employer-employee relationship.

■ COST MANAGEMENT

The term cost management is of recent origin and it encompasses both the techniques of cost accounting and management accounting. It is a much wider term than cost accounting.

According to Hansen and Mowen, "Cost management identifies, collects, measures, classifies and reports information that is useful to managers for determining the cost of products, customers and suppliers and other relevant objects and for planning, controlling, making continuous improvements and decision making."