The concept of management accounting

Finance

Management Accounting

Management accounting concerns the provisional use of accounting data by managers within a Corporation or organization. This information provides managers with the ground for making informed business decisions. This information also equips the managers and the management staff with management skills and control functions. Management accounting information has a forward outlook, as opposed to the historical outlook of financial management. Management accounting models have degrees of notion for supporting the decision-making process, instead of the case based model of financial accountancy. Management accounting has a design and intention, used by the management in the organization. Confidentiality plays an enormous role in management accounting as opposed to financial accounting. The information in management accounting has a computational dimension tailored for the managers; it uses management information systems, as opposed to financial accounting standards. Various concepts of management accounting exist for usage by managers and management teams within organizations and companies (Caplan, p. 156). This information plays a crucial role in decision-making processes within the organization and also assists in the formulation of strategies, business activities and enhances the budget-making process within the organization.

Management accounting involves the process of measurement, identification, analysis, accumulation, interpretation, preparation and communication of information by managers in planning, evaluation and controlling an organization, entity or firm. This process ensures appropriate use and accountability of the entity’s resources. Management accounting could also involve the preparation of fiscal reports for non-management groups within the entity (Caplan, p. 158). This group includes creditors, shareholders, tax authorities and regulatory agencies. Management accounting covers strategic management, risk management, and performance management. A management accountant should be able to apply the comprehension and skills in preparation and presentation of fiscal and decision-oriented details in a manner that will assist management in the formulation of policies, and planning and control of the organizations undertaking (Hossan, & Yeshmin, p. 150).

The concepts of management accounting include; cost accounting, lean accounting, throughput accounting, Grenzplankostenrechnung (G. P. K), resources consumption accounting and transfer pricing. Cost accounting plays a central role in management accounting. G. P. K provides accurate and consistent applications of managerial costs calculations assigned to a service or product. Lean accounting involves accounting techniques suited to the needs of small-scale production. This concept of management accounting does not measure or support ethical business practices in the modern business environment (Caplan, p. 159). Resource consumption accounting refers to a dynamic, principle-based, comprehensive and fully-integrated management accounting method. This method provides decision support information to managers for the enterprise optimization. Throughput accounting has a modern approach to management accounting. This method recognizes the interdependencies of current production processes. This approach is a tool for assessing the contribution of the constrained resources per unit of involvement. Transfer pricing has a broad application as an applied discipline. The principles and functions involved in this technique may vary depending on the industry. This tool is used fundamentally in assigning worth and proceeds allocations within the business units (Caplan, p. 160).

Management accounting involves a number of methods, tools, approaches, and techniques of management. Variance analysis involves a systemic approach in comparison of budgeted and actual costs of labor and raw materials required during the production process. Variance analysis applies in conjunction with activity-based costing and life cycle analysis; designed with aspects of modern business environments (Malik, & Shah, p. 15).

Life cycle costing recognizes the ability of the manager to influence the manufacturing cost of a product. The manager can influence the cost at the design stage because changes in the design cost could lead to significant savings in the manufacturing cost. Activity-based costing notes that currently, factories determine the scope of activities hence acknowledging that effective cost control optimizes the efficiency of these activities. Activity-based costing and life cycle costing acknowledges the habit of modern factories to avoid disruptive events, which include machine failure. The avoidance of such events offers the entity a chance to reduce its manufacturing cost. Activity-based costing does not dwell on direct labor, but instead on activities that drive cost. Resource consumption accounting is an innovative accounting practice available for managers. This approach provides an ability to derive the costs from resources data or to measure and isolate unused capacity costs (Malik, & Shah, p. 19).

Management accounting plays double roles in reporting relationships. It plays the role of a strategic provider and partner of financial and operation based information crucial in decision making. Management accountants have a responsibility for running the company and the business team on the knowledge and skills gained. They have a responsibility of reporting responsibilities and relationships to the Corporation's financial organization. Management accounting provides an insight into forecasting, performing variance analysis, planning, monitoring and reviewing costs necessary to the business. Management accounting, therefore, cannot be ignored in management because of its essentiality. For Corporations that obtain their profits from an information economy, costs significantly influence spending. Such a Corporation could utilize the resources from management accounting to reduce the production costs. Management accounting helps in driving the business to success because of its value creation. This information will play a crucial role in the formation of my business entity.

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