

Meaning and Definition of Management Accounting

Management Accounting Definition

Management accounting also is known as managerial accounting and can be defined as a process of providing financial information and resources to the managers in decision making. Management accounting is only used by the internal team of the organization, and this is the only thing which makes it different from financial accounting. In this process, financial information and reports such as invoice, financial balance statement is shared by finance administration with the management team of the company. Objective of management accounting is to use this statistical data and take a better and accurate decision, controlling the enterprise, business activities, and development.

Introduction to Management Accounting

One of the definitions of Management accounting says that it is the application of professional skills and knowledge in the preparation of financial and accounting information in a manner in which it will assist the internal management in the formulation of policies, planning, and control of the operations of the firm.

The basic function of management accounting is to help the management make decisions. There is no fixed structure or format for it.

Financial accounting, costing, business analysis, economics, etc are some tools and techniques of management accounting.

The only need for management accounting is that the data should serve its purpose, which is helping the management take important business decisions.

Advantages and Objectives of Management Accounting

There are many objectives of but the prime objective is to assist the management team of an organization in improving the quality of their decisions. Purpose of management accounting is to help the managerial team with financial information so that they can execute business operations and activities more efficiently. Following is the list of all benefits of management accounting –

1. Decision Making

2. Planning
3. Controlling business operations
4. Organizing
5. Understanding financial data
6. Identifying business problem areas
7. Strategic Management

Decision Making

This is the most important benefit of the process of management accounting. In fact, it is the main purpose of it. In this form of accounting, we use techniques from all fields like costing, economics, statistics, etc.

It provides us with charts, tables, forecasts and various such analysis that makes the process of decision making easier and more justified.

Planning

Managerial accounting does not have any strict timelines like financial accounting. It is, in fact, a continuous and ongoing process.

So financial and other information is presented to the management at regular intervals like weekly, monthly or sometimes even daily.

Hence managers can use this analysis and data to plan the activities of the organization. For example, if the recent data shows a dip in the sales for a certain region, then the sales manager can advise his team and plan some action to rectify the situation.

Identifying Business Problem Areas

If some product is not performing well, or some department is running into unexpected losses, etc. managerial accounting can help us identify the underlying cause.

Actually, if the management is diligent and their data and reports are frequent, they can identify the problem very early on. This will allow the management to get ahead of the problem.

Strategic Management

Concept of management accounting is not mandatory by any law. So it can have its own structure according to the company's requirements. So if the company feels certain areas need more in-depth analysis or investigation it can do so freely.

This allows them to focus on some core areas. The information presented to them allows them to make strategic management decisions.

Like if the company wishes to launch a new product line, or discontinue an existing one, management accounting will play a huge part in this strategy.

Limitations of Management Accounting

- **Data based on Financial accounting** – Decisions taken by the management team are based on the data provided by Financial Accounting
- **Less knowledge** – Management has insufficient knowledge of economics, finance, statistics, etc.
- **Outdated data** – Management team receives historical data, which may change eventually when management is taking the decisions.
- **Expensive** – Setting up a management accounting system requires a lot of investment.

Difference between Management Accounting and Financial Accounting

| Sr. No. | Management Accounting | Financial Accounting |
|----------------|---|--|
| 1 | Only used for internal purposes of the firm | For external reporting to various stakeholders and mandatory by law in |

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|---|--|--|
| | | most cases |
| 2 | Is not under the regulation of any law or regulations | Is governed by Standards, Laws, regulations, etc |
| 3 | The main purpose is to help internal management take decisions | Helps investors, creditors, etc. take investment decisions |
| 4 | Includes both financial and non-financial information | Is only concerned with financial information |
| 5 | Not subject to any audits or investigation | Financial records are audited as per the norms |