

INTRODUCTION TO MANAGEMENT ACCOUNTING

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ACCOUNTING



Accounting is the systematic and comprehensive recording of financial transactions pertaining to a business.



MANAGEMENT ACCOUNTING

In management accounting or managerial accounting, managers use the provisions of accounting information in order to better inform themselves before they decide matters within their organizations, which aids their management and performance of control functions.



MEANING

It can be viewed as Management – oriented Accounting.

Also known as Managerial Accounting.

Basically it is “accounting in relation to management function”.



DEFINITION

Management accounting is concerned with accounting information which is useful to management.

-Robert N. Anthony



NATURE OF MANAGEMENT ACCOUNTING

Nature of Management Accounting	
Forecasting	Managers take decisions for the future course of action and not for the past
Disseminate information	It only supplies information to the necessary department for decision
Increase in efficiency	It helps the management to make effective decisions and increase efficiency
Usage of techniques and concepts	Management accounting through various techniques and concepts makes data more useful
No fixed model	There is no uniformity for data analyses from organisation to organisation
Aids management	It provides accurate information to make right decisions
Cause and effect analysis	It portrays the relation of cause and effect between the variables
Helps in achieving objectives	Management accounting directly or indirectly helps in achieving objectives

SCOPE

- 1. Strategic planning : Formulation of plans to meet objectives**
- 2. Operation Planning : Formulation of short term budgeting/ profit planning.**
- 3. Financial & performance control : Corrective action to bring plans & results into line**
- 4. Financial Accounting : Recording & reporting of financial transactions & events**
- 5. Cost accounting : Recording & reporting of costs**
- 6. Financial management : Acquisition & use of finance**
- 7. MIS : Communication of financial & operating information**
- 8. Internal audit : Reviewing & reporting on systems & operations**

FUNCTIONS

- Budgeting
- Cost management
- Reporting
- Financial control
- Investment decisions
- Price & product decisions
- Project Management
- Legal compliance
- Resource allocation
- Risk management
- Strategic tax management
- Treasury & cash management



DECISION MAKING PROCESS

Step 1

Identifying Objectives

Step 2

Identify alternative options for achieving them

Step 3

Collect & analyze relevant data about each option

Step 4

Make the choice/ decision

Step 5

Implement the decision

Step 6

Obtain data about actual results

Step 7

Compare actual results with the expected outcome.
Evaluate achievements

PLANNING

OPERATIONS

CONTROL

INFORMATION FOR DECISION MAKING

DIFFERENCE BETWEEN DATA AND INFORMATION



DATA

Data is raw, unorganized facts that need to be processed. Data can be something simple and seemingly random and useless until it is organized.



INFORMATION

When data is processed, organized, structured or presented in a given context so as to make it useful, it is called information.

Qualities of Information

Qualities of good information

- It should be relevant for its purpose.
- It should be complete for its purpose.
- It should be accurate for its purpose.
- It should be clear to the user.
- It should be prepared using consistent methods.
- The user should be able to rely on it.
- It should be communicated to the right person.
- It should not be excessive – its volume should be manageable.
- It should be timely – to be communicated at the right time.
- It should be provided at a cost lesser than the value of benefits.

INFORMATION SYSTEMS TO SUPPORT DECISION MAKING

Operational

Programmable decisions with specific inputs and outputs.
Transaction processing system (TPS) used.

Tactical

Use variety of data from different sources – emphasis on exception reporting.
Management information system (MIS) used.

Strategic

Varied information needs – sometimes difficult to predict.
MIS and Executive information systems (EIS) used.



STRATEGIC

TACTICAL

OPERATIONAL

DIFFERENCE

Basis	Management Accounting	Financial Accounting
Objective	Provide information to management	Main aim is to supply data or information
Performance	It provides the data of all departments and their function performed	It measures an overall performance of the business
Data usage	Quantitative and qualitative information used	It uses historical in nature uses past data
Monetary management	In this case even non-monetary events also enter into the books	Only monetary transactions are taken into consideration
Reporting	it needs continuous availability of the data and report	It is longer than management accounting
Nature	This is subjective in nature and highly based on judgement	It has been more objective than management accounting
Legality	It is voluntary practice as per organizations requirement	It is more or less a mandatory practice for every business
Coverage	It is limited in this case focusing on the needs of the management	It covers all the aspects of the concern nature
Publication and audit	In case of management accounting no such provisions are made	It is published and audited for the use of general public and stakeholders
Methodology	It 's revealed in various statements and reported to different centres	It is prepared in various prescribed formats

