



## Functions, Scope and Advantages of Management accounting : A Review

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**Abstract :** Accounting is the process of recording, classifying, summarizing, analyzing and interpreting the financial transactions of the business for the benefit of management and those parties who are interested in business such as shareholders, creditors, bankers, customers, employees and government. Thus, it is concerned with financial reporting and decision making aspects of the business.

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**Introduction :** A business enterprise must keep a systematic record of what happens from day to-day events so that it can know its position clearly. Most of the business enterprises are run by the corporate sector. These business houses are required by law to prepare periodical statements in proper form showing the state of financial affairs. The systematic record of the daily events of a business leading to presentation of a complete financial picture is known as accounting. Thus, Accounting is the language of business. A business enterprise speaks through accounting. It reveals the position, especially the financial position through the language called accounting. In ordinary language any system of accounting, which assists management in carrying out its functions more efficiently may be termed as management accounting. The Institute of Chartered Accountants of England and Wales has stated that “any form of accounting, which enables a business to be conducted more efficiently can be regarded as Management Accounting.”

### Functions of Management Accounting:

The basic function of management accounting is to assist the management in performing its functions effectively.

#### 1. Modification of Data:

Accounting data as such are not suitable for managerial decision-making and control purposes. However, they may be used as the basis for making future estimates and projections. In fact management accounting modifies the available accounting data by rearranging the same, by resorting to a process of classification and combination, which enable retention of the similarities of data without eliminating the dissimilarities.

#### 2. Analysis and Interpretation of Data:

The accounting data is analyzed and interpreted meaningfully for effective planning and decision-making. For this purpose the data is presented in a comparative form. Analytical tools such as Comparative Financial Statements, Common-size Statements, Trend percentages, and ratio Analysis are used and likely trends are projected.

#### 3. Facilitating Management Control:

Management accounting enables all accounting efforts to be directed towards the attainment of goals efficiently by controlling the operations of the company more effectively. Standards of performance and measure of variation there from are the essential elements of any control system. All these are made possible through standard costing and budgetary control systems, which are an integral part of management accounting.

#### 4. Use of Qualitative Information:

Mere financial data and its analysis and interpretation are not sufficient for decision-making purposes. The management may need qualitative information, which cannot be readily converted into monetary terms. Such information may be obtained from statistical compilations, engineering records, case