Management Accounting: It's Role in Decision Making

Dr. Mohan Devappa Chinee HOD Accountancy ADARSH COLLEGE, Vita, Dist: - Sangli (Maharashtra)

Abstract: Accountancy includes the measuring, processing and communicating of financial information; managing of detailed financial records; preparation of tax documents; and tracking of an entity's economic resources. The Financial Accounting is the record of monetary transactions of the business. It writes the economic history of the organizations. It is an art of recording, classifying and summarizing transactions and events of a financial character. Thus, the Financial Accounting shows only what has happed and does not show what should happen. Though the financial statements are much of value to the management, the principal objective of the Financial Accounting is to serve the needs of the outsiders, such as creditors, investors, employees, regulatory bodies etc. who have financial stake int the business. The information obtained by the management from the financial accounts is not of much help to the management in discharging its functions efficiently and effectively. Management accountants is also called managerial accountants, which consider the needs of the business from this, data, and estimates emerge. Cost accounting is the process of translating these estimates and data into knowledge that will ultimately be used to guide decision-making This paper has been made in an attempt to know about a most important branch of accounting i.e. management accounting which covers its concept, role in managerial decision, Analysis and interpretation of financial statements etc.

Keywords : Accounting, Financial Accounting, Management Accounting. Analysis & Intrepretation.

1] INTRODUCTION:-

The expression management accountancy gained wide currency after the Second World War and now-days it has become a common word in the business world. The Financial Accounting is the record of monetary transactions of the business. It writes the economic history of the organizations. It is an art of recording, classifying and summarizing transactions and events of a financial character. Thus, the Financial Accounting shows only what has happed and does not show what should happen. Though the financial statements are much of value to the management, the principal objective of the Financial Accounting is to serve the needs of the outsiders, such as creditors, investors, employees, regulatory bodies etc. who have financial stake int the business. The information obtained by the management from the financial accounts is not of much help to the management in discharging its functions efficiently and effectively. A business enterprise to-day operates under the dynamic environment characterized by the presence of large scale production, research, expansion, improvement and diversification of product, would market, speedy and safe means of transport, complexities of production technique, cut- throat competition etc. This change has created many new problems for the management. The management of the business cannot be left to the rule of thumb or intuition. A slight error in the policy decision many mean either losing a business or opportunity or go into out of the competition. The main object of each business is to earn profit and competition for profit is competition of productive efficiency.

The management is required to perform various functions like decision-making, planning, co-ordination, control etc. The management has to formulate policy. Under the circumstances, the financial accounting in its traditional form cannot supply the information required by the management to discharge its various functions. Therefore, an acute need was felt to redesign the entire accounting system to serve the operational needs of the firm. The accounting system so redesigned is termed as **"Management Accounting**

2] SIGNIFICANCE OF THE STUDY :-

The present study deals the study of Management Accounting: A key Analysis and Interpretation of Financial Statement. This study is attempted to have a information about Management Accounting and what the methods for analyzing Financial statements. Now a days it becomes very important to the management to to analyse the financial statements. and to draw a conclusion over it. Because all business decisions are totally depend upton the Financial statements of the company. The company is total relay on the Financial statement. Therefore, this study gives detail information about the Analysis of the financial statements with its interpretation.

3] OBJECTIVES OF THE STUDY :

The objectives of this paper are as under r:-

1) To overive the Management Accounting.
2) To study the comparasion of Financial & Management Accounting. .
3) To determine the role management accounting in decision making.

4] SCOPE OF THE STUDY:

Though the word 'Accounting is used in the term '**Management Accounting'.** it is not used in the restricted sense of recording of only business transactions. The data required by the management are of diverse and intricate nature. The scope of Management accounting is therefore, very wide and the term comprises every conceivable department or activity of the business. It is based on the subject matter of different subjects like, psychology, political science, economics, mathematics, statistics, cost accounting, financial accounting etc. In short, the term includes all information which is provided to the management for financial analysis and interpretation of the business operations. However, the following fields of activities fall within the scope of this study:-

1) Financial Accounting
2) Cost Accounting
3) Budgeting and Forecasting
4) Cost control procedure
5) Statistical Methods
6) Taxation
7) Methods and procedure
8) Internal Control
9) Office services
10) Interpretation

Even though above fields are related to the Management Accounting. But the present study deals only the Analysis and interpretation of Financial Statement only. Therefore, scope of management accounting is to do analysis and interpretation of financial statement which is helpful to the management for framing decisions in the organization.

5] **DATA COLLECTION**:-

For the present study, secondary type of data is collected. It is college thourgh various journals, news, research articles, publications.websited etc.

MANAGEMNT ACCOUNTING: A NEW BRANCH IN ACCOUNTING:

Accounting is as old as money itself. In India, Chanakya in his Arthshastra had emphasized the existence and need of proper accounting and auditing. However, the modern system of accounting owes its origin to Pacoili who lived in Italy in the 15th century. In those early days, the business organization and transactions were not so complex due to their small and easily manageable by the proprietor himself. Things have changed fast during the last fifty years. Due to Industrial Revolution there has been large scale production, cut throat competition and widening of the market. It has also grown in importance and undergone change in its structure with evolution of complex and giant industrial organizations. In recent years changes in the technology have also brought a remarkable change in the field of accounting.

Accounting in modern times has two distinct functions to perform :1

1. Historical function
2. Managerial function
3. The term management accounting refers to accounting for the

management i.e. it provides necessary information to the management for discharging its functions. The function of the management are planning, organizing, directing and controlling. Thus, management accounting provides information to management so that planning , organizing, directing and controlling of business operations can be done in an orderly manner.

It is a method of delivering financial information and resources to managers to assist them in making decisions. The most important difference between management accounting and financial accounting is that the organisation's internal staff exclusively utilises management accounting. Management accounting examples, also known as cost accounting, is the process of assessing a company's expenses and activities to generate internal financial reports, records, and accounts to assist managers in reaching their objectives. In other words, it is the process of deciphering financial and costing data and converting it into information that management and officials inside a company can use.

According to the Corporate Finance Institute, managerial accounting is the act of "identifying, measuring, analysing and interpreting accounting information" that assists corporate executives in making smart financial choices and efficiently managing their daily operations. Unlike other accounting disciplines, this one is primarily concerned with internal data collection and reporting, which means that experts seldom engage with or advise external customers.

The Chartered Institute of Management Accountants , Lodon defines Management Accounting as follows “ The application of professional knowledge and skill in the preparation of accounting information in such a way as to assist management in the formation of policies and in the planning and control of the operations of the undertaking.”

According to the Institute of Management Accountants (IMA): "Management accounting is a profession that involves partnering in management decision making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization's strategy".

Management accounting, therefore, covers all rearrangement, combination or adjustment of the orthodox accounting figures which may be required to provide the Chief Executive with the information from which he can control the business. It is related to the accounting methods, systems and techniques which coupled with special knowledge and ability, assist management in its task of maximizing profits or minimizing losses.

FINANCIAL ACCOUNTING & MANAGEMENT ACCOUNTING:-

Though the Financial Accounting is the basis of Management Accounting, it is not the same old wine served in a new bottle with a new label. Management Accounting does not supplant Financial Accounting. But supplements it to serve the diverse requirements of the modern management. The important distinctive features of Management Accounting are as under :-

1) The Financial Accounting is designed to supply information in the form of statements either internal or external use. Whereas, additional data is furnished to the management required by it in carrying out its basic functions. The management accounting is designed principally for the internal use by the management.

2) Financial Accounting deals with the whole of the business. It shows overall trading results of the business. On the contrary, Management Accounting is concerned with the various divisions, departments of the business and reports on the activities of each of the separately.
3) Financial Accounting deals with the transactions those have taken place during the year, whereas Management Accounting looks forward in estimating the future.
4) Financial Accounting record actual data of past events to show the result of the business, where as Management Accounting is subjective in nature and is interested in planning for future. It supplies projected data.
5) Financial Accounting records only monetary transactions or data, whereas Management Accounting it not restricted to money matters only, but in addition to this it considers qualitative data also.
6) Financial statements are required to be got audited from the qualified auditors before they are published for the general use of the public. However, the statements and reports prepared by the Management Accountant are neither required to be published not got to be audited, as they are meant for internal use of the management.

ROLE OF MANAGEMENT ACCOUNTANT IN DECISION MAKING:

Management performs the functions of planning, organizing, staffing, directing, motivating, controlling, co-coordinating and communicating. Decision making is the essential part of every function of management. Decision-making is the first step in planning. In business organizations managers have always to decide – they have to decide
what is to be done, who is to do it, when to do it, where to do it and how to do it. Out of set of alternatives available to a manager, he is required to select the best one from all point of view, which in turn means the management has to decide first the course of action.

Management Accounting plays is a most important source of data for management planning. Management Accounting makes available the relevant financial accounting, cost accounting and statistical data for use in the process of planning and decisions relating to temporary or seasonal suspension of production, decisions relating to closure or expansion of particular division or units of operation.

ANALYSIS & INTERPRETATION OF FINANCIAL STATEMENTS:-

A financial statement can be defined as any statement containing financial data drafted in a statement manner for arriving at some meaningful conclusion. It is a organized collection of data according to logical and consistent accounting procedures. Its main object is to convey an understanding of some financial aspects of a business firm. It may show a financial position at a moment of time as in the case of Balance Sheet or may reveal a series of activities over a given period of time, as in the case of an Income Statement.

According to American Institute of Certified Public Accountants, financial statement reflect " A combination of recorded facts (i.e.. recorded in the books of accounts) ,converntions and personal judgements and the judgements and conventions applied affect them materially.

The financial statements which are prepared are little significance to the management. The figures in the financial statements standing alone, convey no meaning to the management. The management wants to know the financial strength of the business, the liquidity and solvency position of the business, its eaning capacity ,trends and future prospects. To serve this purpose, the figures recorded in the financial statements are required to be re-arranged and analysed in such a manner that they become easily intelligible to the management personnel, who may not be experts in accountancy.

The 'Analysis' consists of breaking down a complex set of facts or figures into simple elements and arranging them in such a manner that they can be easily understood.

The analysis of profit and loss account is made as under :-

1. Gross sale
2. Net sales
3. Cost of goods sold
4. Gross Margin
5. Operating expenses
6. Operating Net profit
7. Non-operating incomes and expenses
8. Net profit before tax
9. Net profit after tax

The Analysis of Balance sheet may be as under :

1. Proprietors fund
2. Other debts
3. Total funds employed
4. Fixed assets
5. Current assets
6. Current liabilities
7. Working capital

It is the process of identifying the financial strength and weaknesses of the firm by properly establishing relationships between the items of the Balance Sheet and the profit and loss account.

Interpretation means bringing out the meaning of the financial statements with the help of the analysis. Analysis is the simplification of the data incorporated in the financial statements, where as Interpretation is explaining the meaning and significance of the data so simplified. Thus the analysis is the pre-requisite to Interpretation and analysis is useless without interpretation. Analysis and interpretation assist the management in measuring and maintaining efficiency at various levels.

METHODS OF ANALYSIS :

Analysis of the financial statements can be made by following different methods according to the purpose.

Conclusion:-

Analysis and Interpretation of Financial Statement is very important to the management. In the field of Management Accounting it plays very important role in this regard. Management is totally rely on financial statements which are analysis .So that it becomes very easy to taken any decision and to control on the company's performance. Now days this has become a crucial factor to the management to do study of Financial Statements. To create goodwill in the market, it is very important for any company to make use of Management Accounting.

References:

1. Dr.S.N. Maheshwari , Principles of Management Accounting

Websites:

1. https://en.wikipedia.org/wiki/Management_accounting
2.https://gocardless.com/guides/posts/what-is-cloud-accounting-and-how-does-it-work/
3. https://khatabook.com/blog/management-accounting/