

Management Accounting : A Boon to Contemporary World

Abstract

Management Accounting is the branch of Accounting which is concerned with procuring and providing the necessary information for the managerial decision making. Management accounting provides financial information about a particular organization to business managers so that they may make better decisions about running the organization. Management accounting is primarily concerned with data gathering from internal and external sources. After gathering the financial data, management accountants analyze, process, interpret and communicate their results.

Keywords: Management Accounting, Scope of Management Accounting, Objectives of Management Accounting.

Introduction

In this era of cut throat competition, the onus of ensuring organisational efficiencies remains on the the management. Since top level of management is the policy maker, they remain engaged in decision making and policy formulation, therefore a need of such intermediary arises which bridges the the gap between relevant information and its users (top level of management), This bridging is well executed by an emerging branch of Accounting, called Management Accounting.

Objective of the Study

1. To Explore the key areas of Application of Management Accounting
2. To Evaluate the impact of Management Accounting in Contemporary world

Management Accounting

Any branch of accounting which renders valuable information to help management may be called management accounting. It is that form of accounting which enables a business to be conducted more efficiently. A team of British industrial accountants and managers submitted their reports and defined management accounting as the presentation of accounting information in such a way as to assist management in the creation of policy and day to day operations of an undertaking.

“Any form of accounting which enables a business to be conducted more efficiently can be regarded as Management Accounting”

The Institute of Chartered Accountants of England and Wales

“Management Accounting is the presentation of accounting information in such a way as to assist management in the creation of policy and in the day-to-day operations of an undertaking”

The Anglo American Council on Productivity Report

“Management Accounting includes the methods and concepts necessary for effective planning, for choosing among alternative business performances”

The American Accounting Association

Scope of Management Accounting

Management accounting, being a financial discipline, takes into consideration the implications of reporting for the entire organization or business. Business managers in all areas of an organization, including sales, production and personnel, rely on data interpreted through management accounting as an aid to making better business decisions and allocating the business resources under their control.

The Scope of management accounting is broad one. An understanding, analysis and study of facts or data relating to past, present and future events of a business concern may be subject matter of management accounting. Basically management accounting is associated with economics, statistics, business law and psychology.

A study of past trends may help in getting information about those factors which had been responsible for the variances between planned and actual results in the past.

Similarly a study of present trends and events may avail the knowledge whether the actual results are in conformity with the planned

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targets or not, so that if there are variances, these could be controlled or minimized by modifying and improving the factors, methods or procedures.

A study of future trends is the foundation stone of an effective planning. Therefore under the system of management accounting the past and present data of business concern are collected, classified and analyzed in such a way to solve the managerial problems and to forecast the future trends.

Some of the areas included within the purview of Management Accounting are:

1. General Accounting (Financial accounting)
2. Cost Accounting
3. Budgeting and forecasting
4. Cost control procedure
5. Cost and Statistics
6. Taxation
7. Audit methods and procedures
8. Office services
9. Legal Provisions

Objectives of Management Accounting

As an integral part of strategic planning, management accounting deals with information, not just data. While financial accounting presents income statements, balance sheets and other important information, management accounting focuses on making that information useful. As a result of the information provided, management can more effectively engage in strategic planning, make decisions and control business operations. External parties such as shareholders, investors, creditors, and regulatory agencies also rely on reports generated through management accounting.

The real function of all accounting work is to render a service to business management. This service lies in placing before business executives the most complete information on various issues, analyzed so as to be readily understood and used effectively in guiding and controlling their operations. On the basis of above lines it could be concluded that:

1. The basic objective of management accounting is to present the required facts and information for the use of management in a quantitative form (known as operating function)
 - a. Recording of data
 - b. Validation of data
 - c. Interrelation data
 - d. Communication data
2. Additionally management accounting is concerned with effective performance of management function (theoretical functions)
 - a. To help in planning.
 - b. To help in organizing.
 - c. To help in controlling.
 - d. To help in communication.
 - e. To help in decision making.

Tools and Techniques of Management Accounting

1. Ratio Analysis
2. Comparative income statement & comparative Balance Sheet.

3. Common size income statement & comparative balance sheet.
4. Cash flow statement and fund flow statement.
5. Variance Analysis
 - a. Material Variance
 - b. Labor Variance
 - c. Overhead variance
6. Marginal costing and C.V.P. Analysis
7. Business forecasting
8. Budget
9. Budgeting and budgetary control
10. Managerial reporting

Limitations of Management Accounting

1. Most of the information used in Management Accounting is derived from Financial Accounting records or Cost Accounting records. Therefore, the accuracy of management accounting is based on the correctness of Financial Accounting and Cost Accounting.
2. Management Accounting should never be considered as a substitute for management, this is simply a tool for the management. Ultimate decisions and corrective steps are being taken by management and not by management Accountant.
3. There is always human judgment involved in all the information furnished by the management Accounting. So there would be differences in opinions.

Duties of Management Accountant

1. To establish better coordination through efficient and adequate plan for the control of operations.
2. To compare performance with operating plants with standards and to report there on.
3. To consult with all segments of management responsible for policy or decision making.
4. To administer tax policies and procedures.
5. To coordinate the preparation of report to govt. agencies
6. To assure physical protection for the assets of business through proper insurance coverage.
7. To insure the continuous audit of accounts and record.
8. To prepare various reports for different parties.
9. To insure the required approval for all the payments by the authentic person.
10. To fulfill the government norms & tax obligation.

Conclusion

On the basis of above study it could be concluded that Management Accounting is an emerging branch of Accounting and it is a boon for the business world for ensuring organizational efficiencies, competitive advantage, business expansion and achieving ultimate goals.

References

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