

Course: BBA Part III

Paper: XVI

Topic: Management Accounting and Its Objectives

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Management Accounting and Its Objectives

Management accounting also is known as managerial accounting and can be defined as a process of providing financial information and resources to the managers in decision making. Management accounting is only used by the internal team of the organization, and this is the only thing which makes it different from financial accounting. In this process, financial information and reports such as invoice, financial balance statement is shared by finance administration with the management team of the company. Objective of management accounting is to use this statistical data and take a better and accurate decision, controlling the enterprise, business activities, and development.

Objective # 1. Assistance in Planning and Formulation of Future Policies:

Management accounting assists management in planning the activities of the business. Planning is deciding in advance what is to be done, when it is to be done, how it is to be done and by whom it is to be done. It involves forecasting on the basis of available information, setting goals, framing policies, determining the alternative courses of actions and deciding on the programme of activities to be undertaken.

Thus, planning is making intelligent forecasting. This forecasting is based on facts. Facts are provided by past accounts on which forecast of future transactions is made. Management accounting helps management in its function of planning through the process of budgetary control.

Objective # 2. Helps in the Interpretation of Financial Information:

Accounting is a technical subject and may not be easily understandable by everyone till the user has a good knowledge of the subject. Management may not be able to use the accounting information in its raw form due to lack of knowledge of accounting techniques.

Management accountant presents the information in an intelligible and non-technical manner. This will help the management in interpreting the financial data, evaluating alternative courses of action available and guiding the management in taking decisions and having the most desired financial results.

Objective # 3. Helps in Controlling Performance:

Management accounting is a useful device of managerial control. The whole organisation is divided into responsibility centres and each centre is put under the charge of one responsible person. He will be associated with the planning and framing of the budgets and be required to execute the plans and standards and deviations are analysed in order to pinpoint the responsibility.

Thus, management accountant helps in controlling the performance of the different responsibility centres and take suitable actions in order to correct the adverse deviations by revising the budgets if need be.

Management accounting assists management in location of weak spots and in taking corrective actions against such spots which are not in conformity with the budgeted performance. Thus, management accounting helps management in discharging its control function successfully through budgetary control and standard costing.

Objective # 4. Helps in Organizing:

Thus management accountant recommends the use of budgeting, responsibility accounting, cost control techniques and internal financial control. This all needs the intensive study of the organisation structure. In turn, it helps to rationalise the organisation structure.

Objective # 5. Helps in the Solution of Strategic Business Problems:

Whenever there is a question of starting a new business, expanding or diversifying the existing business, strategic business problem has to be faced and solved.

Similarly when in a particular situation, there are different alternatives as whether labour should be replaced by machinery or not, whether selling price should be reduced or not, whether to export the item or not etc., a management accountant helps in solving such problems and decision-making.

He provides accounting data to a management with his recommendation as to which alternative will be the best. For such decisions, the management accountant may take the help of marginal costing, cost volume profit analysis, standard costing, capital budgeting etc.

Management accounting provides feedback to the management such as what business to engage in or diversify how to run that business efficiently. This is most important contribution which the management accountant has made.

Objective # 6. Helps in Coordinating Operations:

Management accounting helps the management in co-coordinating the activities of the concern by getting prepared functional budgets in the first instance and then co-coordinating the whole activities of the concern by integrating all functional budgets into one known as master budget. Thus, management accounting is a useful tool in coordinating the various operations of the business.

Objective # 7. Helps in Motivating Employees:

The management accountant by setting goals, planning the best and economical course of action and then measuring the performance tries his best to increase the effectiveness of the organisation and thereby motivate the members of the organisation.

Objective # 8. Communicating Up-to-date Information:

Management accounting assists management in communicating the financial facts about the enterprise to the persons who are interested in these facts so that they may be guided to a line of action to be pursued. Management needs information for taking decisions and for evaluating performance of the business.

The required information can be made available to the management by means of reports which are an integral part of the management accounting. Reports are means of communication of facts which should be brought to the notice of various levels of management so that they may be guided for taking suitable action for the purposes of control.

Objective # 9. Helps in Evaluating the Efficiency and Effectiveness of Policies:

Management accounting also lays emphasis on management audit which means evaluating the efficiency and effectiveness of management policies. Management policies are reviewed from time to time to make an improvement in them so that maximum efficiency may be achieved.