



# 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: B.Com (CS)**

**SUBJECT :MANAGEMENT ACCOUNTING**

**TOPIC : INTRODUCTION TO MANAGEMENT**

**ACCOUNTING**

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# DEFINITION

- Management accounting, also called managerial accounting or cost accounting, is the process of analyzing business costs and operations to prepare internal financial report, records, and account to aid managers' decision making process in achieving business goals. In other words, it is the act of making sense of financial and costing data and translating that data into useful information for management and officers within an organization.

# MEANING

- Management Accounting is the process of analysis, interpretation and presentation of accounting information collected with the help of financial accounting and cost accounting, in order to assist management in the process of decision making, creation of policy and day to day operation of an organization. Thus, it is clear from the above that the management accounting is based on financial accounting and cost accounting.

# OBJECTIVES

- **1) Measuring performance:** Management accounting measures two types of performance. First is employee performance and the second is efficiency measurement. The actual performance is measured with the standardized performance and a report of deviation from the standard performance is reported to the management for the effective decision making and also to indicate the effectiveness of the methods in use. Both types of performance management are used to make corrective actions in order to improve performance.
  
- 2) Assess Risk:** The aim of management accounting is to assess risk in order to maximize risk.
  
- 3) Allocation of Resources:** is an important objective of Management Accounting.
  
- 4) Presentation of various financial statements to the Management.

- 5). Analysis and interpretation of financial statement .
- 6). Planning and policy making.
- 7). Decision making
- 8). Controlling
- 9). Coordinating
- 10.) Helps in evaluating efficiency and effectiveness of policies .

# SCOPE

## □ 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. 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.

## □ **6. 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.

# Tools and Techniques

## □ **Financial Planning:**

Financial planning is the act of deciding in advance about the financial activities necessary for the concern to achieve its primary objectives. It includes determining both long term and short term financial objectives of the enterprise, formulating financial policies and developing the financial procedure to achieve the objectives.

## □ **Analysis of Financial Statements:**

The analysis is an attempt to determine the significance and meaning of the financial statement data so that a forecast may be made of the prospects for future earnings, ability to pay interest and debt maturities and profitability of a sound dividend policy.

## □ **Standard Costing:**

Standard costing is the establishment of standard costs under most efficient operating conditions, comparison of actual with the standard, calculation and analysis of variance, in order to know the reasons and to pinpoint the responsibility and to take remedial action so that adverse things may not happen again. This aspect is necessary to have cost control.

## □ **Budgetary Control:**

The management accountant uses the tool of budgetary control for planning and control of the various activities of the business. Budgetary control is an important technique of directing business operations in a desired direction, i.e., achieves a satisfactory return on investment.



- **Marginal Costing:**

The management accountant uses the technique of marginal costing, differential costing and break even analysis for cost control, decision-making and profit maximisation.

- **Funds Flow Statement:**

The management accountant uses the technique of funds flow statement in order to analyse the changes in the financial position of a business enterprise between two dates. It tells wherefrom the funds are coming in the business and how these are being used in the business. It helps a lot in financial analysis and control, future guidance and comparative studies.

## □ **Statistical and Graphical Techniques:**

The management accountant uses various statistical and graphical techniques in order to make the information more meaningful and presentation of the same in such form so that it may help the management in decision-making. The techniques used are Master Chart, Chart of Sales: and Earnings, Investment Chart, Linear Programming, Statistical Quality Control, etc.

## □ **Cash Flow Statement:**

A funds flow statement based on increase or decrease in working capital is very useful in long-range financial planning. It is quite possible that there may be sufficient working capital as revealed by the funds flow statement and still the company may be unable to meet its current liabilities as and when they fall due. It may be due to an accumulation of inventories and

# ADVANTAGES

## □ **Increase Efficiency :**

Management accounting increases the efficiency of operation of company. Everything is done in management accounting with a scientific system for evaluating and comparing the performance. With this, we find deviations. We will take promotional decisions on this basis. Other employees will also be motivated with this because if their performance will be favourable, they get reward of this. Thus management accounting increases efficiency.

## □ **Maximizing the Profitability :**

Using of management accounting's budgetary control and capital budgeting tool, company can easily succeed to reduce both operating and capital expenditures. After this, company can reduce its price and then company will receive super profits.

## □ **Control of Business's Cash Flow**

It is one of important advantage of management accounting that it can be used for controlling of business's cash flow. We all know that cash in hand is better than in fixed properties if there is emergency to pay our loan or debt. So, management accountant deeply studies from where is money coming and where is it going. To check on misuse of money will surely control of business's cash flow.

## □ **Business-critical Decisions**

To take business - critical decisions, now management accounting will become more powerful. Global management accountants are coming for join on one plate-form for taking all business critical decisions.