

Meaning of Management Accounting

The term Management Accounting consists of two words “Management” and “Accounting”. It is the study of managerial aspects of accounting. It is a tool in the hands of management to exercise decision making. The emphasis of management accounting is to redesign accounting in a manner which is helpful to the management in framing the policies and control of their execution.

Management accounting is of recent origin. The term was first used in 1950 by a team of accountants visiting U.S.A. under the auspices of Anglo-American Council on productivity. The terminology of cost accounting had no reference to the word ‘management accountancy’ before the visit by this study group. Intensive competitions, large scale production, dynamic developments in technology, and complexities of modern business have led to the development of management accounting-to solve many of the problems.

“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”. I.C.M.A. – the definition recently incorporated into the terminology.

Management accounting provides information to the management to use it as a base for decision making.

J. Batty defines Management Accounting as “the term used to describe the accounting methods, systems and techniques which, coupled with special knowledge and ability, assist management in its task of maximizing profits or minimizing losses”.

Batty’s definition describes Management Accounting as a combination of various accounting systems and techniques which are designed to meet the needs of the management.

Nature of Management Accounting

Though Management Accounting is the latest branch in the accounting arena, it may be regarded partly as a Science and partly as an Art. It is the science of ‘Quantifying and summarizing’ and Art of ‘Interpreting’ accounting data.

Management Accounts derives its conclusions through collection, processing and objective analysis of data Quantified in figures. Thus it depends upon “Objectivisation and Quantification of progress and problems”. From this point of view Management accounting may be regarded as a Science.

However Management Accounting also involves human judgement, impulses, whims and prejudices as evidenced in interpretation of data, deductions and conclusions drawn from analysis. ‘Subjectivity’ is inevitable in ‘deriving the meaning of data’. Deductions cannot be scientific with precision. Personal

judgement of Management accountant may influence the interpretations and deductions significantly. From this point of view, Management Accounting may be regarded as an Art.

We may conclude by saying that like all other social sciences, Management Accounting is partly a Science and Partly an Art.

Characteristics of Management Accounting

The following are the main characteristics of management accounting:

(1) Providing Financial Information:

The main emphasis of management accounting is to provide financial information to management. The information is provided in a manner suitable to various levels of management for reviewing policies and decision making.

(2) Cause and Effect Analysis:

Financial accounting confines itself to presentation of P&L account and Balance Sheet. Management accounting analyses the cause and effect of the facts and figures thereon. If there is loss causes for the losses are investigated. If there is profit the variable affecting the profit are also analyzed. The amount of profit is compared with expenditure, sales, capital employed, etc., to draw appropriate conclusions relating to the effect of those items on profit.

(3) Use of Special Techniques and Concepts:

Management accounting employs special techniques like standard costing, budgetary control, marginal costing, fund flow, cash flow, ratio analysis, responsibility accounting, etc. to make accounting data more useful and helpful to the management. Each of these techniques or concepts is a useful tool for specific purpose in analysis and interpretation of data, establishing control over operations, etc.

(4) Decision Making:

Main objective of management accounting is to provide relevant information-to management to take various important decisions. Historical information provides a base on which the future impact is predicted, alternatives are developed and decisions are made to select to select the most beneficial course of action.

(5) No Fixed Conventions:

Financial accounting has various established principles and rules in preparing the financial accounts. Management accounting has no such fixed rules. The tools or techniques applied by the management

accounting are same but application of these techniques varies from concern to concern and situation to situation.

Interpretation of analyzed data depends on the person using it. The conclusions derived from application of a technique depend on the intelligence and experience of the management accountant. The presentation of information depends on the requirements of the concern. Every concern has its own way of application of the techniques to suit its needs.

(6) Achievement of Objectives:

Management accounting is helpful in realizing the enterprise objectives. Based on the historical information and with adjustments for predicted future changes, objectives are laid down. Actual performance is recorded. Comparison of actual with predetermined results is made. If there are deviations of actuals from the predetermined results, corrective action is taken and predicted objectives are achieved. This becomes possible with the help of management accounting techniques of standard costing and budgetary control.

(7) Improving Efficiency:

The purpose of accounting is to provide information to increase efficiency. The efficiency of departments, and divisions can be improved by fixation of targets or goals for a specific period. The actual performance is compared with that of targets. Positive deviations are reviewed. The negative deviations are probed to ascertain the causes. The ways and means to tackle the causes are analyzed and targets are achieved. The process of fixing and achieving the targets leads to gradual improvement in overall efficiency.

Objectives of Management Accounting

1. Better Decision Making:

Assisting in better decision making is the primary objective of Management accounting. It supports the decision-making process of the management team by informing them about all affairs of business from time to time. Right decisions taken at the right time can improve the efficiency of the business. Management accounting helps in understanding the business problems in a better way using techniques from different fields like costing, statistics, economics etc. Therefore, proper understanding helps to take better decisions timely.

2. Proper Planning And Formulation Of Policies:

Management accounting helps the managers in making better plan and policies for the organization. It provides management for the financial reports containing all financial and statistical data about the organization. Information from various financial sources like cash flow statement, fund flow statement, capital budgeting, marginal and standard costing is presented in these financial reports. This all collectively helps managers in proper analysis and formulating of appropriate policies.

3. Controls Management Performance:

Managerial control is one of another important objective of management accounting. Whole organization is divided into different responsibility centres and each responsibility centre is allotted some goals to be achieved.

Management accountant monitors and evaluates the performance of these responsibility centres from time to time. He is responsible to check whether operations are going as per plans and standards. In case of any deviations he will inform management thereby helping in taking corrective measures timely.

4. Interprets Financial Information:

Management accounting interprets the financial information in a way which is well understood by management. Information collection through accounting is somehow technical and cannot be well understood easily until you have proper knowledge of accounting subject. Management accounting derives information from various financial statements and present it in form of reports which contains information in non-technical and intelligible manner. This way it management in clearly understanding the accounting information by managers.

5. Motivates Employees:

Motivation of employees is must for the achievement of organization goals timely. Management accountant sets goals and policies to be followed for each employees and department in organization. It keeps a full check on activities of employees and measures their effectiveness from time to time. In addition to measuring their performance, he also guides and supports them in improving their efficiency. These activities are undertaken in a long way continuously and thereby motivates employees to great extent towards established goals.

6. Communicates Up-To-Date Information:

Management accounting is served as the communication link between the management team and the organization. It communicates all financial facts and figures to internal management team regularly on periodic basis. All details are shared in the form of financial reports which are the outcome of management accounting and contain modified data well understood by internal stakeholders. It communicates all meaningful information to all management executives and helps them in taking right action at right time.

7. Evaluates Policies Effectiveness:

Measuring and evaluating the effectiveness of various management policies is another important role played by management accounting. It assists and lay emphasis on Management audit. Management accounting reviews the performance and effectiveness of management policies in various departments. It finds out the deviations and communicates the same to the management team. Management accounting helps in ensuring that all designed policies are efficiently implemented and followed in the organization.