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Management Accounting

Unit 1

Q: What do you understand by Management Accounting? What are the various tools and techniques of Management Accounting?

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Ans:

Management Accounting is comprised of two words 'Management' and 'Accounting'. It is the presentation of accounting information in such a way as to assist management in the creation of policy and the day-to-day operation of an undertaking. Thus, it relates to the use of accounting data collected with the help of financial accounting and cost accounting for the purpose of policy formulation, planning, control and decision-making by the management.

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A Few Definitions of Management Accounting:

Robert N. Anthony: "Management Accounting is concerned with accounting information that is useful to management."

Anglo-American Council on Productivity: "Management Accounting is the presentation of accounting information in such a way as to assist management in the creation of policy and the day-to-day operation of an undertaking."

Brown and Howard: "The essential aim of management accounting should be to assist management in decision making and control."

Broad and Carmichael: "The term 'Management Accounting' covers all those services by which the accounting department can assist top management and other departments in the formation of policy, the control of its execution and appreciation of its effectiveness."

The Institute of Cost & Works Accountants of India defines Management Accounting as "a system of collection and presentation of relevant economic information relating to an enterprise for planning, controlling and decision making."

The Institute of Chartered Accountants of India: "Such of its techniques and procedures by which accounting mainly seeks to aid the management collectively have come to be known as management accounting."

In other words, "Management Accounting is the application of professional knowledge and skill in the preparation of accounting information in such a way as to assist management in the formulation of policies and in the planning and control of the operations of the undertaking."

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Features of Management Accounting:

1. *Management Accounting is forward- looking, instead of historical;*

2. *It is model based with a degree of abstraction to support decision making generally, instead of case based;*

3. *It is designed and intended for use by managers within the organization, instead of being intended for use by shareholders, creditors, and public regulators;*

4. *It is usually confidential and used by management, instead of publicly reported;*

5. *It is computed by reference to the needs of managers, instead of by reference to general financial accounting standards.*

6. *Management accounting knowledge and experience can be obtained from varied fields and functions within an organization, such as information management, treasury, efficiency auditing, marketing, valuation, pricing, logistics, etc.*

7. *Management Accountants are seen as the "value-creators" amongst the accountants. They are much more interested in taking decisions that will affect the future of the organization.*

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TOOLS AND TECHNIQUES OF MANAGEMENT ACCOUNTING:

A number of tools and techniques are used to supply the information required by the management. The tools and techniques used in management accounting are discussed below:

1) Financial Policy and Accounting:

The role of financial policies cannot be emphasized to achieve the maximum return on the capital employed. Financial policies may relate to the determination of the amount of capital required and sources of raising funds (equity share capital, preference share capital, loans, etc.). The proportion between share capital and loans should also be decided. Financial policies also govern the determination and distribution of income, and act as a guide in the determination of the optimum level of investment in various assets.

2) Analysis of Financial Statements: The analysis of financial statements is meant to classify and present the data in such a way that it becomes useful for the management. The techniques of financial analysis include comparative financial statements, ratios, funds flow statement, trend analysis, etc.

(a) **Ratio Analysis**:
Ratio analysis is the process of identifying strengths and weaknesses of the enterprise by logically establishing the significant relationship between the items of Income Statement or Balance Sheet or both to provide a meaningful understanding of the financial performance and financial position of an enterprise and interpreting the results thereof in order to derive meaningful conclusions.

(b) **Comparative Financial Statement**:
Comparative Financial Statements may refer to –

(i) Financial Statements of an enterprise for two or more successive accounting periods, or

(ii) Financial Statements of different enterprises for the same accounting periods, or

(iii) Financial Statements of an enterprise and an industry to which the enterprise belongs, for the same accounting period.

(c) **Common Size Financial Statements**:
Common Size Financial Statements are those in which figures reported are converted into percentages to some common base such as Net Sales for Income Statement and Total Assets for Balance Sheet.

(d) **Fund Flow Statement**:
The Fund Flow Statement means statement of changes in working capital. The management accountant uses the technique

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of funds flow statement in order to analyse the changes in the financial position of a business enterprise between two dates. It tells where from the funds are coming in the business and how these are being used in the business. It helps a lot in financial analysis and control, future guidance and comparative studies.

(e) **Cash Flow Statement:**
A cash flow statement gives detailed information of cash inflows and outflows. It is an important tool of cash control because it summarises sources of cash inflows and uses of cash outflows of a firm during a particular period of time, say a month or a year. It is very useful tool for liquidity analysis of the enterprise.

*(f) **Trend Percentage**: Trend percentage analysis is a time series analysis to determine the trend of the financial data over a series of years.*

(NOTE: POINTS (a) to (f) can also be written as separate points and not as parts of analysis of financial statements)

3) Historical Cost Accounting:
The system of recording actual cost data on or after the date when it has been incurred is known as historical cost accounting. The historical cost accounting provides past data to the management relating to the cost of each job, process and department. The actual cost is compared to the standard cost and it gives an idea about the performance of the concern.

4) Budgetary Control:
It is a system which uses budgets as a tool for planning and control. The budgeted performance for each activity and function of the business is prepared in advance. The actual performance is recorded and compared with the pre-determined targets so as to find out deviations, if any. Management is able to assess the performance of each and every person in the organisation.

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5) Standard Costing:

Standard costing is an important technique for cost control purposes. In this system, standard costs are determined in advance. The actual costs are recorded and compared with standard costs. The variances, if any, are analysed and their reasons are ascertained. This helps in taking remedial action so that adverse things may not happen again.

6) Marginal Costing:

This is a method of costing which is concerned with changes in costs resulting from changes in the volume of production. Under this system, cost of product is divided into marginal (variable) and fixed cost. Marginal costing is the practice of charging all variable costs to operations, processes or products and writing off all fixed costs against profits in the period in which they arise. Marginal costing is helpful for measurement of profitability of different lines of production, different departments and divisions of an enterprise.

7) Decision Making:

Decision making involves a choice from various alternatives. There may be decisions about capital expenditure, whether to make or buy, what price to be charged, expansion or diversification, etc. Management accounting helps to calculate financial implications of each alternative course of action and enables management to select the best course of action.

8) Revaluation Accounting:

This is also known as Replacement Accounting. The management accountant through this technique assures the maintenance and preservation of the capital of the enterprise. It brings into account the impact of changes in the prices on the preparation of the financial statements. *The term 'Revaluation Accounting' is used to denote the methods employed for overcoming the problems connected with fixed asset replacement in a period of rising prices.*

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9) Control Accounting:

In control accounting, control devices like internal check, internal audit, statutory audit, standard costing, budgetary control, etc., are used for control purposes. It is not a separate accounting system. It only uses the control devices of different systems.

10) Statistical and Graphical Techniques:

The management accountant uses various statistical and graphical techniques in order to make the information more meaningful and present the same in such form so that it may help the management in decision-making. The techniques used are Master Chart, Chart of Sales and Earnings, Investment Chart, Linear Programming, Statistical Quality Control, etc.

11) Communicating (or Reporting):

The success or failure of the management is dependent on the fact, whether requisite information is provided to the management in right form at the right time so as to enable them to carry out the functions of planning, controlling and decision-making effectively. The management accountant will prepare the necessary reports for providing information to the different levels of management by proper selection of data to be presented, organisation of data and selecting the appropriate method of reporting.

12) Management Information Systems:

With the development of electronic devices for recording and classifying data, reporting to management has considerably improved. Feedback of information and responsive actions can be used as control techniques.

13) Differential Costing:

Differential costing is a technique of decision-making in which differential costs of various alternatives are compared with the differential revenues for the purposes of choosing between competing alternatives. So long as the incremental revenues exceed incremental costs, the decision should be in favour of the proposal.

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Q: What are the various functions of Management Accounting (or Management Accountant)? *(www.prepnext.com)*

Ans:

Management accounting is assigned the functions of classifying, presentation and interpreting data in such a way that it helps management in controlling and running the enterprise in an efficient and economical manner. Some of the functions of management accounting are given as follows:

1) Planning and Forecasting:

One of the important functions of the management accounting is to help management in planning for short-term and long-term periods and also in making forecasts for the future. For doing this, the management accountants use various techniques such as budgeting, standard costing, marginal costing, fund flow statements, probability and trend ratios, etc. These techniques are useful in planning various activities. So management accounting tools are useful in planning and forecasting.

2) Organising:

The management accountant helps the management in organising the human and non-human resources of the business by analysing different functions and assigning specific responsibilities. He tries to organise the accounting and finance function of the business on the modern lines.

3) Controlling Performance:

The management accountant helps in controlling the performance of the organisation by using various tools and techniques such as standard costing, budgetary control, capital budgeting, cash and funds flow statements, etc.

4) Modification of Data

Management accounting helps in modifying accounting data in such a way that it becomes useful for the management. For example, if sales data is required, it can be classified according to product, area,

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season-wise, type of customers and time taken for getting payments, etc. The modification of data in similar groups makes the data more understandable and useful.

5) Financial Analysis and Interpretation

Financial data is generally collected and presented in a technical way. Top managerial executives may lack technical knowledge. Management accountant analyses and interprets financial data in a simple way and presents it in a non-technical language, so that it becomes easy for the management to take a decision.

6) Facilitates Managerial Control:

Management accounting is very useful in controlling performance. The standards of various departments and individuals are set-up. The actual performance is recorded and deviations are calculated. This is possible through standard costing and budgetary control which are an integral part of management accounting.

7) Communication:

Management accounting establishes communication within the organisation and with the outside world. The management accountant prepares reports for the benefit of different levels of management and employees. The activities of the concern are also communicated to outside world through published accounts and returns.

8) Use of Qualitative Information:

The field of management accounting is not restricted to the use of monetary data only. It collects and uses qualitative information also. The use of qualitative information is as helpful as monetary information. Management can assess various aspects of a plan before finalising it.

9) Coordinating:

Management accountant acts as a coordinator among different departments through budgeting and financial reports. The targets and performances of different departments are communicated to

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them from time to time. It helps to increase the efficiency of various sections thereby increasing profitability of the concern.

10) Helpful in taking Strategic Decisions:
Management accounting helps in taking strategic decisions. It supplies analytical information regarding various alternatives and the choice of management is made easy. These decisions may be regarding seasonal or temporary stoppage of production, replacement decisions, expansion or diversification of works, etc.

11) Supplying Information to Various Levels of Management
Every management level needs accounting information for decision making and policy execution. Management accountant feeds information to different levels of management so that further decisions are taken. The supply of adequate information at the proper time will increase efficiency of the management.

12) Special Studies:
The management accountant tries to maximise the profits of the concern by conducting various cost and economic studies on regular basis. He tries to determine the needs of long-term and short-term capital, recommend appropriate capitalisation for the enterprise, evaluation of alternative capital expenditure proposals and their impact on the return and profits of the concern.

13) Protection of Business Assets:
The management accountant will be responsible for the protection of business assets. He is to see that sufficient funds are available for repairs, maintenance and replacement of fixed assets so that production capacity of the enterprise may not be badly affected. He is also to see that business assets are properly insured.

14) Tax Management:
The management accountant is responsible for tax policies and procedures. He will make available the reports required by various authorities. He will make proper provision for taxation and he is to ensure that taxes are paid in time as required by the Income Tax Act so to avoid penal interest payment on delayed payment of tax.

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Q: What are the various limitations of Management Accounting?

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Ans:

LIMITATIONS OF MANAGEMENT ACCOUNTING:

Though management accounting is helpful in providing guidelines for planning, directing and controlling functions, still its effectiveness is limited by a number of reasons. Limitations of management accounting are explained as follows:

1) Based on Past Records:

Management accounting is based on past records supplied by financial and cost accounting. The correctness and effectiveness of managerial decisions will depend upon the quality and accuracy of records on which decisions are based. If these data are not reliable then management accounting will not provide correct analysis.

2) Lack of Knowledge:

The use of management accounting requires the knowledge of a number of related subjects. Management accountant should have knowledge of various fields like accounting, statistics, economics, taxation, production, engineering, principles of management, etc.. Deficiency in knowledge of any of these subjects limits the use of management accounting.

3) Intuitive Decisions:

Management accounting provides scientific analysis of various situations and enables decision taking based on facts and figures. However, management has a tendency to take decisions intuitively because of simplicity and personal factors. Intuitive decisions limit the usefulness of management accounting.

4) Not an Alternative to Administration:

The tools and techniques of management accounting provide only information and not decisions. Decisions are to be taken by the management and their implementation is also done by management. So management accounting has no final say either in taking decisions or in their implementation.

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5) Top Heavy Structure:

The installation of a management accounting system needs an elaborate organisational system. A large number of rules and regulations are also required to make this system workable and effective.

6) Not Affordable for Small Organisations *(Costly):*

Introduction of management accounting system is a costly affair and can be used by big concern only. Smaller units cannot afford to use this system because of heavy cost.

7) Evolutionary Stage *(Not in final stage):*

Management accounting is only in a developmental stage. It has not yet reached a final stage. The techniques and tools used by this system give varying and differing results. It will take some time before management accounting takes a final shape.

8) **Personal Bias** *(Lack of Objectivity):*

The interpretation of financial information depends upon the capability of interpreter as one has to make a personal judgement. There is every likelihood of personal bias and prejudices in analysis and interpretation.

9) Psychological Resistance:

The installation of management accounting requires a lot of changes in organisational structure, rules and regulations. These changes may affect a number of personnel and hence there is a possibility of resistance from some quarters or the other.

10) Unquantifiable Variables:

There are various problems in business which cannot be expressed in monetary terms. Such problems cannot be interpreted for the future.

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Q: Explain the objectives/ Importance/ Role of Management Accounting. *(www.prepnext.com)*

Ans:

OBJECTIVES OF MANAGEMENT ACCOUNTING

The primary objective of management accounting is to enable management to maximise profits or minimize losses. This is done through the presentation of statements in such a way that management is able to take correct policy decisions. The following are the important objectives of management accounting.

1) Planning and Policy Formulation:

The object of management accounting is to supply necessary data to the management for formulating plans. Management accountant prepares statements of past results and gives estimation for the future. The figures supplied and opinion given by the management accountant helps management in planning and policy formulation.

2) Helps in Controlling Performance:

Management accounting is a useful device of managerial control. It helps management in discharging its control function successfully through devices like budgetary control and standard costing. The actual results are compared with the budgeted performance. The management is able to find out the deviations and take necessary corrective measures. This helps the management in controlling.

3) Helps in Organising:

Organisation is related to the establishment of relationship among different individuals in the concern. It also includes the delegation of authority and fixing of responsibility. Management accounting is connected with the establishment of cost centres, preparation of budgets, preparation of cost control accounts and fixing of responsibility for different functions. All these aspects are helpful in setting up an effective and efficient organisational framework.

4) Helps in Interpreting Financial Information:

Financial information is of a technical nature and managerial personnel may not be able to understand the significance and utility

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of various financial statements. Main object of management accounting is to present financial information to the management in such a way that it is easily understood. If necessary, management accountant uses statistical devices like charts, diagrams, index numbers, etc. so that the information is easily followed.

5) Helps in Motivating Employees:

Management accounting helps the management in setting targets for the employees. The actual performance is then measured and compared with the targets. The employees feel motivated in achieving their targets and further incentives may be given for improving their performance.

6) Helps in Making Decisions:

The management has to take certain important decisions. For example, whether to replace labour by machinery, whether to reduce selling price or not, whether to export the item or not, and so on. For such decisions, management accountant prepares a report on the feasibility of various alternatives and makes an assessment of their financial implications. The information provided by the management accountant helps management in selecting a suitable alternative and taking corrective decisions.

7) Reporting to Management:

Management needs information for taking decisions and for evaluating performance of the business. One of the primary objectives of management accounting is to keep the management fully informed about the latest position of the concern. The management is kept informed through regular financial and other reports. The performance of various departments is also regularly communicated to the top management. This helps management in taking proper and timely decisions.

8) Helps in Co-ordination:

Management accounting is a useful tool in coordinating the various operations of the business. This is achieved by preparing functional budgets in the first instance and then coordinating the whole

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activities of the concern by integrating all functional budgets into one known as master budget.

9) Helps in Tax Administration:

Management accounting helps in assessing various tax liabilities and depositing correct amount of taxes with the concerned authorities. Various tax returns are to be filed under different tax laws. Tax administration is carried on with the advice and guidance of the management accountant.

10) Helps in Evaluating the Efficiency and Effectiveness of Policies:

Management accounting also lays emphasis on management audit which means evaluating the efficiency and effectiveness of management policies. Management policies are reviewed from time to time to make an improvement in them so that maximum efficiency may be achieved.

NEED AND IMPORTANCE OF MANAGEMENT ACCOUNTING

In the present complex industrial world, management accounting has become an integral part of management. The following are the advantages of management accounting:

1) Achieving of Objectives:

In management accounting, the accounting information is used in such a way that it helps in achieving organisational objectives. Historical data is used for setting objectives. Actual performance is then recorded and compared with targeted figures. In case of deviations between the standards set and actual performance, corrective measures can be taken.

2) Increases Efficiency:

Management Accounting increases efficiency of business operations. Setting up of goals and performance appraisal make the staff cost-conscious as well as enable the management to pin point efficient and inefficient spots. Corrective measures can then be taken to improve efficiency.

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3) Proper Planning:

Management is able to plan various operations with the help of management accounting. The technique of budgeting is helpful in forecasting various activities. The work load of each and every individual is fixed in advance. The activities of the concern are planned in a systematic manner.

4) Measurements of Performance:

The systems of budgetary control and standard costing enable the measurement of performance. In standard costing, actual cost is compared with pre-determined standards. It enables the management to find out deviations between standard cost and actual cost. Budgetary control system too helps in measuring efficiency of all employees.

5) Maximising Profitability:

The thrust of various management techniques is to control cost of production and increase efficiency of each and every individual in the organisation. Thus, the profits of the enterprise are maximised with the help of management accounting system.

6) Improves Service to Customers:

The cost control devices employed in management accounting enable the reduction of prices. The quality of products becomes good because quality standards are pre-determined. The customers are supplied good quality goods at reasonable prices.

7) Effective Management Control:

The tools and techniques of management accounting are helpful to the management in planning, coordinating and controlling activities of the concern. The setting of standard and assessing actual performance regularly enables the management to have "management by exception". Immediate actions are taken in case of deviations in performance.

(May also include points from "*Objectives of Management Accounting*" given above)

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Q: Explain the nature and scope of Management Accounting.

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Ans:

Characteristics OR Nature of Management Accounting:

The following are the main characteristics of management accounting.

1) Technique of Selective Nature:

Management accounting is a technique of selective nature. It takes into consideration only that data from the income statement and position statement which is relevant and useful to the management. Only that information is communicated to the management which is useful for taking decisions on various aspects of the business.

2) Provides Information and not the Decisions:

The management accountant is only to guide and not to supply decisions. He supplies information to the management in the manner in which it is required by the management. The decisions are taken by the management.

3) Concerned with Future:

Management accounting deals with the forecast for the future. It helps in planning the future because decisions are always taken for the future course of action.

4) Cause and Effect Analysis:

Management accounting helps in analysing the 'cause and effect' relationship. It analyses the reasons as to why the profit or loss is more or less as compared to the past period. If there is a loss, the reasons for the loss are probed. If there is a profit, the factors directly influencing the profitability are also studied.

5) No Set Formats for Information:

Management accounting will not provide information in a prescribed proforma like that of financial accounting. It provides the information to the management in the form which may be more useful to the management in taking various decisions on the various aspects of the business.

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6) Providing Accounting Information:
Management accounting is based on accounting information. It involves the presentation of information to different levels of management in a way it suits managerial needs.

7) Use of Special Techniques and Concepts:
Management accounting uses special techniques and concepts to make accounting data more useful. The techniques usually used include financial planning and analysis, standard costing, budgetary control, marginal costing, project appraisal, control accounting, etc.

8) Directed towards Achievement of Objectives:
In management accounting, the accounting information is used in such a way that it helps in achieving organisational objectives. Historical data is used for setting objectives. Actual performance is then recorded and compared with targeted figures. In case of deviations between the standards set and actual performance, corrective measures can be taken.

9) No Fixed Norms Followed:
No specific rules are followed in management accounting. The analysis of data depends upon the person using it. Every concern uses the figures in its own way. The presentation of figures will be in the way which suits the concern most. Every concern has its own rules and by-rules for analysing the data.

10) Concerned with Forecasting:
The management accounting is concerned with the future. It helps the management in planning and forecasting. The historical information is used to plan future course of action.

SCOPE OF MANAGEMENT ACCOUNTING:

The scope of management accounting is very wide and broad-based. Following fields of activities are included in the scope of this subject:

1) Financial Accounting:
Financial accounting though provides historical information but is very useful for future planning and financial forecasting. Designing

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of a proper financial accounting system is a must for obtaining full control and co-ordination of operations of the business. So management accounting is closely related to financial accounting.

2) Cost Accounting:

Cost accounting provides various techniques for determining cost of manufacturing products or cost of providing services. The systems of standard costing, marginal costing, differential costing and opportunity costing are all helpful to the management for planning and controlling various business activities. Cost accounting also helps in finding out economical and non-economical fields of production. So cost accounting is an essential part of management accounting.

3) Financial Management:

Financial management is concerned with the planning and controlling of the financial resources of the firm. Finance has become so much important for every business undertaking that all managerial activities are connected with it. Although, financial management has emerged as a separate subject, management accounting includes and extends to the operation of financial management also.

4) Budgeting and Forecasting:

Forecasting is a prediction of what will happen as a result of a given set of circumstances. Forecasting on the various aspects of the business is necessary for budgeting. Budgetary control helps in controlling the activities of the business through the operations of budget by comparing the actual with the budgeted figures, finding out the deviations, analysing the deviations in order to pinpoint the responsibility and take remedial action so that adverse things may not happen in future. Both budgeting and forecasting are useful for management accountant.

5) Inventory Control:

The control of inventory helps in controlling costs of products. Management will need effective inventory control for controlling stocks. Management accounting guides management in deciding as to when and from where to purchase and how much to purchase. It helps the management in determining different levels of stocks i.e.,

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minimum level, maximum level, re-ordering level for inventory control. So the study of inventory control is helpful for taking managerial decisions.

6) Reporting :

The management accountant is required to submit reports to the management on the various aspects of the undertaking. He presents the reports in the form of graphs, diagrams, index numbers or other statistical techniques so as to make them easily understandable. The reports may cover profit and loss statement, cash and fund flow statements, stock reports, absentee reports and reports on order in hand, etc. These reports are helpful in giving a constant review of the working of the business.

7) Interpretation of Data:

The management accountant interprets various financial statements to the management. The significance of various reports and statements is explained to the management in a simple language. If the statements are not properly interpreted then wrong conclusions may be drawn. So interpretation is as important as compiling of financial statements.

8) Control Procedures and Methods:

Control procedures are integral part of the management accounting process and include inventory control, material cost control, labour control, budgetary control, variance analysis, etc. Control procedures and methods are needed to use various economic resources efficiently and economically.

9) Internal Audit:

Internal audit helps management in fixing responsibility of different individuals. The actual performance of every department and individual is compared with the pre-determined standards. Management is able to know the deviations in performance.

10) Tax Management:

Tax accounting is an important parts of management accounting. Management accountant is concerned with tax accounting, tax

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planning, determination of taxable income, payment of advance tax, TDS, prompt filing of tax returns, etc.

11) Office Services:

Management accountant may be required to control an office. He will be expected to deal with data processing, filing, copying, duplicating, communicating, etc.

12) Performance Appraisal of the Management:

Management accounting provides methods and techniques for evaluating the performance of the management. It evaluates the performance of the management in the light of the objectives of the organisation.

Q: Distinguish between Financial Accounting and Management Accounting. *(www.prepnext.com)*

Ans:

Financial accounting is concerned with the recording of day-to-day transactions of the business. These transactions are classified according to their nature. These transactions enable the concern to find out profit and loss for a particular period and financial position of the concern is also judged on a particular date through profit and loss account and balance sheet respectively. On the other hand, management accounting uses financial accounts and taps other sources of information too. The accounts are used in such a way that they are helpful to the management in planning and forecasting various policies.

There are certain points of distinction between financial accounting and management accounting. The main points of distinction are discussed below:

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Basis	*Financial Accounting*	*Management Accounting*
Objective	The objective of financial accounting is to record various transactions with the purpose of maintaining accounts and to know the financial position and to find out profit/ loss at the end of the financial year.	The objective of Management accounting is to help management in formulating policies and plans.
Nature	Financial accounting is mainly concerned with the historical data. It records only those transactions which have already taken place. It is **objective** in nature	Management accounting deals with projection of data for the future, making use of historical data. It is **subjective** in nature
Subject-matter	Financial accounting is concerned with assessing the results of the whole business. It reports financial transactions for the whole of the business.	Management accounting deals separately with different units, departments and cost centres. It focuses on small parts of the organisation such as the cost and profitability of products, customers, activities, divisions, etc.
Compulsion *(Legal Requirements)*	The preparation of financial accounts is compulsory.	Management accounting is optional. The management is free to use or not to use management accounting.
Procedure	Under certain laws a particular procedure is to be followed for preparing financial accounts.	There are no such procedures in management accounting. It is the suitability of the management which is important while using management accounting.
Precision	In financial accounting more emphasis is given on the precision. Only actual figures are recorded and there is no room for approximate figures.	In management accounting less emphasis is given on precision, i.e, even approximate figures are used. Approximate figures presented in time are more valuable than presenting exact figures late.

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Users	Financial accounts are prepared not only for the benefit of the concern but also for outsiders like bankers, investors, shareholders, Government agencies, etc.	Management accounting reports are meant for internal use only, and are prepared for the benefit of different levels of management.
Period	Financial accounts are prepared for a particular period. Profit and Loss Account is generally prepared for one year. Balance Sheet is prepared on a particular date.	Management accountant supplies information from time to time during the whole year. There are no specific periods for which management accounts are prepared. It may be prepared on weekly, fortnightly and monthly basis.
Description	Only those transactions are recorded in financial accounting which can be measured in monetary terms.	In management accounting certain non-monetary events like competition, technical changes, changes in the value of money, quantities of material consumed, number of workers, etc. are also dealt.
Frequency of Report	Reporting of financial accounting is slow and time consuming. Profit and loss account and balance sheet are prepared at the end of the financial year.	Management is fed with reports at regular intervals. It presents daily, weekly, monthly, quarterly, half yearly reports as per the needs of management.
Accounting Principles	Financial accounts are prepared on the basis of Generally Accepted Accounting Principles.	No set principles are followed in management accounting.
Monetary/ Non-monetary Information	It presents only monetary information.	It presents both monetary and non-monetary information.

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Publication	Financial accounts like profit and loss account and balance sheet are published for the general use of the public, because there is a statutory requirement for public limited companies to publish annual financial accounts for the public.	Management accounting statements are prepared for the benefit of the management only and these are not published.
Audit	There is a statutory requirement for the companies to get its financial accounts audited.	Management accounting cannot be audited. They are not based on actual figures and projected data are also used in management accounting. So, it is not possible to get management accounts audited.
Mode of presentation	There is a **set format** and the mode of presenting financial information.	Management accounting is used for taking policy decisions. So, form and method of presenting figures differs from concern to concern. The requirement and expediency of the situation determines the mode of presentation of information.
Information	It presents only historical information	It presents both historical and projected information for future decision-making.
Emphasis – *Reporting/ Control*	Its emphasis is on reporting and not on control.	Its emphasis is on planning, controlling and decision making.
General Vs. Special Purpose Reports	It generates general purpose reports like Income Statement, Balance Sheet, Cash Flow Statement.	It generates special purpose reports e.g. Performance Report of Sales Manager, Production Manager etc.
Use of other Disciplines	It does not make use of other disciplines	It makes use of other disciplines like Statistics, Operation Research.

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Conclusion:

It is clear from the above discussion that financial accounts are based on historical data and only actual facts and figures are recorded. Management accounting too uses historical data but the purpose is to use it for planning and forecasting. Both financial and management accounting are complementary and are necessary in running the concern efficiently.

Q: Distinguish between Cost Accounting and Management Accounting *www.prepnext.com)*

Ans:

Basis	***Cost Accounting***	***Management Accounting***
Objective	The objective is to ascertain cost, to analyse cost and to control cost.	The purpose of management accounting is to provide information to the management for planning and coordinating the activities of the business.
Scope	Cost accounting deals primarily with cost ascertainment.	The scope of management accounting is very wide. It includes financial accounting, cost accounting, budgeting, tax planning, reporting to management and interpretation of financial data.
Historical/ Projected Information	Cost accounting uses past and present figures.	Management accounting presents both historical and projected information for future decision-making.
Data Used	Only quantitative aspect is recorded in cost accounting.	Management accounting uses both quantitative and qualitative information.

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Development & Evolution	The development of cost accounting is related to industrial revolutions. Financial accounting could not satisfy information needs of management. Cost accounting was thus evolved as a supplementary accounting method.	Management accounting has developed only in the last thirty years.
Principles Followed	Certain principles and procedures are followed for recording costs of different products.	No specific rules and procedures are followed in reporting management accounting. The information is prepared and presented as is required by the management.
Base	It provides a base for management accounting	It is derived from both cost accounting and financial accounting.
Status	The status of cost accountant comes after the management accountant	Management accountant is senior in position to cost accountant.
Outlook	Cost accountant has a narrow approach. He is mainly concerned with analysing cost effects.	Management accountant has a broader approach. He reports the effect of cost on the business along with cost analysis.
Tools & Techniques	It has standard costing, variable costing, break even analysis, etc. as the basic tools and techniques.	Along with tools and techniques of cost accounting, the management accountant has funds and cash flow statements, ratio analysis etc. as his accounting tools and techniques.
Period of Planning	It is concerned with short-term planning	It is concerned with short range and long range planning. Its special field is evaluation of capital investment projects.

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Role	It merely assists the management in its functions.	It assists and evaluates the managerial performance.
Approach	It is historical in approach	It is futuristic in its approach
Installation	It can be installed without management accounting.	It needs financial and cost accounting as its base for its installation.
Emphasis	Its emphasis is on control of material cost, labour cost and overheads.	Its emphasis is on planning, controlling and decision-making.
Legal Requirement	It is compulsory in case of manufacturing industries as per the Companies Act, 1956.	It is optional
Use of Techniques	It does not use techniques for analysis of financial statements.	It makes use of financial accounting techniques such as Ratio Analysis, Cash Flow Statement etc.

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