

## MANAGEMENT ACCOUNTING AND ITS IMPACT

M.Madhuri

Assistant Professor, Department of MBA, Samskruti College of Engineering and Technology, Ghatkesar (M), , Telangana.

**Abstract** - Accounting as a scientific discipline, identifies, records and communicates information that relevant, reliable and comparable to decisions by the user. Management accounting differs from financial accounting mainly regarding users. Managerial accounting information needed for internal users, while financial accounting information users external addresses. The objectives management accounting related to meeting the objectives of the Organization. Accounting Management helps an organization to make decisions, control, planning and reporting of more qualitative information. Competition, increased services and information technology advances are key factors that have contributed to greater practice of management accounting in the enterprise. This means active participation of management accountants in key processes of the enterprise. Today, their role is very large and the application of ethical standards is mandatory.

**Keywords:** Accounting, enterprise, management, financial, economy.

### INTRODUCTION

Starting since 1494, for the development of dual accounting principles as science which relates to the development of society, gave great contribution Luke Paciolo Italian. Since that time, but even today, many scientists are trying to give a full accounting definition. Thus, in 1940, the AICPA (American Institute of Certified Public Accounts), define accounting as "the art of recording, classification and in a meaningful summary of the monetary value of the transactions, which are partly financial character and interpretation of these results.

"Rough definition can be found in American literature, where accounting is defined as "a system for providing quantitative information, primarily financial in nature, about economic entities, for the purpose of making decisions more accessible". Financial information arising as a result of the measurement and reporting by accountants mainly serve entities. But there are different kinds of information that can be reported to interested parties.

These included may managers and business owners who need accounting information to make decisions, investors who see the opportunity to provide a dividend at the end of the period, creditors consider the possibility of payment of the obligations of the entity, governmental units for the payment option tax and employees who see opportunity amid reports of payment of their salaries, etc.1

A more practical definition for accounting would be "modern accounting, first and foremost, is focused not only on bookkeeping, but also in other activities including planning and sales problems, control, analysis and revision. Accounting Today's focus on the need ultimately of who is the user of accounting information, information that a user is inside or outside participation in business ". Accounting as a scientific discipline focuses on several key steps, such as:

- Identification and measurement of information,
- Registration of information and Matu identified in the accounting books,
- Reporting of results and their analysis needs inside users and outsiders.

So accounting systems are the master itself and are designed to assist in meeting human. There are several types of accounting, such as financial accounting, management accounting, cost accounting and tax accounting.

### NATURE OF MANAGEMENT ACCOUNTING

The term management accounting is composed of 'management' and 'accounting'. The word 'management' here does not signify only the top management but the entire personnel charged with the authority and responsibility of operating an enterprise. The task of management accounting involves furnishing accounting information to the management, which may base its decisions on it. It is through management accounting that the management gets the tools for an analysis of its administrative action and can lay suitable stress on the possible alternatives in terms of costs, prices and profits, etc. but it should be understood that the accounting information supplied to management is not the sole basis for managerial decisions. Along

with the accounting information, management takes into consideration or weighs other factors concerning actual execution. For reaching a final decision, management has to apply its common sense, foresight, knowledge and experience of operating an enterprise, in addition to the information that is already has. The word 'accounting' used in this phrase should not lead us to believe that it is restricted to a mere record of business transactions i.e., book keeping only. It has indeed a 'macro-economic approach'. As it draws its raw material from several other disciplines like costing, statistics, mathematics, financial accounting, etc., it can be called an interdisciplinary subject, the scope of which is not clearly demarcated. Other fields of study, which can be covered by management accounting, are political science, sociology, psychology, management, economics, statistics, law, etc. A knowledge of political science helps to understand authority relationship and responsibility identification in an organization. A study of sociology helps to understand the behaviour of man in groups. Psychology enables us to know the mental make-up of employers and employees. A knowledge of these subjects helps to increase motivation, and to control the actions of the people who are ultimately responsible for costs. This builds a better employer-employee relationship and a sound morale. The subject of management reveals the processes involved in the art of managing, a knowledge of economics assists in the determination of optimum output in the forecasting of sales and production, etc., and also makes it possible to analyze management action in terms of cost revenues, profits, growth, etc. It is with the help of statistics that this information is presented to the management in a form that can be assimilated. The subject of management accounting also encompasses the subject of law, knowledge of which is necessary to find out if the management action is ultra-vires or not. It is, therefore, a wide and diverse subject. Management accounting has no set principles such as the double entry system of bookkeeping. In place of generally accepted accounting principles, the philosophy of cost benefit analysis is the core guide of this discipline. It says that no accounting system is good or bad but it can be considered desirable so long as it brings incremental benefits in excess of its incremental costs. Applying management accounting principles to financial matters can arrive at no single perfect solution.

## SCOPE OF MANAGEMENT ACCOUNTING

Management accounting is concerned with presentation of accounting information in the most useful way for the management. Its scope is, therefore, quite vast and includes within its fold almost all aspects of business operations. However, the following areas can rightly be identified as falling within the ambit of management accounting:

- (i) Financial Accounting:**  
Management accounting is mainly concerned with the rearrangement of the information provided by financial accounting.
- (ii) Cost Accounting:**  
Standard costing, marginal costing, opportunity cost analysis, differential costing and other cost techniques play a useful role in operation and control of the business undertaking.
- (iii) Revaluation Accounting:**  
This is concerned with ensuring that capital is maintained intact in real terms and profit is calculated with this fact in mind.
- (iv) Budgetary Control:**  
This includes framing of budgets, comparison of actual performance with the budgeted performance, computation of variances, finding of their causes, etc.
- (v) Inventory Control:**  
It includes control over inventory from the time it is acquired till its final disposal.
- (vi) Statistical Methods:**  
Graphs, charts, pictorial presentation, index numbers and other statistical methods make the information more impressive and intelligible.
- (vii) Interim Reporting:**  
This includes preparation of monthly, quarterly, half-yearly income statements and the related reports, cash flow and funds flow statements, scrap reports, etc.
- (viii) Taxation:**  
This includes computation of income in accordance with the tax laws, filing of returns and making tax payments.

#### TYPES OF MANAGERIAL ACCOUNTING REPORTS

In small business, every dollar counts, so keeping an eye on your bottom line is a necessary review process. Managerial accounting reports can provide you with the information needed to trim costs, reward high-performing employees, cut languishing product lines and invest in the goods that offer the best financial return for your business. Depending on the type of projects your business undertakes and the time-sensitivity of your financial information, you may request or generate reports quarterly, monthly, weekly or even daily.

#### 1. Budget Reports to Analyze Performance

Budget reports help small business owners analyze business performance and managers analyze their department's performance and control costs. The estimated budget for the period is usually based on the actual expenses from prior years.

#### 2. Accounts Receivable Aging

The accounts receivable aging report is a critical tool for managing cash flow if you extend credit to customers of your business. This report breaks down the customer balances by how long they have been owed. Most aging reports include separate columns for invoices that are 30 days late, 60 days late and 90 days late or more. A manager can use the aging report to find problems with the company's collections process.

#### 3. Job Cost Reports

Job cost reports show expenses for a specific project financed by your small business. They are usually matched with an estimate of revenue so you can evaluate the job's profitability. This helps identify higher-earning areas of the business so you can focus additional efforts there instead of wasting time and money on jobs with low profit margins. Job cost reports are also used to analyze expenses while the project is in progress so you can correct areas of waste before costs spiral out of control.

#### 4. Inventory and Manufacturing

If your small business maintains a physical inventory or produces products, you can use managerial accounting reports to make the manufacturing processes more efficient. These reports generally include items such as inventory waste, hourly labor costs or per-unit overhead costs. You can then compare different assembly lines within your business to highlight areas for improvement or to offer bonuses to the best-performing departments.

Management accounting versus financial accounting:-

Management accounting versus financial accounting, deals with all types of accounting information that is collected, measured, recorded, processed and transmitted managers' entities.

The information that was provided by the managers of the management accounting related to the cost of products manufactured for specific products each segment of the unit, the planning and control of various operations, the nature, location and size of the revenue for each product and the unit segment, capital budgeting, etc. Management accounting differs from financial accounting to reason that management accounting is used for decision making within the company and is not meant to convey any rules issued by standard-setting bodies. As for the financial accounting relates to accounting information, except that used by management of the entity, mainly communicated to the external users of information. Financial accounting is that part of the accounting system that deals with the measurement and reporting financial and business results over a period of time, in accordance with generally accepted principles of accounting. Mainly provides information about the entity relationships with persons or entities outside its natural, eg, with suppliers, creditors, investors, state, etc. Since the two types of accounting receive information from basic accounting system of the organization.

#### Goals of management accounting

Accounting for Management adds value to an organization, taking into account the following three main objectives:

- By providing information for decision making and active participation of planning through the management team.
- Assist managers in managing operational control activities. So, the management team should always have information on operational needs customers, managers and team management and control flows should compare the actual cost of their impact on the Budget of the firm.
- Motivation of managers and other employees to meet company goals. Although often happens that personal goals are at odds with those of the organization, but one of the objectives of management accounting is to motivate managers and employees in achieving the goal more efficient organization.
- The maturity and performance of activities, units, menaxheëve and workers in the organization, in order to achieve profit maximization. Many of the organizations recognized the increased activity compensate employees based on the profit achieved unit. In some other enterprise that is measured by the quality, sale or delivery time.
- Defining the competitive position of the enterprise and working with enterprise managers to ensure competition in the market longer term. Crucial role of management accounting is to determine how the organization will oppose competition, always trying to move forward in its economic

#### **Role and standards of ethical conduct for accountants**

Managerial accountants provide management with all kinds of information and simultaneously act as strategic partners in business, in support of the role of management in making decisions and managing the activities of the organization.

Porsche, Stihl, DaimlerChrysler and other German companies see management accounting as a separate discipline and typically employ management accounting employ enough staff or financial accounting and more.

Kontabilstëve role of management in an organization is that of support and teamwork. They help people who are responsible for the achievement of the basic objectives of an organization.

Managerial Accountant is responsible for creating the financial information required by the reporting

firms and external brendhsëm. This responsibility includes the collection, processing, analysis and reporting of information to help managers in their planning, controlling and decision making.

Many companies establish a code of ethics or standards of conduct for managers and their employees. A study conducted by Deloitte & Touche LLP and Corporate Board Members magazine showed that 98% of corporate disagreed with the fact that the company must implement an ethics program. Ethical behavior is associated with an accountant, since the credibility of accounting information depends on the sensitivity of those who prepare, report and control this information. Institute of managerial accountants (IMA), has set the code and ethical standards should adhere to managerial accountants.

#### **This code is based on three fundamental principles**

- The integrity of the person who prepares, controls reporting and accounting information,
- In the objectivity of information prepared, reported and controlled,
- The professional independence of the person who prepares, and controls information reporting.

Relying on these fundamental principles, enables:

- To avoid errors of ethical lowercase,
- To focus on long-term reputation,
- To prepare for the expected personal consequences for maintaining ethical position.

In the professional code of conduct drafted by IFAC, also mentioned some other basic principles for managerial accountants:

- Assessment, professional accountant should be honest, fair, honest in providing professional services.
- Objectivism accountant does not allow prejudice, conflict of interest or influence in order to avoid objectivism.
- Professional ability, means carrying out work professionally and competently.
- Reliability in storing information and omitting their unauthorized persons, and not using them for the needs and issues that do not relate to the company's interest.
- Bringing professional, reputable and not perform work that discredit him and the company as a whole.

- Ethical standards - should generally apply depending on where they applied those standards.

The role of management accountants is enormous, especially for manufacturing and service companies, both application of ethical standards by managers is necessary.

### **The Impact of Management Accounting Techniques on Profitability**

Management accounting techniques give business leaders the tools to measure and increase profit margins while lowering operating expenses. The scope of analytical techniques is large enough to fill college textbooks, and the Institute of Management Accountants offers certifications highly valued by the accounting industry. Through careful application of management accounting techniques, leaders are able to steer their organizations in the right direction and enhance profitability.

### **Breakeven Analysis**

A breakeven analysis allows members of management to gauge how much of a product or service they need to sell to recoup operating costs and turn a profit. This involves calculating variable costs, fixed costs and expected sales volumes. Although the calculation is straight-forward in nature, determining the variable and fixed costs takes careful analysis. Administrative costs, rent and insurance are among the expenses that factor into the equation. If a breakeven analysis is performed properly, businesses stand a better chance of generating a profit.

### **Expense Budgeting**

Expense budgeting is a key management accounting activity that helps leaders allocate cash and remain within spending thresholds. Budgets are typically made for calendar years and are adjusted given changes in sales volumes or operational activities. Expense budgets are created for entire organizations and individual departments, which makes it easier for line managers to reduce their spending. Without budgets, managers have the potential to overspend or misallocate resources and reduce bottom-line profit.

### **Inventory Management**

Too much inventory, inaccurate tracking systems and a lack of priorities have the potential to disrupt operations and reduce profit margins. Just-in-time inventory management and related calculations help managers keep holding and reordering costs to a minimal level. As a result, the business is able to maintain or increase profit margins. Other inventory management methods also help reduce costs and maintain effective turnaround times. Although service businesses do not carry finished goods inventory, they do have to allocate their personnel in an efficient manner to turn a profit.

### **Capital Budgeting**

It is important to know how much money to allocate to new projects or equipment and still turn a profit. Capital budgeting calculations take into account initial cash outlays, the time value of money and estimated useful lives to help management make decisions. Knowing the expected rate of inflation and return on investment is critical for capital budgeting and profitability assessments. Management staff must be able to make capital purchases and be confident they are acting in the best interests of their organization.

### **CONCLUSION**

As a result of this piece of research I came to the conclusion that the application of an accounting system in the enterprise, depending on its size, is mandatory, especially in today's conditions of globalization, strong competition and the application of new information technologies. If an enterprise wants to be part of this competition and achieve profit maximization must apply the accounting system and not only with books but also through the computer. Given the scope of the paper, I focused more on the application of management accounting, accounting which mainly be used by manufacturing and service. With the help of information provided by managerial accountants, the enterprise can more easily achieve its objectives. But this is achieved when the accountants are professional, have the ability to access analysis, to understand the data from the accounting system and adhere to ethical standards adopted by international regulations.

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