DEPARTMENT OF COMMERCE AND FINANCIAL STUDIES
BHARATHIDASAN UNIVERSITY, TIRUCHIRAPPALLI – 620024

MBA (Financial Management)

Course Code and Name: FMCC1/24-ACCOUNTING FOR DECISION MAKING

Unit –III/Topic: MANAGEMENT ACCOUNTING

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Management Accounting (Content)

-Definitions
-Scope
-Significance and Limitations
-Marginal Costing
-Cost
-Volume
-Profit Analysis
-Break Even Analysis
-Profit planning
-Decisions Regarding Sales Mix
-Make or Buy decisions
-Problem of key factor

Define the Term Management Accounting

- M/A is accounting is concerned with accounting information that is useful to management

  -R.N.Anthony

- M/A is the presentation of accounting information in such a way as to assist the management in the creation of policy and in the day-to-day operations of an undertaking

  -Anglo American Council of Productivity

Scope of Management Accounting

The scope of Management Accounting includes:

- Finance accounting
- Cost accounting
- Budgetary control
- Inventory control
- Interim Reporting
- Statistical methods
- Taxation
- Internal audit
- office services

State the Significance and Limitations of Management Accounting

- **Significance**

(a) Helps in decision making

(b) Helps in planning

(c) Facilitates communication

(d) Helps in coordinating

(e) Interpretation of financial statements

(f) Evaluation and control of performance

Limitations

(a) Based on accounting information

(b) wide scope

(c) Costly

(d) Evolutionary stage

(e) opposition to change

(f) Not an alternative to management

(g) Limitations of basic records

(h) Top heavy structure

The following are important functions of M.A

(a) Provides Data

(b) Modifies Data

(c) Analyzing and Interpretation of Data

(d) Serves as a means of Communication

(e) Facilitates Control

(f) Uses Qualitative Information also

Definition of Marginal cost and Marginal costing

- According to **ICMA**, England, ‘Marginal cost is the amount, at any given volume of output, by which the aggregate costs are changed, if the volume of output is increased or decreased by one unit’.
- Marginal costs are the variable costs of production.
- Marginal costing may be defined as ‘the ascertainment of marginal costs and of the effect on profit of changes in volume or type of output by differentiating between fixed costs and variable costs’

Contribution, P/V ratio

- **Contribution** is the difference between the sale price and marginal costs i.e., variable costs. It covers fixed costs and profits.

  C=SP-Variable costs   C=Fixed costs $\pm$ Profits / Loss

- **P/V ratio** expresses the relation between the sales and contribution. It is expressed as a percentage.

  $$\text{P/V Ratio :-} \quad \frac{\text{Contribution}}{\text{Sales}} \times 100$$

  If P/V ratio is 25%, the balance 75% represents marginal costs i.e., variable costs

Break Even Point, CVP Analysis

- A **Break Even Point** is a point of No Profit No Loss. At this point of sales, sales revenue will be equal to the variable costs and fixed costs.

- A **Key factor** is a factor which restricts the profitability of a business. It may be labour hours, power, availability of raw materials, etc.,

- **Cost .Volume and Profit analysis** is studying the relationship between the sales , costs and profit to maximize the profits.

Managerial Application of Marginal Costing Techniques

The following are the application of marginal costing techniques:

1. Fixation of sale price
2. Profit Planning
3. Exploring foreign markets
4. Selection of a suitable sales mix
5. Peformance Evaluation
6. Shut down or continue
7. Make or buy decisions
8. The problem of key factor
9. Acceptance of a bulk order at a reduced price.
10. Discontinuance of a product line
11. Equipment replacement decision
12. Change Vs. Status Quo

Angle of Incidence and Margin of safety

- **Angle of incidence** is the angle formed by the intersection of sales line and total cost line in the BEP chart. A large angle of incidence indicates a high rate of profit and vice versa.

- **Margin of safety** is the difference between the Actual sales and BEP sales. This can be calculated by another formula also. $M/S = \frac{\text{Profit}}{\text{P/V ratio}}$

Difference Between Marginal Costing and Absorption Costing

- Marginal costing takes into account the variable costs only.
- In absorption costing, both the variable and fixed costs are taken into account.

Methods of Segregating the Semi-fixed Costs into Variable and Fixed costs

The semi-fixed (or)semi-variable costs can be divided into variable and fixed with the following methods.

1.Low-High output method

2.Levels of output method

3.Degree of variability method

4.Scattergraph method

5.Least square method.

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