

Management Accounting – Meaning, Importance, and Functions

Meaning of Management Accounting:

Management accounting is also known as managerial accounting and can be defined as a process of providing financial information and resources to the managers in decision making. In other words, it helps the management to perform all its functions including planning, organizing, staffing, directing and controlling.

What are the benefits of Managerial accounting?

Management accounting is very beneficial and hence is being used widely now. The benefits are as follows:

- **Planning**

In management accounting, the financial information and non financial information is presented at regular intervals say weekly, fortnightly to the management. This presentation includes forecasts, budgets and in-depth analysis. Hence it assists the management in planning the business activities.

- **Decision making**

Since management accounting presents various charts, forecasts and analysis the management uses it for decision making.

- **Identify early signs of problems**

If a product is not performing well the management can identify it early on as the accounts are presented at regular intervals. This will aid in overcoming the constraints early on and avoiding future losses.

- **Strategic management**

Based on the information presented in management accounting, the management can take decisions about continuing a product or modifying the sale strategy. Since management accounting is not regulated by any law, the management can decide the areas that require more analysis, investigation and accordingly draw up strategies.

Functions of managerial accounting

Managerial accounting performs the following functions in general

- **Profitability**

Management accounting determines the profit from a particular product, project or line of business.

- **Break even analysis**

It determines the number of units at which the organization will attain a no profit no loss situation.

- **Forecasting**

It determines the bottlenecks in the organization and their impact on the organization.

- **New product analysis**

It prepares analysis for the new product in terms of standard costs, actual cost and reasons for deviations.

- **Stock valuation**

Determine the direct and indirect costs of stock in hand and presenting it to management

- **Variance analysis**

Performing trend analysis for various costs incurred and understanding the causes for the variances.

- **Capital budgeting analysis**

Understanding the need for acquiring fixed assets and the costs involved and allocation of finances to the best available option.

- **Aids in Financial accounting**

Management accounting presents financial information at regular intervals and hence it aids in the preparation of financial statements at year-end.

