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BUSINESS LEVEL MANAGEMENT ACCOUNTING

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1. Introduction to Management Accounting

1.2.1 Evolution of Management Accounting

Meaning

The term *Management Accounting* has changed a lot over time.
Originally, accountants only calculated and recorded factory costs. Today, they act as **business advisers**, helping managers plan, control, and make strategic decisions.

Period	Focus	Tools & Techniques	Example
Stage 1 – Cost Determination (before 1925)	Record and control factory costs.	Cost sheets, material & labour records.	A furniture factory records wood, nails, and labour to find the cost of one chair.
Stage 2 – Cost Control (1925–1950)	Compare actual costs with standards and control waste.	Standard costing, variance analysis, budgetary control.	If standard cost per unit is Rs. 100 but actual is Rs. 110, investigate why.
Stage 3 – Decision Support (1950–1985)	Use accounting data for decisions.	Marginal costing, CVP analysis, capital budgeting.	A bakery analyses whether to buy or lease a new oven.
Stage 4 – Strategic & Value Creation (1985 – today)	Support long-term strategy and competitiveness.	Activity-Based Costing (ABC), Balanced Scorecard, sustainability reporting.	A company uses ABC to identify unprofitable product lines and focus on high-value items.

➢ Key Takeaways

- Management Accounting evolved from record-keeping → cost control → decision support → strategy partner.
- Modern management accountants participate in planning, innovation, sustainability, and digital transformation.
- They use data, technology, and analysis to guide the business — not just to record the past.

➢ Simple Example

Think about a tuition class:

- Old way: Only record how much was spent on printing papers (cost record).
- Now: Estimate student enrolment, set the right class fee, plan promotions, and analyse profitability.

That's the evolution from cost accounting to full management accounting.

1.2.2 Distinctions between Management Accounting and Financial Accounting

Although both deal with money, **their purpose and audience are different.**

Basis	Management Accounting (MA)	Financial Accounting (FA)
Purpose	Help managers make internal decisions.	Report performance to outsiders.
Users	Internal: managers, supervisors, owners.	External: investors, banks, tax authorities.
Focus	Future-oriented (planning).	Past-oriented (reporting).
Rules/Standards	No strict format — flexible to need.	Must follow standards (LKAS/IFRS).
Nature of Data	Both financial & non-financial (e.g., production units, customer satisfaction).	Only financial information.
Frequency	As needed — daily, weekly, monthly.	Usually once a year or quarter.
Detail Level	Very detailed (per product, per department).	Summary form (overall company).
Confidentiality	Internal use — kept private.	Public documents like financial statements.
Time Horizon	Short-term and long-term planning.	Past accounting period only.

Example

A bakery uses:

- Management Accounting to decide whether to open a new outlet based on expected demand and costs.
- Financial Accounting to prepare its annual financial statements for the bank and the tax department.

➢ Key Takeaways

- MA = internal GPS guiding decisions; FA = official report card for outsiders.
- Both use accounting data, but for different audiences and purposes.
- An efficient business uses both: FA to comply with laws, MA to grow intelligently.

1.2.3 Integration with Other Organisational Functions

Management Accounting doesn't work alone — it connects with all parts of the business. It's like the **central nervous system** linking every department through information.

1. Integration with Marketing

- Provides data on customer profitability, pricing, and sales trends.
- Helps marketing managers decide promotions and discounts.

Example: If advertising Rs. 10,000 increases sales by Rs. 50,000, MA shows the profit impact.

2. Integration with Production/Operations

- Supplies cost per unit, material usage, and efficiency measures.
- Works with engineers to reduce waste and downtime.

Example: Reports show that electricity cost per unit is high at night — production reschedules shifts to daytime.

3. Integration with Human Resources

- Analyses labour cost, overtime, absenteeism, and training effectiveness.
- Provides incentive data for performance appraisal.
  Example: HR introduces a bonus for workers who save material; MA tracks cost reduction achieved.

4. Integration with Procurement/Supply Chain

- Evaluates supplier performance, purchase price trends, and stock levels.
- Helps set re-order levels and manage cash flow.
  Example: MA shows that buying feed ingredients in bulk saves Rs. 50,000 a month but needs higher storage capacity.

5. Integration with Finance

- Coordinates with finance to manage budgets, capital investment, and cash.
- Provides forecasts that finance uses for borrowing or investment decisions.
  Example: If MA forecasts a cash shortage next month, the finance team arranges a short-term loan in advance.

6. Integration with Research & Development (R&D)

- Analyses cost–benefit of new products or processes.
- Tracks R&D spending and potential returns.
  Example: MA compares the development cost of a new chicken-feed formula vs. expected sales increase.

Key Takeaways

- ❑ MA links every function through data, ensuring departments work towards one goal.
- ❑ It turns raw data from each area into useful insights for management.
- ❑ The accountant acts as a business partner, not a back-office clerk.

➢ **Simple Analogy**

Imagine the business as a human body:

- Sales = mouth
- Production = hands
- HR = heart
- Finance = lungs
- Management Accounting = brain connecting all parts and sending the right signals at the right time.