

1.	Discuss the role of a management accountant in contemporary business eco system
Ans	<p>There has been a paradigm shift in the role of the management accountant in the era of globalisation. The focus shifted to strategic analysis.</p> <ul style="list-style-type: none"> • Global competition: - There have been reductions in duties on imports and exports as well as improvements in transportation. By this firms operate globally and results in competition from the very best organisations worldwide. The competitive environment has increased the demand relating to quality and customer satisfaction. Customer profitability analysis and value analysis are important issues in the arena of management accounting • Changing product life cycles: - Companies must be able to manage their costs effectively at the design stage, have the capability to adapt to new environment, different and changing customer requirements and reduce the time to market of new products • Advances in manufacturing technology: - Companies must be able to manufacture high quality innovative products at a low cost, and also provide a first-class customer service. • The impact of information technology - The use of IT like e-business, e-commerce or internet commerce have developed significantly. Consumers have become more discerning in their purchases as in online transactions it is relatively easy to compare the merits of different products and services. This have a significant impact on the work of management accountants. • Environmental and sustainability issues - In recent times, ESG4 has become the focal point in the operations of the company. Along with this, ethical issues have also come to the forefront as the business has to deal with customers who are more aware of this issues then they were a decade back • Customer orientation – In the new business environment, gaining competitive advantage has become the singular goal of every business organisation. Companies have realized that in order to sustain in today’s competitive environment they need to become more customer driven and recognize that customers are crucial to their future success. • Focus on value creation :- Though cost reduction still remains as the basic function of the management accountant as it has specific impact on selling price fixation which impacts customer value. The new business environment resulted in management accounting distinguishing between value-added and non-value-added activities
2.	"The evolution of managerial accounting has been through four particular phases" - explain the four phases . Also discuss the various tools and techniques that developed during each particular phase clearly demarcating the contemporary techniques against the traditional techniques
Ans	<p>Management accounting is an offshoot of financial accounting and has specific linkages with cost accounting. The International Accounting Federation (IFAC, 1998) has described the evolution of managerial accounting through four phases.</p> <ul style="list-style-type: none"> • First stage (prior to 1950s). • Second stage (1950s - 1965)

- Third stage (1965 - 1985).
- Fourth stage (1985 - till date)

The first stage (prior to 1950) Cost determination and financial control, which is also referred as the 'classical era' is the period where the focus was on cost determination and financial control. Managerial accounting before the 1950s was mainly focused on determining the cost of the product

The second stage (1950-1965) is referred as the age of information for management planning and control.

Management accounting techniques such as: Standard Costs and Profitability Analysis were introduced during this period. The second phase is described as 'management activity, but in the role of staff'. During this period, the management was focused on the company's production process and internal analysis and paid less attention to external business environment.

The third stage (1965 - 1985) is referred as reduction of waste of resource in business operation.

Management accounting focussed on reduction of waste of resources in production processes by eliminating 'no-value activities'. During this period, Japan's economic progress and rapid technological developments contributed to the growth of global competition. Companies began to seek both cost reduction and quality improvement at the same time.

The Fourth Stage (1985-2000) is referred as Creation of value through effective resource:

The managerial accounting techniques that dominated this period are: Activity-based Cost (ABC); Production just in time (JIT); Target cost; balanced scorecard; Value chain analysis and strategic management accounting.

3. Distinguish between cost accounting and management accounting

Ans	Cost Accounting	Management Accounting
MEANING-	Cost accounting revolves around cost computation, cost control, and cost reduction.	Management accounting helps management make effective decisions about operations of the business.
APPLICATIONS-	Cost accounting prevents a business from incurring costs beyond budget.	Management accounting offers a big picture of how management should strategize.
SCOPE-	The scope is much narrower.	The scope is much broader.
MEASURING GRID-	Quantitative.	Quantitative and qualitative.
SUB-SET-	Cost accounting is one of the many subsets of management accounting.	Management accounting is the universal set.
BASE OF - decision making	The task of decision making very less. Even if there is some, it is based on historic information	Historic and predictive information is the basis of decision-making.
STATUTORY REQUIREMENT-	Statutory audit of cost accounting is a requirement in some specified industries.	The audit of management accounting has no statutory requirement
DEPENDENT-	Cost accounting isn't dependent on management accounting to be successfully implemented.	Management accounting is dependent on both cost & financial accounting for successful implementation.
UESD FOR-	Management, shareholders, and vendors.	Only for management.

4 Describe the differences between Management Accounting and Financial Accounting

Ans Differences between Management Accounting and Financial Accounting

Basis for Comparison	Financial Accounting	Management Accounting
Purpose	Financial Accounting classifies, analyses, records, and Financial transactions of a particular period of the company	Management accounting helps management make effective decisions about the business.
Application	Financial accounting is prepared to reflect true and fair picture of financial affairs.	Management accounting helps management to take meaningful steps and strategize.
Scope	The scope is pervasive , but not as much as the management accounting.	The scope is much broader.
Information type	Quantitative	Quantitative and qualitative.
Inter dependence	It is not dependent on management accounting.	Management accounting is basically decision making accounting and depends on information created by Financial Accounting as well as Cost Accounting.
Statutory Requirement	It is legally mandatory to prepare financial accounts of all companies. (for example in the Indian Context Companies Act 2013, relevant rules of Accounting standards furnishes the statutory requirements)	Management accounting has no statutory requirement.
Format	Financial accounting has specific formats for presenting and recording information.	There's no set format for presenting information in management accounting.
Users	Mainly for potential investors as well as all stakeholders.	Only for management.
Verifiable	The information presented is verifiable.	The information presented is predictive and not immediately verifiable.

SUB-SET --

SUB SET OF MANAGEMENT ACCOUNTING

UNIVERSAL SET

5.	In a meeting with the Director Finance of your company, he had pointed out that there might be some disadvantages in taking divisions as a profit centres . As a Management Accountant of the company you are required to state the various disadvantages in taking divisions as a profit centres
Ans	<p>As a Management Accountant, the following points are considered to be of importance</p> <ol style="list-style-type: none"> 1. Divisions may compete with each other and may take decisions to increase profits at the expense of other divisions thereby overemphasizing short term results. 2. It may adversely affect co-operation between the divisions and lead to lack of harmony in achieving organizational goals of the company. 3. It may adversely affect co-operation between the divisions and lead to lack of harmony in achieving organizational goals of the company. 4. Top management loses control by delegating decision making to divisional managers. There are risks of mistakes committed by the divisional managers, which the top management, may avoid. 5. It may underutilize corporate competence. 6. It leads to complications associated with transfer pricing problems. 7. It confuses division's results with manager's performance
6.	Explain the relation between decentralization and responsibility accounting
Ans	<p>A responsibility accounting system facilitates decentralization by providing information about the performance, efficiency, and effectiveness of organizational subunits and their managers. Responsibility accounting is the key management control tool in a decentralized organization.</p> <p>The term 'responsibility accounting' refers to the accounting process that reports how well managers (of responsibility centres) have fulfilled their responsibility. It is a system that measures the plans (by budgets) and actions (by actual results) of each responsibility centre. Also known as activity or profitability accounting, it is an information system that personalizes control reports by accumulating and reporting cost and revenue information according to defined responsibility centres within a company.</p> <p>Responsibility accounting is the system for collecting and reporting revenue and cost information by areas of responsibility. It operates on the premise that managers should be held responsible for their performance, the performance of their subordinates, and all activities within their responsibility center. Responsibility accounting, also called profitability accounting and activity accounting.</p>

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Describe the functions of a Management Accountant in Modern Business World.

Ans

The functions of a management accountant can be categorized as below:

1. **Planning and Accounting** - Management accountants prepare an accounting system covering costs, sales forecasts, profit planning, production planning, and allocation of resources. It should also include capital budgeting, short-term and long-term financial planning. They also prepare the procedures necessary to implement the plan effectively.
2. **Controlling** - Management accountants assist in the control of an organisation's performance through the use of standard costing, budget control, accounting ratios, funds flow statements, cost-cutting initiatives, and assessing capital expenditure proposals and returns on investment.
3. **Reporting** - Management accountants assist the top management in finding out the root cause of an unfavourable operation or event by identifying the real reasons for the adverse events as well as the responsible parties and comprehensively reporting them.
4. **Coordinating** - Management accountants improve an organisation's efficiency and profits by providing various coordination tools such as budgeting, financial reporting, financial analysis and interpretation, and so on. These tools aid management by comparing cost and financial records, preparing financial budgets and establishing standard costs, and analyzing cost deviations to enable management by exception.
5. **Communication** - Management accountants create a wide range of reports to communicate results to the superiors. Through published financial statements and returns, they also inform the outside world about their company's success.
6. **Financial evaluation and Interpretation** - Management accountants analyze the data and present it to the management in a non-technical approach, together with their comments and ideas, so that the shareholders and senior management can understand it and make informed decisions.
7. **Tax Administration** - Management accountants are in charge of tax policies and processes. They make the reports that are required by various authorities. Further, they ensure that quarterly tax payments are made in advance, as required by the relevant Act, to prevent the payment of penal interest on late tax payments.
8. **Evaluation of external effects** - There may be changes in government policy and existing laws. These amendments and policy changes can affect business goals. Management accountants assess the extent of any impact of these external factors on the business and report it to the stakeholder to take necessary precautionary measures.
9. **Economic appraisal** - When the government makes regular announcements about the country's economic situation, management accountants is entrusted with making the economic study and determine the influence of current economic conditions on the company's operations. They compile a report containing their observations and present it to high management.
10. **Asset Protection** - Management accountants separate fixed asset registers for each type and provide internal checks and controls to protect the company's assets. They also create the rules and regulations for each type of fixed asset and get insurance coverage for all types of fixed assets

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Describe the four perspectives of the Balanced Scorecard

Ans

The four Perspectives of the Balanced Scorecard:

1. **Financial Perspective:**

This perspective evaluates the **Profitability** of the strategy. Because **cost** reduction relative to **competitors**, costs and **sales** growth are key strategic initiatives, the financial perspectives focuses on how much of operating income and return on capital results from reducing costs and selling more units.

2. **Customers Perspective:**

This perspective identifies the **targeted market segments** and **measures** the company's **success** in these **segments**. To monitor its **growth** objectives, number of **new customers** and **customer's satisfaction**.

3. **Internal business process Perspective:**

The internal business process perspective comprises three sub processes:

□ **The innovation process:**

Creating products, services and processes that will **meet the needs of customers**, aiming at **lowering costs** and **promote growth** by improving the technology of its manufacturing.

• **The operations process:**

Producing and delivering existing products and services that will meet the needs of customers. The strategic initiatives are (A) **improving manufacturing quality reducing delivery time to customers** and (B) **Meeting specified delivery dates**.

• **Post sales service** providing **service** and **support** to the **customer after the sale of a product of service**. Although customers do not require much post sales service.

4. **Learning & Growth Perspectives:**

This perspective identifies the capabilities of the organization must excel at to achieve superior internal processes that create value for customers and shareholders.

A Company's learning and growth perspectives emphasize three capabilities:

- **Employee Capabilities** measured using employee **education** and **skill levels**.
- **Information system** capabilities, measured by percentage of manufacturing processes with real-time feedback and
- Motivation measured by **employee satisfaction** and percentage of **manufacturing and sales employees** (line employees) empowered to **manage processes**.

9. Basic Control **Functions of Responsibility Accounting**

- (i) **Preparing a plan** (e.g., using budgets and standards) and use it to communicate output expectations and **delegate** authority.
- (ii) **Gathering actual data classified** in accordance with the **activities** and **categories** specified in the plan. The responsibility accounting system can be used to record and summarize data for each organizational unit.
- (iii) Monitoring the **differences between planned and actual data** at scheduled intervals. Responsibility reports for **subordinate managers and their immediate supervisors** normally include comparisons of **actual results with flexible budget figures**. In contrast, responsibility reports can provide comparisons of actual performance to the master budget.
- (iv) Exerting managerial influence in response to **significant differences**. Because of day-to-day contact with operations, unit managers should be aware of any significant variances before they are reported, identify the variance causes, and attempt to correct them. Top management, on the other hand, might not know about operational variances until it receives responsibility reports. By the time top management receives the reports, the problems **causing** the variances should have been corrected, or **subordinate managers** should have explanations as to why the problems were not or could **not be resolved**.
- (v) **Continuing comparing data and responding**; then, at the appropriate time, the process will begin again. Responsibility reports reflect the upward flow of information from operational units to company top management and illustrate the broadening scope of responsibility. Managers receive detailed information on the performance of their immediate areas of control and summary information on all organizational units for which they are responsible. Upper-level managers desiring more detail than is provided in summary reports can obtain it by reviewing the responsibility reports prepared by their subordinates.

10. What are different types of Responsibility Centre

A Responsibility Centre may be defined as an **area of responsibility** which is **controlled by an individual**. A responsibility centre is an activity such as department over which a manager exercises responsibility. Responsibility Centre may be **departments, product lines, territories** or any **other type of identifiable unit or combination of units**. All costs relating to the centre are collected and the **manager responsible** for such a **cost centre** judged by reference to the activity levels achieved in relation to costs.

1. **Cost or Expense Centre**: The most elementary form of Responsibility Centre is the cost Centre, which itemizes all of the **expenses incurred** to run a specified function, but **ignores the cost of capital involved** in it, as well as any associated **returns**. A Cost Centre is an organizational unit whose manager has the authority only to incur costs and is specifically evaluated on the basis of how cost are controlled. The objective of Cost Centre is the control over the incurrence of expenses. Cost Centres managers are responsible for cost only.
2. **Profit Centre**: A Profit Centre is an organizational unit whose manager is responsible for generating revenues and managing expenses related to current activity. Thus, Profit Centre should be independent organizational unit whose managers have the ability to obtain resources at the most economical prices. The objective of Profit Centre is to maximise the Centre's profit. Profit Centres managers are responsible for both costs and revenues.
3. **Revenue Centre**: A Revenue Centre is strictly defined as an organizational unit that is responsible for generation of revenues and has no control over selling price or budgeting cost. It is a distinct operating unit of a business that is responsible for generating sales and is judged solely on its ability to generate sales; it is not judged on the amount of costs incurred. Revenue centers are employed in heavily salesfocused organizations.
4. **Investment Centre**: An investment Centre is an organizational unit whose manager is responsible for managing revenues and current expenses. An investment center is a center that is responsible for its own revenues, expenses, and assets and manages its own financial statements which are typically a balance sheet and an income statement.