INTRODUCTION TO MANAGEMENT ACCOUNTING

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.

DEFINITION

Management accounting, also called managerial accounting or cost accounting, is the process of analyzing business costs and records, and account to aid managers' decision operations to prepare internal financial report, 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

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.

ADVANTAGES

1. 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.

2. 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.

3. 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.

4. 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.