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"[1].

Dr. Don barker[2] 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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[1] 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 id 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 coordinated 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 statues 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 the 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 approach as compared to rigid approach in the case of Financial Accounting. In brief, financial accounting simply shows how the business has moved in the past while management accounting shows how the business has to move in the future.

An attempt may now be made to compare and study the two types of accounting on basis of the characteristics of the data used. It is presented through the box- 1.1, given below.

Box 1.1

Features of data		Provided by Financial Accounting	Provided by Management accounting
1.	Period	After a stated period	At frequent intervals
2.	Time	Historical data	Current and future data
3.	Unit of expression	Money only	Any statistical unit
4.	Nature	Actual data	Projected data
5.	Specificity	Aggregates	Detailed analysis
6.	Description	Money consequences	Events
7.	Reality	Objective	Subjective
8.	Precision	Pie to Pie accuracy	May be guess-work
9.	Principles	Double entry system	Cost benefit analysis
10.	Legality	Obligatory	Optional
11.	Purpose	Overview of entire Business activity	Analytical details of such activities as call for decisions

1.8 COST ACCOUNTING AND MANAGEMENT ACCOUNTING

Cost accounting is the process of accounting for costs. It embraces the accounting procedures relating to recording of all income and expenditure and the preparation of periodical statements and reports with the object of ascertaining and controlling costs. It is, thus, the formal mechanism by means of which the costs of products or services are ascertained and controlled. On the other hand, management accounting involves collecting, analyzing, interpreting and presenting all accounting information, which is useful to the management. It is closely associated with management control, which comprises planning, executing, measuring and evaluating the performance of an organization. Thus, management accounting draws heavily on cost data and other information derived from cost accounting. Today cost accounting is generally indistinguishable from the so-called management accounting or internal accounting because it serves multiple purposes. However, management accounting can be distinguished from cost accounting in one important respect. Management accounting has a wider scope as compared to cost accounting. Cost accounting deals primarily with cost data while management accounting involves the considerations of both cost and revenue. Management accounting is an all inclusive accounting information system, which covers financial accounting, cost accounting, and all aspects of financial management. But it is not a substitute for other accounting functions. It involves a continuous process of reporting cost, financial and other relevant data in an analytical and informative way to management. We should not be very much concerned with boundaries of cost accounting and management accounting since they are complementary in nature. In the absence of a suitable system of cost accounting, management accountant will not be in a position to have detailed cost information and his function is bound to lose significance. On the other hand, the management accountant cannot effectively use the cost data unless it has been reported to him in a meaningful and informative form.

1.9 LIMITATIONS OF MANAGEMENT ACCOUNTING

Management accounting, being comparatively a new discipline, suffers from certain limitations, which limit its effectiveness. These limitations are as follows:

1. **Limitations of basic records:** Management accounting derives its information from financial accounting, cost accounting and other records. The strength and weakness of the management accounting, therefore, depends upon the strength and weakness of these basic records. In other words, their limitations are also the limitations of management accounting.
2. **Persistent efforts**. The conclusions draws by the management accountant are not executed automatically. He has to convince people at all levels. In other words, he must be an efficient salesman in selling his ideas.
3. **Management accounting is only a tool:** Management accounting cannot replace the management. Management accountant is only an adviser to the management. The decision regarding implementing his advice is to be taken by the management. There is always a temptation to take an easy course of arriving at decision by intuition rather than going by the advice of the management accountant.
4. **Wide scope:** Management accounting has a very wide scope incorporating many disciplines. It considers both monetary as well as non-monetary factors. This all brings inexactness and subjectivity in the conclusions obtained through it.
5. **Top-heavy structure:** The installation of management accounting system requires heavy costs on account of an elaborate organization and numerous rules and regulations. It can, therefore, be adopted only by big concerns.