

CHAPTER I

Introduction to management accounting

WHAT IS MANAGEMENT ACCOUNTING?

Management Accounting is the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of financial information used by management to plan, evaluate and control within an organization and to ensure appropriate use of and accountability for its resources.

FINANCIAL ACCOUNTING

Financial Accounting is the process of measuring, classifying, summarizing and reporting financial information used in making economic decisions. It's also concerned with the preparation of financial statements to be used by the firm's stakeholders.

KEY DIFFERENCES BETWEEN MANAGEMENT ACCOUNTING AND FINANCIAL ACCOUNTING

	Management Accounting	Financial Accounting
Users	Internal	External
Nature	Future	Historical
Details	More detailed	Summarized
Legality	Not legal	Legal
Format	Not standard	Standard

MANAGEMENT IS CONCERNED WITH IDENTIFYING,
PRESENTING AND INTERPRETATION OF
INFORMATION
USED FOR:

- Formulating strategy
- Planning and controlling activities
- Decision making
- Optimizing use of resources
- Disclosure to shareholders and others external to the entity
- Disclosure to employees
- Safeguarding assets

THEREFORE FOR THE ABOVE TO WORK, MANAGEMENT NEEDS TO:

- Formulate plans to meet objectives (Strategy planning)
- Formulate short term operation plans (Budgeting/profit planning)
- Acquire and use finance (financial management) and record transactions (Financial Accounting and Cost Accounting)
- Communicate financial and operating information
- Take corrective action to bring plans and results into line (Financial control)
- Reviewing and reporting on systems and operation (Internal audit)

CHANGING ROLE OF THE MANAGEMENT ACCOUNTANT

- Less time is spent preparing reports.
- The management accountant is now a key member of the management team.
- This new dimension to the management accountant's role should benefit the design of more relevant management accounting information systems.

ETHICAL BEHAVIOR

- Management accountants may be put under pressure to commit unethical acts.
- Many businesses now publish a code of ethics governing their behavior.

ROLE OF THE MANAGEMENT ACCOUNTANT IN THE MANAGEMENT PROCESS

- Planning
- Control
- Organizing
- Motivation
- Communication

ETHICAL STANDARDS OF MANAGEMENT ACCOUNTANTS

I. COMPETENCE

II. CONFIDENTIALITY

III. INTEGRITY

IV. CREDIBILITY

QUESTIONS

1. What is management accounting?
2. What is Financial Accounting?
3. What is the difference between management accounting and financial accounting?

REFERENCE

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