

Management Accounting

(Important Theory Questions & Answers)

Question - 01

Discuss the role of a management accountant in contemporary business eco-system.

Globalisation led to the fourth stage in management accounting, shifting the focus from cost control to strategic analysis and value creation. Changes in the business environment redefined the role of management accountants.

Global competition

Reduction in trade barriers and improved technology intensified competition, increasing focus on quality, customer satisfaction, customer profitability and value analysis.

Shorter product life cycles

Changing customer preferences reduced product life cycles, requiring effective cost management at the design stage and faster time to market.

Advances in manufacturing technology

Firms must produce high-quality, innovative products at low cost while maintaining flexibility and operational efficiency.

Information technology impact

Growth of IT and e-commerce allows managers direct access to information, shifting the management accountant's role towards analysis and strategic support.

Environmental and sustainability issues

ESG and ethical concerns have gained importance due to increased customer awareness.

Deregulation and privatization

Removal of protection and controls forced companies to analyze costs and profitability of products, customers and markets.

Focus on value creation

Management accounting now emphasizes value creation by identifying value-added and non-value-added activities, while cost control remains important.

Question - 02

“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.

Management accounting evolved from financial and cost accounting to meet the need for optimal use of resources since the Industrial Revolution. IFAC (1998) explains its evolution in four stages:

First Stage (Prior to 1950) – Cost determination and financial control

Known as the classical era, the focus was on product cost determination and financial control. Management accounting was viewed as a technical activity to achieve organizational objectives.

Second Stage (1950–1965) – Information for planning and control

Emphasis shifted to providing information for management planning and control. Techniques such as standard costing and profitability analysis supported decision-making and responsibility accounting, with focus mainly on internal operations.

Third Stage (1965–1985) – Reduction of waste of resources

Focus moved towards eliminating non-value-added activities and reducing resource wastage. Global competition, technological advances, and Japanese management practices encouraged simultaneous cost reduction and quality improvement.

Fourth Stage (1985–till date) – Value creation through effective resource use

Intensified competition and technological innovation led to emphasis on value creation for customers and shareholders. Advanced techniques such as ABC, JIT, target costing, balanced scorecard, value chain analysis, and strategic management accounting became prominent.

Question - 03

- (i) **What is budgetary control? What are the objectives of budgetary control?**
- (ii) **Analyse the importance of revenue centre and investment centre from the view point of operations management.**

Answer to (i)

Budgetary control refers to the establishment of budgets by assigning responsibilities to executives in line with organizational policies and continuously comparing actual results with budgeted figures. This comparison helps in achieving policy objectives through corrective action or provides a basis for revising the budgets. Budgetary control is closely linked with budgets and aims to ensure that actual sales and expenses conform to the financial plan.

Objectives of Budgetary Control:**Planning**

Budgeting facilitates forward planning by defining future goals and outlining actions required to achieve them.

Coordination

It helps in coordinating the activities of different departments and ensures harmonious functioning of the organization.

Measurement of Performance

Budgets provide a standard for evaluating managerial performance by comparing actual results with predetermined targets.

Motivation

Budgets motivate managers to achieve organizational goals by setting clear and achievable targets.

Communication

Budgeting serves as an effective tool for communicating plans, policies, and expectations across all levels of management.

Control

It enables management to exercise control by ensuring that actual performance aligns with planned objectives and by taking corrective actions when deviations occur.

Answer to (ii)

Revenue Centre

A revenue centre is an organizational unit responsible only for generating revenues and does not have control over selling prices or costs. The manager's performance is evaluated solely on the basis of revenues achieved. The main purpose of a revenue centre is to compare actual revenues with budgeted revenues to identify variances. Such variances arise due to changes in sales volume or selling price, and therefore price and volume components must be analysed separately.

Investment Centre

An investment centre is an organizational unit whose manager is responsible for revenues, costs, and investment decisions. The manager has authority to acquire, use, and dispose of assets with the objective of earning the highest possible return on the investment base. Investment centres are suitable in situations where quick investment decisions are required due to changing market conditions. These centres are commonly structured as independent divisions or subsidiaries.

Question - 04

Describe the differences between Management Accounting and Financial Accounting.

Basis for Comparison	Financial Accounting	Management Accounting
Purpose	Financial Accounting classifies, analyses, records, and summarizes the 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.
Interdependence	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.

Verif able	The informat on presented is verif able.	The informat on presented is predict ve and not immediately verif able.
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Quest on - 05 Describe the meaning of uncertainty in decision making.
Decision Making under Certainty and Uncertainty
Decision Making under Certainty

Under condit ons of certainty, the future state of nature is fully known and assured. The decision maker does not need to worry about whether a part cular event will occur or not, as outcomes are predictable and probabilit es are not required.

Decision Making under Uncertainty

Under condit ons of uncertainty, future states of nature are unknown and no informat on is available to determine whether a part cular event will occur. Probabilit es cannot be assigned because of lack of prior informat on. This absence of reliable data has led to the development of special decision criteria for decision-making under uncertainty.

Meaning of Uncertainty

Uncertainty refers to a situat on where an individual does not know whether a proposit on is true or false or is unaware of relevant informat on. It represents a lack of complete knowledge about future outcomes.

Role and Limitat on of Probability

Probability is of en used to measure uncertainty, but it only reflects perceived or subjective uncertainty. In many situat ons, probabilit es cannot be accurately determined due to incomplete or misleading informat on.

Decision Problem under Uncertainty

A decision problem is said to involve uncertainty when the decision maker is aware of possible states of nature but lacks suf cient informat on to assign probabilit es to them. In such situat ons, outcomes cannot be predicted with complete conf dence, and mult ple possible results may arise from a single decision.

Quest on - 06 Explain the relat on between decentralizat on and responsibility account ng.
Responsibility Account ng – Meaning and Importance

Responsibility account ng is a management control system that facilitates decentralizat on by providing informat on on the performance, ef ciency, and ef ect veness of organizat onal subunits and their managers. It is a key control tool in decentralized organizat ons, as it reports how well managers of responsibility centres have fulf lled their assigned responsibilit es.

Nature of Responsibility Account ng

Responsibility account ng measures plans through budgets and act ons through actual results of each responsibility centre. It is an informat on system that accumulates and reports cost and revenue data according to def ned centres of responsibility. The system is designed in line with the organizat onal structure so that revenues and costs are ident f ed with specif c managers. It is also known as act vity account ng or prof tability account ng.

Responsibility Reports

A responsibility accounting system generates responsibility reports for different levels of management. These reports help senior management evaluate the performance of subordinate managers and their units. The reports are tailored to the planning, controlling, and decision-making needs of managers and include both monetary and non-monetary information.

Role in Organizational Structure and Decentralization

Organizations are structured along lines of responsibility, traditionally shown through a hierarchical organizational chart. As organizations grow, these lines become complex and difficult to manage. Modern organizations are moving toward flatter, team-based structures that support decentralization. Organizing divisions as responsibility centres allows effective control through responsibility accounting.

Revenue Centre Control

In responsibility accounting, revenue centre control is achieved by evaluating the efficiency and effectiveness of divisional managers based on sales revenue performance.

Question - 07

Management Accounting serves as a tool to management – discuss.

Strategy – Meaning and Types

Strategy refers to long-term plans that guide an organization in achieving its objectives. It represents the general direction set for the company to match its internal capabilities with external market opportunities. Broadly, companies adopt either a cost leadership strategy or a product differentiation strategy. Under cost leadership, firms aim to provide quality products or services at low prices through efficient cost management. Under product differentiation, firms offer unique or distinctive products or services that justify higher prices.

Strategic Choice and Managerial Challenge

Choosing between cost leadership and differentiation is a major challenge for managers, as the decision has long-term implications for profitability and growth. The success of either strategy depends on how well it aligns with the company's strengths and market conditions.

Role of Management Accountant in Strategy Formulation

Management accountants support managers by providing information on sources of competitive advantage. This includes analysis of cost, productivity, and efficiency advantages over competitors, as well as evaluating whether premium prices can be charged relative to the additional costs of differentiation.

Strategic Cost Management

Strategic cost management focuses on cost management from a strategic perspective. Management accounting information assists managers in answering key strategic questions relating to customer value, competitor and substitute products, core organizational capabilities, leveraging strengths for new initiatives, and availability of funds to support strategy.

Strategy Implementation and Information Support

Even well-designed strategies are ineffective unless properly implemented. Successful execution depends largely on accurate and timely information generated by management accounting. The link

between strategy implementation and management accounting information forms the essence of strategic cost management.

Quest on - 08**List the characteristics of responsibility reporting.**

1. Responsibility reports should be prepared in line with the organization chart and addressed to the manager responsible for the items reported. Only controllable costs should be included, and managers should be trained to interpret and use these reports effectively.
2. Reports should be prompt and timely so that corrective action can be taken when required. This requires well-organized cost records to ensure availability of information at the right time.
3. Reports should be issued regularly. Regularity and promptness depend largely on the efficiency of systems and mechanical aids used for report preparation.
4. Reports should be simple and easy to understand. Accounting terminology should be suitably explained or modified so that managers without accounting knowledge can correctly interpret the information.
5. Reports should contain sufficient but not excessive detail. The extent of detail should vary according to the management level, ensuring that essential information is available without overloading managers with unnecessary data.
6. Reports should present comparative figures, such as actual results compared with budgeted or standard figures, and should clearly highlight variances.
7. Reports should be analytical in nature. They should explain reasons for deviations by analyzing underlying factors such as inefficiency, machine breakdowns, poor materials, or other operational issues.
8. Reports meant for operating management should, wherever possible, include physical units along with monetary figures to facilitate better understanding.
9. Reports should highlight departmental efficiencies and inefficiencies and indicate results achieved in relation to future goals or targets.

Quest on - 09**Describe the functions of a Management Accountant in Modern Business World.****Planning and Accounting**

Management accountants design accounting systems covering costs, sales forecasts, profit and production planning, resource allocation, capital budgeting, and short- and long-term financial planning. They also develop procedures for effective implementation of plans.

Controlling

They assist in performance control through tools such as standard costing, budgetary control, accounting ratios, funds flow statements, cost-reduction measures, and evaluation of capital expenditure and return on investment.

Reporting

Management accountants help top management identify the causes of unfavourable results by analyzing adverse events, fixing responsibility, and reporting findings in a comprehensive manner.

Coordinating

They improve efficiency and profitability by coordinating activities through budgeting, financial reporting, analysis, interpretation, and variance analysis, enabling management by exception.

Communication

They prepare various reports to communicate results to management and also inform external stakeholders through financial statements and statutory returns.

Financial Evaluation and Interpretation

Management accountants analyze financial data and present it in a simple, non-technical form along with their views, enabling shareholders and management to make informed decisions.

Tax Administration

They manage tax policies and procedures, prepare statutory tax reports, ensure timely advance tax payments, and avoid penalties for non-compliance.

Evaluation of External Effects

They assess the impact of changes in government policies, laws, and regulations on business objectives and report the implications to management for corrective action.

Economic Appraisal

Management accountants study economic conditions and evaluate their effect on business operations, preparing reports for senior management.

Asset Protection

They maintain fixed asset registers, design internal controls, frame asset usage rules, and ensure adequate insurance coverage to safeguard company assets.

Question - 10

Describe the four perspectives of the Balanced Scorecard.

Financial Perspective

The financial perspective evaluates the profitability of the strategy. It focuses on operating income, cost reduction relative to competitors, sales growth, and return on capital employed, showing how well the strategy contributes to shareholder value.

Customer Perspective

This perspective identifies target market segments and measures success within those segments. Key measures include customer satisfaction, customer retention, and the number of new customers, reflecting the company's ability to achieve growth objectives.

Internal Business Process Perspective

The internal business process perspective focuses on operations that create value for customers and enhance financial performance. It includes innovation processes for developing new products and technologies, operations processes for efficient production and timely delivery, and post-sales service activities that support customers after the sale.

Learning and Growth Perspective

This perspective identifies the organizational capabilities required to improve internal processes and deliver customer and shareholder value. It emphasizes employee capabilities, information system capabilities, and employee motivation, measured through skill levels, system feedback, empowerment, and satisfaction.

Question - 11

Explain briefly the concept of Revenue Center.

Revenue Centre – Meaning

A revenue centre is an organizational unit responsible only for generating revenues and has no control over selling prices or costs. Managers of revenue centres are evaluated solely on the basis of revenues earned. For example, sales departments in retail stores are often treated as revenue centres and assessed on total sales achieved.

Nature and Issues of Revenue Centres

In a revenue centre, employees focus on achieving preset revenue targets without considering the cost of generating those revenues. This approach can be risky unless strict controls are imposed. Without proper guidelines, sales staff may accept orders from customers with poor credit, offer excessive discounts, incur high selling expenses, or process uneconomical small orders. Practices such as excessive travel expenses, extended credit terms, promotional guarantees, or post-sale price adjustments may reduce overall profitability. Therefore, revenue centres should operate with stringent controls to ensure revenues contribute to adequate profits.

Performance Evaluation in a Revenue Centre

Performance evaluation in a revenue centre is limited because the manager controls only revenues. Actual revenues are compared with budgeted revenues to identify variances. Differences between budgeted and actual revenues arise due to changes in selling price or sales volume.

Revenue Variance Analysis

Sales price variance measures the effect of changes in selling price and is calculated by multiplying the actual quantity sold by the difference between actual and budgeted prices. Sales volume variance measures the effect of changes in quantity sold and is calculated by multiplying the budgeted price by the difference between actual and budgeted sales volume.

Question - 12

Globalisation brought about significant changes in the business environment. Along with the changes the roles of the management accountant had to be redefined. In the following lines, discuss some of the impacts of the new business environment on management accounting.

Impacts of the New Business Environment on Management Accounting

Global Competition

Globalisation reduced trade barriers, improved transportation and communication, and increased competition from top international firms. Management accounting now focuses on quality, customer satisfaction, customer profitability analysis, and value analysis to support decision-making in this competitive environment.

Changing Product Life Cycles

Shorter product life cycles and evolving customer behaviour require companies to manage costs effectively at the design stage, adapt to changing customer needs, and reduce time to market. Management accountants play a key role in supporting these strategic goals.

Advances in Manufacturing Technology

To remain competitive, companies must produce high-quality, innovative products at low cost while offering excellent customer service. Lean manufacturing, just-in-time (JIT) systems, and advanced manufacturing technologies help improve efficiency and reduce waste, increasing pressure on management accounting for cost and performance monitoring.

Impact of Information Technology

The growth of IT, e-business, and e-commerce enables managers to access information directly. Management accountants now focus on interpreting data, providing analysis, and supporting strategic decision-making rather than simply gathering information.

Environmental and Sustainability Issues

Environmental, social, and governance (ESG) concerns have become central. Management accountants are responsible for measuring and reporting environmental costs, monitoring resource use, and ensuring compliance with regulations. Sustainable and socially responsible practices improve company image and profitability.

Deregulation and Privatization

Privatization and deregulation have eliminated monopolies and pricing restrictions, forcing companies to accurately track costs and profitability. Management accounting systems now support decision-making to optimize product, customer, and market profitability.

Focus on Value Creation

Management accounting has evolved from cost recording to value creation. Cost reduction remains important, but emphasis is now on identifying value-added versus non-value-added activities and supporting strategic goals.

Intangibles

The increasing importance of intangible assets presents challenges in identifying, measuring, and reporting their value. Management accountants must develop systems to capture these contributions effectively.

Customer Orientation

Customer satisfaction has become a critical success factor. Management accountants support strategies that enhance cost efficiency, quality, reliability, delivery, and innovation to achieve superior customer value and competitive advantage.

Question - 13

Describe responsibility centres and explain its different types

Responsibility Centres – Meaning and Types

A responsibility centre is an area of activity controlled by an individual manager, such as a department, product line, territory, or any identifiable unit. Managers are held accountable for the performance of their responsibility centre, which forms the basis for effective planning and control within the organization.

Types of Responsibility Centres

Cost Centre

A cost centre is a segment where the manager is responsible only for controlling costs, not revenues. CIMA defines it as a location, person, or equipment for which costs can be measured and used for cost control. Budget estimates guide planning, and performance is evaluated by cost variances. Examples include production departments, service departments, accounting, and repairs & maintenance. Cost centres can range from small departments to entire plants.

Revenue Centre

A revenue centre focuses primarily on generating sales revenue. The manager usually controls pricing, product mix, and some marketing expenses but not overall costs or investments. Performance is

evaluated by comparing actual revenue and market ng expenses with budgeted f gures. Example: sales department.

Prof t Centre

Also called a business centre, a prof t centre is responsible for both revenues and costs. Managers have the authority to make decisions af ect ng both, aiming to maximize prof t. They operate as if managing an independent business, making decisions on product on volume, product mix, pricing, and market ng strategy.

Investment Centre

An investment centre is responsible for prof ts as well as investment decisions. The manager controls revenues, expenses, and assets, including credit and inventory policies. This role carries more authority than cost or prof t centres, with responsibility for invest ng, using, and disposing of divisional assets. Example: a newly developed hotel.

Quest on - 14

Interpret the role and scope of management account ng with examples of its applicat ons in business operat ons.

Scope of Management Account ng

The scope of management account ng is wide, encompassing all informat on provided to management for f nancial analysis, interpretat on, and decision-making.

Financial Account ng

Although primarily historical, f nancial account ng provides essent al informat on for future planning and forecast ng. A well-designed f nancial account ng system ensures control and coordinat on of business operat ons.

Cost Account ng

Cost account ng provides techniques such as marginal cost ng, standard cost ng, dif erent al cost ng, and opportunity cost analysis, which are vital for operat onal control and decision-making.

Budget ng and Forecast ng

Forecast ng informs budget ng, while budgetary control monitors act vit es by comparing actual results with budgeted f gures. Deviat ons are analyzed to assign responsibility and implement correct ve act ons.

Cost Control Procedures

Procedures such as inventory control, labor control, budgetary control, and variance analysis are integral to the management account ng process.

Report ng

Management accountants prepare reports for management using stat st cal tools like graphs, charts, pictorial presentat ons, and index numbers to make the informat on clear and act onable.

Methods and Procedures

Management account ng studies methods and procedures that help ut lize resources ef ciently, conduct special cost studies, and analyze cost-volume-prof t relat onships under changing condit ons.

Tax Account ng

Management account ng includes tax-related funct ons such as preparing income statements, determining taxable income, and f ling returns.

Internal Financial Control

It encompasses internal control methods, including internal audits and efficient office management, to safeguard assets and ensure operational efficiency.

Interpretation

Management accountants interpret financial data for management, providing insights and advice to support decision-making.

Evaluating Management Performance

Management accounting evaluates management performance in relation to organizational objectives, support management by exception and highlighting areas needing corrective action.

Question - 15

Explain the concept of performance reporting and identify the key requisites for implementing responsibility accounting in an organization.

Performance Reporting

Performance reporting is essential for an effective control system, as it highlights deviations from plans so that corrective actions can be taken promptly. In responsibility accounting, these reports, known as responsibility reports, are prepared for each responsibility centre. Unlike authority, which flows from top to bottom, reporting flows from bottom to top and is addressed to the relevant persons in the respective responsibility centres. Reports should present comparative information, showing budgeted plans versus actual performance, and detail variances. Variances beyond the control of a particular responsibility centre should be indicated separately.

Pre-requisites of Responsibility Accounting

1. The organization should be large and divisionalized.
2. Clearly defined goals and targets must exist.
3. Managers should actively participate in setting budgets against which their performance is measured.
4. Performance reports should be timely and contain significant information relevant to the responsibility centres.
5. Managers are held accountable only for activities over which they have substantial control.

Question - 16

Distinguish between cost accounting and management accounting.

Cost Accounting	Management Accounting
Cost accounting revolves around cost computation, cost control, and cost reduction.	Management accounting helps management make effective decisions about operations of the business.
Cost accounting prevents a business from incurring costs beyond budget.	Management accounting offers a big picture of how management should strategize.
The scope is much narrower.	The scope is much broader.
Quantitative.	Quantitative and qualitative.
Cost accounting is one of the many subsets of management accounting.	Management accounting is the universal set.
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 audit of cost accounting is a	The audit of management accounting has no

requirement in some specified industries.	statutory requirement
Cost accounting isn't dependent on management accounting to be successfully implemented.	Management accounting is dependent on both cost & financial accounting for successful implementation.
Management, shareholders, and vendors.	Only for management.

Question - 17

What do you mean by Learning Curve? State the applications of Learning Curve.

Learning Curve

A learning curve measures the reduction in labour hours per unit as production increases, reflecting workers' growing expertise. Management uses the learning curve to predict decreases in labour hours and costs as more units are produced.

Applications of Learning Curve
Improvement of Productivity

As workers gain experience, their performance improves, reducing time per unit and increasing overall productivity.

Cost Prediction

The learning curve helps predict labour costs accurately, enabling the organization to quote competitive prices for orders.

Work Scheduling

It allows organizations to estimate inputs effectively and prepare accurate delivery schedules.

Standards Setting

Budgets and standards are prepared considering the learning curve, reducing the likelihood of significant variances.

Question - 18

Briefly discuss the scope of Management Accounting.

Scope and Functions of Management Accounting

Management accounting covers a broad range of activities that provide critical information to management for planning, control, and decision-making.

Broad Areas of Management Accounting

1. Budgeting, planning, and forecasting business operations.
2. Measuring performance at organizational, divisional, and departmental levels.
3. Comparing results and performance within and across organizations.
4. Assisting in improving effectiveness and efficiency of operations.
5. Evaluating past and future capital investments.
6. Advising on product mix, markets, and selling prices.
7. Advising on outsourcing decisions for products, components, or services.
8. Assisting in investment decisions involving allocation of scarce funds.
9. Supporting a wide range of strategic decisions.

Fundamental Activities

1. Calculating profitability of products, services, and operations.

2. Allocating costs to products and services.
3. Setting inter-divisional transfer prices.

Specialized Techniques

Techniques such as activity-based cost management (ABC) and the theory of constraints (TOC) are used to provide specialized, strategic insights. Capital budgeting decisions with strategic implications are also considered part of management accounting.

Question - 19 What do you mean by Cost Centre? How is it different from Profit Centre?

Meaning of Cost Centre

A cost centre is a department or function within an organisation that does not directly generate revenue or profit but incurs costs for carrying out its activities. Its contribution to profits is indirect, as it supports revenue-generating units. Examples of cost centres include the human resource department and the accounts department, which do not earn revenue but involve operational expenses.

Cost Centre vs. Profit Centre

A Cost Centre is different from Profit Centre in the following way

Cost Centre	Profit Centre
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.	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 Cost Centre is the control over the incurrance of expenses.	The objective of Profit Centre is to maximise the Centre's profit.
The Area of Operation of Cost Centre is comparatively narrow.	The Area of Operation of Profit Centre is comparatively wide.
Cost Centres managers are responsible for Cost only,	Profit Centres managers are responsible for both costs and revenues.

Question - 20

“Though Management Accounting is very closely linked to Cost Accounting, there is clear demarcation between the two.” — In this context, compare Cost Accounting and Management Accounting in a tabular form.

The basis of comparison	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.
Application	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 sub-sets of	Management accounting is the universal set.

	Management account ng.	
Basis of decision making	The task of decision making very less. Even if there is some, it is based on historic informat on.	Historic and predict ve informat on is the basis of decision-making.
Statutory requirement	Statutory audit of cost account ng is a requirement in some Specif ed industries.	The audit of management account ng has no statutory requirement.
Dependence	Cost account ng isn't dependent on management account ng to be successfully implemented.	Management account ng is dependent on both cost & f nancial account ng for successful implementat on.
Used for	Management, shareholders and vendors	Only for management

Quest on - 21

“A responsibility account ng system helps organizat onal unit managers to conduct the f ve basic control funct ons”.—In this context, discuss the said basic control funct ons.

Basic Control Funct ons under Responsibility Account ng
Planning

Budgets and standards are prepared to set performance expectat ons and delegate authority.

Recording Actual Performance

Actual data is collected and classif ed according to the planned act vit es for each responsibility unit.

Comparing Performance

Planned results are compared with actual performance to ident fy variances at regular intervals.

Taking Correct ve Act on

Managers analyze signif cant variances, f nd causes, and take correct ve steps where required.

Cont nuous Review

The comparison and correct on process is ongoing, ensuring ef ect ve control and communicat on from lower levels to top management.

Quest on - 22

What is the signif cance of ident fying responsibility centres in responsibility account ng.

Ident f cat on of Responsibility Centres

1. Responsibility account ng is based on clearly ident fying responsibility centres.
2. Responsibility centres represent areas of authority and decision-making in an organisat on.
3. In small f rms, control may rest with one person or a small group, of en the owners.
4. Large organisat ons are divided into departments or divisions to ensure ef ect ve control, and these units are called responsibility centres.
5. Each responsibility centre is placed under the control of an individual who is accountable for its act vit es.
6. Responsibility centres can range from very small units, such as a single machine, to large divisions responsible for prof ts and investments.

7. The basic guideline is that the unit should be clearly identifiable, separable for operations, and capable of performance measurement.