**Management Accounting and Financial Statement Analysis**

**Management Accounting**

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

**Characteristics of Management Accounting**

* **To Provide Accounting Information:** Information is collected and classified by the financial accounting department, and presented in a way that suits managerial needs to review the various policy decisions of an organization.
* **Cause and Effect Analysis:** One step further from financial accounting, management accounting works to know the reasons of profit or loss of an organization. It works to find out the causes for loss and also study the factors which influence the profitability. Therefore, cause and effect are a feature of management accounting.
* **Special Technique and Concepts:** Budgetary control, marginal costing, standard costing are main techniques used in financial accounting for successful financial planning and analysis, and to make financial data more useful.
* **Decision Making:** Studying various alternative decisions, studying impact of financial data on future, supplying useful data to management, helping management to take decisions is a part of management accounting.
* **Achieving Tasks:** Financial data is used to set targets of the company and to achieve them. Corrective measures are used if there is any deviation in actual and targeted task. This all is done through management accounting with the help of budgetary control and standard costing.
* **No Fixed Norms:** No doubt, tools of management accounting are same, but at the same time; uses of these tools depend upon need, size, and structure of any organization. Thus, no fix norms are used in application of management accounting. On the other hand, financial accounting totally depends on certain rules and principals. Therefore, presentation and analysis of accounting data may vary from one organization to another.
* **Increasing Efficiency:** While evaluating the performance of each department of an organization, management accounting can spot the efficient and inefficient sections of an organization. With the help of that, corrective step can be taken to rectify the inefficient part for better performance. Hence, we can say that efficiency of a concern can increase using accounting information.
* **Informative Instead of Decision Making:** Decisions are taken only by top management using information provided by management accountant as classified in a manner which is useful in decision making. Decision making does not come under preview of accountant, it is only the top management, who can take decision. Thus, decision of an organization depends on caliber and efficiency of the management.
* **Forecasting**: Management accountant helps management in future planning and forecasting using historical accounting data.

**Objectives of Management Accounting**

* **Planning and Formulating Policies:** In the process of planning and formulating policies, a management accountant provides necessary and relevant information to achieve the targets of the company. Management accounting uses regression analysis and time series analysis as forecasting techniques.
* **Controlling Performance:** In order to assure effective control, various techniques are used by a management accountant such as budgetary control, standard costing, management audit, etc. Management accounting provides a proper managerial control system to the management. Reports are provided to the management regarding the effective and efficient use of resources.
* **Interpreting Financial Statement:** Collecting accounting data and analyzing the same is a key role of management accounting. Management accounting provides relevant information in a systematic way that can be used by the management in planning and decision-making. Cash flow, fund flow, ratio analysis, trend analysis, and comparative financial statements are the tools normally used in management accounting to interpret and analyze accounting data.
* **Motivating Employees:** Management accounting provides a selection of best alternative methods of doing things. It motivates employees to improve their performance by setting targets and starting incentive schemes.
* **Making Decisions:** Success of any organization depends upon accurate decision-making and effective decision-making is based on informational network as provided by management accounting. Applying techniques of differential costing, absorption costing, marginal costing, and management accounting provides useful data to the management to aid in their decision-making.
* **Reporting to Management:** It is the primary role of management accounting to inform and advice the management about the latest position of the company. It covers information about the performance of various departments on regular basis to the management which is helpful in taking timely decisions. A management accountant also works in the capacity of an advisory to overcome any existing financial or other problems of an organization.
* **Coordinating among Departments:** Management accounting is helpful in coordinating the departments of an organization by applying thorough functional budgeting and providing reports for the same to the management on a regular basis.
* **Administrating Tax:** Any organization must comply with the tax systems prevailing in the country they are operating from. It is a challenge due to the ever-increasing complexity of the tax structure. Organization need to file various kinds of returns with different tax authorities. They need to calculate the correct amount of tax and assure timely deposit of tax. Therefore, the management takes guidance from management accountants to comply with the law of the land.

**Financial Statement**

* Financial statements are the statements that are prepared at the end of the accounting period, which is generally one year.
* These include income statement i.e. Trading and Profit & Loss Account and Position statement i.e. Balance Sheet.

**Objectives of Financial Statements**

* Ascertaining the results of business operations.
* Ascertaining the financial position.
* Source of information.
* Helps in managerial decision making.
* An index of solvency of the concern.

**Features of Financial Statements**

* Financial statements are always expressed in monetary terms.
* Financial statements are always prepared for a certain period of time.
* Financial statements are historical in nature since they always present the past performance.
* Information needs to be understandable by users.
* The relevance of financial information relates to its predictive value, as well as its usefulness in helping users
* Reliability involves providing information that represents transactions or events faithfully, in accordance with their substance and economic reality.
* Comparability requires consistency in the use and application of accounting policies

**Types of Financial Statements**

* **Income Statement (Trading & Profit and Loss Account):** revenues minus expenses for a given time period ending at a specified date.
* **Balance Sheet:** statement of financial position at a given point in time.
* **Statement of Owner's Equity:** also known as Statement of Retained Earnings or Equity Statement.
* **Statement of Cash Flows:** summarizes sources and uses of cash; indicates whether enough cash is available to carry on routine operations.

**Trading Account**

* Income statement consists of Trading and Profit and Loss Account.
* A business firm either purchases goods from others and sells them or manufactures and sells them to earn profit. This is known as trading activities.
* A statement is prepared to know the results in terms of profit or loss of these activities. This statement is called Trading Account

**Profit and Loss Account**

* The profit and loss account are an account which shows the net profit or net loss of a business for a particular year.
* The net profit or net loss is the profit earned or loss suffered after charging all business expenses (including depreciation and provisions).
* It is the final profit or loss of a business

**Balance Sheet**

It is a statement showing the position of the assets and liabilities of the business on the last day of the accounting year or on the date on which it is prepared. A balance sheet depicts the financial position of the business.

**Marshalling of Balance Sheet:** The arrangement of the different items of assets and liabilities in a balance sheet is called marshaling of balance sheet. This can be done in two ways

* In order of liquidity
* In order of permanence

**Difference Between Financial Accounting and Management Accounting**

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| **S.no.** | **Financial Accounting** | **Management Accounting** |
| 1 | Monitory transactions are the base of financial accounting. | Data as obtained from financial accounting is the base of management accounting. |
| 2 | Recognition, classification, recording of financial transactions on actual basis, and preparation of financial statement are the main functions of financial accounting. | Collection of data from financial accounting, provision of necessary information to the management for planning, decision-making, and evaluation are the main functions of management accounting. |
| 3 | Support of relevant figures is required in preparing the financial reports. | Subjective and objective, both figures may be present in the management accounting report. |
| 4 | Success of financial accounting does not depend on sound management accounting system. | Success of management accounting depends on sound financial accounting system of a concern. |
| 5 | Financial reports are used by the management of a company, shareholders, creditors, and financial institutions. | Financial reports are exclusively used by the management only. |
| 6 | Statutory audit of financial statements of concerns is required as per applicable law. | No statutory requirement of audit for reports prepared by management accountants. |
| 7 | Financial statements of a concern are prepared at the end of every accounting period. | The reports are prepared as and when required by management of the concern. |
| 8 | To ascertain profit or loss of a concern on actual basis and to know financial position of a concern financial accounting is used. | Thorough management accounting evaluation of performance is done department and section-wise, as well as whole concern-wise. |

**Difference Between Cost Accounting and Management Accounting**

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| **Sl No.** | **Cost Accounting** | **Management Accounting** |
| 1 | The main objective of cost accounting is to assist the management in cost control and decision-making. | The primary objective of management accounting is to provide necessary information to the management in the process of its planning, controlling, and performance evaluation, and decision-making. |
| 2 | Cost accounting system uses quantitative cost data that can be measured in monitory terms. | Management accounting uses both quantitative and qualitative data. It also uses those data that cannot be measured in terms of money. |
| 3 | Determination of cost and cost control are the primary roles of cost accounting. | Efficient and effective performance of a concern is the primary role of management accounting. |
| 4 | Success of cost accounting does not depend upon management accounting system. | Success of management accounting depends on sound financial accounting system and cost accounting systems of a concern. |
| 5 | Cost-related data as obtained from financial accounting is the base of cost accounting. | Management accounting is based on the data as received from financial accounting and cost accounting. |
| 6 | Provides future cost-related decisions based on the historical cost information. | Provides historical and predictive information for future decision-making. |
| 7 | Cost accounting reports are useful to the management as well as the shareholders and creditors of a concern. | Management accounting prepares reports exclusively meant for the management. |
| 8 | Only cost accounting principles are used in it. | Principals of cost accounting and financial accounting are used in management accounting. |
| 9 | Statutory audit of cost accounting reports is necessary in some cases, especially big business houses. | No statutory requirement of audit for reports. |
| 10 | Cost accounting is restricted to cost-related data. | Management accounting uses financial accounting data as well as cost accounting data. |