

Course: B.Com Part III

Paper: VI

Topic: Management Accounting: Nature And Scope

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Date: 09/06/2020

## **Management Accounting**

Management Accounting is the presentation of accounting information in such a way as to assist management in the creation of policy and the day-to-day operation of an undertaking. Thus, it relates to the use of accounting data collected with the help of financial accounting and cost accounting for the purpose of policy formulation, planning, control and decision-making by the management.

Management accounting links management with accounting as any accounting information required for taking managerial decisions is the subject matter of management accounting.

### **Nature of Management Accounting:**

(i) Technique of Selective Nature:

Management Accounting is a technique of selective nature. It takes into consideration only that data from the income statement and position state merit which is relevant and useful to the

management. Only that information is communicated to the management which is helpful for taking decisions on various aspects of the business.

(ii) Provides Data and not the Decisions:

The management accountant is not taking any decision by provides data which is helpful to the management in decision-making. It can inform but cannot prescribe. It is just like a map which guides the traveller where he will be if he travels in one direction or another. Much depends on the efficiency and wisdom of the management for utilizing the information provided by the management accountant.

(iii) Concerned with Future:

Management accounting unlike the financial accounting deals with the forecast with the future. It helps in planning the future because decisions are always taken for the future course of action.

(iv) Analysis of Different Variables:

Management accounting helps in analysing the reasons as to why the profit or loss is more or less as compared to the past period. Moreover, it tries to analyse the effect of different variables on the profits and profitability of the concern.

(v) No Set Formats for Information:

Management accounting will not provide information in a prescribed proforma like that of financial accounting. It provides the information to the management in the form which may be

more useful to the management in taking various decisions on the various aspects of the business.

## **Scope of Management Accounting:**

The scope of management accounting is very wide and broad-based. It includes all information which is provided to the management for financial analysis and interpretation of the business operations.

### **(i) Financial Accounting:**

Financial accounting though provides historical information but is very useful for future planning and financial forecasting. Designing of a proper financial accounting system is a must for obtaining full control and co-ordination of operations of the business.

### **(ii) Cost Accounting:**

It provides various techniques of costing like marginal costing, standard costing, differential and opportunity cost analysis, etc., which play a useful role in operation and control of the business undertakings.

### **(iii) Budgeting and Forecasting:**

Forecasting on the various aspects of the business is necessary for budgeting. Budgetary control controls the activities of the business through the operations of budget by comparing the actual with the budgeted figures, finding out the deviations, analysing the deviations in order to

pinpoint the responsibility and take remedial action so that adverse things may not happen in future.

Both the techniques are necessary for management accountant.

(iv) Cost Control Procedures:

These procedures are integral part of the management accounting process and includes inventory control, cost control, labour control, budgetary control and variance analysis, etc.

(v) Reporting:

The management accountant is required to submit reports to the management on the various aspects of the undertaking. While reporting, he may use statistical tools for presentation of information as graphs, charts, pictorial presentation, index numbers and other devices in order to make the information more impressive and intelligent.

(vi) Methods and Procedures:

It includes in its study all those methods and procedures which help the concern to use its resources in the most efficient and economical manner. It undertakes special cost studies and estimations and reports on cost volume profit relationship under changing circumstances.

(vii) Tax Accounting:

It is an integral part of management accounting and includes preparation of income statement, determination of taxable income and filing up the return of income etc.

(viii) Internal Financial Control:

Management accounting includes the internal control methods like internal audit, efficient office management, etc.

(ix) Interpretation:

Management accounting is closely related to the interpretation of financial data to the management and advising them on decision-making.

(x) Office Services:

The management accountant may be required to maintain and control office services in some organizations. This function includes data processing, reporting on best use of mechanical and electronic devices, communication, etc.

(xi) Evaluating the Performance of the Management:

Management accounting provides methods and techniques for evaluating the performance of the management. It evaluates the performance of the management in the light of the objectives of the organisation. Thus, it helps in the implementation of the principle of management by exception.