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**Answer All:**

**1. Define management accounting. Discuss the objectives of management accounting.
2. How management accounting helps financial managers to make decisions?
3. What is the difference between a management accounting and financial accounting, and how do those two support each other?
4. Explain the concept of cost. How can you categorize costs?**

**5.**



Measure- Current Ratio, Quick Ratio.

**Ans to the question no. 1:**

**Ans:**

**Management accounting**: Management accounting is the process of preparing reports about business operations that help managers make short-term and long-term decisions. It helps a business pursue its goals by identifying, measuring, analyzing, interpreting and communicating information to managers. Management accounting focuses on all accounting aimed at informing management about operational business metrics. It uses information relating to costs of products or services purchased by the company. Budgets are often used to quantify the decisions made in operational planning. Management accountants use performance reports to note variances between actual results from budgets.

**Objectives of management accounting:**

Management accounting also is known as managerial accounting and can be defined as a process of providing financial information and resources to the managers in decision making. Management accounting is only used by the internal team of the organization, and this is the only thing which makes it different from financial accounting. In this process, financial information and reports such as invoice, financial balance statement is shared by finance administration with the management team of the company. Objective of management accounting is to use this statistical data and take a better and accurate decision, controlling the enterprise, business activities, and development. The objectives of management accounting has been mentioned bellow:

**1. Assistance in Planning and Formulation of Future Policies**: Management accounting assists management in planning the activities of the business. Planning is deciding in advance what is to be done, when it is to be done, how it is to be done and by whom it is to be done. It involves forecasting on the basis of available information, setting goals, framing policies, determining the alternative courses of actions and deciding on the program of activities to be undertaken. Thus, planning is making intelligent forecasting. This forecasting is based on facts. Facts are provided by past accounts on which forecast of future transactions is made. Management accounting helps management in its function of planning through the process of budgetary control.

**2. Helps in the Interpretation of Financial Information**: Accounting is a technical subject and may not be easily understandable by everyone till the user has a good knowledge of the subject. Management may not be able to use the accounting information in its raw form due to lack of knowledge of accounting techniques. Management accountant presents the information in an intelligible and non-technical manner. This will help the management in interpreting the financial data, evaluating alternative courses of action available and guiding the management in taking decisions and having the most desired financial results.

**3. Helps in Controlling Performance:** Management accounting is a useful device of managerial control. The whole organization is divided into responsibility centers and each center is put under the charge of one responsible person. He will be associated with the planning and framing of the budgets and be required to execute the plans and standards and deviations are analyzed in order to pinpoint the responsibility. Thus, management accountant helps in controlling the performance of the different responsibility centers and take suitable actions in order to correct the adverse deviations by revising the budgets if need be. Management accounting assists management in location of weak spots and in taking corrective actions against such spots which are not in conformity with the budgeted performance. Thus, management accounting helps management in discharging its control function successfully through budgetary control and standard costing.

 **4. Helps in Organizing:** Thus, management accountant recommends the use of budgeting, responsibility accounting, cost control techniques and internal financial control. This all needs the intensive study of the organization structure. In turn, it helps to rationalize the organization structure.

 **5. Helps in the Solution of Strategic Business Problems**: Whenever there is a question of starting a new business, expanding or diversifying the existing business, strategic business problem has to be faced and solved. Similarly, when in a particular situation, there are different alternatives as whether labour should be replaced by machinery or not, whether selling price should be reduced or not, whether to export the item or not etc., a management accountant helps in solving such problems and decision-making. He provides accounting data to a management with his recommendation as to which alternative will be the best. For such decisions, the management accountant may take the help of marginal costing, cost volume profit analysis, standard costing, capital budgeting etc. Management accounting provides feedback to the management such as what business to engage in or diversify how to run that business efficiently. This is most important contribution which the management accountant has made.

 **6. Helps in Coordinating Operations:** Management accounting helps the management in co-coordinating the activities of the concern by getting prepared functional budgets in the first instance and then co-coordinating the whole activities of the concern by integrating all functional budgets into one known as master budget. Thus, management accounting is a useful tool in coordinating the various operations of the business.

 **7. Helps in Motivating Employees**: The management accountant by setting goals, planning the best and economical course of action and then measuring the performance tries his best to increase the effectiveness of the organization and thereby motivate the members of the organization.

 **8. Communicating Up-to-date Information**: Management accounting assists management in communicating the financial facts about the enterprise to the persons who are interested in these facts so that they may be guided to a line of action to be pursued. Management needs information for taking decisions and for evaluating performance of the business. The required information can be made available to the management by means of reports which are an integral part of the management accounting. Reports are means of communication of facts which should be brought to the notice of various levels of management so that they may be guided for taking suitable action for the purposes of control.

**9. Helps in Evaluating the Efficiency and Effectiveness of Policies**: Management accounting also lays emphasis on management audit which means evaluating the efficiency and effectiveness o£ management policies. Management policies are reviewed from time to time to make an improvement in them so that maximum efficiency may be achieved.

**Ans to the question no. 2:**

**Managerial accounting** is very effective in highly competitive and fast-paced business environments where quick decisions need to be made. These decisions might have to do with a sales tactic, budgeting or cash flow management. Managerial accounting will use operational data to make sense of the situation quickly.

The goal is to use the budget to help make short-term operational decisions that will help increase the company’s operational efficiency. Management accounting helps financial managers to take decisions in following ways:

1) **MARGIN ANALYSIS**

Managerial accounting analyzes the incremental benefit of increased production – this is called margin analysis. This flows into the breakeven analysis, which involves calculating the contribution margin on the sales mix to determine the unit volume at which the business’ gross sales equal total expenditures. A managerial accountant will use this information to determine the price point for products and services.

**2) CONSTRAINT ANALYSIS**

Constraint analysis indicates the limitations within a sales process or production line. Managerial accountants find out where the constraints occur and calculate the impact on cash flow, profit and revenue.

**3) CAPITAL BUDGETING**

Managerial accountants help a manager decide when, where and how much money to spend based on financial data. Using standard capital budgeting metrics, such as net present value and internal rate of return, to help decision makers decide whether to embark on costly projects or purchases.

The process involves reviewing proposals, deciding if there is a demand for products or services, and finding the appropriate way to pay for the purchase. It also outlines payback periods, so management is able to anticipate future costs and benefits.

**4) TREND ANALYSIS/FORECASTING**

Reviewing the trendline for certain costs and investigating unusual variances or deviations is an important part of managerial accounting. Decisions are made by using previous information like historical pricing, sales volumes, geographical location, customer trends and financial data to calculate and project future financial situations.

**5) PRODUCT COSTING/VALUATION**

Determining the actual costs of products and services is another element of managerial accounting. Overhead charges are calculated and allocated to come up with the actual cost related to the production of a product. These overhead expenses may include the number of goods produced or other drivers related to the production, such as the square foot of the facility. Along with overhead costs, managerial accountants use direct costs to assess the cost of goods sold and inventory that may be in different stages of production.

**Ans to the question no. 3:**

**Ans:**

**Differences Between Financial Accounting vs. Management Accounting**

Financial accounting and management accounting complement each other in an organization’s financial strategy, professionals considering one of these careers should understand the differences between the disciplines. Managerial accounting focuses on an organization’s internal financial processes, while financial accounting focuses on an organization’s external financial processes.

Managerial accountants focus on short-term growth strategies relating to economic maintenance. For example, managerial accountants can perform a make-or-buy analysis to determine the financial soundness of producing a part to help with manufacturing a product.

Financial accountants focus on long-term financial strategies relating to organizational growth. The financial reports that these accountants produce follow established formats and abide by Financial Accounting Standards Board (FASB) rules and regulations. The guidelines are outlined in the generally accepted accounting principles (GAAP), which all publicly traded companies in the U.S. have adopted.

Compliance with established formats is vital for financial accountants, who must prepare reports for shareholders and potential investors as well as executives. Managerial accountants, however, generally prepare their reports for internal audiences.

Managerial accountants typically command higher salaries than financial accountants. The median annual salary for financial accountants is about $55,500, according to July 2020 data from PayScale. The median annual salary for managerial accountants is about $72,100, according to August 2020 data from PayScale.

**How do those two support each other**:

Professionals pursuing accounting careers should understand the overlaps between financial accounting and managerial accounting. Both accounting branches use analytics to gather data and develop insights. Accountants help their organizations understand financial data through techniques such as ratio analysis, vertical analysis and horizontal analysis.

 **Ratio analysis**. Ratio analysis provides insight into efficiency, liquidity and profitability. The method uses ratio metrics, such as profitability ratios, efficiency ratios, solvency ratios and liquidity ratios, to “calculate statistical relationships,” according to Investopedia.

 **Vertical analysis**. Vertical analysis analyzes financial statements where each line item represents a percentage of the base figure. For income statements, each line item represents a percentage of gross sales.

 **Horizontal analysis**. Horizontal analysis provides accountants with financial information that depicts financial change over a period of time, typically two years or more.

Both financial accountants and management accountants typically have at least a bachelor’s degree in an accounting-related discipline. For success in specialized roles, they need to develop additional skill sets. A strong understanding of accounting is a requirement, as well as a solid foundation in management theory principles. Individuals seeking leadership roles in the field should consider pursuing an advanced degree in accounting.

**Ans to the question no. 4:**

**Concept of Cost in Cost Accounting:**

Cost is another vital concept in the study of business, so, without further ado let us start digging into its concept.  The concept of cost is a key concept in Economics. It refers to the amount of payment made to acquire any goods and services. In a simpler way, the concept of cost is a financial valuation of resources, materials, risks, time and utilities consumed to purchase goods and services. From an economist's point of view, the cost of manufacturing any goods and services is often said to be the concept of opportunity cost.

With heightened competition in today's world, companies are urged to make maximum profits. The company's decision to maximize earnings relies on the behavior of its costs and revenues. Besides the concept of opportunity cost, there are several other concepts of cost namely fixed costs, explicit costs, social costs, implicit costs, social costs, and replacement costs.

**Here is how I would categorize the costs:**

As the categorization of costs enables a small business owner to group expenses together to understand how much he is spending on related items. Cost categorization is an important aspect in both cost and financial accounting, in budgeting and in the evaluation of the worth of the business. The categories identified provide information for managers to use in strategic planning, and help them to improve operations and make the company more profitable. Categorization also applies when accountants calculate gross and net profit margins by following:

**Fixed Costs**

 The most basic cost category is that of fixed costs, which are costs that do not vary regardless of the quantity of goods produced, the value of sales achieved or the number of staff employed. Fixed costs are also known as overhead costs and usually include expenses such as rent, management salaries and depreciation on capital equipment. Variable costs, however, are the opposite and change depending on production quantities, labor and materials.

**Direct Costs**

 Direct costs are also known as the cost of sales, because they include everything that is required to produce or procure the items the company sells. These costs are usually variable in nature because more raw materials are needed to manufacture more products. This causes the cost of buying raw materials to increase. This does not mean, however, that the opposite applies and all variable costs are direct costs, as many variable costs are not part of manufacturing costs.

**Indirect Costs**

 Indirect costs include costs that are not directly related to production, such as taxes, energy bills and salaries of administrative or other staff who are not involved in manufacturing. Some indirect costs may also be variable costs instead of fixed costs. These include research and development costs, which are seldom fixed and which fluctuate according to a number of factors. Costs such as these are usually based on the company’s strategic planning instead of the strategy being based on the costs.

**Marketing Costs**

 Accountants categorize marketing as a fixed cost in some industries and a variable cost in others. In the service industry, for example, the cost of marketing is unlikely to be included in the product unit cost or direct costs, but in manufacturing of a well-established product, marketing costs may comprise a percentage of the unit cost. Marketing can be budgeted according to projected sales, or as a percentage of overall production costs. Some companies categorize marketing as an overhead while others consider it a cost of sales.

**Capital Expenditure**

 Capital expenditure is incurring a cost to buy an asset that will be used permanently or for a long time. This type of purchase is made once only every few years at most, and is intended to help the business to earn revenue. Examples of capital expenditure include purchases such as a factory building, manufacturing machinery and computer equipment. The purchase cost is depreciated over several accounting periods, which are calculated according to the expected life span of the item. Most businesses conduct accounting according to their fiscal year, so the cost of capital equipment is spread over several fiscal years.

**Period Costs**

 Organizations that operate according to different accounting periods such as projects may categorize costs the same way. Fixed and variable costs can be categorized within a specific period. For example, a project that lasts for four months will incur different fixed costs during this time than a project that lasts 18 months. To budget accurately for the project, management needs to identify the overheads that will be payable during the period.

**Ans to the question no. 5:**

**Ans:**

**Current Ratio** = Current Assets / total current liabilities

710000÷710000=1

So, Working Capital Ratio is 1:1

**Quick Ratio** = (Cash + Accounts Receivables + Marketable Securities) / Current Liabilities

(258000+16000+180000) ÷710000=0.639