SWAMY DAYANANDA COLLEGE OF ARTS AND SCIENCE, MANJAKKUDI 612 610 THIRUVARUR DT

MANAGEMENT ACCOUNTING

SUB.CODE: 16CCBB14

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MEANING OF MANAGEMENT ACCOUNTING

- Management accounting is the process of preparing reports about business operations that help managers make short-term and long-term decisions. It helps a business pursue its goals by identifying, measuring, analyzing, interpreting and communicating information to manager.

DEFINITION OF MANAGEMENT ACCOUNTING

- **Brown and Howard:** “ the essential aim of management accounting should be to assist management in decision making and control

NATURE OF MANAGEMENT ACCOUNTING

1. Providing accounting information
2. Cause and effect analysis
3. Use of special techniques and concepts
4. Taking important decisions
5. Achieving of objectives
6. No fixed norms followed
7. Increase in efficiency
8. Supplies information and not decision
9. Concerned with forecasting

SCOPE OF MANAGEMENT ACCOUNTING

1. Financial accounting
2. Cost accounting
3. Financial management
4. Budgeting and forecasting
5. Inventory control
6. Reporting to management
7. Interpretation of data
8. Internal audit
9. Tax accounting
10. Office services

OBJECTIVES OF MANAGEMENT ACCOUNTING

1. Planning and policy formulation
2. Helpful in controlling performance
3. Helpful in organising
4. Helpful in interpreting financial information
5. Motivating employees
6. Helpful in making decisions
7. Reporting to management
8. Helpful in coordination
9. Tax administration

FUNCTIONS OF MANAGEMENT ACCOUNTING

1. Planning and forecast
2. Modification of data
3. Financial analysis and interpretation of data
4. Facilitates management control
5. Communication
6. Use of qualitative information
7. Coordinating
8. Helpful in taking strategic decisions
9. Supplying information to various levels of management

DIFFERENCES BETWEEN FINANCIAL AND MANAGEMENT ACCOUNTING

Financial accounting	**Management accounting**
Financial accounting is regulated by law (principles, content), i.e. it is standardized.	Management accounting is regulated and established by the entrepreneur, it is not standardized.
Financial accounting focuses on the economic events of the past, the statements contain historical data.	Management accounting also uses future data and information, not only historical data, for the purposes of planning.
The statements are regulated by law, this is what is called the reporting obligation.	The entrepreneur has no such obligations, he decides on the company's operations by himself.
It basically focuses on the financial year.	The time horizon is defined by the company itself.
The compilation of financial statements for the financial year is obligatory.	The frequency of compiling financial statements is defined by the company itself.
The financial statements show the company as a whole.	Management accounting focuses on smaller units, so it draws attention to the company's organizations and products.
The information in the financial statements is mostly defined in financial values.	Besides value data, it basically provides quantitative data.
The information content of the published financial statements is typically supervised by an auditor.	Information is supervised by internal auditors.

DIFFERENCES BETWEEN COST AND MANAGEMENT ACCOUNTING

Sl.No.	Point of Difference	Cost Accounting	Management Accounting
1.	Objectives	Its main purpose is to ascertain the cost and control	Its major objective is to take decisions through supplement presentation of accounting information
2.	Scope	It deals only with the cost and related aspects	It not only deals with the cost but also revenue. It is wider than the cost accounting
3.	Utilization of Data	It uses only quantitative information pertaining to the transactions	It uses both qualitative and quantitative information for decision making
4.	Utility	It ends only at the presentation of information	But it starts from where the cost accounting ends; means that the cost information are major inputs for decision-making
5.	Nature	It deals with the past and present data	But it deals with future policies and course of actions

TOOLS & TECHNIQUES OF MANAGEMENT A/C

1. Financial policy and accounting
2. Analysis of financial statement
3. Historical cost accounting
4. Budgetary control
5. Standard costing
6. Marginal costing
7. Decision accounting
8. Revaluation accounting
9. Control accounting
10. Management information system

NEED AND IMPORTANCE OF MANAGEMENT A/C

1. Increases Efficiency
2. Proper planning
3. Measurement of performance
4. Maximising profitability
5. Improves services to customers
6. Effective management control

LIMITATIONS OF MANAGEMENT A/C

1. Based on accounting information
2. Lack of knowledge
3. Intuitive decisions
4. Not an alternative to administration
5. Top heavy structure
6. Evolutionary stage
7. Personal bias
8. Psychological resistance

FINANCIAL STATEMENT ANALYSIS

MEANING:

- Financial statement analysis is the process of analyzing a company's financial statements for decision-making purposes.
- External stakeholders use it to understand the overall health of an organization as well as to evaluate financial performance and business value.

DEFINITION:

“Is a process of evaluating the relationship between components parts of a financial statement to obtain a better understanding of a firm's position and performance” - Metcalf and Titard

METHODS OF FINANCIAL STATEMENT

1. COMPARATIVE STATEMENT
2. COMMON SIZE STATEMENT
3. TREND ANALYSIS
4. FUND FLOW STATEMENT
5. CASH FLOW STATEMENT
6. RATIO ANALYSIS
7. COST VOLUME PROFIT ANALYSIS

A **comparative statement** is a document used to compare a particular financial **statement** with prior period **statements**.

Comparative Income Statement

Particulars	2016 (Amount in USD)	2017 (Amount in USD)	Absolute change	Percentage Change
Net Sales	200000	250000	50000	25%
Less: Cost of goods sold	150000	180000	30000	20%
Gross Profit	50000	70000	20000	40%
Less: Selling, General and Administrative Expenses	25000	30000	5000	20%
Net Operating Profit	25000	40000	15000	60%
Add: Other Income	12000	18000	6000	50%
Earnings before Interest and Taxes	37000	58000	21000	56.76%
Less: Interest	17000	18000	1000	5.88%
Earnings before Taxes	20000	40000	20000	100%
Less: Taxes	8000	16000	8000	100%
Net Profit	12000	24000	12000	100%

Comparative Balance Sheet

In the books of Amazon INC Comparative Balance Sheet For the Year ended 31st Dec'2018 and 2017				
Particulars	2018 Amount ($)	2017 Amount ($)	Change in Absolute Value	Change in Percentages
Equity and Liabilities				
Shareholder's Fund				
a. Share Capital	100000	100000	-	0%
b. Reserve & Surplus	25000	20000	5000	25%
Non - Current Liabilities				
a. Long term Borrowings	30000	35000	-5000	-14%
Current Liabilities				
a. Trade Payables	45000	40000	5000	13%
b. Short Term Borrowings	10000	9000	1000	11%
Total	**210000**	**204000**	**6000**	
Assets				
Non Current Assets				
a. Fixed Assets	70000	80000	-10000	-13%
b. Investment	55000	50000	5000	10%
Current Assets				
a. Trade Receivables	35000	25000	10000	40%
b. Inventory	30000	39000	-9000	-23%
c. Cash & Bank	20000	10000	10000	100%
Total	**210000**	**204000**	**6000**	-

WallStreetMojo

Common size analysis, also referred as vertical analysis, is a tool that financial managers use to analyze financial statement. It evaluates financial statements by expressing each line item as a percentage of the base amount for that period.

IBM - COMMON SIZE INCOME STATEMENT			
	2010-12	**2011-12**	**2012-12**
Revenue	100.00%	100.00%	100.00%
Cost of revenue	53.93%	53.11%	51.87%
Gross profit	46.07%	46.89%	48.13%
Operating expenses			
Research and development	6.03%	5.85%	6.03%
Sales, General and administrative	21.87%	22.07%	22.54%
Total operating expenses	27.90%	27.92%	28.57%
Operating income	18.17%	18.97%	19.56%
Interest Expense	0.37%	0.38%	0.44%
Other income (expense)	1.94%	1.06%	1.83%
Income before taxes	19.75%	19.64%	20.96%
Provision for income taxes	4.90%	4.81%	5.07%
Net income	14.85%	14.83%	15.89%

Source: Morningstar.com

Common Size Balance Sheet Comparison of Different Businesses

	Business 1	%	Business 2	%
Cash	14,259	6.9%	5,269	20.8%
Accounts receivable	57,263	27.7%	7,229	28.6%
Inventory	1,764	0.9%	4,992	19.7%
Current assets	73,286	35.4%	17,490	69.2%
Long term assets	133,714	64.6%	7,788	30.8%
Total assets	207,000	100.0%	25,278	100.0%
Accounts payable	22,367	10.8%	11,145	44.1%
Other liabilities	21,291	10.3%	3,751	14.8%
Current liabilities	43,658	21.1%	14,896	58.9%
Long-term debt	39,793	19.2%	2,625	10.4%
Total liabilities	83,451	40.3%	17,521	69.3%
Capital	19,764	9.5%	5,802	23.0%
Retained earnings	103,785	50.1%	1,955	7.7%
Total equity	123,549	59.7%	7,757	30.7%
Total liabilities and equity	207,000	100.0%	25,278	100.0%

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A trend percentage converts non-base-year amounts into percentages. A trend percentage is a type of horizontal analysis that shows a change in a financial statement account over a period of time. The first, or earliest, year of the trend is the "base year," with which you compare the amounts in each subsequent year.

Answer

Trend Percentages

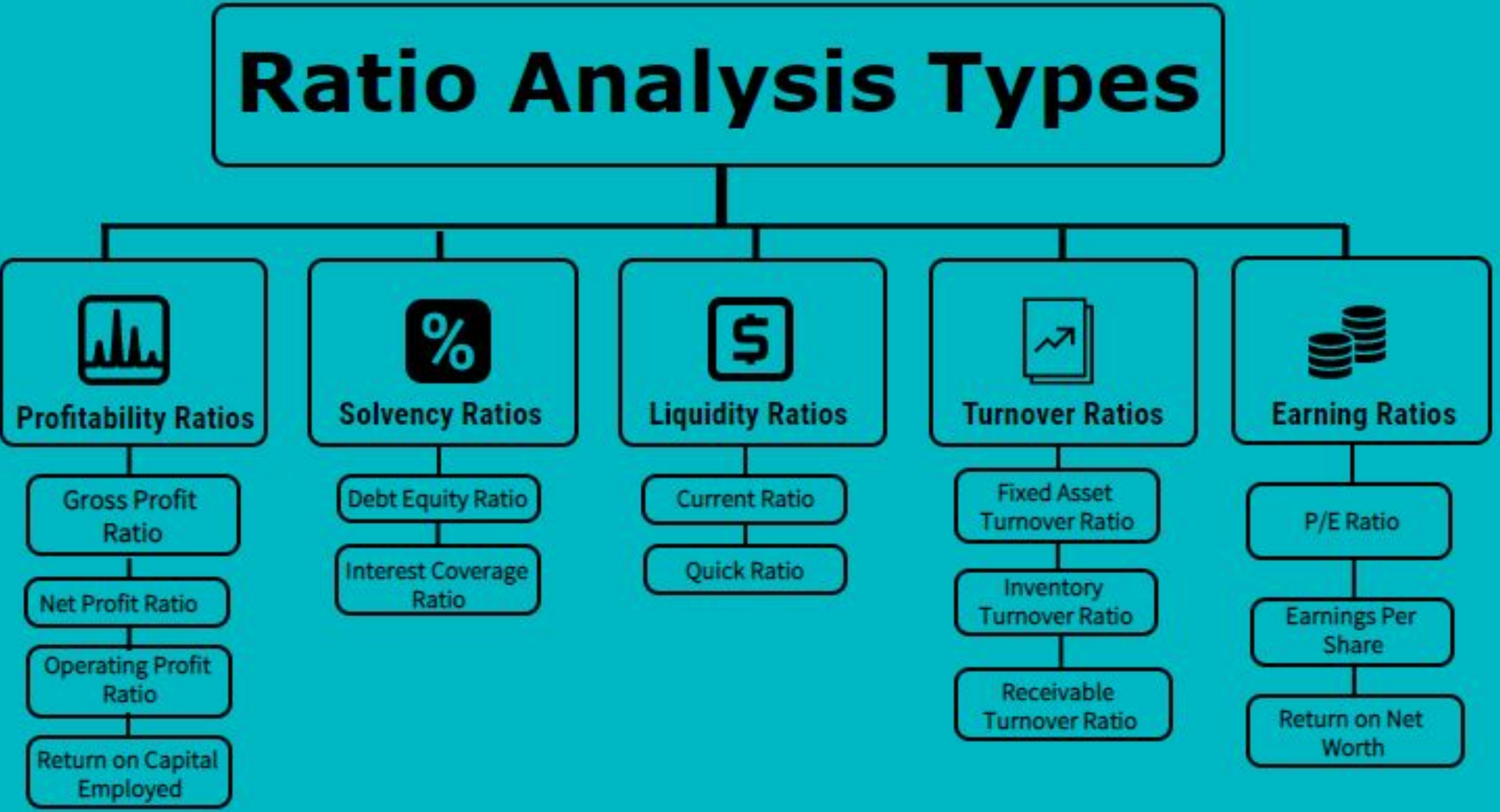
(Base Year 2000 = 100)

Years	Sales (₹)	Trend (%)	Stock (₹)	Trend (%)	Profit after Tax (₹)	Trend (%)
2000	1,500	100.00	700	100.00	300	100.00
2001	2,140	142.67	780	111.43	450	150.00
2002	2,365	157.67	820	117.14	480	160.00
2003	3,020	201.33	930	132.86	530	176.67
2004	3,500	233.33	1,160	165.71	660	220.00
2005	4,000	266.67	1,200	171.43	700	233.33

$$\text{Trend Precentage} = \frac{\text{Present Year Value}}{\text{Base Year Value}} \times 100$$

RATIO ANALYSIS

- Ratio analysis is the comparison of line items in the financial statements of a business. Ratio analysis is used to evaluate a number of issues with an entity, such as its liquidity, efficiency of operations, and profitability.


Ratio Analysis Types
Profitability Ratios
Gross Profit Ratio
Net Profit Ratio
Operating Profit Ratio
Return on Capital Employed
Solvency Ratios
Debt Equity Ratio
Interest Coverage Ratio
Liquidity Ratios
Current Ratio
Quick Ratio
Turnover Ratios
Fixed Asset Turnover Ratio
Inventory Turnover Ratio
Receivable Turnover Ratio
Earning Ratios
P/E Ratio
Earnings Per Share
Return on Net Worth

Profitability Ratios Formula

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$\text{Operating Profit Margin} = \frac{\text{Operating Profit}}{\text{Sales}} \times 100$$

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Sales}} \times 100$$

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Assets}} \times 100$$

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

Solvency Calculations

Debt-to-asset ratio $= \dfrac{\text{Total farm liabilities}}{\text{Total farm assets}}$

Equity-to-asset ratio $= \dfrac{\text{Farm net worth}}{\text{Total farm assets}}$

Debt-to-equity ratio $= \dfrac{\text{Total farm liabilities}}{\text{Farm net worth}}$

Liquidity Ratios

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Quick Ratio} = \frac{\text{Current assets - Inventory}}{\text{Current liabilities}}$$

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Turnover Ratio Formula

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

$$\text{Working Capital Turnover ratio} = \frac{\text{Net Sales}}{\text{Working Capital}}$$

$$\text{Accounts Receivable Turnover Ratio} = \frac{\text{Credit Sales}}{\text{Average Accounts Receivable}}$$

$$\text{Total Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Total Assets}}$$

PE Ratio Calculation

$$\text{Earnings per Share} = \frac{\text{Earnings (Previous 12 Months)}}{\text{Number of Shares Outstanding}}$$

$$\text{PE Ratio (Trailing)} = \frac{\text{Share Price}}{\text{Earnings per Share}}$$

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

OR

$$\text{Return on Assets} = \text{Profit Margin} \times \text{Asset Turnover}$$

$$\frac{\text{Net income}}{\text{Average total assets}} = \frac{\text{Net Income}}{\text{Net Sales}} \times \frac{\text{Net Sales}}{\text{Average Total Assets}}$$

Thank You