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CHAPTER 1

MANAGEMENT ACCOUNTANCY



INTRODUCTION

- A number of new tools and techniques has been developed to meet the needs of modern business, which works in complex environment. A number of old sciences has been developed on fresh lines to meet the requirements of modern business. Management Accountancy is thus, a new form of the old science of financial accounting, which has been so moulded as to suit the dynamic environment of modern business.
- The modern business has, however, expanded to such limits that it is beyond the capacity of few persons to control all this aspects. Accounting is a mine of precious information which can guide management in taking policy decisions and in discharging its functions of co-ordination and control effectively.
- The function of Management Accountant is to present the accounting data in suitable forms to assist the management in this direction.

DEFINITION OF MANAGEMENT ACCOUNTANCY

- **Management Accountancy, in short, may be described as accountancy oriented to assist management by presenting accounting information in a suitable manner.**
- **The report of Anglo-American Council of Productivity (1950) has defined it as follows: “Management Accountancy is the presentation of accounting information in such a way as to assist the management in creation of policy and the day to day operation of an undertaking.”**
- **According to Robert Anthony, “Management Accounting is concerned with accounting information which is useful to management.”**

CHARACTERISTICS OF MANAGEMENT ACCOUNTANCY

- It is an accounting system which is helpful to the management in taking important business decisions.
- It is based on accounting information. It starts working only after the accounting work is over.
- It is concerned with analysis of all accounting information which may be useful to the management.
- It is concerned with preparation of budgets and budgetary control.
- It presents accounting information in such a way where in the actual performance is compared with standards as laid down in budgets.
- It is concerned with presentation of accounting information at regular intervals in the form of reports before the management.

Scope of Management Accounting

- **Financial Accounting:** Financial Accounting provides historical information useful for future planning and financial forecasting
- **Cost Accounting:** It provides various techniques of costing which are used in the process of planning and decision-making.
- **Forecasting and budgeting:** Management Accounting exercises the tool of forecasting and budgeting in the process of planning, controlling and decision-making
- **Tax accounting and tax planning:** the analysis of implication of tax provisions on future projects comes under management accounting.

FUNCTIONS OF MANAGEMENT ACCOUNTANCY

- **Formulating Budgets**: The budgets are the bases, which are used to control the business activities by the management. It is the job of management accountant to prepare various budgets. Preparing sales budget on the basis of past figures of sales and intelligent forecasting.
- **Classification and arrangement of Data**: The accounting data has to be classified and properly arranged for presentation before the management. E.g., figures of purchase and sales product-wise, region-wise, and period-wise have to be arranged in a proper form.
- **Presentation and Interpretation of Accounting Data**: The accounting data must be presented before the management in its proper perspective, so that it becomes meaningful. The interpretation of accounting data by means of accounting ratios, cash flow statements, charts, graphs, etc.

- **Routine Reports and Special Reports:** The management accountant is required to present two types of reports before the management: Routine reports and Special reports.
 - When some important change is to be made in the business, the management accountant is called upon to present a special report on the effects of such change on profits and financial position.
 - Secondly, weekly, monthly or quarterly routine reports are to be presented before various levels of management.
- **Making Management Control Effective:** The top management can not pay attention to minute details of everything that is going on in the business. Hence, their attention must be drawn to these activities only which are not proceeding as planned.
- **Assisting in Evaluation of Capital Projects:** Capital projects like replacement of old machines by new machines, scheme for expansion of business, etc. involve considerably large amounts of capital expenditure.

	Financial Accounting	Management Accounting
Purpose	Communication of financial position	Decision making
Requirement	Mandatory	Optional
Primary Audience	External	Internal
	Investors, Regulators, Tax authorities, etc.	Management & decision makers
Regulation/guidelines	GAAP, IFRS, IAS	None
Frequency	Quarterly, Annual or per period	As needed and ongoing
External review	Auditors, Regulators	None
Focus	Past transaction	Information to aid decisions for the future
Scope	Company wide	Narrow per segment, product, etc. as needed.

Cost Accounting vs Management Accounting

Basis	Cost Accounting	Management Accounting
Scope	Limited to providing cost information for managerial uses	Broader scope as it provides all types of information
Emphasis	Mainly on cost ascertainment and cost control to ensure maximum profit	Mainly on planning, controlling and decision making to maximize profit
Techniques employed	Standard costing and variance analysis, marginal costing and cost volume profit analysis, budgetary control, uniform costing etc.	All the techniques of cost accounting but in addition it also uses ratio analysis, fund flow statement, statistical analysis, operation research, mathematics, economics etc., whatsoever help management in tasks
Evolution	Its evolution is mainly due to the limitations of financial accounting	Its evolution is due to the limitations of cost accounting
Statutory requirement	Maintenance of cost records has been made compulsory in selected industries as notified by the govt. from time to time	It is purely voluntary and its use depends upon the utility of management

Limitations of Management Accounting

- 0 Based on Accounting information - if wrong information provided then decision also became wrong.
- 0 Lack of knowledge & understanding - if management have no proper knowledge about information decision may interrupted.
- 0 Lack of continuity & coordination among different departments of organisation even management to management, it will effect the decision-making process.
- 0 It is very expensive to set a management accounting system.
- 0 It is much time consuming.
- 0 It is based on historical data.