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Functions, Scope and Advantages of Management accounting : A Review

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Abstract : Accounting is the process of recording, classifying, summarizing, analyzing and interpreting the financial transactions of the business for the benefit of management and those parties who are interested in business such as shareholders, creditors, bankers, customers, employees and government. Thus, it is concerned with financial reporting and decision making aspects of the business.

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Introduction : A business enterprise must keep a systematic record of what happens from day to-day events so that it can know its position clearly. Most of the business enterprises are run by the corporate sector. These business houses are required by law to prepare periodical statements in proper form showing the state of financial affairs. The systematic record of the daily events of a business leading to presentation of a complete financial picture is known as accounting. Thus, Accounting is the language of business. A business enterprise speaks through accounting. It reveals the position, especially the financial position through the language called accounting. In ordinary language any system of accounting, which assists management in carrying out its functions more efficiently may be termed as management accounting. The Institute of Chartered Accountants of England and Wales has stated that “any form of accounting, which enables a business to be conducted more efficiently can be regarded as Management Accounting.”

Functions of Management Accounting:

The bask function of management accounting is to assist the management in performing its functions effectively.

1**. Modification of Data:**

Accounting data as such are not suitable for managerial decision-making and control purposes. However, they may be used as the basis for making future estimates and projections. In fact management accounting modifies the available accounting data by rearranging the same, by resorting to a process of classification and combination, which enable retention of the similarities of data without eliminating the dissimilarities.

2. **Analysis and Interpretation of Data**:

The accounting data is analyzed and interpreted meaningfully for effective planning and decision-making. For this purpose the data is presented in a comparative form. Analytical tools such as Comparative Financial Statements, Common-size Statements, Trend percentages, and ratio Analysis are used and likely trends are projected.

3. **Facilitating Management Control**:

Management accounting enables all accounting efforts to be directed towards the attainment of goals efficiently by controlling the operations of the company more effectively. Standards of performance and measure of variation there from are the essential elements of any control system. All these are made possible through standard costing and budgetary control systems, which are an integral part of management accounting.

4. **Use of Qualitative Information**:

Mere financial data and its analysis and interpretation are not sufficient for decision-making purposes. The management may need qualitative information, which cannot be readily converted into monetary terms. Such information may be obtained from statistical compilations, engineering records, case studies, minutes of meetings, etc. Management accounting does not restrict itself to financial data alone for helping management

5. **Satisfaction of Informational Needs of Different Levels of Management:**

Different levels of management such as top level, middle level, and lower level managements need different types of information. The top management needs concise information covering the entire field of business activities at relatively long intervals. The middle level management requires technical data regularly, and the lower level management is interested in detailed figures relating to the particular sphere of activity at short intervals. Hence, the main function of management accounting is to process accounting and other data in such a way as to satisfy the needs of different levels of management.

Scope of Management Accounting:

The main concern of management accounting is to provide necessary quantitative and qualitative information to the management for planning and control. For this purpose it draws out information from accounting as well as non-accounting sources. Hence, its scope is quite vast and it includes within its fold almost all aspects of business operations. However, the following areas may rightly be pointed out as lying within the scope of management accounting.

i. **Financial Accounting:**

The major function of management accounting is the rearrangement or modification of data. Financial accounting provides the very basis for such a function. Hence, management accounting cannot obtain full control and coordination of operations without a well-designed financial accounting system.

ii. **Cost Accounting**:

Planning, decision-making and control are the basic managerial functions. The cost accounting system provides necessary tools such as standard costing, budgetary control, inventory control, marginal costing, and differential costing etc., for carrying out such functions efficiently. Hence, cost accounting is considered a necessary adjunct of management accounting.

iii. **Revaluation Accounting**:

Revaluation or replacement value accounting is mainly concerned with ensuring that capital is maintained in real terms and profit is calculated on this basis.

iv. **Statistical Methods:**

Statistical tools such as graph, charts, diagrams and index numbers etc., make the information more impressive and comprehensive. Other tools such as time series, regression analysis, sampling techniques etc., are highly useful for planning and forecasting.

v. **Operations Research**:

Modern managements are faced with highly complicated business problems in their decision-making processes. O P techniques like linear programming, queuing theory, decision theory, etc., enable management to find scientific solutions for the business problems.

vi. **Taxation**:

This includes computation of income tax as per tax laws and regulations, filing of returns and making tax payments. In recent times, it also includes tax planning.

vii. Organization and Methods :

O&M deal with organizations reducing cost and improving the efficiency of accounting, as also of office systems, procedures, and operations etc.

viii. Office Services:

This includes maintenance of proper data processing and other office management services, communication and best use of latest mechanical devices.

ix. Law:

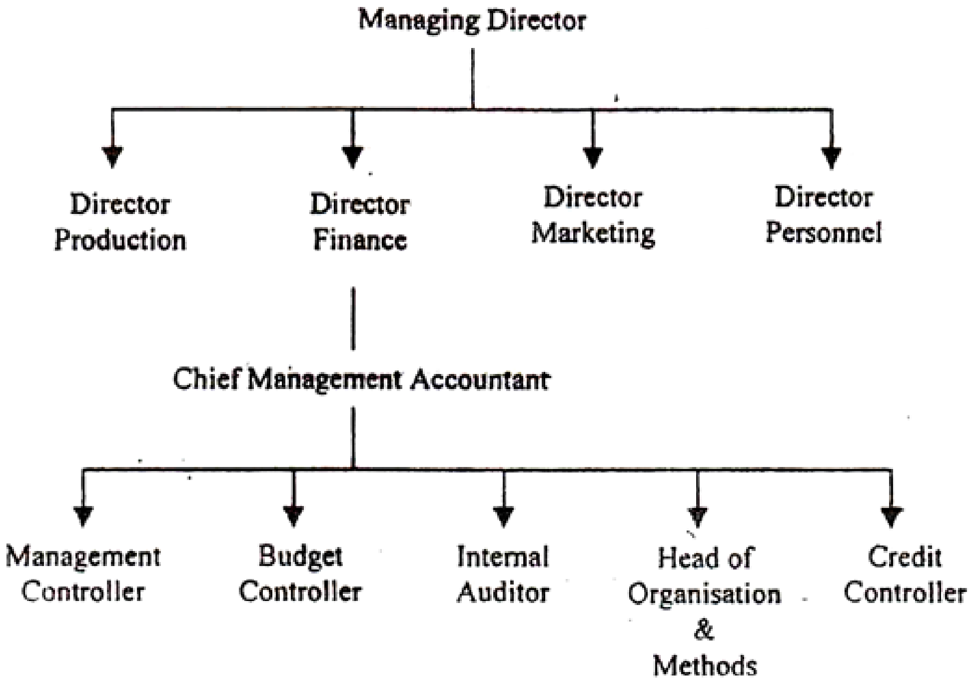
Most of the management decisions have to be taken in a legal environment where the requirements of a number of statutory provisions or regulations are to be fulfilled.

x. Internal Audit:

This includes the development of a suitable system of internal audit for internal control.

xi. Internal Reporting:

This includes the preparation of quarterly, half yearly, and other interim reports and income statements, cash flow and funds flow statements, scarp reports, etc.



In the organisation chart, director finance is placed above chief management accountant. The functions like budgeting, auditing, O & M, credit control etc., are all placed under Chief Management Accountant.

Advantages Management Accounting:

Management Accounting is of immense value and utility for the management of any firm and it has been considered as indispensable, particularly in large organisations where the task of Management is complex.

(1) Increase in Efficiency:

Management accounting contributes significantly towards increasing efficiency in operations of a firm. Budgets, standards, reports etc., usually elevate the level of performance.

(2) Effective Planning:

Policy formulation and planning of operations become more effective through the 'decision data' provided by Management Accounting.

(3) Performance Evaluation:

Evaluating performance of employees, departments, etc., is facilitated by Management accounting through Variance Analysis, control ratios etc.

(4) Profit Maximisation:

Management accounting is helpful in profit planning to pursue decisions which can optimise profits.

(5) Reliability:

The Tools used by Management accounting usually make the data supplied to Management accurate and reliable.

(6) Elimination of Wastages:

Standard costs, Budgets, cost control techniques, etc., contribute towards elimination of wastages, production of defectives etc.

(7) Effective Communication:

Regular and systematic reporting ensures constant flow of information about operations to various levels of Management.

(8) Employee Morale:

Morale of employees can be created and sustained through attainable standards, practical budgets and incentive schemes.

(9) Control and Co-ordination:

Control on costs and coordination in the efforts of different segments of an organisation can be achieved through performance reporting, variance analysis and follow up action etc.

The greatest benefit of Management accounting is its advisory role in making the Management to take the best possible decisions on a day-to-day basis on routine matters and also vital policy matters.

Conclusion

There are many challenges facing businesses in dynamic economic environments. In this course we have briefly considered the use of a strategic perspective in management accounting and the application of this approach to pricing and project evaluation.

Customer profitability analysis encourages a focus on strategically evaluating customers and the costs and effort the business puts into engaging with them. It draws on an activity based approach to trace the cost of the activities to specific customers. As with all financial analysis – it should be considered in the light of other factors, for example whether or not the less profitable customer will help to open up a new market.

Project evaluation is fundamental in a strategic perspective as organisations make decisions about where to invest for competitive advantage in the mid to long-term future. A complaint about using discounted cash flow analysis is that it is too difficult to forecast cash flows over five (or even less) years into the future. In this course we provide the technical understanding for the application of discounting and techniques that support the explicit consideration of uncertainty and risks to improve the basis for decision making.

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