ANNAI VAILANKANNI ARTS AND SCIENCE COLLEGE

IIIBBA
MANAGEMENT ACCOUNTING

Unit-1

1. What is meant by Management Accounting?

The term management accounting refers to accounting for the management.

Management accounting provides necessary information to assist the management

2. Define-Management accounting

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

3. Write any two objectives of management accounting

To assist the management.

To analyses monetary and non monetary transactions.

To arrange for the systematic allocation of responsibilities

4. What is meant by Inventory control?

It is concerned with control over inventory from the time it is received till it is disposal.

5. What is meant by internal audit?

This is refers to establishment of a suitable internal audit system for internal control

6. What is meant by forecasting?

Making short term and long term planning of the future operations of the business is called forecasting.

7 Explain - financial statement

Financial statement refers to a package of statement such as balance sheet, income statement, funds flow statement, cash flow statement and statement of retained earnings

8. What is meant by comparative statement?

Financial statement are presented as on a particular date or for a particular period

The comparative balance sheet shows the value of assets and liabilities on two different dates.

It helps in comparison.

9. What is meant by comparative income sheet?

A comparative income statement show the operating result for a number of accounting periods so as to facilitate comparison

It gives idea of the progress of a business over a period of time.

It gives idea about the improvement in sales, profits and other expenses over the previous year.

10. What is meant by trend analysis?

Trend analysis is very helpful is in making a comparative study of the financial statement of several years. Under this technique, information for a number of year is taken up and one year is taken as the base year.

Unit -2

1. What is meant by fund flow statement?

A funds flow statement is a report on the movement of funds or working capital.

2. Define - fund flow statement?

“A statement of sources and application of funds is a technical device designed to analyse the changes in financial conditions of a business enterprise between to dates”.-Foulke

3. What is meant by “Fund.” ?

The term “fund” refers to all financial resources

It means cash also.

4. What is mean meant by analyses of financial operation?

The statement explains the causes for changes in the assets and liabilities during the period.

It also indicates the effect of these changes on the liquidity of the firm.

5. What is allocation of scare resources?

A projected funds flow statement is an instrument for allocation of resources.

6. Which statement helps to financial institutions?

The funds flow statement is also useful to lending institutions like bank, IDBI, ICICI, and others.

7. What is meant by seasonal fluctuations?

A numbers of industries manufacturing and sell goods only during certain seasons.

8. What is meant by speed of turnover?

A concern which effects sales quickly needs comparatively low working capital.

9. Meaning cash flow statement?

Cash flow statement is an important tool of cash planning and control.
Cash flow statement can be prepared for a year, half year, quarter or for any other duration the term cash use to refer bank balance also.

10. Explin of objectives of cash flow statement?

To show the causes of changes in cash balance two balance sheet dates.
To indicate the factors contributing to the reduction of cash balance in spite of increase profits and vice versa.

Unit 3

1. What is meant by marginal costing?

- Marginal costing is one of the most useful techniques available to the management.
- It guides the management in pricing, decision making and assessment of profitability.
- Marginal costing is also knows as direct costing or variable costing or incremental costing.

2. Define- marginal costing

According to ICMA, England " Marginal cost is amount at any given volume of out put, by which aggregate cost are change, if the volume of output is increased or decreased one unit".

3. What is meant by fixed costing?

- Expenses that do not vary with volume of production or know as fixed expenses.

- The concept of fixed overhead is most useful in formulating a price fixing policy fixed cost per unit is not fixed

4. What is meant by variable costing?

- Expenses that vary almost in direct proportion to volume of production or sales are called variable expenses

5. What is meant by contribution?

- Contribution is the difference between sales and variable cost and it contribute towards fixed cost and profit.

6. What is meant by margin of safety?

- Margin of safety is the excess of sales over the break even sales.
- It can be expressed in absolute sales amount are in percentage.

7. What is meant by profit volume ratio?

- Profit volume usually called P.V ratio it is one of the most useful ratios for studying the profitability of business.
- The concept of PV of ratio helps in determining break-even- point, profit at any volume of sales, sales volume required to earn desire amount of profit ect.

8. What is meant by break even point?

- break even point refers to the point where total cost is equal to total revenue.
- It is a point of no profit, no loss.
- This is also a minimum point of production where total cost are recovered

Unit -4

1.What is meant by budget?

A budget is a plan of action expressed in financial term or non financial terms.

Budget is a tool which helps the management in planning and control of business.

2. Define - budget

According to ICMA, England, a budget is, “a blue print of a projected plan of action of a business for a definite period of time”

3. What is meant by Budget center?

A budget center is that part of the organization for which the budget is prepared.

A budget center may be a department or section of the department (ex- production department or purchase section)

4. What is meant by materials budget?

Materials may be direct or indirect.

The materials budget deal with only the direct materials.

Indirect materials are included in the factory overhead budget

5. What is meant by flexible budget?

Flexible budget is also called variable budget.

It may be defined as “A budget designed to change in accordance with the level of activity actually attained”

6. What is meant by ZERO base budgets?

Zero base budgeting is a management technique aimed at cost reduction and optimum utilization of resources.

ZBB is starting from scratch. Every year is taken as a new year and previous year is not taken as the base, in the preparation of budgets.

7. What is meant by standard costing?

Standard costing is an effective management tool for planning, co ordination and control of business.

It is a technique of cost control

Unit-5

1. What is meant by working capital?

Working capital required for purchase of raw materials and for meeting the day-today expenditure on salaries, wages, rents ect., is called working capital.

2. What is meant by gross working capital?

Gross working capital in broad sense, the term working capital refers to the gross working capital. This represents the amount of funds invested in current assets. Under the gross concept, working capital is equal to total current assets.

3. What is meant by net working capital?

In a narrow sense, working capital refers to the networking capital.

Net working capital is the excess of current assets over current liabilities.

4 .Define - standards costing?

Standard cost is “a pre –determined cost” which is calculated from managements standards of efficient operation and the relevant necessary expenditure .(ICMA London)

5. What is meant by labour cost variance?

This the difference between the standard wages specified and the actual wages paid.

6. What is meant by Labour yield variance?

It is a part of labour efficiency variance.

It arises due to the difference between standard yield and actual yield.

7. What is meant by overhead variance?

This is the difference between the standard over head specified and the actual overhead incurred.

overhead cost variance =standard overhead- actual overhead.

UNIT-1

5 AND 10 MARKS

Management Accounting – Definition – Objectives – Merits and Limitations – Financial Statement Analysis – Comparative Statements – Common Size Statements – Ratio Analysis - Construction of Balance sheet (simple problems).

1.Objectives of Management Accounting:

1. Assistance in Planning and Formulation of Future Policies
2. Helps in the Interpretation of Financial Information
3. Helps in Controlling Performance , Helps in Organizing
4. Helps in the Solution of Strategic Business Problems
5. Helps in Coordinating Operations
6. Helps in Motivating Employees
7. Communicating Up-to-date Information
8. Helps in Evaluating the Efficiency and Effectiveness of Policies

2.)Functions of Management Accounting

The main objective of management accounting is to help the management to take quality decision for controlling the business activities effectively. The other objectives and the following functions of management accounting are performed to achieve all the objectives.

1. Presentation of Data

Both profit and loss account and balance sheet are not useful for taking a decision in accounting. Hence, the contents of profit and loss account and balance sheet are modified and rearranged in such a manner that helps the management for taking decision through various techniques.

2. Modifies Data

The financial accounting information is modified according to the management expectations. For example, total purchase figures are modified month wise, product wise, supplier wise and territory wise.

3. Forecasting

The management can forecast the achievement of objectives for short term and long term. The accountant provides necessary information and data for forecasting.

4. Analysis and Interpretation of Data

The financial accounting data is rearranged for proper analysis. Comparative and common size statements are prepared for the meaningful interpretation of data. Ratios are calculated and likely trends are projected.

5. Help in Organizing

Organizing refers to allocation of company resources to various departments and assignment of duties to employees at various levels of management. The modified data and analysis and interpretation help the management to organize.

6. Communication

The analysis and interpretation of modified data is conveyed to the employees of an organization as a whole. More meaningful information is supplied to all levels of management executives. In this way, rearranged and modified data are used as means of communication under management accounting system.

7. Planning

The fund flow statement, cash flow statement, budgeting, standard costing, capital budgeting and marginal costing are used for planning purpose. These are important tools of management accounting.

8. Facilitates Control

Management accounting translates the objectives into achievements within a specified time. This is possible through budgetary control and standard costing which are an integral part of management accounting. In this way, management accounting facilitates control.

9. Decision-making

Modified data, analyzed and interpreted information are highly useful to management for taking quality decision and policy formulation in a management accounting system.

3.)What is the scope of management?

The **scope of management accounting** is very wide and broad-based. It includes all information which is provided to the **management** for financial analysis and interpretation of the business operations.

1. Financial Accounting

Financial accounting forms the basis for analysis and interpretation for furnishing meaningful data to the management. The control aspect is based on financial data and performance evaluation, on recorded facts and figures. So, management accounting is closely related to **financial accounting** in many respects.

2. Cost Accounting

Cost accounting is the process and techniques of ascertaining cost. Planning, decision making and control are the basic **managerial functions**. The cost accounting system provides the necessary tool for carrying out such functions efficiently. The tools includes standard costing, inventory management, variable costing etc.

3. Budgeting And Forecasting

Budgeting means expressing the plans, policies and goals of the firm for a definite period in future. Forecasting on the other hand, is a prediction of what will happen as a result of a given set of circumstances. Forecasting is a judgement whereas the budgeting is an organizational object. These are useful for management accounting in planning.

4. Inventory Control

Inventory is necessary to control from the time it is acquire till its final disposal as it involves large sum. For controlling inventory, management should determine different level of stock. The inventory control technique will be helpful for taking managerial decisions.

5. Statistical Method

Statistical tools not only make the information more impressive, comprehensive and intelligible but also are highly useful for planning and forecasting.

6. Interpretation Of Data

Analysis and interpretation of **financial statements** are important part of management accounting. After analyzing the financial statements, the interpretation is made and the reports drawn from this analysis are presented to the management. Interpreting the accounting data to the authorities in the management is the principal task of management accounting.

7. Reporting To Management

The interpreted information must be communicated to those who are interested in it. The report may cover Profit and Loss Account, Cash Flow and **Funds Flow statements** etc.

8. Internal Audit And Tax Accounting

Management accounting studies all the tax matters to assist the management in investment decisions vis-a-vis tax planning as a resource to enjoy tax relief.

Internal audit system is necessary to judge the performance of every department. Management is able to know deviations in performance through internal audit. It also helps management in fixing responsibility of different individuals.

9. Methods Of Procedures

This includes maintenance of proper data processing and other office management services. It may have to deal with filing, copying, duplicating, communicating and management information system and also may have to report about the utility of different office machines.

10. Using of Qualitative Information

Qualitative information means data cannot be measured in terms of rupees, units, kgs, tons, metres and the like. Employees efficiency, policy of management, employer and employee relationship etc are the examples for qualitative information. These types of information are also used in the management accounting system.

11. Coordination

The preparation of budgets on functional basis is the fixation of targets for each department separately. The objectives of organization is achieved through attainment of targets of all the departments.

12. Special Cost and Economic Studies

The special cost and economic studies are considered in the management accounting system in order to increase the profits of the concern.

13. Motivating Employees

The preparation of budgets and adoption of standard costing techniqueautomatically motivates the employees indirectly.

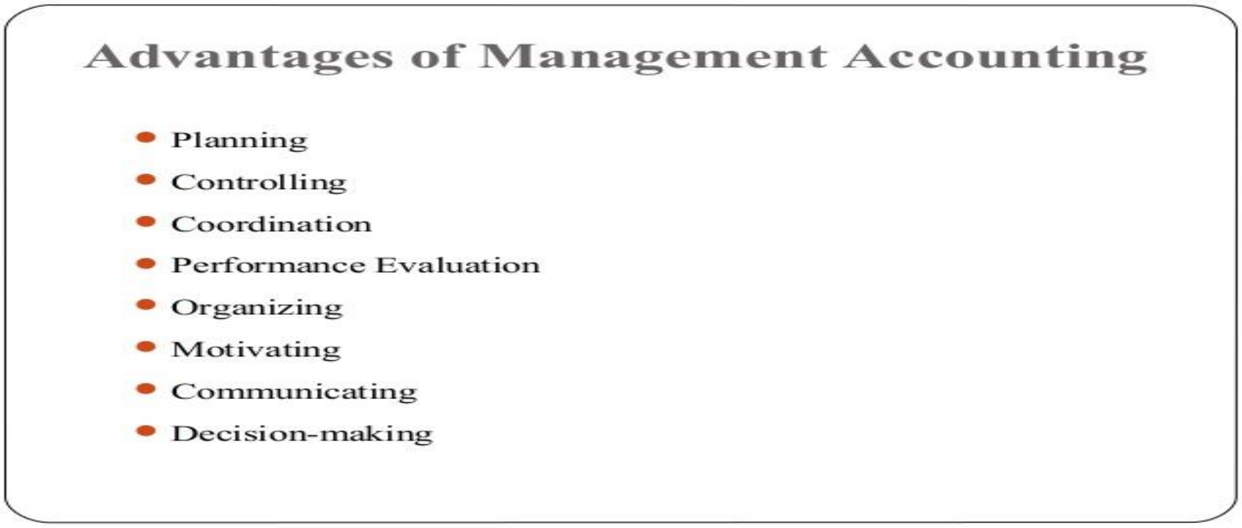
4.)Management Accounting Merits and Limitations

Advantages of Management Accounting

1. It helps to increase the efficiency of all functions of management
2. It helps in target-fixing, decision-making, price-fixing, selection of product-mix and so on
3. Forecasting and Budgeting help the concern to plan the future and financial activities
4. Various tools and techniques provide reliability and authenticity to carry out the business functions
5. It is useful in controlling wastage and defects
6. It helps in complete communication between all levels of management
7. It helps in controlling the cost of production thus increasing the profit percentage

Limitations of Management Accounting

1. It is concerned with financial and cost accounting. If these records are not reliable, it will affect the effectiveness of management accounting.
2. Decisions taken by the management accountant may or may not be executed by the management.
3. It is very expensive. Only big concerns can adopt this method of accounting.
4. New rules and regulations are to be framed, hence there is a possibility of opposition from the employees.
5. It is only in the developing stage.
6. It provides only data and not decisions.
7. It is a tool to the management and not an alternative of management.



5.Characteristics of management accounting

1. **First and foremost characteristic is that it provides the necessary information to the management.**
2. **It might be any data- numbers, gross profit, net profit, comaparitive financial statements, profit and loss account etc.,**
3. **It is purely analytical**
4. **The interpretations help the management in timely decision-making**
5. **It adopts a selective technique to arrive at the results**
6. **Helps to chart-out the future course of action**
7. **Also helps to know the present financial condition of the firm and the respective implications on the stake holders.**

Meaning of Ratio Analysis:

Ratio analysis refers to the analysis and interpretation of the figures appearing in the financial statements (i.e., Profit and Loss Account, Balance Sheet and Fund Flow statement etc.).

6.Advantages of ratio analysis:

1. Forecasting and Planning:
This trend analysis with the help of ratios may be useful for forecasting and planning future business activities.
2. Budgeting:
Budget is an estimate of future activities on the basis of past experience.

3. Measurement of Operating Efficiency:
Ratio analysis indicates the degree of efficiency in the management and utilisation of its assets.

4. Communication:
Ratios are effective means of communication and play a vital role in informing the position of and progress made by the business concern to the owners or other parties.

5. Control of Performance and Cost:
Ratios may also be used for control of performances of the different divisions or departments of an undertaking as well as control of costs.

7. Indication of Liquidity Position:
Ratio analysis helps to assess the liquidity position i.e., short-term debt paying ability of a firm.

8. Indication of Long-term Solvency Position:
. Ratio analysis shows the strength and weakness of a firm in this respect.

9. Indication of Overall Profitability:
The management is always concerned with the overall profitability of the firm.

11. Aid to Decision-making:
Ratio analysis helps to take decisions like whether to supply goods on credit to a firm, whether bank loans will be made available etc.

12. Simplification of Financial Statements:
Ratio analysis makes it easy to grasp the relationship between various items and helps in understanding the financial statements.

Limitations of Ratio Analysis:

The technique of ratio analysis is a very useful device for making a study of the financial health of a firm. But it has some limitations which must not be lost sight of before undertaking such analysis.

1. Limitations of Financial Statements:
Ratios are calculated from the information recorded in the financial statements. But financial statements suffer from a number of limitations and may, therefore, affect the quality of ratio analysis.

2. Historical Information:
Financial statements provide historical information. They do not reflect current conditions. Hence, it is not useful in predicting the future.

3. Different Accounting Policies:
Different accounting policies regarding valuation of inventories, charging depreciation etc. make the accounting data and accounting ratios of two firms non-comparable.

4. Lack of Standard of Comparison:
No fixed standards can be laid down for ideal ratios. For example, current ratio is said to be ideal if current assets are twice the current liabilities.

5. Quantitative Analysis:
Ratios are tools of quantitative analysis only and qualitative factors are ignored while computing the ratios.

.

UNIT-2

Fund Flow Statement – Cash Flow Analysis – Uses and Construction – Distinction.

Differences Between Cash Flow and Fund Flow Statement

1. A statement that shows the changes in the cash and bank balance between opening and closing dates is known as a cash flow statement

   while a statement that shows the variations in the financial position between the two financial years is known as a fund flow statement.

2. Cash Flow Statement analyses the cash generating efficiency of the entity. Conversely,

   Fund Flow Statement examines the firm's efficiency in utilising the working capital.

3. Cash Flow statement is a part of Financial Statement.

   Unlike Fund Flow Statement which is not a part of the Financial Statement

4. Cash Flow statement is useful for a short term financial analysis of cash planning

   while Fund Flow Statement is helpful to a long-term analysis of financial planning.

5. Cash flow statement contains opening and closing balances of cash and cash equivalents.

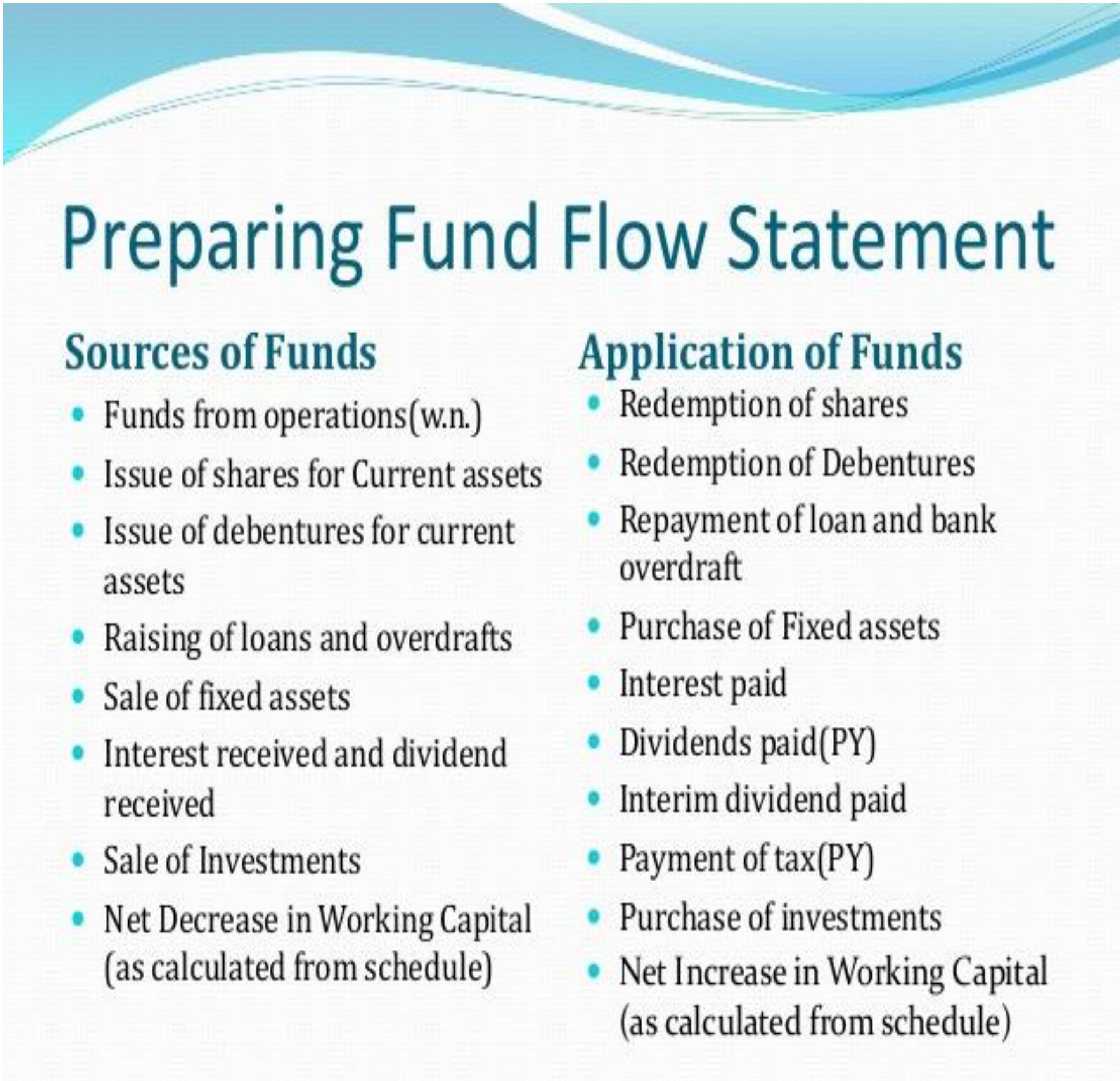
   fund flow statement does not contains opening and closing balances of cash and cash equivalents.

6. Cash Flow statement uses the Cash basis of accounting. On the contrary**, Fund Flow statement uses the Accrual Basis of Accounting.**

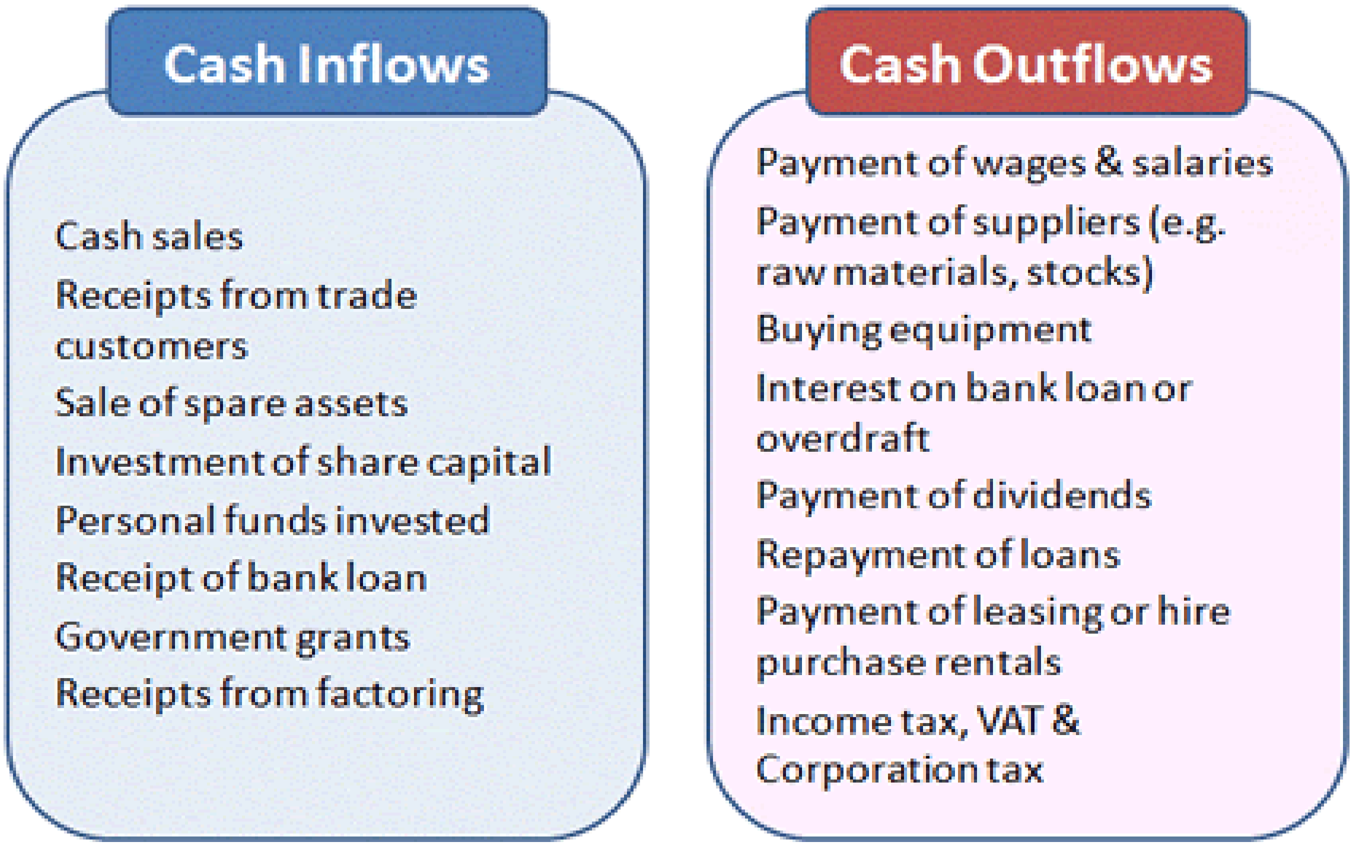
7. Cash Flow statement shows the inflows and outflows of cash,

but Fund Flow Statement shows the sources and application of funds.

<u>Fund flow statement source and application</u>



Source of cash inflow and cash out flow



UNIT-3

Marginal Costing – Objectives and Limitations – Cost Volume Profit (CVP) Analysis – Break Even Analysis – Merits and Demerits - Margin of Safety.

Meaning of Marginal Costing:

Marginal costing is **"The ascertainment, by differentiating between fixed cost and variable cost, of marginal cost and of the effect on profit of changes in volume or type of output".**

Features of Marginal Costing:

(i) This technique is used to ascertain the marginal cost and to know the impact of variable costs on the volume of output.

(ii) All costs are classified on the basis of variability into fixed cost and variable cost. Semi-variable costs are segregated into fixed and variable costs.

(iii) Marginal (i.e., variable) costs are treated as the cost of the product or service. Fixed costs are charged to Costing Profit and Loss Account of the period in which they are incurred.

(iv) Stock of finished goods and work-in-progress are valued on the basis of marginal costs.

(v) Selling price is based on marginal cost plus contribution. :

(vi) Profit is calculated in the usual manner. When marginal cost is deducted from sales it gives rise to contribution. When fixed cost is deducted from contribution it results in profit.

(vii) Break-even analysis and cost-volume profit analysis are integral parts of this technique.

(viii) The relative profitability of products or departments is based on the contribution made available by each department or product.

Advantages of Marginal Costing:

- The technique provides useful data for managerial decision-making.
- (There is no problem of over or under-absorption of overheads.
- The impact of profit on sales fluctuations are clearly shown under marginal costing.
- The technique can be used along with other techniques such as budgetary control and standard costing. It establishes a clear relationship between cost, sales and volume of output and breakeven analysis.
- It shows the relative contributions to profit which are made by each of a number of products, and shows where the sales effort should be concentrated.
- Stock of finished goods and work-in-progress are valued at marginal cost, which is uniform.

Limitations of Marginal Costing:

- The value of stock cannot be accepted by taxation authorities since it deflates profit. This technique cannot be applied in the case of contract costing where the value of work-in-progress will always be high.

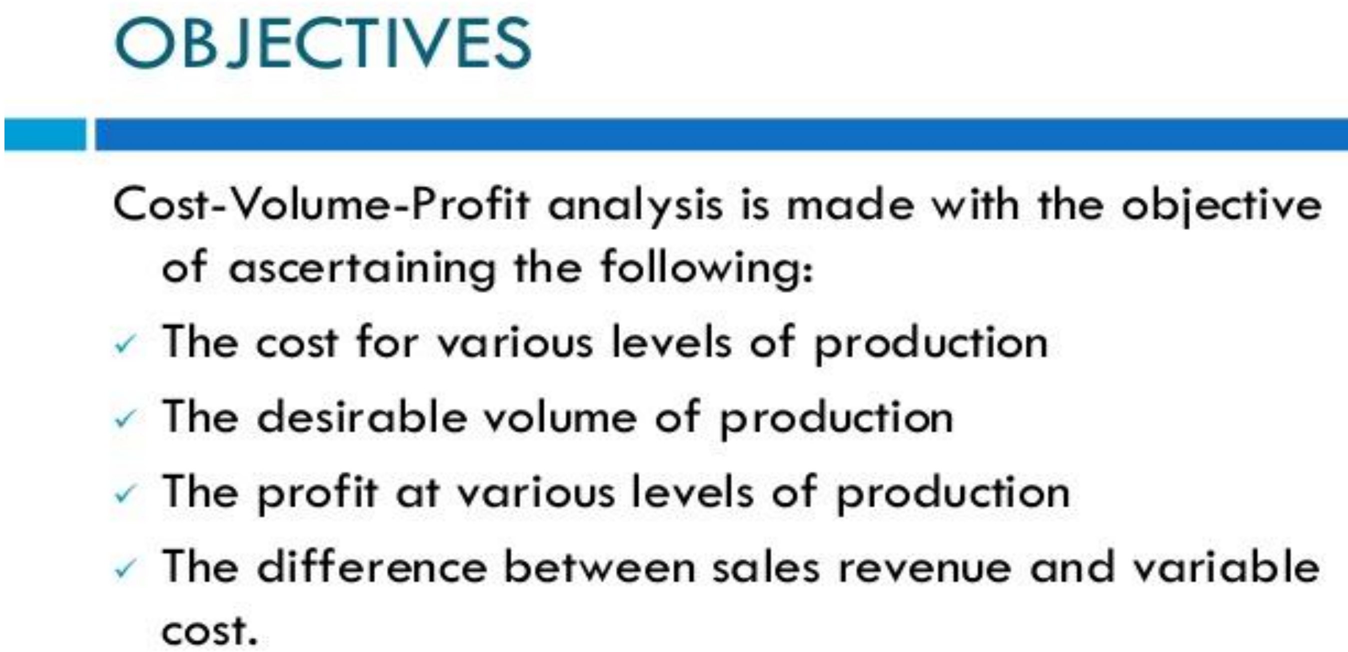
- This technique also cannot be used in the case of cost plus contracts unless fixed costs and profits are considered.

- Pricing decisions cannot be based on contribution alone.

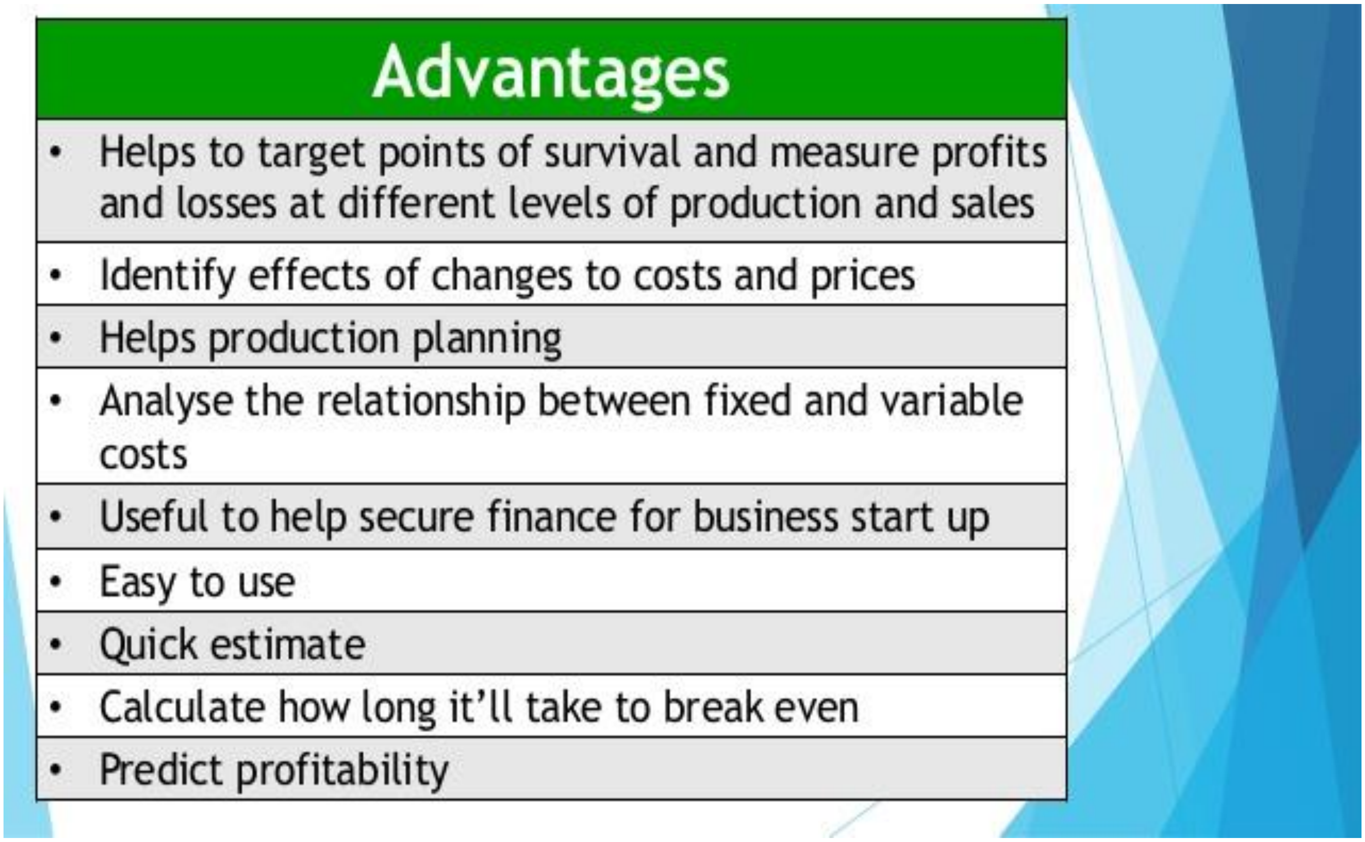
- The elimination of fixed costs renders cost comparison of jobs difficult.

- The distinction between fixed and variable costs holds good only in the short run. In the long run, however, all costs are variable.

- The technique need not be considered to be unique from the point of cost control



- **Advantages of Break-Even-Analysis:**



Advantages
• Helps to target points of survival and measure profits and losses at different levels of production and sales
• Identify effects of changes to costs and prices
• Helps production planning
• Analyse the relationship between fixed and variable costs
• Useful to help secure finance for business start up
• Easy to use
• Quick estimate
• Calculate how long it'll take to break even
• Predict profitability

Disadvantages of Break-Even-Chart:

Disadvantages
• Assumes that sales prices are constant at all levels of output
• Assumes production and sales are the same
• Time consuming to prepare
• Only a single product or single mix of products per chart
• Assumes all output is sold
• Unchanging conditions - doesn't consider change in price and cost
• Assumes that total revenue and total costs are linear (not always the case)
• Difficult to predict the numbers of customers
• May be unreliable
• Based on predictions

What is Margin of Safety?

The margin of safety is the difference between the amount of expected profitability and the break-even point. The margin of safety formula is equal to current sales minus the breakeven point divided by current sales.

Margin of Safety

$$\text{Margin} = \frac{(\text{Current sales level} - \text{breakeven point})}{\text{Current sales level}} \times 100$$

There are two applications to define the margin of safety:

1 Budgeting

In budgeting and break-even analysis, the margin of safety is the gap between the estimated sales output and the level by which a company's sales could decrease before the company will become unprofitable.

2 Investing

In the principle of investing, margin of safety is the difference between the intrinsic value of a stock against its prevailing market price.

UNIT-4

Budget and Budgetary Control – Characteristics and Limitations – Preparation of Sales, Production, Raw material Cost, Cash, Master Budgets and Flexible Budgets.

Budgetary Control As A Control Tool

Definition Budget:

A financial and quantitative statement prepared and approved prior to a defined period of time

Characteristics of Budget:

1. It estimates a **profit potentials** of the business unit
2. It is stated in **monetary terms**
3. It generally covers a period of **one year**
4. It is **Management's commitment**
5. Budget proposals are **reviewed & approved** by an higher authority
6. Periodically **actual financial performance** is compared with **standard budget** & **variance** is calculated

BUDGETARY CONTROL

ADVANTAGES

1. Maximisation of Profits
2. Proper co-ordination
3. Provides Specific Aims
4. Tool for Measuring Performance
5. Economy
6. Corrective Action
7. Creates Budget Consciousness
8. Reduced Costs
9. Determine Weaknesses
10. Introduction of Incentive Schemes

LIMITATIONS

1. Uncertain Future
2. Revision Required
3. Discourage Efficient Persons
4. Problem of Co-ordination
5. Conflict among different departments
6. Depends upon support of top management

<u>Characteristics of Budgetary Control:</u>

1. Budgetary control assumes the existence of forecasts and plans of the business enterprise.

2. Budgetary control presumes that management has made budgets for all departments/units of the enterprise and these budgets are summarised into a master budget.

3. Budgetary control needs recording of actual performance, its continuous comparison with the budgeted performance, and the analysis of variations in terms of causes and responsibility.

4. Budgetary control is a system suggesting suitable corrective action to prevent deviations in the future.

<u>Objectives of Budgetary Control:</u>

Budgetary control is essential for policy planning and control. It also acts as an instrument of co-ordination.

The main objectives are stated below:

1. To determine business policies for the attainment of desired objectives during a particular period of time. It provides definite targets of performance and gives the guidance for the execution of activities and effort.

2. To co-ordinate the activities and efforts of different departments in the enterprise so that the policies are successfully implemented.

3. To regulate the activities and efforts of people to ensure that the actual results conform to the planned results.

4. To operate various cost centres and departments with efficiency and economy.

5. To correct the deviations from the established standards, and to provide a basis for revision of policies.

FLEXIBLE BUDGETS

- Projects budget data for *various levels of activity*
- Essentially, a series of static budgets at different activity levels
- The budgetary process is more useful if it is adaptable to changes in operating conditions
- Flexible budgets can be prepared for each type of budget in the master budget
- Flexible budgets are static budgets at different activity levels

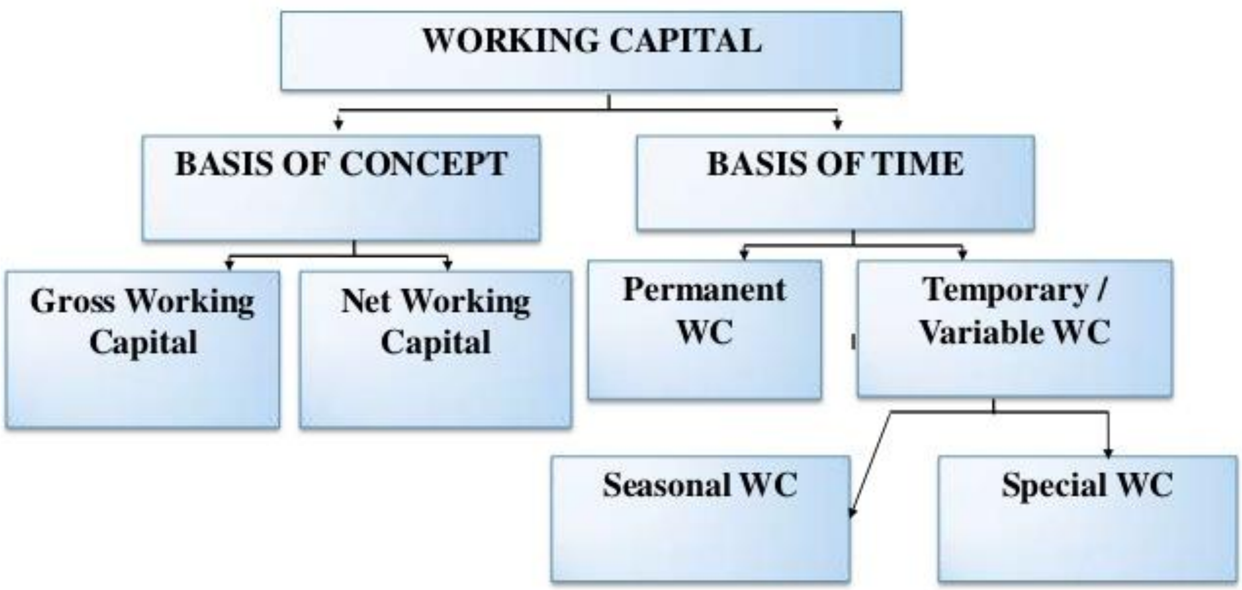
UNIT -5

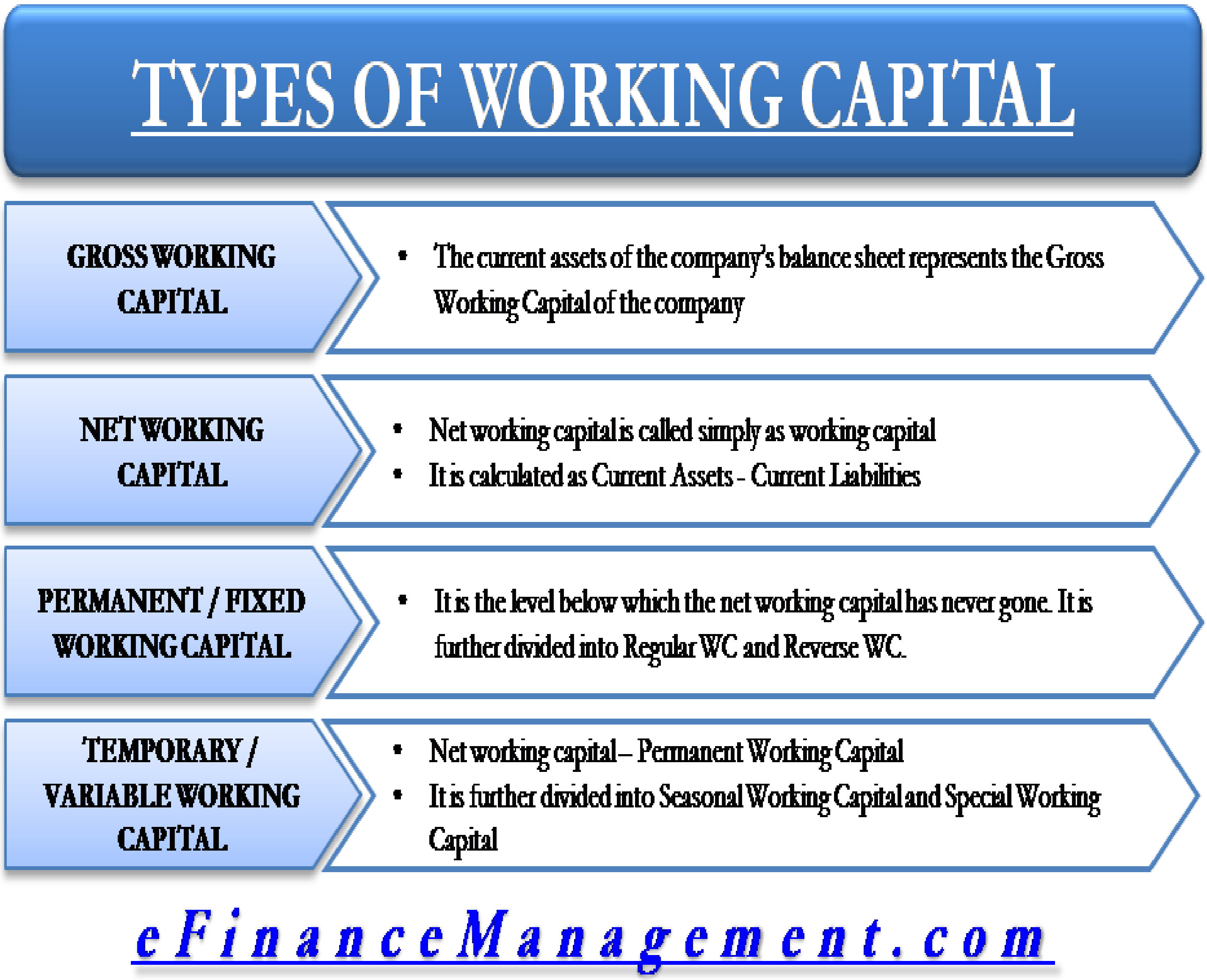
Working Capital – Types – Factors Determining Working Capital - Estimate of Working Capital Requirements – Standard Costing – Material and Labour Variance only.

<u>Working Capital-Meaning</u>

The amount of current assets that is in excess of current liabilities

TYPES OF WORKING CAPITAL





What are the Factors Determining Working Capital?

1. Nature of Business
2. Length of Manufacturing Cycle
3. Production Policies
4. Terms of Purchases and Sales
5. Fluctuations in Supply
6. Seasonal Variation
7. Requirement of Cash
8. Dividend Policy
9. Other Factors

- **Nature of Business:**

The working capital of any firm depends upon the nature of business it has. If it is any public organization like Railways, Electricity Board, etc., these require a very less working capital.

- **Length of Manufacturing Cycle:**

Length of the manufacturing cycle decides the amount of working capital required for the firm.

- **Production Policies**

For determining the working capital of an organization, production policies are much important. If the organization is labor-intensive, then it requires minimal working capital.

- **Terms of Purchases and Sales**

If an organization allows continuous credit by its suppliers, it is expected to the postponement of the payment. In this context, the payment out of the sales extends the time interval of goods produced.

- **Fluctuations in Supply**

A few of the firms purchase raw materials to a great extent. This is totally because of unusual supply of raw materials that are only come from the limited sources. Here, the working capital gets locked up in a huge amount.

- **Seasonal Variation**

Seasonal changes put an impact on the financial stability of the organization. During the periods of inflation and depression, huge amount of working capital is required. In other times, this requirement will be in lesser amount.

- **Requirement of Cash**

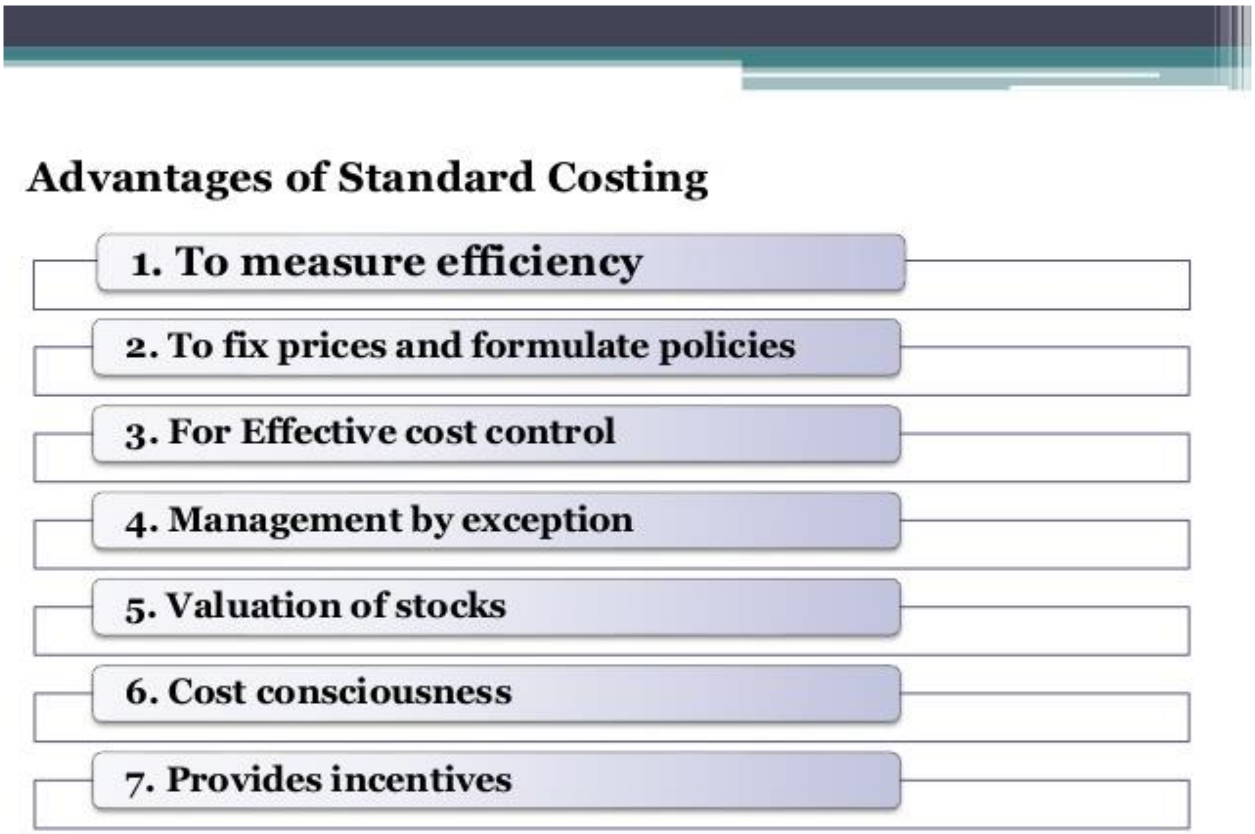
A company needs cash for its different purposes. If the requirement of cash of an organization is in greater amount, then it needs greater working capital and vice-versa.

- **Dividend Policy**

According to the SEBI, the new provisions of dividend policy are declaring the company's divided to its shareholders is mandatory. This means dividend policy has a great impact on working capital..

- **Other Factors**

Excluding the above points, a few other factors that also put affect the requirement of working capital in an organization. For example, tariff policies of government, lack of transport and communication, etc.



Objectives of Standard Costing:

(a) It helps to implement budgetary control system in operation;

(b) It helps to ascertain performance evaluation.

(c) It supplies the ways to utilise properly material, labour and also overhead which will be economic in character.

(d) It also helps to motivate the employees of a firm to improve their performance by setting up a ‘standard’.

(e) It also helps the management to supply necessary data relating to cost element to submit quotations or to fix up the selling price of a firm.

(f) It also helps the management to make proper valuations of inventory (viz., Work-in- progress, and finished products).

(g) It acts as a control device to the management.

(h) It also helps the management to take various corrective decisions viz., fixation of price, make-or-buy decisions etc. which will be more beneficial to the firm.