

MANAGEMENT ACCOUNTING - INTRODUCTION

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Institute of Chartered Accountants of England and Wales defines management accounting as:

Any form of accounting which enables a business to conduct more efficiently can be regarded as Management Accounting.

American Accounting Association defines management accounting as:

Management Accounting includes the methods and concepts necessary for effective planning, for choosing among alternative business actions, and for control through the evaluation and interpretation of performance.

Characteristics of Management Accounting

Management accounting provides data to the management on the basis of which they take decisions to achieve organizational goals and improve their efficiency. In this section, we will discuss the main characteristics of management accounting.

To Provide Accounting Information

Information is collected and classified by the financial accounting department, and presented in a way that suits managerial needs to review the various policy decisions of an organization.

Cause and Effect Analysis

One step further from financial accounting, management accounting works to know the reasons of profit or loss of an organization. It works to find out the causes for loss and also study the factors which influence the profitability. Therefore, cause and effect is a feature of management accounting.

Special Technique and Concepts

Budgetary control, marginal costing, standard costing are main techniques used in financial accounting for successful financial planning and analysis, and to make financial data more useful.

Decision Making

Studying various alternative decisions, studying impact of financial data on future, supplying useful data to management, helping management to take decisions is a part of management accounting.

Achieving Tasks

Financial data is used to set targets of the company and to achieve them. Corrective measures are used if there is any deviation in actual and targeted task. This all is done through management accounting with the help of budgetary control and standard costing.

No Fixed Norms

No doubt, tools of management accounting are same, but at the same time; uses of these tools depend upon need, size, and structure of any organization. Thus, no fix norms are used in application of management accounting. On the other hand, financial accounting totally depends on certain rules and principals. Therefore, presentation and analysis of accounting data may vary from one organization to another.

Increasing Efficiency

While evaluating the performance of each department of an organization, management accounting can spot the efficient and inefficient sections of an organization. With the help of that, corrective step can be taken to rectify the inefficient part for better performance. Hence, we can say that efficiency of a concern can increase using accounting information.

Informative Instead of Decision Making

Decisions are taken only by top management using information provided by management accountant as classified in a manner which is useful in decision making. Decision making does not come under preview of accountant, it is only the top management, who can take decision. Thus, decision of an organization depends on caliber and efficiency of the management.

Forecasting

Management accountant helps management in future planning and forecasting using historical accounting data.

Objectives of Management Accounting

Let us go through the objectives of management accounting:

Planning and Formulating Policies

In the process of planning and formulating policies, a management accountant provides necessary and relevant information to achieve the targets of the company. Management accounting uses regression analysis and time series analysis as forecasting techniques.

Controlling Performance

In order to assure effective control, various techniques are used by a management accountant such as budgetary control, standard costing, management audit, etc. Management accounting provides a proper managerial control system to the management. Reports are provided to the management regarding the effective and efficient use of resources.

Interpreting Financial Statement

Collecting accounting data and analyzing the same is a key role of management accounting. Management accounting provides relevant information in a systematic way that can be used by the management in planning and decision-making. Cash flow, fund flow, ratio analysis, trend analysis, and comparative financial statements are the tools normally used in management accounting to interpret and analyze accounting data.

Motivating Employees

Management accounting provides a selection of best alternative methods of doing things. It motivates employees to improve their performance by setting targets and starting incentive schemes.

Making Decisions

Success of any organization depends upon accurate decision-making and effective decision-making is based on informational network as provided by management accounting. Applying techniques of differential costing, absorption costing, marginal costing, and management accounting provides useful data to the management to aid in their decision-making.

Reporting to Management

It is the primary role of management accounting to inform and advice the management about the latest position of the company. It covers information about the performance of various departments on regular basis to the management which is helpful in taking timely decisions.

A management accountant also works in the capacity of an advisory to overcome any existing financial or other problems of an organization.

Coordinating among Departments

Management accounting is helpful in coordinating the departments of an organization by applying thorough functional budgeting and providing reports for the same to the management on a regular basis.

Administrating Tax

Any organization must comply with the tax systems prevailing in the country they are operating from. It is a challenge due to the ever-increasing complexity of the tax structure. Organization need to file various kinds of returns with different tax authorities. They need to calculate the correct amount of tax and assure timely deposit of tax. Therefore, the management takes guidance from management accountants to comply with the law of the land.