

MANAGEMENT OUTLOOK



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ABOUT MANAGEMENT ACCOUNTING

Management accounting is the internal business building role of accounting and finance professionals who work inside organizations. These professionals are involved in designing and evaluating business processes, budgeting and forecasting, implementing and monitoring internal controls, and analyzing, synthesizing, and aggregating information—to help drive economic value.

The role of management accounting differs from that of public accounting, since management accountants work at the “beginning” of the value chain, supporting decision making, planning and control, while audit and tax functions involve checking the work after the fact. Management accountants are valued business partners, directly supporting an organization's strategic goals. With a renewed emphasis on good internal controls and sound financial reporting, the role of the management accountant is more important than ever.

It obviously takes more people to “do” the work than it does to “check” the work. In fact, of the five million finance function professionals in the U.S., more than 90% work inside organizations as management accountants and fi-

nance professionals. Some common job titles for management accountants in organizations of all sizes and structure include:

- Staff Accountant
- Cost Accountant
- Senior Accountant
- Corporate or Division Planner
- Financial Analyst
- Budget Analyst
- Internal Auditor
- Finance Manager
- Controller
- Vice President, Finance
- Treasurer
- Chief Financial Officer (CFO)
- Chief Executive Officer (CEO)

Management or cost accounting systems are part of an enterprise's information system and refer to the internal cost tracking and allocation systems to track costs and expenditures. These are internal rather than external accounting systems. There are no fixed rules governing how an entity should keep track of cash flows internally, although there are many formal methods available for users. Capital budgeting is basically a form of predictive cost accounting over a set time frame which is used to analyze the costs of alternative projects

or expenditures over the specified period of time.

Managerial or cost accounting measures are the predominant financial drivers in day to day business decision making affecting every aspect of the firm's activities. Good cost accounting is vital to understanding the profitability of current activities and to predicting the profitability of future activities. There are many examples of firms who discover non-profitable services or products once thorough cost accounting procedures were implemented. The bulk of this module will focus on these types of accounting information systems.

The main objectives of managerial/cost accounting are (Hilton, 1988):

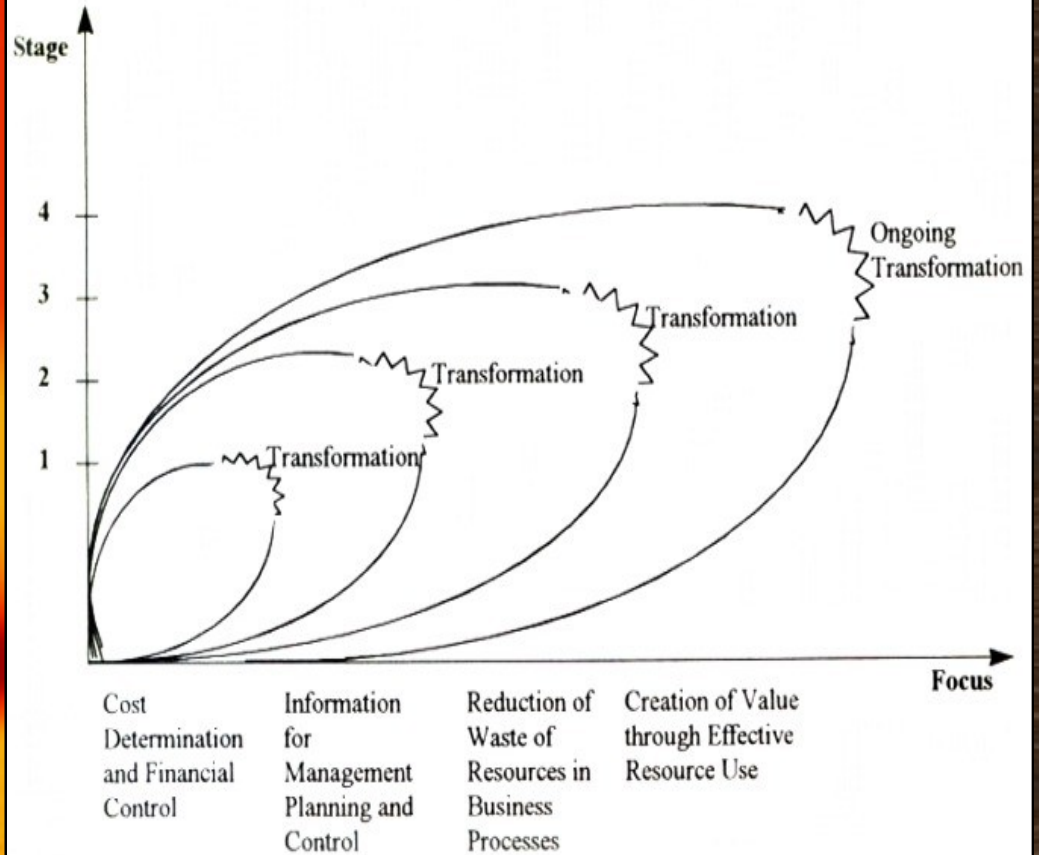
- 1) Providing managers with information for decision making and planning.
- 2) Assisting managers in directing and controlling operations.
- 3) Motivating managers towards the organization's goals.
- 4) Measuring the performance of managers and sub-units within the organization.

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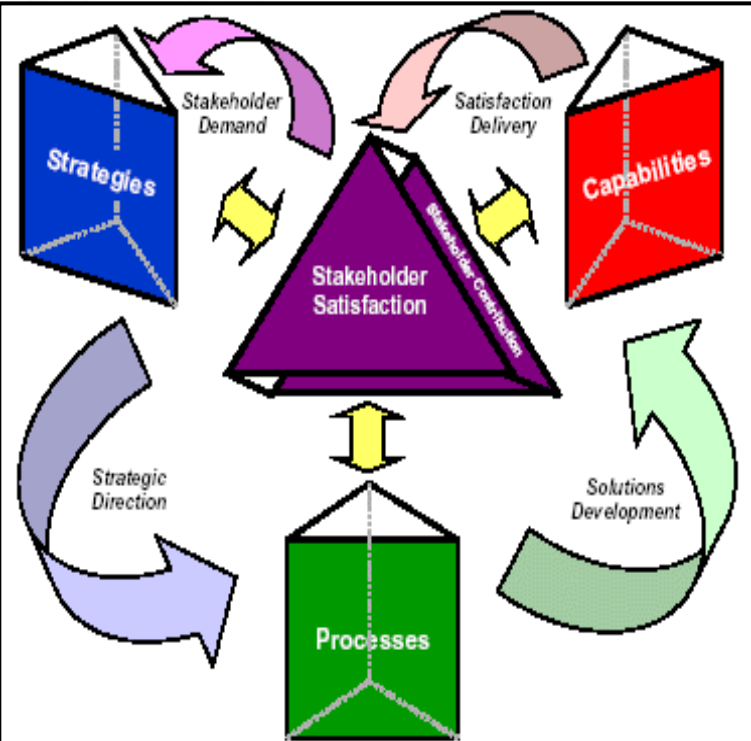
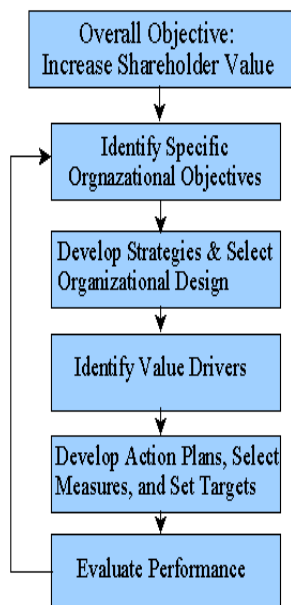
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Evolution of Management Accounting



Value-Based Management Accounting Framework*



* Adapted from Ittner & Larcker Figure 1, p. 353.