

# Unit 1

## Introduction to Management Accounting

# Definition

Management Accounting is that branch of accounting which deals with presenting and providing accounting information to the management in a systematic way so that it can perform its management functions of planning, controlling and decision-making in an effective and efficient manner.

According to **American Accounting Association**, Management Accounting is “the application of appropriate techniques and concepts in processing historical and projected economic data of an entity to assist management in establishing plans for reasonable economic objectives and in the making of rational decisions with a view towards these objectives”.

# Nature of Management Accounting

- Analysis & Interpretation of data
- Future-oriented
- Serves as a yardstick

# Scope of Management Accounting

- **Financial Accounting:** Financial Accounting provides historical information useful for future planning and financial forecasting
- **Cost Accounting:** It provides various techniques of costing which are used in the process of planning and decision-making.
- **Forecasting and budgeting:** Management Accounting exercises the tool of forecasting and budgeting in the process of planning, controlling and decision-making
- **Tax accounting and tax planning:** the analysis of implication of tax provisions on future projects comes under management accounting.

## Contd..

- **Internal Control & Audit:** Management Accounting highly depends on internal control system existing in the organization to identify the weaker sections of the organization.
- **Cost Control Procedures:** include inventory control, cost control, budgetary control, variance analysis etc.
- **Financial Analysis and Interpretation:** Various financial analysis techniques such as Ratio Analysis, Fund Flow Analysis, Trend analysis are used to analyze and interpret financial data.

# Contd...

- **Reporting to Management:** The Management Accountant is required to submit reports to the management as per their requirements.
- **Office Services:** Management Accountant is expected to maintain and control office routines and procedures like filing, copying, communicating, data processing etc.
- **Statistical Tools:** Various statistical tools like graphs, charts, diagrams are used in the process of planning, controlling and decision-making.

# Objectives of Management Accounting

- Analysis and Interpretation of Financial Statements:
- Planning and policy-making
- Decision-Making
- Controlling
- Coordinating
- Communicating
- Helps in evaluating the efficiency and effectiveness of policies

# Tools & Techniques of Management Accounting

- Financial Statement Analysis
- Fund Flow Analysis
- Cash Flow Analysis
- Budgetary Control
- Standard Costing
- Marginal Costing
- Management Reporting
- Statistical and Operations Research techniques

# 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.

# **Difference between financial accounting & management accounting**

- Purpose/ Objective
- Periodicity of reporting
- Regulation & Standardization
- Type of information
- Legal Compulsion
- Precision
- Audit