

Management accounting

Introduction

Management accounting as a new branch of accounting is of recent origin. Financial accounting recorded business transactions on double-entry basis and helped ascertainment of profit or loss for the given period and valuation of stock of assets and liabilities on a given date. Financial accounting enabled the concern with the liabilities and safeguard the assets entrusted and therefore was also known as custodial or stewardship accounting. Basically meant for consumption of owners, creditors, statutory authorities, the reporting was for a concern as a whole.

Management accounting is the accounting system for making decisions of the business enterprise. Management accounting furnishes the necessary information to assist the business enterprise to make rational decisions through the development of policies and procedures in order to meet the day to day commitments of the enterprise.

Meaning of Management Accounting

The term 'Management Accounting' refers to accounting for the management. Management accounting provides necessary information to assist the management in the creation of policy and in the day-to-day operations. It enables the management to discharge all its functions, i.e., planning, organization, staffing, direction and control efficiently with the help of accounting information.

"The application of accounting and statistical techniques to the specific purpose of producing and interpreting information designed to assist management in its function of promoting maximum efficiency and in envisaging, formulating and co-ordinating future plans and subsequently in measuring their execution"

Nature and Scope of Management Accounting

The two major dominant forces of management accounting are financial accounting and cost accounting.

1. **Financial Accounting:** It is a traditional method of accounting that supplies historical information about the firm during the past. Whatever information extracted is being utilized for the constructive future policies and financial forecasting of the firm. For example, from the yesteryear financial statements, the firm could plan the volume of sales, volume of purchases, size of the debtors, creditors, stock of the firm, cash required by the firm on

everyday to meet financial commitments and so on.

2. Cost Accounting: It is another important process of accounting which affords the cost information of either product or service of the firm and analyses and interprets them through various tools viz marginal costing, standard costing, process costing, unit costing, batch costing and so on, for the formulation of policies and assist the firm to carry out the operations of the undertaking.

3. Statistical Methods: It is another component of management accounting which plays a pivotal role in presentation of information through charts, diagrams etc. by the various departments.

4. Operations Research: It is an inevitable tool complementing the management accounting in deriving rational decisions through decision tree analysis and so on.

Limitations of Management Accounting

The following are the key limitations of management accounting:

1. It is based on the past or yesteryear information of cost accounting and financial accounting which influences the effectiveness of the entire management accounting.
2. Though broader in scope, which paves way for inaccuracy of results.
3. It is nascent in stage, which leads to a lot of confusion among the decision makers while interpreting the information.
4. The installation of a system leads to opposition among the working people due to different rules, regulations, procedures and so on.
5. Management accounting is considered as a tool of management in making decisions; made only by the management but not by the management accountant.

Relationship of Financial, Cost and Management Accounting

The ICMA, London, defines management accounting as “the application of professional knowledge and skill in the preparation and presentation of accounting information in such a way as to assist management in the formulation of various policies and in the planning and control of the operation of the undertaking”.

The American Accounting Association, committee on management accounting, defines management accounting as “the application of appropriate techniques and concepts in processing the historical and projected economic data of an entity to assist management in establishing a plan for reasonable economic objectives and in the making of rational decisions

with a view towards achieving these objectives”.

Though some number of differences can be identified between cost accounting and management accounting, the line of difference is very thin. Because, cost accounting, at present, comprises of some of the advanced techniques and systems of costing such as budgetary control, marginal costing, standard costing, etc. and therefore, it tends to conform to management accounting. Consequently, not much difference can be found between the two. The main differences between cost accounting and management accounting are given as under

The cost accounting is very closely-related to financial accounting. Few authorities of accounting consider cost accounting to be the branch of financial accounting. But it may be said that cost accounting is complementary to financial accounting. Financial accounting and cost accounting are both similar in various ways. The main relationship between financial accounting and cost accounting are given as under:

1. The fundamental principles of double entry system are applicable in financial accounting as well as cost accounting.
2. The results of business or organisation are revealed by both the systems of accounts.
3. The determination of future business activities and policy is guided by both accounting systems.
4. A basis for comparison of expenditures is being provided by both the accounting systems.
5. The invoices and vouchers constitute the common basis for recording transactions under both the systems of accounting.
6. The causes for losses and wastages of a business or industry are provided by financial and cost accounting.

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