

STUDY NOTE - 1



Cost & Management Accounting

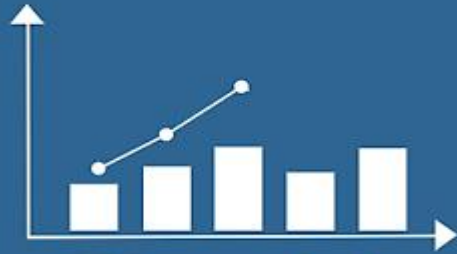
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Introduction



- Introduction;
- Management accounting – definition
- Significance of management accounting
- Role of management accounting in management process
- Objectives or functions of management accounting;
- Limitations of management accounting;
- Relationship between management accounting and cost accounting

ACCOUNTING



Financial Accounting



MANAGEMENT ACCOUNTING

To find out the profit or loss of an organization

To find out the cost and profit of a product or service

Used For decision making on the basis of data received from financial and cost accounting

Meaning of Management Accounting



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graph TD; A[Meaning of Management Accounting] --> B[Application of principles of Accounting and Financial Management]; B --> C[To create]; B --> D[Protect]; B --> E[And increase the value of stakeholders.];
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Application of principles of Accounting and Financial Management

To create

Protect

And increase the value of stakeholders.

It assist the management by providing relevant information for planning, organizing, controlling and decision making.

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

- **Formulating strategy;**
- **Planning and controlling activities;**
- **Decision making;**
- **Optimizing the use of resources;**
- **Disclosure to shareholders and others external to the entity;**
- **Disclosure to employees;**
- **Safeguarding assets;**

Management accounting is also defined as a type of accounting which measures, reports and analyze non-financial and financial information to help in decision making.



Q. Type of accounting which measures, reports and analyze non-financial and financial information to help in decision making is called:

- (A) Financial Accounting**
- (B) Management Accounting**
- (C) Cost Accounting**
- (D) Green Accounting**

Q. Write short note on concept of management accounting.

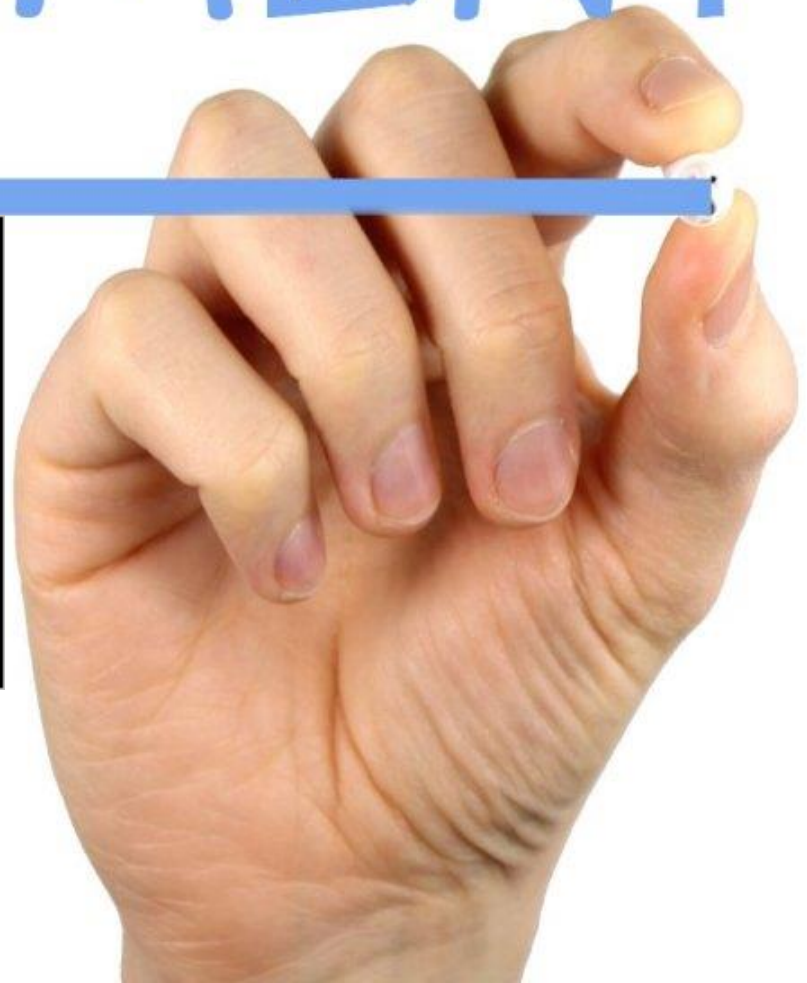
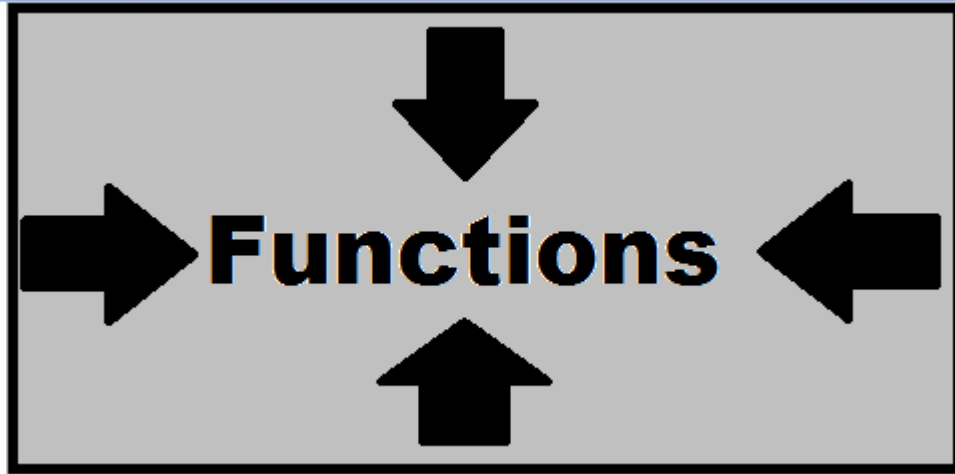
Management Accounting

Importance

Advantages

Delegation of authority	Now a day the function of management is no longer personal, management accounting helps the organization in proper delegation of authority for the attainment of the vision and mission of the business.
Need of the management	Management Accounting plays the role in meeting the need of the management.
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.
Objective of the business	Management Accounting provides measure and reports to the management thereby facilitating in attainment of the objective of the business.

MANAGEMENT



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.
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 organizational structure may not be the same in all organizations, some may have centralized, while others may be decentralized structures.
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.
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.
Staffing	Staffing is the process of recruitment, selection, development, training, compensation and overseeing employee in an organisation. Staffing, like all other managerial functions, is the duty which is vest on the management to perform.



Q. Which statement best describes the role of the management accountant?

- (A) Management accountants prepare the financial statements for an organization.**
- (B) Management accountants facilitate the decision-making process within an organization.**
- (C) Management accountants make the principal decisions within an organization.**
- (D) Management accountants are basically information collectors.**

Q. The well-known basic function of management is:

- (A) Motivating**
- (B) Leadership**
- (C) Decision-making**
- (D) Communicating**

(December 2018)

FUNCTIONS OF MANAGEMENT ACCOUNTING

Collection 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.
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.
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.
Financial analysis and interpretation	Management accounting helps in strategic decision making. He interprets the data and gives his opinion about various alternative courses of action so that it becomes easier to the management to take a decision.
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



LIMITATIONS OF MANAGEMENT ACCOUNTING

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.
A tool in the hands of management	Management Accounting is definitely a tool in the hands of management, but cannot replace management.
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.
Costly affair	The installation of Management Accounting is a costly affair so all the organizations, in particular, small firms cannot afford.
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 unfavorable effect on the consideration and solution of the problems, relating to management performance.
Emphasis	Emphasis is placed on the internal aspects of the business, such as the cost of production, the cost of sales, the cost of distribution, etc.



True/false

Management Accounting is largely based on estimates and as such total accuracy is not ensured under Management Accountancy.

COST
ACCOUNTING

vs

MANAGEMENT
ACCOUNTING



Q. State the difference between cost accounting and management accounting.

	Cost Accounting	Management Accounting
1.	It records only quantitative aspect only.	It records qualitative and quantitative aspect.
2.	Cost accounts focus attention on past and current operations.	Management accounting concentrates on future.
3.	Cost accounts are generally kept voluntarily unless prescribed by cost accounting record rules under the companies act.	Maintenance of management accounting records is purely voluntary.
4.	Cost accounting is more concerned with short term planning.	Management accounting is concerned equally with short range and long range planning.
5.	Cost accounting system can be installed without a proper management accounting system.	Management accounting cannot be installed without a proper cost accounting system.
6.	It aims at measuring the economic performance of cost centers.	It is an inclusive accounting information system which covers financial accounting, cost accounting and all aspects of financial management.