

Pune University for S.Y. BBA, Semester III

Management Accounting

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Management Accounting

(Strictly as per the Syllabus of Pune University for S.Y. BBA, Semester III)

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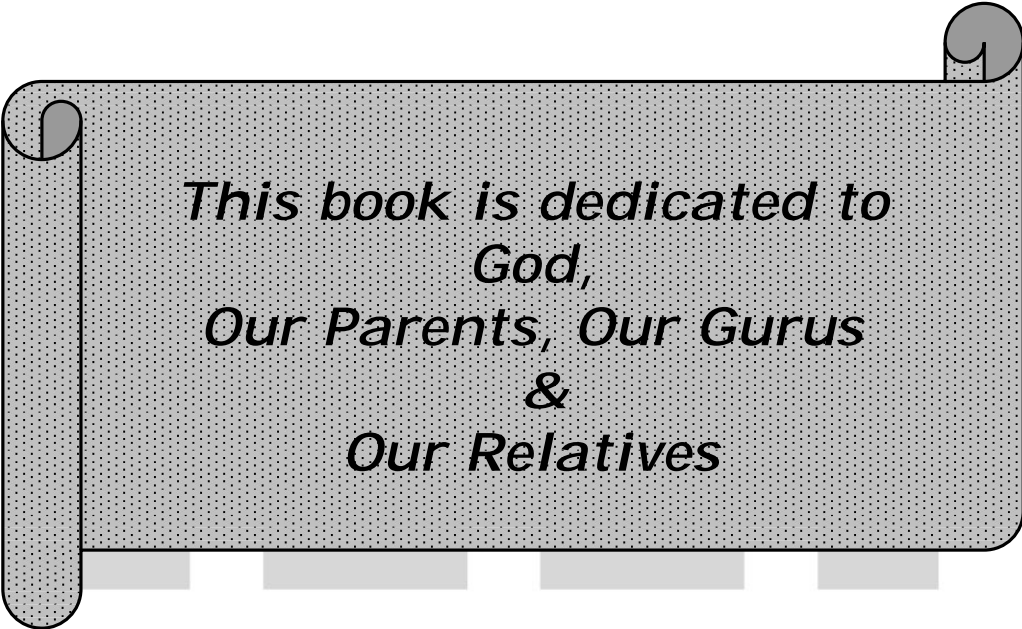
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*This book is dedicated to
God,
Our Parents, Our Gurus
&
Our Relatives*

Preface

We are happy to present the book “*Management Accounting*” to the students of BBA Semester III, the teachers and the readers. This book is written according to the syllabus prescribed by the University of Pune.

Outstanding Features:

1. As per the guidelines of University of Pune
2. Simple and lucid language
3. Bird's eye view boxes given in the text provides a snapshot of the subject matter covered
4. Diagrammatic representation.
5. Sufficient practical illustrations
6. University illustrations
7. Self study illustrations
8. Objectives
9. In-depth information
10. Typical illustrations
11. Followed a method of simple to complex.

Authors

Acknowledgements

The success of this book is not due to the solo efforts but many people play the role from editing to selling. We are thankful to all those who have helped to make this book a success. We wish to thank first and foremost to our parents and family members for their valuable support, belief, motivation to write this book and cooperating for making this attempt a success. We express our special thanks to Ms. Diya Rajwani, Ms. Juhi Rajwani, Mr. Jeet D. Joshi, Dinesh, Ayush, Rohan, Riya, Misha Bhatia and Tushar S. Shetty for their valuable support throughout.

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A warm thanks to all the readers and students for believing us.

Last but not the least thanking to all those who have helped directly or indirectly in making this book a success.

Please feel free to provide us with your valuable suggestions for the further improvement of the book.

Authors

Syllabus

University of Pune
(Pattern 2013) w.e.f. 2014-2015

BBA Semester III

Management Accounting (Course Code - 304)

Learning Objectives:

1. To impart basic knowledge of Management Accounting.
2. To know the implications of various financial ratios in decision making.
3. To study the significance of working capital in business.
4. To understand the concept of budgetary control and its application in business.
5. To develop the calculating ability of various techniques of management accounting.

Unit No.	Name of the Topic	No. of Lectures
Unit 1	Introduction <ul style="list-style-type: none">• Management Accounting – Definitions, Objectives, Scope, Functions, Advantages, Limitations, Distinction between Financial Accounting and Management Accounting, Distinction between Cost Accounting and Management Accounting.• Strategic Management Accounting.	10
Unit 2	Analysis and Interpretation of Financial Statements <ul style="list-style-type: none">• Methods of Analysis, Comparative Statements, Common Size Statement, Trend Percentage or Trend Ratio (Horizontal Analysis), Ratios, Fund Flow Statement.• Ratio Analysis: Meaning of Ratio, Necessity and Advantages of Ratio Analysis, Interpretation of Ratios.• Types of Ratio:<ol style="list-style-type: none">(i) Liquidity Ratios(ii) Leverage Ratios(iii) Activity Ratios(iv) Profitability Ratios <p>(Problems on following ratios only: Gross Profit, Net Profit, Operating Expenses, Current Ratio, Quick Ratio, Stock Turnover Ratio, Debtors Turnover Ratio, Debt Equity Ratio, Return on Investment Ratio, Interest Coverage Ratio.)</p>	12
Unit 3	Fund Flow Statement and Cash Flow Statement <ul style="list-style-type: none">• Meaning of Fund Flow Statement, Working Capital, Causes of	8

	Changes in Working Capital, Proforma of Sources and Applications of Funds, Proforma of Adjusted Profit and Loss Account, Proforma of Cash Flow Statement.	
Unit 4	Working Capital <ul style="list-style-type: none"> • Meaning, Objectives and Importance, Factors Determining Requirement of Working Capital, Sources of Working Capital, Problems on Computation of Working Capital. 	10
Unit 5	Budget and Budgetary Control <ul style="list-style-type: none"> • Meaning, Definition, Nature of Budget and Budgetary Control, Types of Budget as per Time and Function, Objective of Budget and Budgetary Control, Limitations of Budget and Budgetary Control, Steps in Budgetary Control. 	8
	Total	48



Second Year Bachelor of Business Administration (S.Y. BBA)
Pattern of Question Paper of Practical Paper w.e.f. 2014-2015
Subject : Management Accounting (304)

Time: 3 Hours

Total Marks: 80

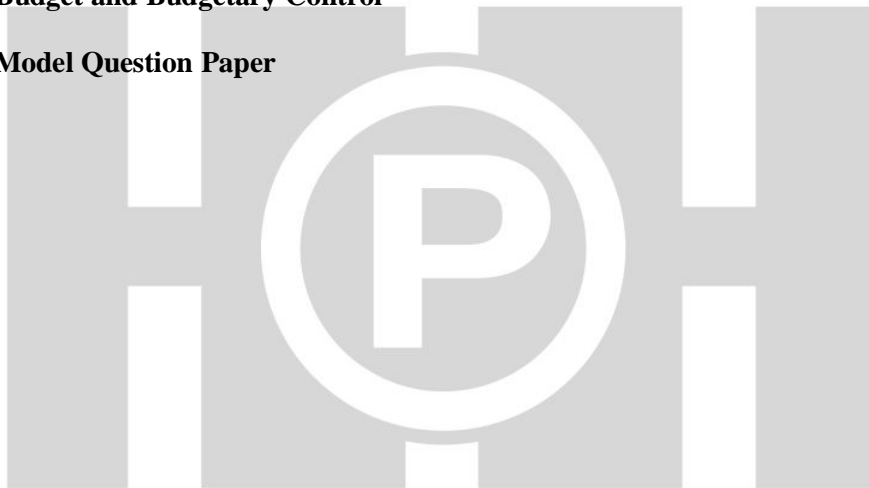
Instructions:

1. All questions are compulsory.
2. Figures to the right indicate full marks.

- | | |
|--|------------|
| Q.1. Theory Question | (16 marks) |
| OR | |
| Theory Question | |
| Q.2. Practical Problem | (16 marks) |
| OR | |
| Theory Question | |
| Q.3. Practical Problem | (16 marks) |
| OR | |
| Theory Question | |
| Q.4. Practical Problem (Compulsory) | (16 marks) |
| Q.5. Write Short Note (Any 4 out of 6) | (16 marks) |

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6. Budget and Budgetary Control	158 – 178
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Structure:

- Introduction to Accounting
- Branches of Accounting
- Meaning of Management Accounting
- Definitions of Management Accounting
- Scope of Management Accounting
- Functions of Management Accounting
- Advantages of Management Accounting
- Limitations of Management Accounting
- Distinguish between Financial Accounting and Management Accounting
- Distinguish between Cost Accounting and Management Accounting
- Strategic Management Accounting
- Theory Questions

INTRODUCTION TO ACCOUNTING

Accounting, or accountancy, is the measurement, processing and communication of financial information about economic entities. Accounting, which has been called the “language of business”, measures the results of an organization’s economic activities and conveys this information to a variety of users including investors, creditors, management and regulators.

BRANCHES OF ACCOUNTING

Accounting can be divided into financial accounting, management accounting and cost accounting.

1. Financial Accounting

It focuses on the reporting of an organization's financial information, including the preparation of financial statements, to external users of the information, such as investors, regulators and suppliers.

2. Management Accounting

It focuses on the measurement, analysis and reporting of information for internal use by management.

3. Cost Accounting

It is the method of accounting for cost. The process of recording and accounting for all the elements of cost

MEANING OF MANAGEMENT ACCOUNTING

Management Accounting is primarily concerned with the requirements of the management. It involves application of appropriate techniques and concepts, which help management in establishing a plan for reasonable economic objective. It helps in making rational decisions for accomplishment of management objectives.

DEFINITIONS OF MANAGEMENT ACCOUNTING

- Management accounting is a field of accounting that analyzes and provides cost information to the internal management for the purposes of planning, controlling and decision making.
- Management accounting refers to accounting information developed for managers within an organization. CIMA (Chartered Institute of Management Accountants) defines Management accounting as "Management Accounting is the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of information that is used by the management to plan, evaluate and control within an entity and to assure appropriate use of an accountability for its resources". This is the phase of accounting concerned with providing information to managers for use in planning and controlling operations and in decision making.
- "Management Accounting is concerned with accounting information, which is useful to the management."

— **Robert N. Anthony**
- "Management Accounting is concerned with the efficient management of a business through the presentation to management of such information that will facilitate efficient planning and control."

— **Brown and Howard**
- "Any form of Accounting which enables a business to be conducted more efficiently can be regarded as Management Accounting."

— **The Institute of Chartered Accountants of England and Wales**

SCOPE OF MANAGEMENT ACCOUNTING

The scope of Management Accounting is very vast as Management Accountancy utilizes the principle and practices of Financial Accounting and Cost Accounting in addition to other management techniques for efficient operations of a company. It widely uses different techniques from various branches of knowledge like Statistics, Mathematics, Economics, Laws and Psychology to assist the management in its task of maximizing profits or minimizing losses. The main thrust in Management Accountancy is towards determining policy and formulating plans to achieve desired objectives of management. Management Accountancy makes corporate planning and strategy effective.

FUNCTIONS OF MANAGEMENT ACCOUNTING

The main functions of Management Accounting are:

1. Planning

Planning is an important function of management accounting which is most effectively performed by the preparation of budgets and forecasts. Forecasting is the process of estimation of the expected financial performance and position of a business in the future. Common types of forecasts include cash flow forecast, projected profit and loss and balance sheet forecast. Budgets quantify the financial targets to be achieved by the management of an organization. Budgeting helps in the effective allocation of resources of an organization between competing needs (e.g., departments, products, etc.) in order to achieve the financial goals of a business.

2. Decision making

In Management accounting, there are special techniques which help the management in making the short-term and long-term decisions. For example, techniques like marginal costing, differential costing, discounted cash flow, capital expenditure, etc. help in decisions such as pricing of products, make or buy, discontinuance of a product line, etc.

3. Accountability

Management accounting lays great emphasis on accountability through effective performance measurement. By setting targets for strategic business units and as well as for departments, management accounting assists in the assignment of responsibility for the achievement of business targets by individual managers. Responsibility accounting is achieved by appraising the performance of managers responsible for their business units while giving due consideration for factors not within their control or influence.

4. Controlling

Controlling is an important aspect of Management accounting. In management accounting, various controlling tools and techniques are framed like standard costing, budgetary control, etc. These are planned for the future after analyzing the past so that the scarce resources can be effectively utilized.

5. Reporting to Management

Reporting is an important function of management accounting to achieve the targets. The reports are presented in the form of graphs, diagrams and other statistical techniques so as to make them easily understandable. These reports may be monthly, quarterly and half-yearly. These reports are helpful in giving constant review of the working of the business.

6. Financial Analysis and Interpretation

Management accounting helps in strategic decision making. Top managerial executives may lack technical knowledge. For example, there are various alternatives to produce. There is always a choice for the sales mix. Management Accountant gives facts and figures about various policies and evaluates them in monetary terms. He interprets the data and gives his opinion about various alternative courses of action so that it becomes easier to the management to take a decision.

ADVANTAGES OF MANAGEMENT ACCOUNTING

1. It helps to increase the efficiency of all functions of management.
2. It helps in target fixing, decision making, price fixing, selection of product-mix and so on.
3. Forecasting and Budgeting help the concern to plan the future and financial activities.
4. Various tools and techniques provide reliability and authenticity to carry out the business functions.
5. It is useful in controlling wastage and defects.
6. It helps in complete communication between all the levels of management.
7. It helps in controlling the cost of production thus increasing the profit percentage.
8. It is proactive – analyzes the governmental policies and socio-economic scenario which helps to assess the external environmental impacts on the organization
9. Since it is focused on making future decisions with the help of past financial data, it is forward looking and therefore progressive in nature.
10. It is meant for internal users like top management and therefore, it is not necessary that it is made by following strict guidelines which is the case with financial accounting.
11. It is flexible in nature and therefore, it can be prepared any time and they are not required to be made yearly. They can be made monthly or on weekly basis.
12. It takes all the data and then present it in such a way that a proper analysis about the feasibility and profitability of any business decision can be made.

LIMITATIONS OF MANAGEMENT ACCOUNTING

1. It is concerned with financial and cost accounting. If these records are not reliable, it will affect the effectiveness of management accounting.
2. Decisions taken by the management accountant may or may not be executed by the management.
3. It is very expensive. Only big concerns can adopt this method of accounting.

4. New rules and regulations are to be framed, hence there is a possibility of opposition from the employees.
5. It is only in the developing stage.
6. It provides only data and not decisions.
7. It is a tool to the management and not an alternative of management.its accuracy is also dependent on how accurate that data is. Hence, it is one of the limitations as far as its usability is concerned.
9. It is affected by the bias of top management and therefore it is likely that they may tweak it in such a way so as to benefit themselves rather than shareholders.
10. Since it does not follow accounting principles, it cannot be compared with other companies and hence proper evaluation about the management may not be possible on the basis of management accountancy.

DISTINGUISH BETWEEN FINANCIAL ACCOUNTING AND MANAGEMENT ACCOUNTING

		Financial Accounting	Management Accounting
1	Meaning	The process of recording, summarizing and reporting the myriad of transactions from a business, so as to provide an accurate picture of its financial position and performance.	Management accounting is a field of accounting that analyzes and provides cost information to the internal management for the purposes of planning, controlling and decision making.
2	Aims	It aims at finding out results of accounting year in the form of Profit and Loss Account and Balance Sheet.	It aims at helping management by providing information that used by management to plan, evaluate and control.
3	Nature of Reporting	Financial accounting reports the results and position of business to government, creditors, investors and external parties which is mandatory.	Management Accounting is an internal reporting system for an organization's own management for decision making. So, no legal rules for preparation.
4	Format	Financial accounting records are made as per the predetermined formats.	It does not follow the formats.
5	Used by	Financial Accounting is used even by outside entities.	Management Accounting is used only the management of the concern.
6	Nature	Financial accounts are maintained on the basis of historical records.	Management accounts lay emphasis on both future and present.
7	Period	Financial Accounting is for a specific period.	Management Accounting do not concentrates on period.
8	Legal Compulsion	It is generally compulsory	There is no compulsion to follow management accounting
9	Data	It is concerned with the presentation of the data	It is concerned with the analysis of the data

DISTINGUISH BETWEEN COST ACCOUNTING AND MANAGEMENT ACCOUNTING

		Cost Accounting	Management Accounting
1	Meaning	A method of accounting in which all costs incurred in carrying out an activity or accomplishing a purpose are collected, classified and recorded. This data is then summarized and analyzed to arrive at a selling price, or to determine where savings are possible.	Management accounting is a field of accounting that analyzes and provides cost information to the internal management for the purposes of planning, controlling and decision making.
2	Nature	It is based on past and present	Management accounts lay emphasis on both future and present.
3	Period	It is for a short period.	Management Accounting do not concentrate on period.
4	Legal Compulsion	It is based on some predetermined principles and procedures.	There are no specific rules in management accounting.
5	Data	It is concerned about the collection, classification and recording of the data.	It is concerned with the analysis of the data.
6	Scope	The scope of Cost Accounting is not as broad as Management Accounting.	The scope of Management Accounting is broader than that of Cost Accounting.
7	Emphasis	In cost accounting, the main emphasis is on cost ascertainment and cost control.	In management accounting, the main emphasis is on decision making.
8	Techniques used	The various techniques used by cost accounting are standard costing, budgetary control, marginal costing, cost-volume-profit analysis, uniform costing, inter-firm comparison, etc.	Management accounting also uses these techniques but also uses techniques like ratio analysis, funds flow statement, statistical analysis, etc.

STRATEGIC MANAGEMENT ACCOUNTING

Strategic management accounting is defined as ‘a form of management accounting in which emphasis is placed on information which relates to factors external to the entity, as well as non-financial information and internally generated information.’

The term strategic management accounting (SMA) has been used to describe the process of ‘provision and analysis of management accounting data about a business and its competitors for use in developing and monitoring business strategy’.

Strategic management accounting (SMA) is the merging of strategic business objectives with management accounting information to provide a forward looking model that assists management in making business decisions. Unlike management accounting, which focuses on internal accounting metrics, SMA strategy evaluates external information regarding trends in costs, prices, market share and cash flow, and their impacts on resources, to determine the appropriate tactical response. The strategic element of management accounting requires enhanced intelligence about competitors, suppliers and technologies.

THEORY QUESTIONS

1. Explain the meaning of Management Accounting and its scope.
2. Define Management Accounting and explain its scope and functions.
3. How is management accounting different from financial accounting?
4. Explain the functions of Management accounting.
5. Write short notes on the following:
 - (a) Management accounting
 - (b) Financial accounting
 - (c) Scope of Management accounting
 - (d) Functions of Management accounting
 - (e) Difference between Management accounting and Financial accounting

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