Analyze the management accounting essay

Business, Management

Management accounting is concerned with providing information to the managers who control the operations within the organization. Unlike financial accounting which provides information to the external stockholders, management accounting provides information to the employees within the organization.

As a result, management accounting does not have to follow any hard and fast rules. In the case of financial accounting, there are the generally accepted accounting principles. However in practicing management accounting, the managers can exercise their own discretion.

This is because management accounting is primarily concerned with monitoring the performance of the organizational processes. As a result the managers have to collect data in different areas, such as marketing, production andfinance, and apply these data in a decision making framework such as the one provided by either the activity based costing system or the balanced scorecard methodology.

This decision making framework enables the top management to assess the cost effectiveness of different work processes and manage them accordingly.

The process of management accounting is concerned with collecting data about the costs of different products and services. Additional data are generated by budgets and performance reports. These data can be used in the frameworks of the balanced scorecard or the activity based costing system.

The balanced scorecard views an organization from four perspectives: financial, customer, learning and growth and internal business processes

(Guilding, 2000). By emphasizing upon the interconnectedness between the four perspectives, the balanced scorecard ensures that the performance management system is forward looking, instead of merely focusing upon the financial perspective which provides information on the profit level of the company.

The activity based costing system identifies the cost drivers in the product processes and assigns the costs accordingly (Hoffjan & Wompener, 2006). This accurately reflects the costs incurred in manufacturing the different products and therefore the product-level profits can be calculated accordingly.

The current businessenvironmentis characterized by a fast pace of change and therefore the products which are performing well today can become obsolete overnight. Therefore it is the critical success factor for the management to monitor product costs so that their profit potential can be mapped accordingly.

Depending on this assessment, the obsolete products can be identified and divested. This is a critical consideration for the management because if the investment in obsolete products is continued then it will affect the whole organization negatively.

This is the decision making process that management accounting facilitates. By using frameworks such as the balanced scorecard or the activity based costing system, managers can use management accounting data on products and services to find out which of the processes are not performing according to expectations.

Then the process of managing change can be conducted to enhance the efficiency in those processes. The balanced scorecard can assist in the process of managing change by emphasizing upon the interconnectedness between different processes.

In order to make effective decisions, a closer understanding of the financial statements is required. The financial statements are primarily of three types: profit and loss statement, the balance sheet and the statement of cash flows (Hoque, 2008). Accountants use historical data to prepare the financial statements.

The historical data are generated by the decisions made by the management in the past. Therefore it is the managers more than the accountants who need to understand how their decisions are impacting the financial statements. The accountants are merely concerned with the mechanics of preparing the financial statements.

However the managers have to establish the link between the organizational processes in marketing, production and finance and the financial statements. Once this link is established, then the decision making process is facilitated as managers can capitalize upon the information in the financial statements to guide their future actions. In this manner, a decision making framework is created.

The decision making framework is implemented through the methodology of the balanced scorecard. The application of the balanced scorecard can be illustrated in the case of Dell Inc. the computer hardware manufacturer. Dell has to maintain a constant process of managing change because of the dynamic nature of the industry.

The process of managing change is facilitated by the balanced scorecard because it is understood that it enables the management to track how changes in one organizational area impact the other areas. For example, in the customer perspective, Dell sets initiatives in how the quality of customer service can be enhanced in after-sales support. Implementing this initiative has repercussions on financial, employee learning and growth and internal business processes.

This interconnectedness is illustrated in the balanced scorecard. At Dell, training and development programs are designed based upon the initiatives which have been proposed in the customer service department. In this manner, the expenditures in training and development are strategically aligned to the mission of providing the best customer service in the industry.