Application of Management Accounting Techniques to Improve Decision Making of Senior Management

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Abstract

Purpose- *The increasing business scale of organizations in the globalized business environment leads to complexity in managing the internal working. Hence, the main aim of the research report is to present how decision making of senior management in different organizations can be improved with the application of several techniques of management accounting.*

Methodology- *The researcher has taken the secondary sources for data collection. The qualitative research focuses on the gathering of useful information from the existing published books, journals and articles in order to present the true and validated results of the research. The researcher has ensured that research methodology provides the accurate and reliable outcome of the study and thus.*

Results- *The intense competition in the global market compels every organization to improve its performance outcome. Hence, performance in the external environment can be improved only when the organization is internally strong and competent with its business operations. The findings present the approach of improving the internal efficiency and operational activities of the business through management accounting techniques. The managers have to understand how they can utilize several techniques of managerial accounting in different situational contexts, and thus, its understanding is presented in the report.*

Conclusion- *The concept of managerial accounting is of great importance to a firm for its sustenance and long term growth in the national as well as overseas market. Organizations that effectively utilize the marginal costing techniques, ratio analysis, standard costing, budgeting, etc. can better improve their future planning and strategic business activities. The competitive strength of the firm is dependent on the level of understanding the usage of several techniques of managerial accounting in different areas of planning, forecasting, project analysis, etc.*

Keywords- Management accounting techniques, planning, decision-making, performance improvement

1. INTRODUCTION

1.1 Rationale

Management accounting refers to an accounting technique to analyze internal business operations in order to guide and support the overall strategic decisions of the firm. There are several management accounting techniques such as breakeven analysis, marginal costing, differential costing that are used to prepare and analyse the internal financial records, reports and accounts. The overall goal of management accounting techniques is to facilitate managers in making informed decisions to attain pre-defined short and long term goals.

1.2 Research questions

- What is the significant role of management accounting techniques in the decision-making process?
- How is management accounting different from financial accounting?
- What are the important techniques of management accounting?
- What are the significant areas where management accounting is important?

1.3 Objectives of the Study-

- To determine the modern approach of management accounting and its usage areas for the organization
- To identify the difference between the management accounting and financial accounting method
- To ascertain the degree of effectiveness that management accounting brought in the organizational decision-making practices
- To ascertain different management accounting techniques and their value to the organization.

2. RESEARCH METHODOLOGY

The primary, as well as secondary resources are considered to carry out the research. The primary resources consist of the collection of fresh data from different methods like personal interactions, interview, survey, questionnaire etc. [Heaton, 2008]. Contrarily, the secondary sources include processed data in which research is already carried out by other researchers. In this report, qualitative information is utilized, with the publications between 2008 and 2011 in order to ensure reliability, validity. The accuracy is also maintained by considering the time difference between the present and published data records.

REVIEW OF LITERATURE

3. UNDERSTANDING THE CONCEPT OF MANAGEMENT ACCOUNTING AND HOW IT IS DIFFERENT FROM THE FINANCIAL ACCOUNTING METHOD

3.1 Concept of Management Accounting

It is a branch of accounting which involves identification, quantification, evaluation and interpretation of accounting and financial information of the firm so that it can facilitate managers in making necessary decisions efficiently in favour of the organization [Rausch, 2011]. As per Rausch, managerial accounting activities are carried out by managerial accountant, who is responsible for analysing operational metrics and other events like, operating activities, line of products, etc. to transform such data into useful information for the management of the firm.

3.2 Difference between Management Accounting and Financial Accounting

Although both the concepts involve analysis of financial transactions, they are different from each other. The management accounting is a broader concept as it includes preparation of reports to serve only management of the organization; however, financial accounting is a niche subject which presents the financial health of the organization to the all its stakeholders. Managerial accounting techniques are used to analyse the detailed information on every subject matter, such as customers, product line, profits by product, etc. while the financial accounting provides reports on the entire financial business results. Thus, it can be identified that financial accounting reports on the profitability efficiency of the firm while managerial accounting is concerned for identifying the internal issues and their solutions [Weygandt et al., 2009]. The managerial accounting addresses the organizational budget, and forecasting activities, while financial accounting involves an analysis of financial results which are already achieved by the firm.

4. APPLICATION AREAS OF MANAGEMENT ACCOUNTING TECHNIQUES

4.1 Planning, Budgeting and Forecasting

Managerial accounting supports the planning and forecasting activities of the firm to ascertain the future financial direction of the firm. For example, management accounting is imperative to project the revenues and cost of the organizational products in the coming months or years [Kiradoo, 2011]. Moreover, the right choice of investment decisions is also dependent on the managerial accounting tools of capital budgeting, in which detailed analysis of costs and cash inflow and outflow is carried out for the investments in consideration of the future. The budgeting supports the firm in outlining the projections of costs to acquire new equipment and other business activities.

Figure: 01

4.2 Performance Tracking

Competitive business environment requires management of the organization to make decisions on the basis of real-time. Hence, they use different techniques of management accounting to assess and track the performance of the business [Nandan, 2010]. For example, an organization can maintain its competitive performance by measuring it against the budgets and forecast established through management accounting methods to avoid costly overruns.

4.3 Project Management Decisions

The cost-benefit analysis is an important tool of management accounting to assess new projects and to get ongoing reports on the existing projects. The different project involves evaluation of different aspects like cost, capital, finance, etc. [Yeshmin, 2011]. In this respect, managerial accounting plays a crucial role in delivering projects in a timely and profitable manner. Also, it ensures the successful completion of projects within the set budgeted amount.

5. THE IMPORTANT MANAGEMENT ACCOUNTING TECHNIQUES

5.1 Financial Planning

It refers to the activities which are carried out in advance for the better financial performance of the firm. For example, it includes decision making regarding the short term and long term objectives pertaining to financial activities, preparation of financial policies, etc. The financial policies require management to make decisions regarding sources of funds, capital required, the proportion of equity and debt capital, etc.

5.2 Analysis of Financial Reports
The data of financial statements are considered to forecast the future earning capacity of the firm, ability to pay dividend and interests timely, maturities of debt etc.

5.3 Standard Costing
It consists of the identification of a standard cost for several business activities. The standard costs are used to compare with the actual cost of business operations to calculate the variance [Rao, 2011]. Such variance is used to identify the reason behind it and to pinpoint the responsibilities of making remedial actions to control the costs in the future business operational activities.

5.4 Historical Cost accounting
This technique consists of historical cost accounting data to analyse the cost of different jobs, departments, and processes so that any deviations can be identified in comparison to standard costs. It is an effective tool of cost control for the management in future planning [Angelakis, 2010].

Figure: 02

5.5 Budgetary Control
Under the Budgetary control technique, the future financial requirements of the firm are estimated and accordingly arranged to an orderly basis [Callahan et al., 2011]. Hence, it is a tool to direct the business in the desired directions by controlling its financial performance. For example, capital budgeting involves an analysis of the information which is essential to make important decisions regarding capital expenditures. In this respect, net present value and internal rate of return are used by the managers to make their profitable decisions.

5.6 Marginal Costing
It is an imperative technique to optimize the scare resources of the firm, fix sales price, to take decisions on buying or making, select the best suitable sales mix, etc. [Zimmerman, 2011]. The marginal costing includes consideration of variable cost, fixed cost and contribution. The breakeven point is also calculated to identify the point where the firm can recover its investment and start earning profits.

5.7 Cash Flow and fund flow Statement
Fund flow analysis focuses on changing of organizational financial position from two dates. This technique helps the management to understand where the funds are coming and how they will be

allocated. Cash flow analysis is a technique to assess the movement of cash within the organization [Sedlacek, 2010]. Hence, it is an important tool of financial planning as it presents whether there is an increase or decrease in working capital.

5.8 Ratio Analysis

The analysis is carried out by the management to control the business operations by analyzing and appraising both monetary and physical targets. Different tools and methods, used for ratio analysis, are current asset ratio, profitability ratios, efficiency ratios, etc. [Rasid et al., 2009].

6. THE IMPORTANCE OF MANAGEMENT ACCOUNTING TECHNIQUES

The management accounting techniques is significant to the highly competitive business environment and thus, involves several aspects of control and management in the areas of financial results like sales, revenue, cost, etc. It is significant for firms due to:

6.1 Relevant Cost Analysis

The one challenging question pertaining to finance that every manager faces is how budget be spent? In this context, managers have to explore all the financial figures and possibilities to get the best tactic of improving profitability [Cadez, 2008]. Hence, management accounting helps in relevant cost analysis in relation to sales channel, marketing activities, products, services, etc. to get the best profitable business model.

6.2 Audience Targeting

The ultimate targets of the organization are its customers. Thus, the management accountant is significant to create and analyze the buyers' persona so that accordingly, lucrative offers can be provided to them. Hence, targeting the audience with the best approach of time and resource investment would result in more profitable business performance outcomes.

6.3 Planning

Management accounting increases the potential of the firm in detecting and tracking the financial patterns on the basis of which future development are predicted. Hence, it facilitates business organizations in staying up to date with the industrial trends and better react to the competitors' actions with a strong strategic approach [Kiradoo, 2010].

6.4 Define budgets

Budgeting is an important cost control area for a business organization. It involves the decisions in align with the marketing database and sales history. Thus, analysis of such activities supports the investment strategies to be made in the future and create financial plans for different organizational activities such as production, marketing campaigns, investment projects, etc.

6.5 Controlling

The evaluation of all the work of business departments enables the manager to understand the reasons for the loss and profits generated by them. Hence, it gets easier for managers to reduce business operational cost [Macintosh, 2010].

6.6 Make or buy evaluations

The production process is generally an expensive segment for a business organization; therefore, managers have two options of either make and own the products or buy them by contracting with the third party. In this respect, management accounting is used to evaluate the real cost associated with each option and supports in determining the best and appropriate solution to the firm.

7. RESULTS

It is found out from the literature review that management accounting is supportive of managerial decisions. It is a supportive tool to the internal analysis of the business and thus, benefits the firm in identifying the appropriate manner of business operations and performance. It is also inferred that management accounting is not relevant to financial accounting, as there are different factors that differentiate them from each other. The management accounting is significant to the firm in planning, forecasting, and all the internal operational activities while financial accounting is concerned to the stakeholders in terms of financial information analysis. Thus, it can be said that management accounting techniques support decision making of managers while financial accounting supports the managers as well as other stakeholders like customers, suppliers, contractors, creditors, etc.

The effectiveness of management accounting is identified in the report with its areas of application. Without managerial accounting techniques, the firm cannot attain its desired targets in planning, forecasting, performance tracking and project analysis. It is identified in the report that management accounting is carried out with the application of several techniques and managers choose the required technique as per the organizational requirements. For example, for controlling purpose, budgeting, standard costing, historical costing, and marginal costing are important while for the analysis of funds and cash, fund flow and cash flow reports are used. The Ratio analysis is imperative in financial planning and evaluation of financial statements to ensure future financial performance gets improved.

Thus, it is identified in the research that management accounting techniques are an accounting tool for improving the planning outcomes, relevant cost analysis, and defining budgets. It is also inferred that an informed decision on the make or buy as well as controlling is carried out with the application of managerial accounting. Thus, it ultimately beneficial for business firms in targeting their audience and make them satisfied with the improved business outcomes.

8. CONCLUSION

The present research report talks about the use of management accounting techniques in the internal business process of decision-making. The report concludes how organizational managers can use such techniques to improve their business decisions of high profitability and success. The report talks on the effectiveness of management accounting by comparing it with financial accounting to present its in-depth analysis requirements. Moreover, some of the techniques that managers utilize in applying management accounting are identified to support better output in the business working.

The implementation of management accounting approaches requires managers and accountant to understand its significance. A poor strategy will always result in poor outcomes; therefore, analysis of all the aspects of the internal and external business environment will support to make strong and influential strategic decisions. However, such analysis requires proficient managers and skilled staff that can efficiently transform the raw data into meaningful information for senior management.

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