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COST AND MANAGEMENT ACCOUNTING

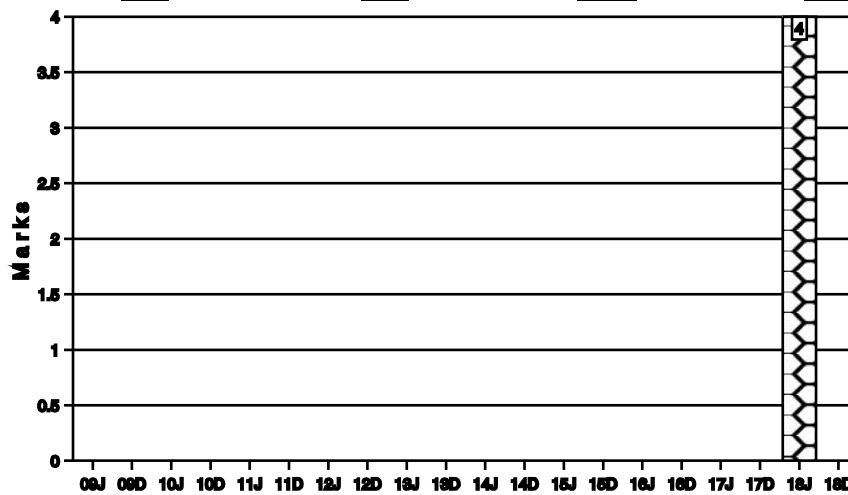
THIS CHAPTER INCLUDES

- Introduction
- Management Accounting - Definition
- Significance of Management Accounting
- Role of Management Accounting in Management Process
- Objective/Functions of Management Accounting
- Limitations of Management Accounting
- Relationship between Management Accounting and Cost Accounting

Marks of objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

 Objective  Short Notes  Distinguish  Descriptive  Practical



EXAMINATIONS
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CHAPTER AT A GLANCE

Topic	Important Highlights
Financial Accounting	Financial Accounting is concerned with the preparation of Profit and Loss Account and Balance Sheet to disclose information to the shareholders.
Management Accounting	<p>Management Accounting provides the techniques for interpretation of accounting data.</p> <p>“Management Accounting is an integral part of management concerned with identifying, presenting and interpreting information for:</p> <ol style="list-style-type: none"> 1. Formulating strategy 2. Planning and controlling activities 3. Decision taking 4. Optimizing the use of resources 5. Disclosure to shareholders and others, external to the entity 6. Disclosure to employees 7. Safeguarding assets
Significance of management accounting	<ol style="list-style-type: none"> 1. Delegation of Authority 2. Need of the Management 3. Qualitative Information 4. Objective of the Business
Role of management accounting in management process	<p>The role of Management Accounting is significant in making the firm both efficient and effective.</p> <p>It is well known the basic functions of management are:</p> <ol style="list-style-type: none"> 1. Planning, 2. Organising, 3. Controlling, 4. Decision-making and 5. Staffing

Functions of management accounting	<ol style="list-style-type: none"> 1. Storehouse of Reliable Data 2. Modification and Presentation of Data 3. Communication and Coordination 4. Financial Analysis and Interpretation 5. Control 6. Supplying Information to Various Levels of Management 7. Reporting to Management
Limitations of management accounting	<ol style="list-style-type: none"> 1. Accuracy is not Ensured 2. A Tool in the Hands of Management 3. Strength and Weakness 4. Costly Affair 5. Lack of Knowledge and Understanding 6. Evolutionary Stage 7. Psychological Resistance
Relationship between Management Accounting and Cost Accounting	<p>The scope of Management Accounting is broader than the scope of Cost Accountancy. In Cost Accounting, primary emphasis is on cost and it deals with its collection, analysis, relevance interpretation and presentation for various problems of management. Management Accountancy utilizes the principles and practices of Financial Accounting and Cost Accounting in addition to other management techniques for efficient operations of a company.</p> <p>Management Accountancy makes corporate planning and strategy effective.</p> <p>Cost Accounting and Management Accounting are interdependent, greatly related and inseparable.</p>

2018 - June [5] Write short note on the following.

(a) Concept of Management Accounting.

(4 marks)

Answer:

Management Accountants (also called managerial accountants) look at the events that happen in and around a business while considering the needs of the business. From this, data and estimates emerge. Cost accounting is the process of translating these estimates and data into knowledge that will ultimately be used to guide decision-making.

The main difference between financial and **managerial accounting** is whether there is an internal or external focus. **Financial accounting** focuses on creating and evaluating financial statements that will be reported externally, like creditors and investors. In contrast, managerial accounting analyses and results are kept in-house for business leaders to use to drive decision-making and run the company more effectively. Managerial accountants handle many facets of accounting. These include margins, constraints, capital budgeting, trends and forecasting, valuation and product costing.

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TOPIC NOT YET ASKED BUT EQUALLY IMPORTANT FOR EXAMINATION

DESCRIPTIVE QUESTIONS

Q1. What is Management Accounting? Discuss the Significance of Management Accounting.

Answer:

“Management Accounting is concerned with the efficient management of a business through the presentation to management of such information that will facilitate efficient planning and control”. — Brown and Howard

Management Accounting is an integral part of management concerned with identifying, presenting and interpreting information for:

1. Formulating strategy
2. Planning and controlling activities

3. Decision taking
4. Optimizing the use of resources
5. Disclosure to shareholders and others, external to the entity
6. Disclosure to employees
7. Safeguarding assets

The various advantages that accrue out of management accounting are enumerated below:

- (1) **Delegation of Authority:** Now a day the function of management is no longer personal, management accounting helps the organisation in proper delegation of authority for the attainment of the vision and mission of the business.
- (2) **Need of the Management:** Management Accounting plays the role in meeting the need of the management.
- (3) **Qualitative Information:** Management Accounting accumulates the qualitative information so that management would concentrate on the actual issue to deliberate and attain the specific conclusion even for the complex problem.
- (4) **Objective of the Business:** Management Accounting provides measure and reports to the management thereby facilitating in attainment of the objective of the business.

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Q2. Discuss the role of Management Accounting in Management process.

Answer:

The role of Management Accounting is significant in making the firm both efficient and effective. Management Accounting has brought out clear shift in the objective of accounting. From mere recording of transactions, the emphasis is on analyzing and interpreting to help the management to secure better results. In this way, Management Accounting eliminates intuition, which is not at all dependable, from the field of business management to the cause and effect approach.

Management accounting plays a vital role in the managerial functions performed by the managers.

1. **Planning:** Planning is the real beginning of any activity. Planning establishes the objectives of the firm and decides the course of action to achieve it. It is concerned with formulating short-term and long-term

plans to achieve a particular end.

While planning, management accountant uses various techniques such as budgeting, standard costing, marginal costing etc. for fixing targets.

2. **Organising:** Organising is a process of establishing the organizational framework and assigning responsibility to people working in the organization for achieving business goals and objectives.
The management accountant may prepare reports on product lines, based on which managers can decide whether to add or eliminate a product line in the current product mix.
3. **Controlling:** Control is the process of monitoring, measuring, evaluating and correcting actual results to ensure that a firm's goals and plans are achieved. Control is achieved through the process of feedback. Feedback allows the managers to allow the operations continue as they are or take corrective action, by some rearranging or correcting at midstream.
4. **Decision-making:** Decision-making is a process of choosing among competing alternatives. Decision-making is inherent in all the above three functions of management planning, organizing and controlling. There may be different methods or objectives. The manager can plan or choose only one of the competing plans.
5. **Staffing:** Staffing is the process of recruitment, selection, development, training, compensation and overseeing employee in an organisation. The role of the management accounting in this regard is manning the entity structure through proper and effective selection, appraisal, and development of the personnel to fill the role assigned to the employer.

Q3. State the functions of Management Accounting.

Answer:

The primary objective of Management Accounting is to maximize profits or minimize losses. This is done through the presentation of statements in such a way that the management is able to take corrective policy or decision. The manner in which the Management Accountant satisfies the various needs of

management is described as follows:

1. **Storehouse of Reliable Data:** Management wants reliable data for Planning, Forecasting and Decision-making. Management accounting collects the data from various sources and stores the information for appropriate use, as and when needed. Though the main source of data is financial statements, Management Accounting is not restricted to the use of monetary data only.
2. **Modification and Presentation of Data:** Data collected from financial statements and other sources is not readily understandable to the management. The data is modified and presented to the management in such a way that it is useful to the management.
3. **Communication and Coordination:** Targets are communicated to the different departments for their achievement. Coordination among the different departments is essential for the success of the organisation.
4. **Financial Analysis and Interpretation:** Management accounting helps in strategic decision making. Top managerial executives may lack technical knowledge. Accountant gives facts and figures about various policies and evaluates them in monetary terms.
5. **Control:** It is absolutely essential that there should be a system of monitoring the performance of all divisions and departments so that deviations from the desired path are brought to light, without delay and are corrected then and there. This process is termed as control. For the discharge of this important function, management accounting provides meaningful information in a systematic and effective manner.
6. **Supplying Information to Various Levels of Management:** Every level of management requires information for decision-making and policy execution. Top-level management takes broad policy decisions, leaving day-to-day decisions to lower management for execution. Supply of right information, at proper time, increases efficiency at all levels.
7. **Reporting to Management:** Reporting is an important function of management accounting to achieve the targets. The reports are presented in the form of graphs, diagrams and other statistical techniques so as to make them easily understandable.

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Q4. Discuss the limitation of Management Accounting.

Answer:

Despite the development of Management Accounting as an effective discipline to improve the managerial performance, some of the limitations are as under:

1. **Accuracy is not Ensured:** Management Accounting is largely based on estimates. It does not deal with actual, alone, and thus total accuracy is not ensured under Management Accounting.
2. **A Tool in the Hands of Management:** Management Accounting is definitely a tool in the hands of management, but cannot replace management.
3. **Strength and Weakness:** Management Accounting derives information from Financial Accounting, Cost Accounting and other records. The strength and weakness of these basic information providers become the strength and weakness of Management Accounting too.
4. **Costly Affair:** The installation of Management Accounting is a costly affair so all the organizations, in particular, small firms cannot afford.
5. **Lack of Knowledge and Understanding:** The emergence of Management Accounting is the fusion of a number of subjects like statistics, economics, engineering and management theory. Any inadequate grounding in any one or more of the subjects is bound to have an unfavourable effect on the consideration and solution of the problems, relating to management performance.
6. **Evolutionary Stage:** Comparatively, Management Accounting is a new discipline and is still very much in a stage of evolution. Therefore, it comes across the same difficulties or obstacles, which a relatively new discipline has to face.
7. **Psychological Resistance:** Adoption of a system of Management Accounting brings about a radical change in the established pattern of the activity of the management personnel. It calls for rearrangement of personnel as well as their activities. This is bound to encounter opposition from some quarter or other.

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