

phase of management rather than a service to management from management accountant. It is rather highly personalized service. Finally, it can be said that the management accounting serves as a management information system and so enables the management to manage better.

#### **1.4 FUNCTIONS OF MANAGEMENT ACCOUNTING**

The basic function of management accounting is to assist the management in performing its functions effectively. The functions of the management are planning, organizing, directing and controlling. Management accounting helps in the performance of each of these functions in the following ways:

- (i) Provides data:** Management accounting serves as a vital source of data for management planning. The accounts and documents are a repository of a vast quantity of data about the past progress of the enterprise, which are a must for making forecasts for the future.
- (ii) Modifies data:** The accounting data required for managerial decisions is properly compiled and classified. For example, purchase figures for different months may be classified to know total purchases made during each period product-wise, supplier-wise and territory-wise.
- (iii) Analyses and interprets data:** The accounting data is analyzed 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.
- (iv) Serves as a means of communicating:** Management accounting provides a means of communicating management plans upward, downward and outward through the organization. Initially, it means identifying the feasibility and consistency of the various segments of

the plan. At later stages it keeps all parties informed about the plans that have been agreed upon and their roles in these plans.

- (v) **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 budgetary control and standard costing which is an integral part of management accounting.
- (vi) **Uses also qualitative information:** Management accounting does not restrict itself to financial data for helping the management in decision making but also uses such information which may not be capable of being measured in monetary terms. Such information may be collected from special surveys, statistical compilations, engineering records, etc.

## 1.5 SCOPE OF MANAGEMENT ACCOUNTING

Management accounting is concerned with presentation of accounting information in the most useful way for the management. Its scope is, therefore, quite vast and includes within its fold almost all aspects of business operations. However, the following areas can rightly be identified as falling within the ambit of management accounting:

- (i) **Financial Accounting:** Management accounting is mainly concerned with the rearrangement of the information provided by financial accounting. Hence, management cannot obtain full control and coordination of operations without a properly designed financial accounting system.

- (ii) **Cost Accounting:** Standard costing, marginal costing, opportunity cost analysis, differential costing and other cost techniques play a useful role in operation and control of the business undertaking.
- (iii) **Revaluation Accounting:** This is concerned with ensuring that capital is maintained intact in real terms and profit is calculated with this fact in mind.
- (iv) **Budgetary Control:** This includes framing of budgets, comparison of actual performance with the budgeted performance, computation of variances, finding of their causes, etc.
- (v) **Inventory Control:** It includes control over inventory from the time it is acquired till its final disposal.
- (vi) **Statistical Methods:** Graphs, charts, pictorial presentation, index numbers and other statistical methods make the information more impressive and intelligible.
- (vii) **Interim Reporting:** This includes preparation of monthly, quarterly, half-yearly income statements and the related reports, cash flow and funds flow statements, scrap reports, etc.
- (viii) **Taxation:** This includes computation of income in accordance with the tax laws, filing of returns and making tax payments.
- (ix) **Office Services:** This includes maintenance of proper data processing and other office management services, reporting on best use of mechanical and electronic devices.
- (x) **Internal Audit:** Development of a suitable internal audit system for internal control.
- (xi)

## **1.6 THE MANAGEMENT ACCOUNTANT**

Management Accounting provides significant economic and financial data to the management and the Management Accountant is the channel through which this information efficiently and effectively flows to the management. The Management Accountant has a very significant role to perform in the installation, development and functioning of an efficient and effective management information system. He designs the framework of the financial and cost control reports that provide each management level with the most useful data at the most appropriate time. He educates executives in the need for control information and ways of using it. This is because his position is unique with respect to information about the organization. Apart from top management no one in the organization perhaps knows more about the various functions of the organization than him. He is, therefore, sometimes described as the Chief Intelligence Officer of the top management. He gathers information, breaks it down, sifts it out and organizes it into meaningful categories. He separates relevant and irrelevant information and then ranks relevant information in an intelligible form to the management and sometimes also to those who are interested in the information in the information outside the company. He also compares the actual performance with the planned one and reports and interprets the results of operations to all levels of management and to the owners of the business. Thus, in brief, management accountant or controller is the person who designs the management information system for the organization, operates it by means of interlocked budgets, computes variances and exhorts others to institute

corrective measures. Mr. P.L. Tandon has explained beautifully the position of the management accountant in the following words.

"The management accountant is exactly like the spokes in a wheel, connecting the rim of the wheel and the hub receiving the information. He processes the information and then returns the processed information back to where it came from"<sup>1</sup>.

Dr. Don barker<sup>2</sup> sees a very bright future for the management accountants. According to him, "Management Accountants will be presented with many opportunities for innovative actions in the global economic environment. In addition to their role of providing accurate, timely and relevant information, management accountants will be expected to participate as business consultants and partners with management in the strategic planning process". Thus, there are tremendous possibilities for management accountants to shine as a professional group in the years to come. To fit in this role, it is necessary that the management accountants develop effective communication abilities, adopt a structured approach, a flexible accommodation and keep themselves aware with the latest evolving technologies in the profession.

## **FUNCTIONS OF MANAGEMENT ACCOUNTANT**

It is the duty of the management accountant to keep all levels of management informed of their real position. He has, therefore, varied functions to perform.

His important functions can be summarized as follows:

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<sup>1</sup> Tandon, P.L.: "The Role of Management Accountants in General Management". 4th All India Seminar on Management Accounting, Lucknow, Feb. 1963.

2. President (1991-92), The Institute of Management Accountants, USA.

- (i) Planning:** He has to establish, coordinate and administer as an integral part of management, an adequate plan for the control of the operations. Such a plan would include profit planning, programmes of capital investment and financing, sales forecasts, expenses budgets and cost standards.
- (ii) Controlling:** He has to compare actual performance with operating plans and standards and to report and interpret the results of operations to all levels of management and the owners of the business. This is done through the compilation of appropriate accounting and statistical records and reports.
- (iii) Coordinating:** He consults all segments of management responsible for policy or action. Such consultation might concern any phase of the operation of the business having to do with attainment of objectives and the effectiveness of the organizational structures and policies.
- (iv) Other functions:**
- He administers tax policies and procedures.
  - He supervises and coordinates the preparation of reports to governmental agencies.
  - He ensures fiscal protection for the assets of the business through adequate internal control and proper insurance coverage.
  - He carries out continuous appraisal economic and social forces and the government influences, and interprets their effect on the business.

It should be noted that the functions of a Management Accountant are more of those of a 'staff official'. He, in addition to processing historical

data, supplies a good deal of information concerning the future operations in line with the management's needs. Besides serving top management with information concerning the company as a whole, he supplies detailed information to the line officers regarding alternative plans and their profitability, which help them in decision-making. As a matter of fact the Management Accountant should not bother himself regarding the decision taken by the line officials after tendering advice unless he has reasonable grounds to believe that such a decision is going to affect the interests of corporation adversely. In such an event also he should report it to the concerned level of management with tact, firmness combined with politeness.

## **1.7 MANAGEMENT ACCOUNTING AND FINANCIAL ACCOUNTING**

Financial accounting and management accounting are closely interrelated since management accounting is to a large extent rearrangement of the data provided by financial accounting. Moreover, all accounting is financial in the sense that all accounting systems are in monetary terms and management is responsible for the contents of the financial accounting statements. In spite of such a close relationship between the two, there are certain fundamental differences. These differences can be laid down as follows:

- (i) Objectives:** Financial accounting is designed to supply information in the form of profit and loss account and balance sheet to external parties like shareholders, creditors, banks, investors and Government. Information is supplied periodically and is usually of such type in which management is not much interested. Management Accounting is designed principally for providing accounting information for internal

use of the management. Thus, financial accounting is primarily an external reporting process while management accounting is primarily an internal reporting process.

- (ii) Analyzing performance:** Financial accounting portrays the position of business as a whole. The financial statements like income statement and balance sheet report on overall performance or status of the business. On the other hand, management accounting directs its attention to the various divisions, departments of the business and reports about the profitability, performance, etc., of each of them. Financial accounting deals with the aggregates and, therefore, cannot reveal what part of the management action is going wrong and why. Management accounting provides detailed analytical data for these purposes.
- (iii) Data used:** Financial accounting is concerned with the monetary record of past events. It is a post-mortem analysis of past activity and, therefore, out of date for management action. Management accounting is accounting for future and, therefore, it supplies data both for present and future duly analyzed in detail in the 'management language' so that it becomes a base for management action.
- (iv) Monetary measurement:** In financial accounting only such economic events find place, which can be described in money. However, the management is equally interested in non-monetary economic events, viz., technical innovations, personnel in the organization, changes in the value of money, etc. These events affect management's decision and, therefore, management accounting cannot afford to ignore them.



For example, change in the value of money may not find a place in financial accounting on account of "going concern concept". But while affecting an insurance policy on an asset or providing for replacement of an asset, the management will have to take into account this factor.

- (v) **Periodicity of reporting:** The period of reporting is much longer in financial accounting as compared to management accounting. The Income Statement and the Balance Sheet are usually prepared yearly or in some cases half-yearly. Management requires information at frequent intervals and, therefore, financial accounting fails to cater to the needs of the management. In management accounting there is more emphasis on furnishing information quickly and at comparatively short intervals as per the requirements of the management.
- (vi) **Precision:** There is less emphasis on precision in case of management accounting as compared to financial accounting since the information is meant for internal consumption.
- (vii) **Nature:** Financial accounting is more objective while management accounting is more subjective. This is because management accounting is fundamentally based on judgement rather than on measurement.
- (viii) **Legal compulsion:** Financial accounting has more or less become compulsory for every business on account of the legal provisions of one or the other Act. However, a business is free to install or not to install system of management accounting.

The above points of difference between Financial Accounting and Management Accounting prove that Management Accounting has flexible