

Handout for Managerial Accounting

INTRODUCTION TO MANAGERIAL ACCOUNTING

Definition of Management Accounting:

The Managerial Accounting is another name of Management Accounting so we have been using Management Accounting in our discussion throughout.

Management Accounting may be defined as the “**Process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of information (both financial & operating) used by the management to plan, evaluate and control within an organization and to assure use of and accountability for its resources.**”

Management accounting, therefore, is an integral part of organization process. It provides information essential for:

- ✓ Controlling the current activities of an organization
- ✓ Planning its future strategies, tactics and operations
- ✓ Optimizing the use of its resources
- ✓ Measuring and evaluating performance
- ✓ Reducing subjectivity in the decision making process and
- ✓ Improving internal and external communication

The Concept:

Accountability:

Management accounting presents information measuring the achievement of the objectives of an organization and appraising the conduct of its internal affairs in that process. In order that further action necessary can be taken, based on this information, it is necessary at all times to identify the responsibilities and key result areas of the individuals within the organization.

Controllability:

Management accounting identifies the elements of activities which management can or cannot influence, and seeks to assess the risk and sensitivity factors. This facilitates the proper monitoring, analysis, comparison and interpretation of information which can be used constructively in the control, evaluation and corrective functions of management.

Reliability:

Management accounting information must be of such quality that confidence can be placed in it. Its reliability to the user is dependent on its source, integrity and comprehensiveness.

Interdependency:

Management accounting, in recognition of the increasing complexity of business, must access both external and internal information sources from interactive functions such as marketing, production, personnel, procurement, finance, etc. This assists in ensuring that the information is adequately balanced

Relevance:

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Management accounting must ensure that flexibility is maintained in assembling and interpreting information. This facilitates the exploration and presentation, in a clear, understandable and timely manner, of as many alternatives as are necessary for impartial and confident decisions to be taken. The process is essentially forward looking and dynamic. Therefore, the information must satisfy the criteria of being applicable and appropriate.

Role of a Management Accountant:-

Traditional

Role:

In a traditional role, the Management Accountant is primarily concerned with the application of accounting techniques and to the provision of information designed to assist all levels of management in planning, reporting and controlling the activities of the organization.

Dynamic

Role:

In today's business environment, role of a Management Accountant is much more dynamic than his traditional role. This is to create and enhance value of the organization through stakeholders. This concept of value creation gives Management Accountant a more dominant position in the organization. It includes:

- ✓ Suggesting ways and means to add more value
- ✓ Involvement in facilitating change processes in the organization
- ✓ Being a business advisor and not just a "corporate policeman". Complete understanding of organizational strategy, helping to solve problems and functioning as an effective member of cross-functional teams.
- ✓ Being pro-active by following Feedforward control (i.e. forecasting of differences between actual and planned outcomes, and the implementation of action, before the event, to avoid such differences.
- ✓ Being able to address not only real concerns but also the perceived concerns, described to include timeliness and trustworthiness.
- ✓ Fully participating in members of the Management team, playing pivotal role in achievement of business objectives by expertise and diversified knowledge.
- ✓ Playing effective role in Project anagement
- ✓ Preparing cashflow on the basis of realistic assumptions to determine debt-servicing capability.
- ✓ Monitoring of growth initiatives and planning