

**MBA/ BBA/B.COM(P) PROGRAMME**  
**Management Accounting and Control**

**UNIT I**

**Introduction to Management Accounting**

**Topics Covered**

**Financial Accounting Vs. Management Accounting.**

Department of Commerce and Management Studies  
IMPACT College Patna.

## 1.5 FINANCIAL ACCOUNTING VS. MANAGEMENT ACCOUNTING

Financial Accounting and Management Accounting both deal with financial data, but they differ fundamentally in their purpose, users, scope, and approach. Understanding these differences is essential for MBA students to appreciate the distinct role of Management Accounting in an organization.

### Key Points of Distinction

Basis of Difference	Financial Accounting	Management Accounting
1. Primary Purpose	To record, summaries and communicate financial transactions to external stakeholders.	To provide financial and non-financial information to managers for planning, decision-making and control.
2. Primary Users	External users — shareholders, creditors, government, regulators, banks, general public.	Internal users only — managers, executives, board of directors.
3. Legal Requirement	Mandatory — governed by Companies Act, Income Tax Act, SEBI regulations, etc.	Voluntary — not legally compulsory; prepared at management's discretion.
4. Governing Standards	Must comply with GAAP, IFRS (Ind AS), Companies Act 2013 (in India).	No prescribed standards; format is determined by the needs of management.
5. Time Orientation	Historical — records past transactions and events.	Future-oriented — emphasizes budgets, forecasts, and forward planning.
6. Frequency of Reporting	Annual (quarterly for listed companies); fixed reporting dates.	Prepared as and when required — daily, weekly, monthly, or on demand.
7. Nature of Data	Purely quantitative and monetary.	Both quantitative (financial) and qualitative (non-financial) information.
8. Scope	Covers the whole organization; presents consolidated results.	May focus on segments, departments, products, or projects.
9. Format of Reports	Standardized formats — P&L Account, Balance Sheet, Cash Flow Statement.	Flexible; can be in any form suitable for management — dashboards, variance reports, etc.
10. Basis of Accounting	Accrual basis of accounting is mandatory.	May use accrual, cash, or a combination depending on the purpose.
11. Audit Requirement	Statutory audit by an independent Chartered Accountant is mandatory.	No statutory audit; internal review may be conducted.
12. Degree of Accuracy	High accuracy required; even minor errors are material.	Approximate figures and estimates are acceptable if useful for decision making.

Basis of Difference	Financial Accounting	Management Accounting
13. Publication	Published and disclosed to the public (Annual Report, Stock Exchange filings).	Strictly confidential; for internal management use only.
14. Cost Inclusion	Does not separately analyze cost behavior.	Classifies and analyses costs as fixed, variable, direct, indirect, etc.
15. Decision-Making Role	Provides information for external decision-making (investment, lending).	Directly supports internal management decisions (pricing, make/buy, investment).

### Relationship Between Financial and Management Accounting

Although they differ in many respects, Financial Accounting and Management Accounting are interdependent:

- Management Accounting uses data from the Financial Accounting records as its primary input
- Cost data developed in Management Accounting ultimately feeds back into Financial Statements (inventory valuation, COGS)
- Both systems together provide a complete picture of the organization's financial health
- The management accountant must be proficient in both disciplines

Financial Accounting	Management Accounting
Records past transactions	Plans future activities
Serves external users	Serves internal managers
Governed by standards (GAAP/IFRS)	No governing standards
Mandatory by law	Voluntary
Annual/Quarterly reports	Daily/Weekly/Monthly/On-demand
Standardized formats	Flexible formats
Quantitative data only	Quantitative + Qualitative data
Whole-organization focus	Segment/product/project focus
Published publicly	Confidential to management
Statutory audit required	No statutory audit

## 1.6 ROLE OF THE MANAGEMENT ACCOUNTANT

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The Management Accountant (also called Cost and Management Accountant or CMA) plays a crucial strategic and operational role in modern organizations. CIMA describes the management accountant as a 'business partner' who works alongside operational managers rather than simply reporting to them.

### Strategic Role

- Participates in formulating corporate strategy and long-range plans
- Provides financial models and scenario analyses for strategic decisions
- Conducts competitor analysis and benchmarking
- Advises on mergers, acquisitions, and capital structure decisions

### Operational Role

- Prepares budgets, standard costs, and forecasts
- Monitors performance and prepares variance reports
- Maintains cost accounting records and management information systems
- Analyses cost behavior and identifies cost-reduction opportunities

### Advisory Role

- Advises management on pricing, product mix, and make/buy decisions
- Evaluates capital investment proposals using NPV, IRR, etc.
- Recommends corrective actions based on variance reports
- Advises on transfer pricing and responsibility centre design

### Ethical Responsibilities

The management accountant must adhere to a strict code of professional ethics. CIMA's Code of Ethics for Professional Accountants identifies the following fundamental principles:

1. **Integrity:** Be honest and straightforward in all professional and business relationships
2. **Objectivity:** Avoid bias, conflicts of interest, and undue influence
3. **Professional Competence and Due Care:** Maintain up-to-date knowledge and apply professional standards
4. **Confidentiality:** Do not disclose confidential information without proper authority
5. **Professional Behavior:** Comply with relevant laws and regulations; avoid any action that discredits the profession

## REFERENCES AND FURTHER READING

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