

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

UNIT I

Introduction to Management Accounting

Topics Covered

Functions of Management Accounting

Department of Commerce and Management Studies
IMPACT College Patna.

1.2 FUNCTIONS OF MANAGEMENT ACCOUNTING

Management Accounting performs a wide variety of functions that support all levels of management — strategic, tactical, and operational. These functions can be grouped under six broad heads:

1. Planning

Planning is the primary function of management accounting. It involves setting objectives and identifying the steps required to achieve them. Management Accounting contributes to planning through:

- Preparation of budgets — Sales Budget, Production Budget, Cash Budget, Master Budget
- Long-range financial forecasting and capital expenditure planning
- Profit planning and CVP (Cost-Volume-Profit) analysis
- Rolling forecasts that adapt to changes in the business environment

2. Decision Making

Management Accounting provides critical information for both routine and non-routine decisions:

- **Make or Buy:** Analysis of whether to manufacture in-house or outsource.
- **Accept or Reject Special Order:** Evaluation using marginal costing and contribution analysis.
- **Product Mix / Key Factor Analysis:** Ranking products by contribution per unit of scarce resource.
- **Shut Down or Continue:** Assessment of whether a segment or product line should continue operating.
- **Capital Investment (Capital Budgeting):** NPV, IRR, Payback Period, and Profitability Index analysis.
- **Pricing Decisions:** Full-cost pricing, marginal-cost pricing, target costing, and transfer pricing.

3. Controlling

Control is the process of ensuring that actual results conform to planned results. Management Accounting facilitates control through:

- Standard Costing and Variance Analysis — comparing actual costs and revenues with predetermined standards
- Budgetary Control — continuous comparison of actual performance against budgets
- Responsibility Accounting — tracing costs and revenues to individual managers accountable for them
- Key Performance Indicators (KPIs) and Balanced Scorecard
- Management by Exception — highlighting only significant variances for managerial attention

4. Organizing and Coordinating

Management Accounting helps in organizing resources and coordinating various departments:

- Preparing departmental budgets that coordinate activities across functions (Sales, Production, Finance, HR)
- Ensuring that the activities of all departments are aligned with the overall corporate plan
- Providing a framework of responsibility centers (cost, revenue, profit, and investment centers)
- Facilitating inter-departmental reporting and communication

5. Reporting and Communication

Effective communication of financial information is a key function:

- Preparation of management reports — daily, weekly, monthly, and ad hoc
- Presenting data in charts, graphs, and dashboards for quick understanding
- Highlighting areas requiring managerial attention
- Communicating performance results to relevant managers at each level of the hierarchy
- Feeding forward information: projections, sensitivity analyses, and scenario planning

6. Interpretation of Financial Data

Raw financial data is of limited value unless interpreted correctly. Management Accounting interprets information by:

- Ratio analysis — Liquidity, Profitability, Efficiency, and Solvency ratios
- Trend analysis and horizontal/vertical analysis of financial statements
- Fund flow and cash flow statement analysis
- Statistical techniques — regression, correlation, index numbers
- Interpreting variance reports and communicating implications to management

7. Evaluation of Performance

Management Accounting measures and evaluates the performance of individuals, departments, and the organization:

- ROI (Return on Investment) and Residual Income for Investment Centers
- Contribution margin analysis for Profit Centers
- Cost variance reports for Cost Centers
- Balanced Scorecard — financial and non-financial KPIs across four perspectives
- EVA (Economic Value Added) and MVA (Market Value Added) for shareholder value analysis

[Summary Table - Functions at a Glance]

| Function | Key Activities | Tools / Techniques Used |
|-------------------|---|--|
| Planning | Budgets, forecasts, profit plans | Master budget, CVP, rolling forecasts |
| Decision Making | Make/buy, pricing, capital budgeting | Marginal costing, NPV, IRR, incremental analysis |
| Controlling | Variance analysis, budgetary control | Standard costing, KPIs, MBE |
| Coordinating | Departmental alignment, resource allocation | Responsibility centers, inter-departmental budgets |
| Reporting | Management reports, dashboards | Ratio analysis, graphs, scorecards |
| Interpreting | Trend analysis, ratio analysis | Financial ratios, statistical tools |
| Performance Eval. | ROI, RI, EVA, Balanced Scorecard | Benchmarking, comparative analysis |

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