

Management Accountancy

Unit 1

Concept of Management Accounting

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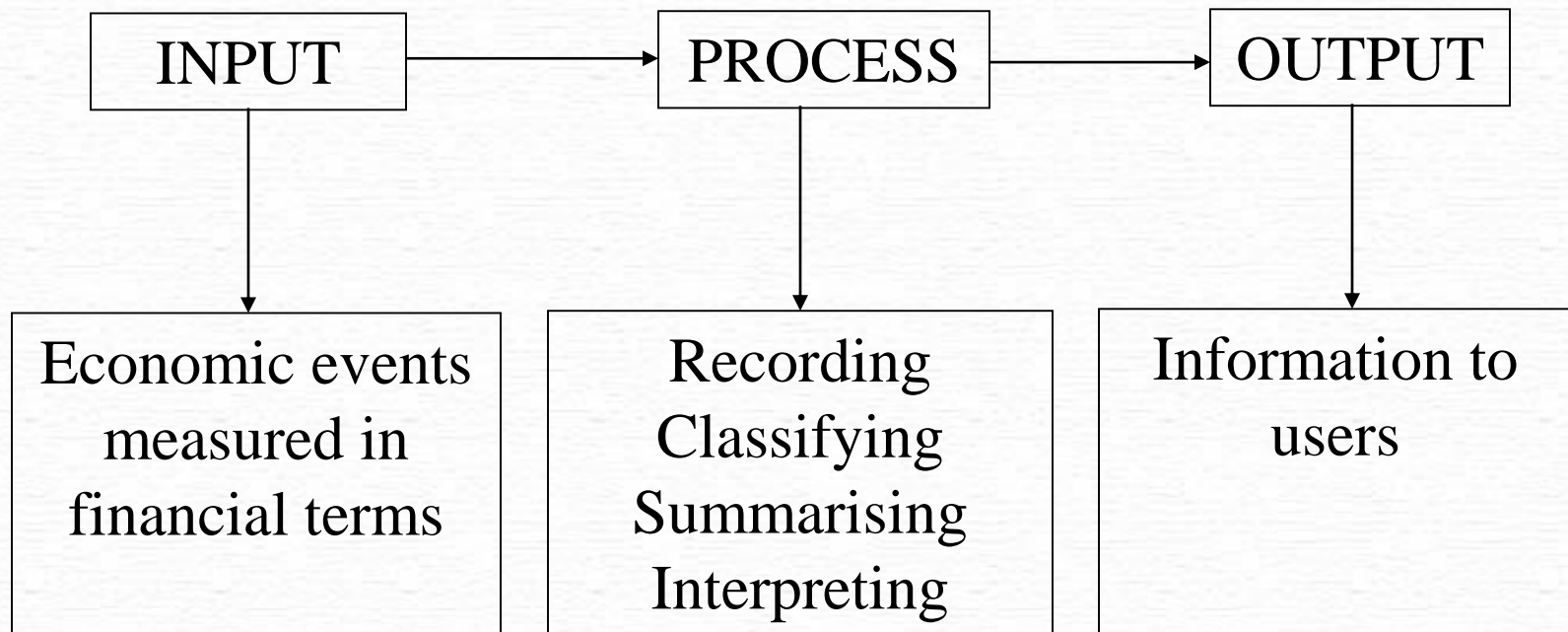
Contents

- Concept, Objectives, Features, Functions and Limitations of Management Accounting
- Controllershship Functions and Responsibility

Learning Objectives

- Understand the meaning of management accounting
- Describe objectives, features, functions and limitations of management accounting
- Explain controllership functions and responsibility

Meaning of Accounting



Aim of Accounting

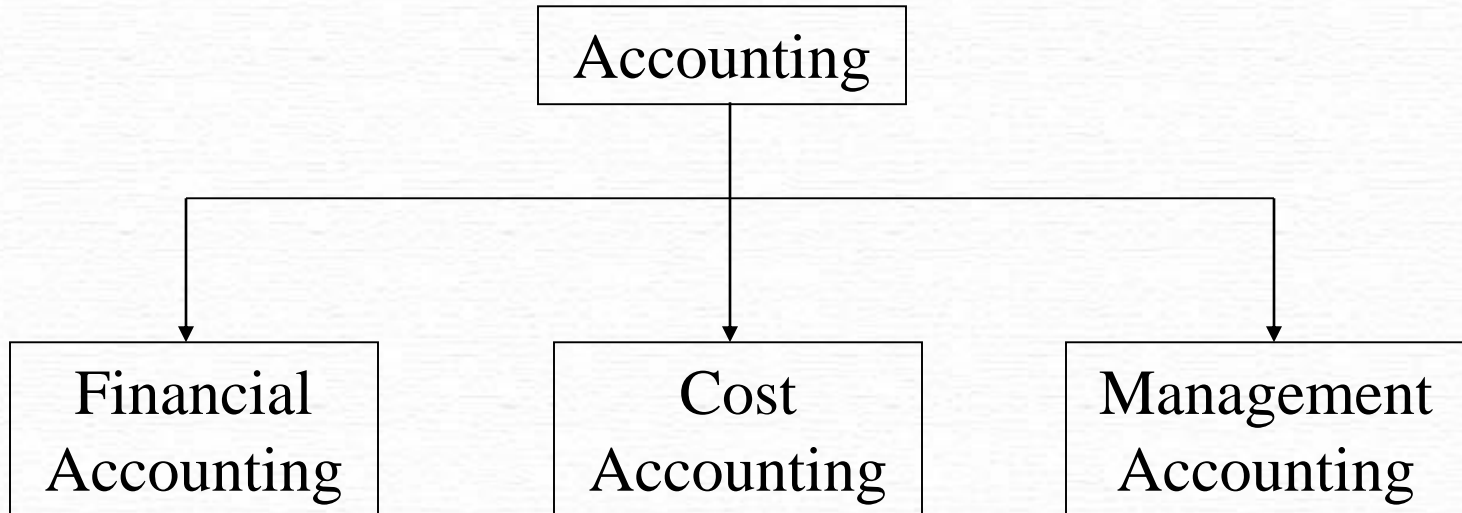
Information for users to make business decisions:

- Relevant
- Accurate
- Sufficient
- Timely
- Consistent

Meaning of Accounting

- Communication
- Language of business
 - First, accounting terms such as sales, revenues, profit, net income, costs, gross margin, expense, and capitalize are widely used in business. Any businessperson is expected to understand those terms.
 - Second, managers rely on accounting to understand an organization's economic condition at a point in time and its economic performance over a period of time. As a result, they use accounting information to communicate with others.

Types of Accounting



Concept of Management Accounting

- Management accounting is the study of managerial aspect of accounting
- R. N. Anthony, “Management accounting is concerned with accounting information that is useful to management”

Concept of Management Accounting

- T. G. Rose, “Management accounting is the adoption and analysis of accounting information and its diagnosis and explanation in such a way to assist management”
- Institute of Chartered Accountants, England defines Management Accounting as any form of accounting which enables a business to be conducted more efficiently

Concept of Management Accounting

- Management accounting is analysis, presenting, interpreting and reporting financial and non-financial information to help management for making decision to fulfill the goals of an organization
- Management Accounting is reframing, analyzing and presenting the financial data to management in such a way that they are helpful in solving various business problems

Concept of Management Accounting

- Management accounting is part of an organization's management information system
- Managers rely on managerial accounting information to plan and control an organization's operations

Principles of Management Accounting

- Strategic
- Performance Management
- Risk Management

Principles of Management Accounting

- **Strategic**
- Preceding the role of the organization, accountant as a strategic co-worker or internal business consultant in the association

Principles of Management Accounting

- **Performance Management**
- Improves business by managing and evaluating and thereby giving the performance of the company

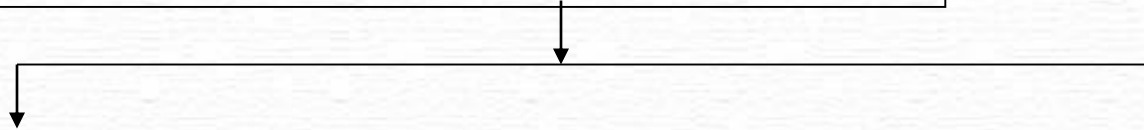
Principles of Management Accounting

- **Risk Management**
- Concentrates on frameworks and practices for recognizing, managing and reporting risks to the achievement of the objectives of the organization

Cost Accounting System

(one part of the organisation's overall accounting system)

Accumulates cost information



Managerial Accounting

Information for decision making, planning, directing, and controlling an organisation's operations, and assessing its competitive position



Internal Users of Information

Managers at all levels in the organization

Financial Accounting

Published financial statements and other financial reports



External Users of Information

Stockholders, financial analysts, lenders, unions, consumer groups, and governmental agencies

Source: Hilton and Platt (2014)

Management Vs. Financial Accounting

	Financial Accounting	Management Accounting
Primary users	External users	Internal users
Types of reports	Financial statements	Internal reports
Frequency of reports	Quarterly and annually	As frequently as needed
Purpose of reports	General-purpose	Special-purpose information for a particular user for a specific decision
Reporting standards	Generally accepted accounting principles	Relevance to decision
Verification	Audit by auditor	No independent audits

Objectives of Management Accounting

According to Hilton and Platt (2014):

1. Providing information for decision-making and planning, and proactively participating as part of the management team in the decision-making and planning processes
2. Assisting managers in directing and controlling domestic and international operational activities
3. Motivating managers and other employees towards the organization's goal
4. Measuring the performance of activities, subunits, managers, and other employees within the organization
5. Assessing the organization's competitive position, and working with other managers to ensure the organization's long-term competitiveness in its industry

Features of Management Accounting

- Management Accounting supplies necessary information
- It is concerned with future
- It is focused on causes and effect relationship
- It is a separate and specialized branch of accounting
- Special techniques and tool for accounting data analysis

Functions of Management Accounting

- Modification of accounting data
- Analysis and interpretation of data
- Planning and forecasting
- Facilitate management control
- Qualitative information
- Dissemination of information
- Decision making

Limitations of Management Accounting

- Limitation of source of information
- Imperfect knowledge of accountant
- Provided only information
- May not be beneficial for small organization

Management Accountant in an Organization

- The term "*management accountant*" describes a very different kind of professional
- Managerial accountants can be thought of as analysts that generally add value in two ways:
 - *they serve as specialists at turning data into information, and*
 - *they create and advocate systems that help managers and workers make better decisions*

Management Accountant in an Organization

- Better information and better decisions should lead to greater profitability. Unfortunately, the accounting numbers generated for financial reporting purposes are not particularly helpful when managers need to make decisions. Consequently, managerial accountants (analysts) must work with a different perspective and a different set of skills.

Management Accounting as a Career

- Management accountants serve a crucial function in virtually any enterprise
- As the information providers, they are often in touch with the heartbeat of the organization
- Management accountants interact frequently with sales personnel, finance specialists, production people and managers at all levels

Management Accounting as a Career

- Management accountants must be knowledgeable not only in accounting but in the other major business disciplines as well
- Strong oral and written communication skills are important for success as a managerial accountant

Controllershship Functions and Responsibility

- **CFO or Controller**
 - In many organizations, the designation given to the top managerial and financial accountant is the ***chief financial officer (CFO)***
 - This individual is also called the ***controller***

Functions of Controllership

- Planning for control
- Financial reporting and interpreting
- Tax administration
- Management audit
- Development of accounting systems
- Data processing
- Internal audits

Controllership Responsibility

- For supervising the personnel in the accounting department and preparing the information and reports used in both managerial and financial accounting
- Interprets accounting information for managers and participates as an integral member of the management team
- Most controllers are involved in planning and decision making at all levels and across all functional area of the enterprise
- Broad role – managerial accountants to rise to the top of their organizations

Treasurer and Responsibility

- Treasurer is responsible for raising capital and safeguarding the organization's assets
 - The management of its investment
 - Its credit policy
 - Its insurance coverage

Internal Auditor and Responsibility

- Internal auditor is responsible for reviewing the accounting procedures, records and reports in both the controller's and the treasurer's area of responsibility
 - Expresses an opinion to top management regarding the effectiveness of the organization's accounting system

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Thank You