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Assignment

Name → Praneet class → MBA (IBM)
Roll no → 2302570049 Subject → Accounting for Management

Ques 1 What is performance Evaluation with Accounting? Explain the following performance Evaluation Techniques with Examples.

Ans → Performance Evaluation in Accounting is the process of Assessing the performance of an Individual, Department or an Entire organization in Achieving its financial and operational goals. It involves comparing Actual results to predefined standards or Expectations.

Performance Evaluation Technique

1) Budgetary control

Budgetary control involves setting financial targets, usually in the form of a budget, and then Monitoring Actual Performance against these targets.

Eg → A company sets an annual budget with Expected revenues of $1 Million and Expenses of $ 8,00,000 Throughout the year, they track their Actual revenues and expenses and compare them to the budget to ensure they are on track.

2) ROI (Return on Investment)

ROI is a financial metric used to Evaluate the profitability of an Investment It is calculated by dividing the net gain or loss from an investment by the initial investment cost.

Eg → A company invests $1,00,000 in a Marketing campaign and generates $150,000 in Additional revenue The ROI is $\frac{(\$150,000 - \$1,00,000)}{\$1,00,000} = 50\%$

Indicating a 50% return on the Marketing investment.

3) RI (Residual Income)

Residual Income is a performance Measure that Evaluates the income Earned Above a minimum required rate of return on invested capital

Eg → A division within a corporation Earns $ 200,000 in profit, but its required rate of return is $150,000 The residual income for the division is $50,000, Signifying the Excess income generated beyond the required return.

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4) Variance Analysis (VA)

Variance Analysis involves comparing Actual Performance data with the budgeted or standard performance to identify differences (Variances)

Eg → A Manufacturing company budgets $ 10,000 for Monthly Materials cost, but the Actual cost for the Month is $ 12,000 The Variance is $ 2,000 which prompts an investigation into the reasons for the higher Material cost

Conclusion → These performance Evaluation Techniques are critical for Assessing the financial health and operational Efficiency of organizations, helping Management make informed decisions and take corrective Action as needed.