

CHAPTER 1: INTRODUCTION TO MANAGEMENT ACCOUNTING

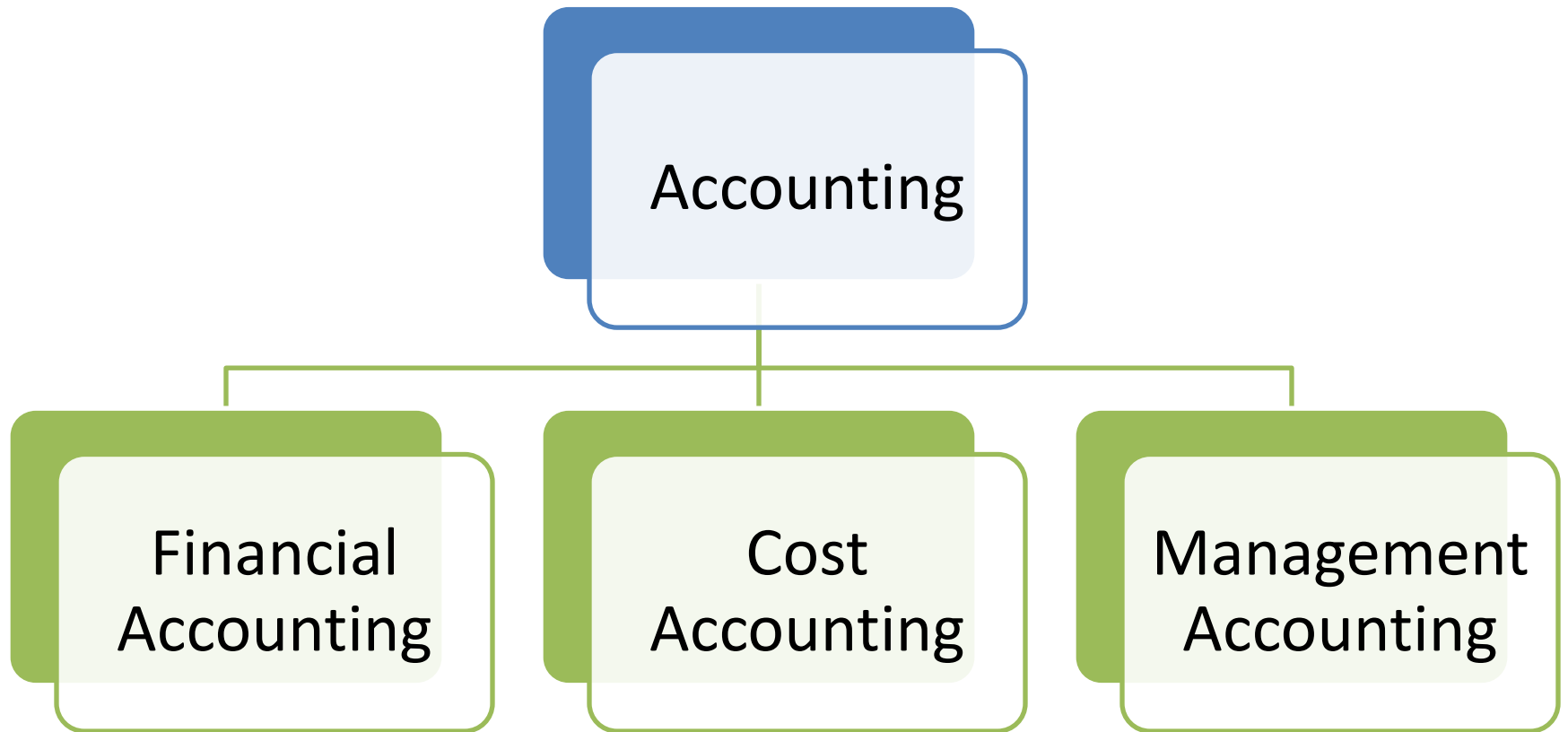
- **MEANING OF ACCOUNTING:**

Accounting is a part of information system of an enterprise , such information is provided to people who have interest in the organisation.

Such as **share holders, managers, creditors, debenture holders, bankers, tax authorities, and others**



Classification Of Accounting



- **Financial accounting**: It is mainly concerned with recording business transactions in the books of accounts for the purpose of presenting final accounts.
- The information supplied by financial accounting is summarized by:
- **profit and loss account**(showing the net profit or loss during the period) , **balance sheet**(showing the financial position of the firm at a point of time)

- The objective of financial accounting is to provide information to external parties such as share holders, creditors, potential investors, government agencies etc.

- **Management accounting:** Management accounting provides information which enables a business to be conducted more efficiently
- According to Institute Of Chartered Accountants Of India:” Management accounting is any form of accounting which enables the business to be conducted more efficiently”

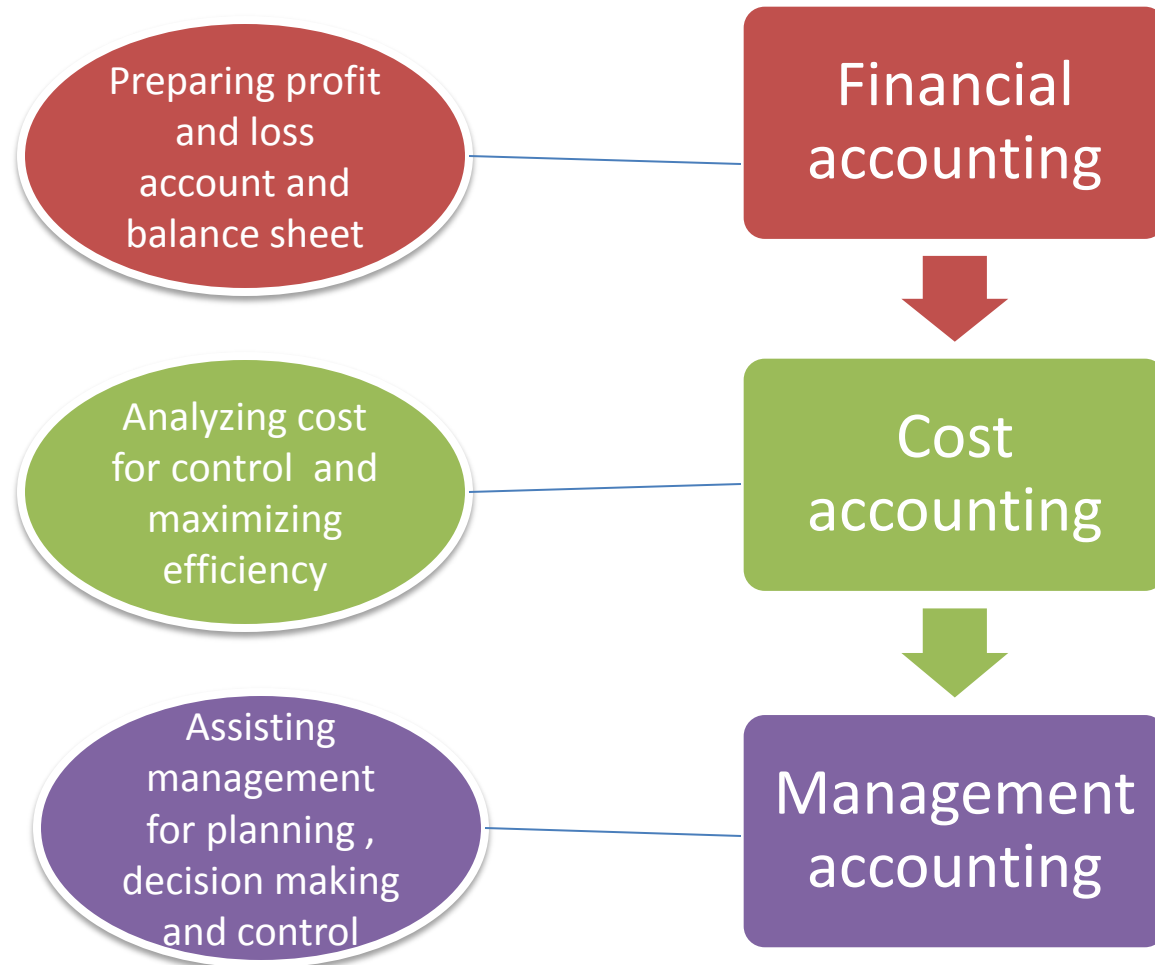
- Management accounting is an integral part of management concerned with **identifying, presenting and interpreting information used for:**
- Formulation of strategy
- Planning and controlling activities
- Decision making
- Optimising the use of resources
- Disclosure to share holders and other external entity
- Disclosure to employees
- Safeguarding assets

RELATIONSHIP OF MANAGEMENT ACCOUNTING TO COST ACCOUNTING AND FINANCIAL ACCOUNTING

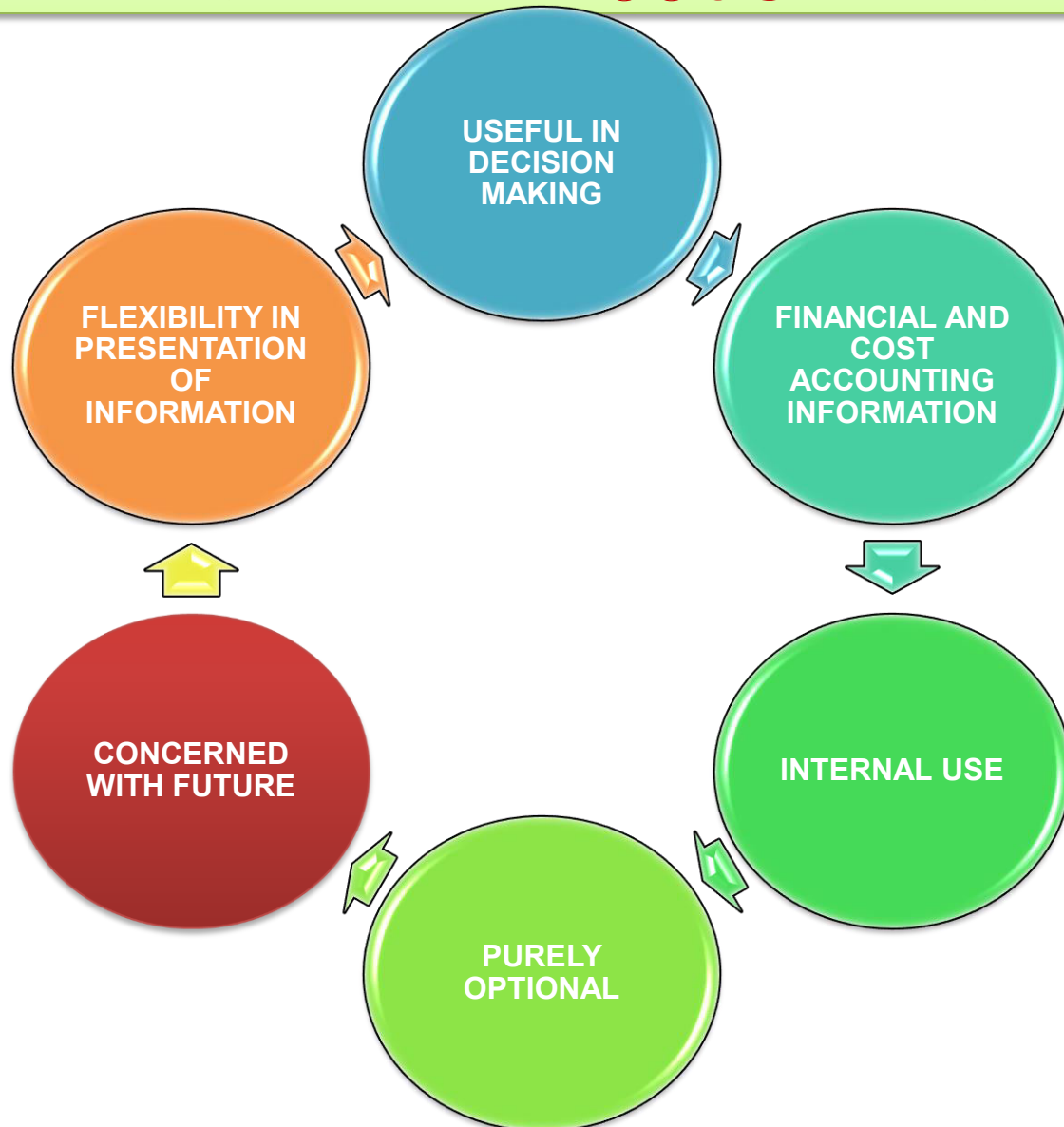
- Financial accounting, cost accounting and management accounting are closely related
- The management accounting uses the principles and practices of financial accounting and cost accounting
- Eg: **profit and loss account** prepared in **financial accounting** acts as a basis for calculation of **ratio analysis and comparative statements** in **management accounting**

- **Cost accounting** is a more detailed application of financial accounting and provides detailed cost information about products, services , departments
- This **information** is used by **management accounting for planning , controlling and decision making process**

Relationship of management accounting with financial accounting and cost accounting



CHARACTERISTICS OR NATURE OF MANAGEMENT ACCOUNTING



SCOPE OF MANAGEMENT ACCOUNTING

SCOPE OF MANAGEMENT ACCOUNTING

- Financial accounting
- Cost accounting
- Budgeting and forecasting
- Tax planning
- Reporting to management
- Cost control procedures
- Statistical tools
- Internal control and internal audit
- Financial analysis and interpretation
- Office services

Functions/Objectives Of Management Accounting

Planning

Coordinating

Controlling

Communication

Financial analysis and Interpretation

Qualitative information

Tax policies

Decision-making

TOOLS AND TECHNIQUES USED IN MANAGEMENT ACCOUNTING

- **Budgeting**
- Standard costing and variance analysis
- Marginal costing and cost volume profit analysis
- **Ratio analysis**
- **Comparative financial statements**
- Differential cost analysis
- **Fund flow statements**
- **Cash flow statements**
- Responsibility accounting
- Accounting for price level changes
- Discounted cash flows
- Risk analysis
- Learning curve
- Value analysis
- Work study
- Statistical and graphical techniques

COMPARISON BETWEEN FINANCIAL ACCOUNTING AND MANAGEMENT ACCOUNTING

Financial accounting

- It provides information to external users like investors, share holders, creditors, government authorities etc.
- It is based on double entry system for recording business transactions
- It is compulsory to prepare financial accounts as per the company law

Management accounting

- It is only for internal purpose i.e management
- It is not based on double entry system
- It is not mandatory/compulsory

Financial accounting

- It shows the entire profit/loss position. It does not show the cost or profits for individual products, departments
- It is concerned with recording the transactions which is already taken place
- Financial reports are prepared once in a year

Management accounting

- It provides detailed information about individual products, plants, departments
- It is future oriented , it uses past data for future projections
- It is prepared weekly, monthly or when it is required

Financial accounting

- Companies are required to prepare financial accounts as per the accounting standards issued by institute of chartered accountants of India
- Financial accounts prepares general purpose statements such as profit and loss account and balance sheet which are used by external users
- It provides information only in terms of money

Management accounting

- Management accounting are not bound by any such standards
- In management accounting special purpose reports are prepared Eg. Performance reports of sales manager or any other department
- It can be in monetary or non-monetary terms