

MANAGEMENT ACCOUNTING

1. Define Management Accounting. What are its objectives?

The term management accounting refers to accounting for the management. Management accounting provides necessary information to assist the management in the creation of policy and in the day-to-day operations. It enables the management to discharge all its functions i.e. planning, organisation, staffing, direction and control efficiently with the help of accounting information.

Definitions

"Management accounting is concerned with accounting information that is useful to management." - R.N. Anthony.

✓ "Management accounting is the presentation of accounting information in such a way as to assist management in the creation of policy and in the day-to-day operations of an undertaking" - Anglo American Council of Productivity. *ICMA Defines*

Objectives of Management Accounting :

The objectives of management accounting are :

- ✓ (1) to assist the management in promoting efficiency) Efficiency includes best possible services to the customers, investors and employees.
- ✓ (2) to prepare budgets covering all functions of a business (i.e. production, sales, research and finance)
- ✓ (3) to analyse monetary and non-monetary transactions.)
- ✓ (4) to compare the actual ^{2/2} performance with plan for identifying deviations and their causes.)

(5) to interpret financial statements to enable the management to formulate future policies.

(6) to submit to the management at frequent intervals operating statements and short-term financial statements.

(7) to arrange for the systematic allocation of responsibilities.

(8) to provide a suitable organisation for discharging the responsibilities.

In short, the objective of management accounting is to help the management in making decisions and implementing them efficiently.

2. Explain the scope and functions of management accounting.

The scope of management accounting is very wide. It includes within its fold all aspects of business operations. The following areas indicate the scope of management accounting.

(1) **Financial Accounting:** Financial accounting provides historical information. It forms the basis for future planning and financial forecasting. A properly designed financial accounting system is a must for securing full control and co-ordination of business operations.

(2) **Cost Accounting:** Cost accounting provides various techniques of costing like marginal costing, standard costing, operation costing etc. These techniques play an important role in assisting the management in the formulation of policy and the operations of the undertaking.

(3) **Budgetary Control:** This includes framing of budgets, comparison of actual performance with budgeted performance, computation of variances, finding out their causes and suggesting remedial measures.

(4) **Inventory Control:** It is concerned with control over inventory from the time it is received till its disposal.

(5) **Reporting:** Reporting includes the preparation of monthly, quarterly, half-yearly income statements and other related reports such as cash flow and funds flow statements.

(6) **Communicating:** Communicating the results of business activities through prompt and accurate reporting system.

(7) **Economic Appraisal:** Appraising of social and economic forces and government policies and interpreting their effect on business.

3. Explain the advantages and limitations of management accounting.

The advantages of management accounting are summarised below:

1. **Helps in Decision Making:** Management accounting helps in decision making such as pricing, make or buy, acceptance of additional orders, selection of suitable product mix etc. These important decisions are taken with the help of marginal costing technique.

2. **Helps in Planning:** Planning includes profit planning, preparation of budgets, programmes of capital investment and financing. Management accounting assists in planning through budgetary control, capital budgeting and cost-volume-profit analysis.

3. **Helps in Organising:** Management accounting uses various tools and techniques like budgeting, responsibility accounting and standard costing. A sound organisational structure is developed to facilitate the use of these techniques.

4. **Facilitates Communication:** Management is provided with up-to-date information through periodical reports. These reports assist the management in the evaluation of performance and control.

5. **Helps in Co-ordinating:** The functional budgets (purchase budget, sales budget, overhead budget etc.) are integrated into one known as master budget. This facilitates clear definition of departmental goals and co-ordination of their activities.

6. **Evaluation and Control of Performance:** Management accounting is a convenient tool for evaluation of performance. With the help of ratios and variance analysis, the efficiency of departments

can be measured. Management accounting assists the management in the location of weak spots and in taking corrective actions.

7. Interpretation of Financial Information : Management accounting presents information in a simple and purposeful manner. This facilitates quick decision making.

8. Economic Appraisal: Management accounting includes appraisal of social and economic forces and government policies. This appraisal helps the management in assessing their impact on the business.

Limitations of Management Accounting

Management accounting suffers from the following limitations:

1. Based on Accounting Information: Management accounting derives information from past financial accounting and cost accounting records. If the past records are not reliable, it will affect the effectiveness of management accounting.

2. Wide scope: Management accounting has a very wide scope incorporating many disciplines. This results in inaccuracy and other practical difficulties.

3. Costly: The installation of management accounting system requires a large organisation. Hence, it is very costly and only big concerns can afford to adopt it.

4. Evolutionary Stage: Management accounting is still in its initial stages. Tools and techniques are not fully developed. This creates doubts about the utility of management accounting.

5. Opposition to Change: Introduction of management accounting system requires a number of changes in the organisation structure, rules and regulations. This rearrangement is not generally liked by the people involved.

6. Intuitive Decisions: Management accounting helps in scientific decision making. Yet, because of simplicity and personal factors the management has a tendency to arrive at decisions by intuition.