UNIT 3 1. Introduction to Management Accounting

Meaning:
Management accounting involves the preparation of financial and non-financial data to help managers in decision-making, planning, and controlling business operations. Management accounting, also known as managerial accounting, involves the process of identifying, measuring, analyzing, and interpreting financial information to help managers make informed business decisions. Unlike financial accounting, which focuses on external reporting, management accounting is primarily used for internal purposes.

Objectives of Management Accounting:

1. **Decision-Making Support:** Provides relevant data to managers to make strategic and operational decisions.
2. **Budgeting and Forecasting:** Helps in preparing budgets and predicting future financial outcomes.
3. **Performance Evaluation:** Assists in evaluating the performance of departments, products, and employees.
4. **Cost Control and Reduction:** Identifies areas where costs can be reduced without affecting quality.
5. **Improved Efficiency:** Enhances efficiency by analyzing processes and suggesting improvements.

.

Difference Between Cost Accounting & Management Accounting:

Basis	Cost Accounting	Management Accounting
Purpose	Focuses on cost control & reduction	Focuses on decision-making & planning
Data Used	Historical cost data	Both historical & future-oriented data
Mandatory	Not legally required	Not legally required but useful for internal management
Reports	Detailed cost reports	Summarized management reports

2. Relevant Costing & Decision Making

Relevant costing focuses on identifying costs that are relevant to a specific business decision.

Key Decisions in Relevant Costing:

a) Special Order Decisions

- Determines whether to accept a one-time special order at a lower price.
- Considers variable costs and ignores fixed costs (if they won't change).

b) Addition or Deletion of Products & Services

- Evaluates whether to introduce a new product/service or discontinue an existing one.
- Compares relevant revenues and avoidable costs.

c) Optimal Use of Limited Resources

- Allocates scarce resources (e.g., labor, materials, machine hours) to maximize profit.
- Uses **Contribution Margin per Unit of Limiting Factor** for decision-making.

d) Pricing Decisions

- Determines the best pricing strategy considering cost, demand, and competition.
- Methods include **Cost-Plus Pricing, Competitive Pricing, and Target Costing**.

e) Make or Buy Decisions

- Analyzes whether to manufacture a component in-house or outsource it.
- Compares **cost of making** (direct materials, labor, overheads) with **cost of buying** (purchase price, supplier terms).