



THIRUTHANGAL NADAR COLLEGE

(Belongs to the Chennaivazh Thiruthangal Hindu Nadar Uravinmurai Dharma Fund)

Selavayal, Chennai-51.

A Self-Financing Co-educational College of Arts & Science

Affiliated to the University of Madras

Accredited with 'B' Grade by NAAC

An ISO 9001: 2015 Certified Institution

NAME OF THE DEPARTMENT: Dept. of Commerce (AF & BM)

SUBJECT :Management Accounting

TOPIC : Introduction

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MANAGEMENT ACCOUNTING

MEANING

- ✓ Management Account is the presentation of accounting information in such a way as to assist management in the creation of policy and the day-to-day operation of an undertaking.
- ✓ Management accounts links management with accounting as any accounting information required control of decision making by the management.


Management Accounting (Introduction)

According to CIMA, “management accounting is an integral part of management concerned with identifying, presenting and interpreting information used for-

- i) Formulating strategy
- ii) Planning and controlling activities
- iii) Decision making
- iv) Optimizing the use of resources
- v) Disclosure to shareholders and others external to the entity
- vi) Disclosure to employees
- vii) Safeguarding assets”

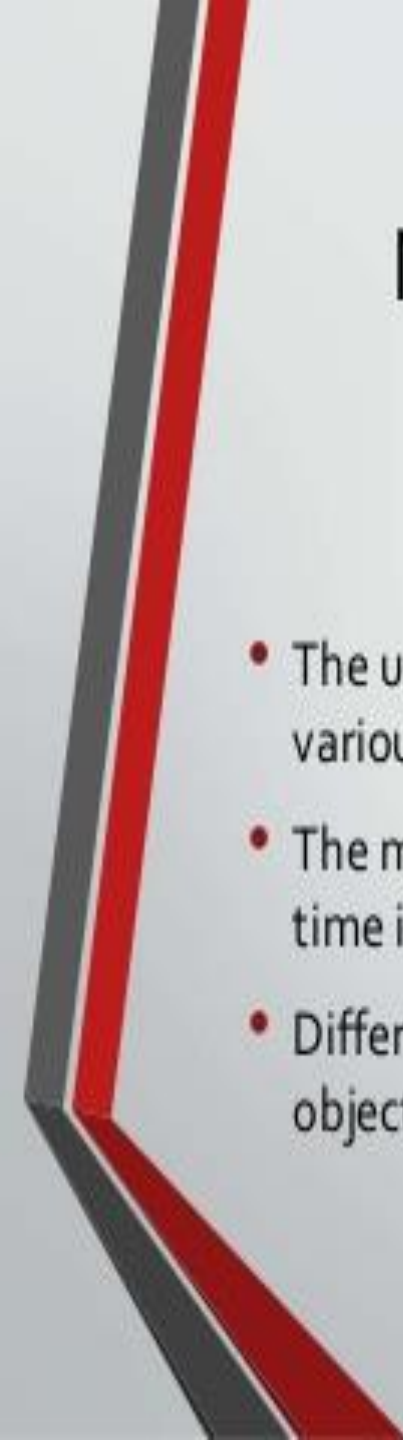
objectives

- To assist the management in promoting efficiency.
- To interpret financial statements to enable the management to formulate future plans.
- To arrange for the systematic allocation of responsibility for implementation of plants and budgets.

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- To analyze monetary and non monetary transactions.
 - To compare the actual performance with plan & identifying deviations and their causes.
 - To prepare budget covering all functions of business.

Need and importance of management accounting

- Creates harmony between the management & employees.
- Enables the management to improvise its services to its customers.
- Various operations can be planned with the help of accounting information, budgeting & forecasting.
- Avoid business from facing seasonal fluctuations.
- Helps in communicating up to date information to various parties interested in successful working of the business organization.



Need and importance of management accounting

- The use of management accounting may controlled or even eliminate various types of wastages.
- The management aims to control the cost of production and at the same time increase efficiency of employers.
- Different tools of management accounting have provided validity, objectivity & reliability in business management.

Functions

1. Forecasting

- Making shortterm & longterm finance and planning the business for future operations.

2. Organising

- Organising the human & physical resources of the business.

3. Coordinating

- Providing different tools for coordination.

Contd..

4. Controlling

Controlling performance by using standard costing, marginal costing and budgetary control.

5. Analysis and interpretation

6. Communicating

7. Economic appraisal

Appraisal of social & economic forces, govt. policies and interpret their effect on business.

SCOPE OF MANAGEMENT ACCOUNTING

- Management accounting is concerned with presentation of accounting information in the most useful way for the management.
- Its scope is, therefore, quite vast and includes within its fold almost all aspects of business operations.

Financial Accounting: Management accounting is mainly concerned with the rearrangement of the information provided by financial accounting. Hence, management cannot obtain full control and coordination of operations without a properly designed financial accounting system.

Contd.

Cost Accounting: Standard costing, marginal costing, opportunity cost analysis, differential costing and other cost techniques play a useful role in operation and control of the business undertaking.

Revaluation Accounting: This is concerned with ensuring that capital is maintained intact in real terms and profit is calculated with this fact in mind.

Budgetary Control: This includes framing of budgets, comparison of actual performance with the budgeted performance, computation of variances, finding of their causes, etc.

Contd.

Inventory Control: It includes control over inventory from the time it is acquired till its final disposal.

Statistical Methods: Graphs, charts, pictorial presentation, index numbers and other statistical methods make the information more impressive and intelligible.

Taxation: This includes computation of income in accordance with the tax laws, filing of returns and making tax payments.

Advantages of Management Accounting

- Planning
- Controlling
- Coordination
- Performance Evaluation
- Organizing
- Motivating
- Communicating
- Decision-making

Limitations of Management Accounting

- Reliance on accounting data
- Based on historical data
- Highly Expensive
- Complicated application
- Lack of objectivity

Limitations of financial accounting

- It doesn't provide timely information.
- Ignores important non-monetary information.
- It doesn't provide detailed analysis.
- It doesn't disclose the present value of the business.
- It leads to window dressing.

Management Accounting	Financial Accounting
For internal parties	For external parties
Informs internal decisions, provides feedback on the operating performance of the business	Reports on past performance of the business to external parties
Timely, future orientated	Delayed, based on historical data
Tailor made to what info managers require	Regulated by regulators (duh) to make sure it includes certain data
Measures financial and operation performance	Only measures financial data
Can be focused on specific areas of the business	Reports on the entire organisation

Differences Between Management And Cost Accounting

Basis	Management accounting	Cost Accounting
Objectives	Its objective is to assist managers providing accounting information for decision-making.	Its objective is to determine and record the cost of production of goods and services.
Scope	It has broad scope, and includes financial and cost accounting.	Its scope is limited in cost determination and record.
Sources of data	It uses both quantitative and qualitative data	It uses the quantitative data only.
Accounting principles	No specific principles like accounting and cost accounting.	Certain principles and procedures are followed in cost determination and allocation.
Nature	It uses past and present data in the projection of future.	It uses both past and present data and figure.

Cost Accounting vs Management Accounting

Basis	Cost Accounting	Management Accounting
Scope	Limited to providing cost information for managerial uses	Broader scope as it provides all types of information
Emphasis	Mainly on cost ascertainment and cost control to ensure maximum profit	Mainly on planning, controlling and decision making to maximize profit
Techniques employed	Standard costing and variance analysis, marginal costing and cost volume profit analysis, budgetary control, uniform costing etc.	All the techniques of cost accounting but in addition it also uses ratio analysis, fund flow statement, statistical analysis, operation research, mathematics, economics etc., whatsoever help management in tasks
Evolution	Its evolution is mainly due to the limitations of financial accounting	Its evolution is due to the limitations of cost accounting
Statutory requirement	Maintenance of cost records has been made compulsory in selected industries as notified by the govt. from time to time	It is purely voluntary and its use depends upon the utility of management

Cost Accounting vs Management Accounting

Basis	Cost Accounting	Management Accounting
Data base	It is based on data derived from financial accounts	It is based on data derived from financial accounting, cost accounting and other sources
Status in organisation	In an organisational setup, cost accountant is placed at a lower level in hierarchy than the management accountant	In an organisational setup, management accountant is placed at a higher level in hierarchy than the cost accountant
Installation	Cost accounting can be installed without management accounting	Management accounting cannot be installed without a proper system of cost accounting