

SHERSHAH COLLEGE, SASARAM

MANAGEMENT ACCOUNTING

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MANAGEMENT ACCOUNTING

INTRODUCTION- Accounting is as old as money itself. In India, Chanakya in his Arthashastra had emphasised the existence and need of proper accounting and auditing. In recent years, changes in technology have brought a remarkable changes in the field of accounting. The whole concept of accounting has changed. It provides information that can be drawn upon by those responsible for decisions affecting the organization's future. It consists partly of files of data, partly of reports summarizing various portions of these data, and partly of the plan established by management to guide its operations.

Accounting in modern times has two distinct functions to perform:

- a) Historical Function :** This function is concerned with recording, classifying, summarising, analysing and interpreting the past transactions for an accounting period of a business enterprise and communicate it to the end users.
- b) Managerial function :** This function is concerned with planning the future activities of the enterprise and controlling the operations of the business. This helps the management in looking forward.

In the early stages of development of accounting, the historical function used to be the primary functions of the accountants. However, in recent time, the managerial function has become the important, function of accountants.

MANAGEMENT ACCOUNTING

Meaning : The terms management accounting refers to accounting for the management, i.e. accounting which provides necessary information to the

management for discharging its managerial functions i.e. planning ,org, controlling etc.

Thus, management provides information to management so that planning, organising, directing and controlling of business operations can be done in an orderly manner.

As per The Chartered Institute of Management Accountants, London, “The application of professional knowledge and skill in the preparation of accounting information in such a way to assist management in the formation of policies and in the planning and control of the operations of the undertaking.”

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 in the making of rational decisions with a view towards achieving these objectives.”

The above definitions clearly indicate that management accounting is concerned with accounting information which is useful to the management.

FUNCTIONS OF MANAGEMENT ACCOUNTING

The functions of the management are planning; organising, directing and controlling. Management accounting helps in the performance of each of these functions in the following ways:

1. Provides Data : Management accounting serves as a vital source of data for management planning. The accounting has a vast quantity of data about the past progress of the enterprise which are a must for making forecasts for the future.

2. Modifies data : The accounting data required for managerial decisions are properly compiled and classified.

3. Analyses and Interprets data : The accounting data is analysed meaningfully for effective planning and decision-making. For this purpose the data is presented in a comparative form. Ratios are calculated and likely trends are projected.

4. Serves as a means of communicating : Management accounting provides a means of communicating management plans upward, downward and outward through the organisation.

5. Facilitates Control : Management accounting helps in translating given objectives, and strategy into specified goals for attainment by a specified time and secures effective accomplishment of these goals in an efficient manner. All this is made possible through the management accounting technique like budgetary control and standard costing etc.

BENEFITS OR ADVANTAGES OF MANAGEMENT ACCOUNTING

Management accounting provides valuable information to management in the performance of its functions effectively as follows :

1. Planning : Management accounting makes an important contribution in performance of the function planning. It makes available the relevant data after pruning and analysing them suitably by effective planning and decision-making.

2. Controlling : It involves evaluation of performance keeping in view that the actual performance coincides with the planned one, and remedial measures are taken in the event of variation between the two. The techniques of budgetary control, standard costing and departmental operating statements greatly help in performing this function. As a matter of fact the entire system of control is designed and operated by the management accountant designated as controller.

3. Coordinating: Perfect coordination is required among various departments like production, purchase, finance, personnel, sales, departments, etc. So effective coordination is achieved through departmental budgets and reports which form the nucleus of management accounting.

4. Organising : It involves grouping of operative action in a way as to identify the authority and responsibility within the organisation. Management accounting, here also plays a prominent role. The whole organisation is divided into suitable profit or cost centres. A sound system of internal control and internal audit for each of the cost or profit centers helps in organising and establishing a sound business structure.

6. Communicating : It communicates transmission of data, result, etc. both to the insiders as well outsiders. Management accounting is thus helpful to the management in every field of activity. That's why management accountant is considered not only a service to management but also a part of management.

LIMITATIONS OF MANAGEMENT ACCOUNTING

Management accounting being comparatively a new discipline, it suffers from the following limitations :

1. Limitations of basic records : Management accounting derives its information from financial accounting and other records. So the Strength and weakness of the financial accounting, are also the limitations of the management accounting.

2. Persistent efforts : The conclusions drawn by the management accountant are not executed automatically. He has to convince people at all levels.

3. Management Accounting is only a tool : Management accounting cannot replace the management. Management accountant is only an advisor to the management. The decision regarding implementing his advice is to be taken by the management. So it is only a tool for the management.

4. Top-heavy structure : The installation of management accounting system requires heavy costs on account of an elaborate organizations and numerous rules and regulations. It can, therefore, be adopted only by big concerns.

5. Oppositions to change : Management accounts demands a breakaway from traditional accounting practices. It calls for a rearrangement of the personnel and their activities which is generally not like by the people involved.