SHIVCHHATRAPATI COLLEGE

BBA THIRD YEAR
MANAGEMENT ACCOUNTING
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1. Introduction of Management Accounting

Meaning of Management Accounting:-

Management accounting also is known as managerial accounting and can be defined as a process of providing financial information and resources to the managers in decision making. Management accounting is only used by the internal team of the organization, and this is the only thing which makes it different from financial accounting. In this process, financial information and reports such as invoice, financial balance statement is shared by finance administration with the management team of the company. Objective of management accounting is to use this statistical data and take a better and accurate decision, controlling the enterprise, business activities, and development.

Financial accounting is the recording and presentation of information for the benefit of the various stakeholders of an organization. Management accounting, on the other hand, is the presentation of financial data and business activities for the internal management of the organization. In this article, we will learn what is management accounting and its functions.

Definition:-

One of the definitions of Management accounting says that it is the application of professional skills and knowledge in the preparation of financial and accounting information in a manner in which it will assist the internal management in the formulation of policies, planning, and control of the operations of the firm.

Robert N. Anthony: “Management Accounting is concerned with **accounting information** that is useful to management.”

Nature/Characteristics of Management Accounting.

The following are the chief features of management accounting:
1. Management accounting lays stress on the future: Many schools of thought feel that management accounting is futuristic accounting. **Standard costing**, cost variance, and budgetary control are examples of techniques that focus attention on the future.
2. Management accounting is selective accounting: The technique of management accounting selects the best course of action; in particular, the best, most suitable, and most profitable action is selected.
3. Management accounting provides data and not decisions: Management makes decisions based on the pieces of information they obtain from financial data. Thus, management accounting provides data for decision-making.
4. Management accounting studies the nature of cost elements: These elements are:

- **Fixed costs:** Related to time, such as work expenses, office expenses, and selling and distribution expenses.
- **Variable costs:** Always in proportion to output, these are the costs of materials, labor, and chargeable expenses.
- **Variable costs:** These costs can be variable to a fixed level of output and can be variable, for example, with 60% being fixed and 40% variable.

5. Management accounting studies causes and effects seriously: Financial **accounts** only provide information about the amount of profit, whereas management accounting studies causes and effects and also relates profits to **sales**.
6. No set principle: Like **financial accounting**, management accounting does not follow set principles; the required data can be changed as and when the need arises.
7. Maximization of profit: Management accounting checks all forms of waste and seeks to bring efficiency to maximize profit
8. Management accounting increases efficiency: It is a science that always monitors waste and seeks to promote efficiency.

Importance of Management Accounting

The following points highlight the importance of studying management accounting:
1. Modification of data: Management needs **accounting** data for decision-making. Management accounting serves up this data for both this purpose and policy framing.
2. Helpful in analyzing and interpreting data: Management accounting is concerned with the analysis and interpretation of financial data. Thus, data

becomes more useful and reliable when management accounting is used.
3. Helpful for control: Management accounting is a useful technique for exercising **control** over various forms of waste. This is achieved using techniques of setting standards and budgeting, which is a vital part of management accounting.
4. Helpful when preparing budgets: The techniques of management accounting are widely used and accepted for preparing **budgets**. These budgets are compared with actual results when these are known and thus an effort is made to up-root the variances if any.
5. Helpful in decision-making: There are always many courses open for management, where the selection of the best alternative is decided by the techniques or the management accounting. Thus, it is useful for choosing the best action.
6. Useful in profit maximization: Management accounting is useful for checking and encouraging efficiencies. Here, all unwanted expenses are checked, new areas are studied, and **capital** is optimally utilized to uplift the profits.
7. Safeguarding against financial decline: The information received from management accounting illuminates past records. Management can make use of such data for future planning and can avoid the dangers of trade depressions.

Advantages and Objectives of Management Accounting

There are many objectives but the prime objective is to assist the management team of an organization in improving the quality of their decisions. The purpose of management accounting is to help the managerial team with financial information so that they can execute business operations and activities more efficiently. Following is the list of all benefits of management accounting –

1. Decision Making
2. Planning
3. Controlling business operations
4. Organizing
5. Understanding financial data
6. Identifying business problem areas
7. Strategic Management

Decision Making

This is the most important benefit of the process of management accounting. In fact, it is the main purpose of it. In this form of accounting, we use techniques from all fields like costing, economics, statistics, etc.

It provides us with charts, tables, forecasts and various such analysis that makes the process of decision making easier and more justified.

Planning

Managerial accounting does not have any strict timelines like financial accounting. It is, in fact, a continuous and ongoing process.

So financial and other information is presented to the management at regular intervals like weekly, monthly or sometimes even daily.

Hence managers can use this analysis and data to plan the activities of the organization. For example, if the recent data shows a dip in the sales for a certain region, then the sales manager can advise his team and plan some action to rectify the situation.

Identifying Business Problem Areas

If some product is not performing well, or some department is running into unexpected losses, etc. managerial accounting can help us identify the underlying cause.

Actually, if the management is diligent and their data and reports are frequent, they can identify the problem very early on. This will allow the management to get ahead of the problem.

Strategic Management

Concept of management accounting is not mandatory by any law. So it can have its own structure according to the company’s requirements. So if the company feels certain areas need more in-depth analysis or investigation it can do so freely.

This allows them to focus on some core areas. The information presented to them allows them to make strategic management decisions.

Like if the company wishes to launch a new product line, or discontinue an existing one, management accounting will play a huge part in this strategy.

Limitations of Management Accounting

- **Data based on Financial accounting** – Decisions taken by the management team are based on the data provided by Financial Accounting
- **Less knowledge** – Management has insufficient knowledge of economics, finance, statistics, etc.
- **Outdated data** – Management team receives historical data, which may change eventually when management is taking the decisions.
- **Expensive** – Setting up a management accounting system requires a lot of investment.

Basis	Cost Accounting	Management Accounting
Meaning	Cost accounting is an accounting system that aspires to capture an enterprise's costs of manufacturing by evaluating the input costs of every step of manufacturing as well as the fixed costs, namely, depreciation of capital equipment.	Management Accounting refers to the outlining of financial and non-financial data for the utilisation of management of the enterprise. It is also known as managerial accounting.
Data type	Quantitative	Both Quantitative and Qualitative
Scope	Focused on distribution, allocation, determination and accounting factors of the cost	Convey (impart) and effect factor of the cost
Objective	Determined in cost production	Furnishing data to the managers to fix

		goals and anticipate strategies
Specific procedure	Yes	No
Planning	Short term planning	Both Short and long term planning
Recording	Records both past and present data	Focuses more on scrutinizing for future projects
Interdependency	Can be installed without a Management accounting	Cannot be installed without cost accounting

Difference between Financial Accounting and Management Accounting

Aim	The main aim is to provide information to outside parties to make informed decisions. Outside parties include creditors, investors, customers, etc.	Generally, management accounting information is meant for management to make informed business decisions.
Regulatory Requirements	It is a mandatory requirement for every public organization to disclose its financial statements. Thus, they are governed by accounting standard boards, companies' laws & government.	It is at the discretion of management. There is no mandatory requirement for its maintenance, but institutes like CIMA, ICWAI, etc., still provide some frameworks and formats.
Governing Principles	Financial accounting statements are prepared based on 'Generally Accepted Accounting Principles (GAAP).' This GAAP is different for different countries with more or less the same features.	There is no standard basis for preparing management accounting statements, and hence, they are designed based on the requirements of the management team.
Time Horizon	The time horizon for financial accounting is 'past, and generally, it is one accounting year.	It has no specific time horizon, but the main focus is on estimating the future using the past data.

Reporting Beneficiaries	It is prepared for outside or external parties, such as shareholders, suppliers, customers, government, banks, etc.	Reports prepared here are helpful to internal parties like CEO, directors, promoters, higher-level managers, etc.
Outputs	Financial accounting reports consist of profit and loss statements, balance sheets, and cash flow statements.	Management accounting reports are the monthly, weekly, or yearly analysis of products, geographies, functions, etc.
Relevance & Precision of Data	Data of financial accounting are 100% verifiable and precise. Here, everything has evidence to support it.	Data of management accounting isn't necessarily 100% verifiable. So, the data should be relevant, timely, and logical. For instance, sales can't be forecasted perfectly.
Independent Audit	Independent audit of financial accounting reports is mandatory in most countries. For instance, CPA conducts such audits in the USA, and CA conducts such audits in India.	There is no specific requirement for an independent audit. But, management, at its discretion, can take the initiative to conduct an independent audit for the sake of efficient & effective management.
Confidentiality	Financial accounting statements are publicly published and meant for	Management accounting statements are meant for management &

	the public only. So, there is no question of confidentiality.	confidentiality of the statements is the key concern as they contain business secrets.
Segment Reporting	It is concerned with the whole business & it is an end in itself. Accounting standards in some countries bind companies to do such reporting in defined formats.	It is concerned with a specific area or segment for their analysis. Hence, segments may be a product line, geography, manufacturing unit, etc.
Perspective	It has a historical perspective.	It has a futuristic perspective.
Nature of Input Information	Information required for financial accounting statements is financial in nature.	Both financial and non-financial information is utilized in preparing management accounting reports.