

UNIT 3:

Management Accounting

Meaning of Management Accounting

The practice of delivering financial resources and information to managers for decision-making is known as the management accounting. Management accounting aims to use this statistical data to make more informed decisions. It will help you manage your company's growth and day-to-day operations. In the ahead of this blog, we will explain the nature and scope of management accounting. In the following section, you will know the management accounting nature and scope.

Nature of Management Accounting

In this section, we will come to know the characteristics of management accounting.

1. It Focuses More on the Future

It is concerned with the nature of management accounting regarding the future. The management can foresee and plan their future course of action with its assistance.

2. Methods of Selective Nature

It is a method with a selective focus. It considers only data from the profit and loss account and balance sheet, which is relevant and valuable to the management.

3. It demonstrates the causality of events

On the profitability of the company, the impact of numerous decisions, including pricing, advertising a new product, sales mix, cost control, etc., is studied. As it shows that the nature of management accounting establishes the cause and effect relationship.

4. It Provides information and not Decisions

The management accountant never takes any decisions but only provides data based on which the management takes decisions. The nature of management accounting shows that it only provides information to the administration.

5. Use of Special Methods and Concepts

Some techniques included ration analysis, budgetary control, cash flow statement, etc. The methods used will depend upon the nature of the problem and the prevailing circumstances.

6. No set formats

It does not provide information in a prescribed proforma like that of financial accounting. It includes information that may be more suitable for the management in making various decisions. There are no set formats for providing information on the nature of management accounting.

7. No Specific Rules Followed

No specific rules are followed, like management accounting. Though management accounting tools are the same, their use differs from one form to another.

8. Purely Optional

It is purely a voluntary technique, and there is no statutory obligation. Its adoption by a firm depends upon its utility and desirability.

Scope of Management Accounting

1. Financial Accounting

Financial Accounting includes in the scope of management accounting. It uses the data provided by financial accounting. In Management Accounting, funds flow statements, cash flow statements, ration analysis, etc. are prepared based on data taken from profit and loss accounts and balance sheets which are a part of financial accounting.

2. Cost Accounting

It provides information about the total cost and per unit cost of products and services. This information is very helpful in cost control. It includes in the scope of management accounting. It contains standard costing, operating costing, etc., which help make various types of managerial decisions.

3. Budgetary Control

Various types of budgets should prepare under budgetary control. Actual performance is in comparison to the budgeted figures, and the deviations are analysed to fix the responsibility and take remedial action.

4. Inventory Control

Various techniques are helpful to keep adequate control of stock. It includes in its scope all the inventory control techniques. However, the scope of management accounting includes inventory control.

5. Financial Statement Analysis

It employs various techniques to analyse and interpret financial data to make it meaningful. Also, it is understandable to the management and multiple users of financial statements.

6. Revaluation Accounting

The firm's resources valuation is at its current price instead of its historical cost. It is helpful to measure the net profit and capital of the business in absolute terms and not in monetary terms.

7. Reporting

Reports are presented to the management in graphs, diagrams, ratios or other statistical techniques so that users can easily understand them. The information may include profit and loss accounts, balance sheets, fund flow statements, cash flow statements, etc. However, reporting comes into the scope of management accounting.

8. Tax Accounting

It includes tax planning, determination of taxable income, filing the return of income in time and the payment of taxes.

9. Internal Control

It includes internal control methods such as internal checks, internal audits, efficient office management, etc.

10. Methods and Procedures

It also includes the establishment of the most economical system of accounting suitable to the firm. It lays down the methods and procedures for smoothly conducting different business activities.

11. Office Services

In a small organisation, the scope of management accounting includes office services also. An organisation may require a management accountant to maintain and control office services. It includes data processing, filing, copying, communication, etc.

Advantages of Management Accounting

1. It helps to increase the efficiency of all functions of management
2. It helps in target-fixing, decision-making, price-fixing, selection of product-mix and so on
3. Forecasting and Budgeting help the concern to plan the future and financial activities
4. Various tools and techniques provide reliability and authenticity to carry out the business functions
5. It is useful in controlling wastage and defects
6. It helps in complete communication between all levels of management
7. It helps in controlling the cost of production thus increasing the profit percentage

8. It is proactive-analyses the governmental policies and socio-economic scenario which helps to assess the external environmental impacts on the organization



Limitations of Management Accounting

1. It is concerned with financial and cost accounting. If these records are not reliable, it will affect the effectiveness of management accounting.
2. Decisions taken by the management accountant may or may not be executed by the management.
3. It is very expensive. Only big concerns can adopt this method of accounting.
4. New rules and regulations are to be framed, hence there is a possibility of opposition from the employees.
5. It is only in the developing stage.
6. It provides only data and not decisions.
7. It is a tool to the management and not an alternative of management.

Difference between Financial Accounting and Management Accounting

Basis	Financial Accounting	Management Accounting
Meaning	An accounting system that helps in classifying,	An accounting system that helps in collecting, analysing, and

Basis	Financial Accounting	Management Accounting
	analysing, summarising, and recording a company's financial transactions.	understanding the financial, qualitative, and statistical information ultimately helps the management in making effective decisions regarding the business.
Application	It helps in showing a true and fair picture of the financial position of an organisation.	It helps the management in making meaningful decisions and strategizes accordingly.
Objective	Its objective is to create periodical reports.	Its objective is to assist the internal management of an organisation in making decisions.
Users	There are both internal (employees, management, etc.) and external (customers, creditors, etc.) users of financial accounting.	There are only internal users (management, etc.) of management accounting.
Nature of the Statements prepared	The statements under financial accounting are prepared for general-purpose.	The statements or reports under management accounting are prepared for specific-purpose.
Statutory Requirement	It is mandatory to prepare the financial statements of a company.	There is no statutory requirement for management accounting.
Scope	The scope of financial accounting is pervasive.	The scope of management accounting is broader than financial accounting.

Basis	Financial Accounting	Management Accounting
Rules	Financial accounting strictly follows the rules of GAAP.	There are no fixed rules while preparing reports through management accounting.
Time Span	Financial statements under this accounting system are prepared for a fixed time period; i.e., one year.	Reports under this accounting system are prepared according to their need.
Basis of Decision-making	Historical information is used as the basis of decision-making.	Historical and estimated (predictive) information is used as the basis of decision-making.
Verifiable	The information presented in the financial statements is verifiable.	The information presented in the reports is predictive; hence, not immediately verifiable.
Format	There is a specific format for presenting and recording information through financial accounting.	There is no specific format for presenting information in management accounting.