Revision management accounting

Section A

1. **Define management accounting**
   The term management accounting is applied to the provisions of accounting information, for management activities such as planning, controlling and decision making
   It is concerned with accounting information that is useful for management

2. **State any 2 uses of management accounting**
   Useful in decision making
   Flexibility is presentation of information
   Concerned with future

3. **Define fund flow statement**
   Fund flow statement shows the changes in assets, liabilities and share holders equity between two dates of balance sheet. Fund refers to net working capital, it Is the difference between current assets and current liabilities

4. **Define cash flow statement**
   Cash flow statement provides information about major cash inflows and outflows during a year, it shows the changes in cash position between beginning and end of a particular year.

5. **Define working capital**
   It is the capital of a business which is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities.
   ***Working capital* is a common measure of a company's liquidity, efficiency, and overall health. Because it includes cash, inventory, accounts receivable, accounts payable, the portion of debt due within one year, and other short-term accounts, a company's working capital reflects the results of a host of company activities, including inventory management, debt management, revenue collection, and payments to suppliers.**

6. **Name the components of current assets**
   Bills receivables
   Sundry debtors
   Cash
   Stock
   Short term investments

7. **Define ratio analysis**
   Ratio analysis is applied to financial statements to analyse the success, failure and progress of a business, it expresses the mathematical relationship between one number with another number

8. **Define debt equity ratio**
   This ratio attempts to measure the relationship between log term debts to share holders fund
   Debt equity ratio=long term debts/share holders fund

9. **Define comparative statements**
   A comparative statement is a document that compares a particular financial statement with prior period statements or with the same financial report generated by another company. Analyst and business managers use the income statement, balance sheet and cash flow statement for comparative purposes. The process reveals trends in the financials and compares one company's performance with another business.

10. **Define trend analysis**
    It is a technique of studying financial statements of a company over a number of years . under this method, a representative year is selected as base year and the values in the base year are assumed to be 100.

11. **Name the types of ratios**
    - **Liquidity ratio**
    - **Capital structure ratio**
    - **Profitability ratio**
    - **Turnover ratio**

12. **State any 2 uses of ratio analysis**
    - **It is useful in analysis of financial statements**
    - **It is useful in improving future performance**
    - **Useful In interfirm comparison**
    - **Useful in judging the efficiency of business**
    - **Useful in simplifying accounting figures**

Section B

1. **Difference between cash flow statement and fund flow statement**

Table of Difference between Funds Flow Statement and Cash Flow Statement

	Basis of Difference	Funds Flow Statement	Cash Flow Statement
1.	Basis of Analysis	Funds flow statement is based on broader concept i.e. working capital.	Cash flow statement is based on narrow concept i.e. cash, which is only one of the elements of working capital.
2.	Source	Funds flow statement tells about the various sources from where the funds generated with various uses to which they are put.	Cash flow statement stars with the opening balance of cash and reaches to the closing balance of cash by proceeding through sources and uses.
3.	Usage	Funds flow statement is more useful in assessing the long-range financial strategy.	Cash flow statement is useful in understanding the short-term phenomena affecting the liquidity of the business.
4.	Schedule of Changes in Working Capital	In funds flow statement changes in current assets and current liabilities are shown through the schedule of changes in working capital.	In cash flow statement changes in current assets and current liabilities are shown in the cash flow statement itself.
5.	End Result	Funds flow statement shows the causes of changes in net working capital.	Cash flow statement shows the causes the changes in cash.
6.	Principal of Accounting	Funds flow statement is in alignment with the accrual basis of accounting.	In cash flow statement data obtained on accrual basis are converted into cash basis.

2. **Difference between management accounting and financial accounting**

	Financial Accounting	Management Accounting
Objectives	**The main objectives of financial accounting are to disclose the end results of the business, and the financial condition of the business on a particular date.**	**The main objective of managerial accounting is to help management by providing information that is used to plan, set goals and evaluate these goals.**
Audience	**Financial accounting produces information that is used by external parties, such as shareholders and lenders.**	**Managerial accounting produces information that is used within an organization, by managers and employees.**
Optional	**It is legally required to prepare financial accounting reports and share them with investors.**	**Managerial accounting reports are not legally required.**
Segment reporting	**Pertains to the entire organization. Certain figures may be broken out for materially significant business units.**	**Pertains to individual departments in addition to the entire organization.**
Focus	**Financial accounting focuses on history; reports on the prior quarter or year.**	**Managerial accounting focuses on the present and forecasts for the future.**
Format	**Financial accounts are reported in a specific format, so that different organizations can be easily compared.**	**Format is informal and is on a per department/company basis as needed.**
Rules	**Rules in financial accounting are prescribed by standards such as GAAP or IFRS. There are legal requirements for companies to follow financial accounting standards.**	**Managerial accounting reports are only used internally within the organization; so they are not subject to the legal requirements that financial accounts are.**

Reporting frequency and duration	**Defined - annually, semi-annually, quarterly, yearly.**	**As needed - daily, weekly, monthly.**
Information	**Monetary, verifiable information.**	**Monetary and company goal driven information.**

3. **Explain the uses of ratio analysis**

1. **Useful in analysis of financial statements: it is the most important tool in analysing the financial statements i.e profit and loss account and balance sheet. It is also useful for other parties such as bankers, creditors, investors**
2. **Useful in future performance: it helps the management in overcoming the weakness and improving the overall performance of the business**
3. **Useful in inter-firm comparison: ratios helps in comparing data between two firms carrying on the same business**
4. **Useful in judging the efficiency of a business: it helps in analysing solvency, liquidity, profitability position of the business**
5. **Useful in simplifying accounting figures: complex data in profit and loss account, balance sheet can be simplified using ratios**

4. **Difference between cost accounting and management accounting**

BASIS OF COMPARISON	COST ACCOUNTING	MANAGEMENT ACCOUNTING
Meaning	**The recording, classifying and summarising of cost data of an organisation is known as cost accounting.**	**The accounting in which the both financial and non-financial information are provided to managers is known as Management Accounting.**
Information Type	**Quantitative.**	**Quantitative and Qualitative.**
Objective	**Ascertainment of cost of production.**	**Providing information to managers to set goals and forecast strategies.**
Scope	**Concerned with ascertainment, allocation,**	**Impart and effect aspect of costs.**

	distribution and accounting aspects of cost.	
Specific Procedure	**Yes**	**No**
Recording	**Records past and present data**	**It gives more stress on the analysis of future projections.**
Planning	**Short range planning**	**Short range and long range planning**
Interdependency	**Can be installed without management accounting.**	**Cannot be installed without cost accounting.**

5. **Explain the limitations of management accounting**
    - **It is based on historical data**
    - **Lack of wide knowledge**
    - **Complicated approach**
    - **It is not a substitute for management**
    - **It is a costly system**
    - **There is lack of objectivity**
    - **Resistance of staff.**