



MA- IMP THEORY QUES

CMA INTER – G2

1. Write Short Note on Significance of Management Accounting.

Ans:

Significance of Management Accounting:

- (1) **Delegation of Authority:** Now a days the function of management is no longer personal. Management accounting helps the organization in proper delegation of authority for the attainment of the vision and mission of the business.
- (2) **Need of the Management:** Management Accounting plays the role in meeting the need of the management.
- (3) **Qualitative information:** Management Accounting accumulates the qualitative information so that management would concentrate on the actual issue to deliberate and attain the specific conclusion even for the complex problem.
- (4) **Objective of-the Business:** Management Accounting provides measure and reports to the management thereby facilitating in attainment of the objective of the business.

2. Write a short note on Concept of Management Accounting or Strategic Management Accounting.

Ans:

- Management Accounting is a new approach to accounting.
- The term 'Management Accounting' is composed of two words-Management and Accounting. It refers to Accounting for the Management.
- Management Accounting is a modern tool to management.
- Management Accounting provides the techniques for interpretation of accounting data. Here, accounting should serve the needs of management.
- Management is concerned with decision-making. Therefore, the role of Management Accounting is to facilitate the process of decision-making by the management.
- Managers in all types of organizations need information about business activities to plan accurately for the future and make decisions for achieving the goals of the enterprise.



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- Uncertainty is the characteristic of the decision-making process. Uncertainty cannot be eliminated altogether, but can be reduced. The function of Management Accounting is to reduce this uncertainty and help the management in the decision-making process.
- Management Accounting is that field of accounting, which deals with providing information including financial accounting information to managers for their use in planning, decision-making, performance evaluation, control management of costs and cost determination for financial reporting.
- Management Accounting contains reports prepared to fulfil the needs of managements.

3. Distinguish between cost accounting and management accounting.

Ans:

Basis for 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.	Management accounting is the universal set.
Basis 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



Dependence	Cost accounting isn't dependent on management accounting to be successfully implemented.	Management accounting is dependent on both cost & financial accounting for successful implementation.
Used for	Management, shareholders, and vendors.	Only for management.

4. Distinguish between Financial Accounting and Management Accounting

Answer:

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.
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	Management accounting has no statutory requirement.



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	Accounting standards furnishes the statutory requirements)	
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.

5. Briefly discuss the scope of Management Accounting.

Ans:

Scope of Management Accounting:

Based on coverage of contemporary management accounting textbooks, some of the broad areas considered to be part of 'management accounting' is summarised in the following lines:

- ◆ Budgeting, planning and forecasting
- ◆ Measuring organisational, divisional and departmental performance
- ◆ Comparing results and performance within and between organisations
- ◆ Assisting in the process of increasing effectiveness and efficiency
- ◆ Assessing the performance of past and future capital investments
- ◆ Advising on decisions about product mix, markets to be served and selling prices
- ◆ Advising on decisions on whether to outsource products, components, activities and services
- ◆ Advising on decisions involving the investment of scarce funds between a range of possible alternatives
- ◆ Assisting in the making of a wide range of strategic decisions.

6. Enumerate the Significance of Management Accounting

Ans:

The various advantages that accrue out of management accounting are enumerated below:-

- 1. Delegation of Authority:** Now a day the function of management is no longer personal. Management accounting helps the organization in proper delegation of authority for the attainment of the vision and mission of the business.
- 2. Need of the Management:** Management Accounting plays the role in meeting the need of the management.



3. Qualitative Information: Management Accounting accumulates the qualitative information so that management would concentrate on the actual issue to deliberate and attain the specific conclusion even for the complex problem.

4. Objective of the Business: Management Accounting provides measure and reports to the management thereby facilitating in attainment of the objective of the business.

7. Write short note on Strategic Management Accounting

Ans:

The term strategic management accounting,, applies to the identification, measurement and communication of cost data in all those situations where the organisation is being judged against the performance of competitors.

The traditional approach to management accounting has been to regard internal decision-makers as inward looking. This has led to developing techniques for identifying, measuring and communicating costs where only internal comparisons have been thought relevant. Those techniques remain useful in some cases and

are sufficiently widely used to justify studying them in an introductory course.

However, the later years of the twentieth century brought an increasing awareness that company managers must be outward-looking. They must form a strategy for their business that has regard to what competitors are achieving. This requires management accounting to identify measure and communicate data on the company relative to data for other similar companies. Managers must consider competitive forces such as the threat of new entrants, substitute products or services, rivalry within the industry and the relative bargaining strength of suppliers and customers. Managers must also consider how their organisation adds value in creating its product. There is a flow of business activity from research and development through production, marketing, distribution and after-sales support. This chain of activities creates costs which must be compared with the value added by the organisation.

Strategic management accounting uses different approaches/techniques to achieve strategy execution and to develop integrated approaches to performance measurement. Some of the strategic tools for performance measurement are Target Costing, Kaizen Costing, Life Cycle Costing, Theory of constraints (TOC), Bench Marking etc.



8. Distinguish between Cost Accounting and Management Accounting.

Ans.

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9. 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.

Ans.

The impacts of the new business environment on management accounting are:

- **Global competition** - Prior to the era of globalisation, many organizations operated in a protected competitive environment. Globalisation ushered in changes where there have been reductions in tariffs and duties on imports and exports as well as dramatic improvements in transportation and communication systems. This has facilitated firms to operate globally and resulted in stiff competition from the very best organisations worldwide. Business operations also changed significantly. The new competitive environment has increased the demand for information relating to quality and customer satisfaction. Customer profitability analysis and value analysis are important issues being incorporated in the arena of management accounting.
- **Changing product life cycles** – Changing profile of the customer along with behavioural issues have contributed to drastically reduce the product life cycle. First mover advantage is critical and every organisation is desperately seeking the advantage by increasing their investment in research and development. In this respect, the management accountant plays a crucial role as in order to compete successfully, 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 and modified products.
- **Advances in manufacturing technology** - In order to compete effectively, companies must be able to manufacture high quality innovative products at a low cost, and also provide a first-class customer service. Flexibility to cope with short product life cycles, demands for greater variety of product, more discriminating customers and increasing international competition has created enormous pressure on the operational activities of the business. Some internationally reputed manufacturing companies have responded to these by replacing traditional production systems with lean manufacturing systems that seek to



reduce waste by implementing just-in-time (JIT) production systems, focusing on quality, simplifying processes and focusing on advanced manufacturing technologies (AMTs)

- **The impact of information technology** - The use of information technology (IT) to support business activities has increased dramatically. Along with electronic business communication technologies known as e-business, e-commerce or internet commerce have also 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 has a significant impact on the work of management accountants. The role of the management accountant as a gatherer and processor of information is lost as the managers can directly access the management accounting system on their personal computers to derive the information they require for decision making. Management accountants have now become more involved in interpreting the information generated from the accounting system and providing business support for managers.
- **Environmental and sustainability issues** – In recent times, ESG 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 these issues than they were a decade back. Thus, there is a desperate need for organisations to be run in a suitable way. Sustainable development, where it is acknowledged that environmental resources are limited and should be preserved for future generations, is the order of the day. Management accounting with specific focus on environmental issues is becoming increasingly important in organizations as environmental costs are large in many organisations. There are three specific reasons for this:
 - Environmental costs are often high in the many manufacturing organisations.
 - Regulatory requirements often impose huge fines for non-compliance.
 - Companies are increasingly realizing that being socially and environmentally responsible improves their image and this has a positive impact on their bottom line.The above mentioned changes impacted the management of the companies and the managers have realized that they need to develop a system for measuring and reporting environmental costs along with preparation of a detailed report on the consumption of scarce environmental resources, hazardous materials used and pollutants emitted to the environment.
- **Deregulation and privatization** – Prior to the era of globalization, companies in many industrial sectors were government owned monopolies and operated in a highly regulated, protected and non-competitive environment. Thus the organisations, especially those incurring losses, were not under any pressure to improve the quality and efficiency of their operations and to improve profitability by adding or dropping particular products



or services from their array of product or service. Thus trivial attention was given to developing management accounting systems that accurately measured the costs and profitability of individual products or services. Globalization ushered in the privatization and deregulation which resulted in the elimination of pricing and competitive restrictions. Thus, companies were compelled to design an elaborate management accounting system that made them to realize their cost base and determine the source of profitability for their products, customers and markets.

- **Focus on value creation** – The scope of management accounting is enormous. Managers who are in charge of the operations of the organisations depends on the management accountants in realisation of the strategic goal of the organisations. With the advent of time, the role of the management accountant has changed from merely interpreting, managing and recording costs to creating value. 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.
- There is another aspect of new business paradigm which the management accountant has to consider as they develop the company's management accounting system. Intangibles have increased manifold. This presents a challenge to management accountants as to how to identify, measure and report on the value of intangibles.
- **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. This has made the companies realize that customer satisfaction is one of the most important critical success factor (CSF) which helps companies realize their strategic goal. Customer satisfaction is relational to cost, quality, reliability, delivery and the choice of innovative new products.



10. 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.

11. Describe the differences between Management Accounting and Financial Accounting.

Ans.

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12. Management Accounting serves as a tool to management – discuss.

Ans.

Strategies are long term plans which help organisations to realise its goal. Strategy is defined as a general direction set for the company and its various components to achieve a desired state in the future. A company's strategy specifies how the organisation matches its own capabilities with the opportunities in the marketplace. Basically businesses follow one of two broad strategies. Some companies follow a cost leadership strategy. These companies, for long term sustenance, choose to provide quality products or services at low prices and by cautiously managing their costs. Other companies follow a product differentiation strategy. These companies offer differentiated or unique products or services that appeal to their customers. The products are often priced higher than the products or services of their competitors.

Managers are faced with various challenges. One such is to decide between the two strategies discussed above. The crucial issue is that this has long term impact on profitability and growth of the company. Management accountants work closely with managers in various departments to formulate strategies by providing information about the sources of competitive advantage, such as:

- the company's cost, productivity, or efficiency advantage relative to competitors or
- the superior prices the company can charge relative to the costs of adding features that make its products or services distinctive.

Strategic cost management describes cost management that specifically focuses on strategic issues. Management accounting information helps managers formulate strategy by answering the following questions:

A. Who are the most important customers, and how can the company deliver value to the customers?



- B. What substitute products exist in the marketplace, and how do they differ from products of the company in terms of features, price, cost, and quality?
- C. What is most critical capability of the company which may be technology, production, or marketing?
- D. How can we leverage it for new strategic initiatives?
- E. Will adequate cash be available to fund the strategy, or will additional funds need to be raised?

The best-designed strategies and the best-developed capabilities are useless unless they are effectively executed which depends primarily on the information generated and provided by the management accountant. This linkage between successful implementation of strategy and the accounting information generated by management accounting is the subject matter of strategic cost management.

13. How do you classify the functions of the management accountant?

Answer

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

- **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.
- **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.
- **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.
- **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.
- **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.
- **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.

- **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.
- **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 stakeholders to take necessary precautionary measures.
- **Economic appraisal** - When the government makes regular announcements about the country's economic situation, management accountants are entrusted with making the economic study and determining the influence of current economic conditions on the company's operations. They compile a report containing their observations and present it to high management.
- **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.

14. State briefly the usefulness of Break-even analysis.

Or

Write a short note on Break-even Analysis.

Ans.

Break-even analysis used to determine:

- (i) The amount of profit/loss at various volume of operations.
- (ii) The volume of operations required to earn a target profit.
- (iii) The effect of change in variable cost on profit.
- (iv) The effect of change in fixed cost on profit.
- (v) The effect of change in selling price on profit.
- (vi) The effect of change in sales volume on profit.



15. State the differences between Differential costing and Marginal costing.

Ans.

Differential Costing	Marginal Costing
Differential costing can be used in the case of both absorptions costing as well as marginal costing	While marginal costing excludes the entire fixed cost, in case of differential cost analysis some of the relevant fixed costs may be taken into account
Differential costs are worked out separately for the purpose of analysis.	Marginal costing can be built in the account system
In Differential Cost Analysis, Differential costs are compared with the incremental or decremental revenues as the case may be.	In Marginal costing, margin of contribution and contribution ratios, are the main yardstick for the performance evaluation and for decision making.

16. Distinguish between absorption costing and marginal costing.

Ans.

Absorption costing	Marginal costing
Both fixed and variable costs are considered for product costing and inventory valuation	Only variable costs are considered for product costing and inventory valuation
Only variable costs are considered for product costing and inventory valuation	Fixed costs are regarded as period costs. The profitability of different products is judged by their P/V ratio.
Cost data are presented in conventional pattern. Net profit of each product is determined after subtracting fixed cost along with their variable cost.	Cost data are presented to highlight the total contribution of each product.
The difference in the magnitude of opening stock and closing stock affects the unit cost of production due to the impact of related fixed cost	The difference in the magnitude of opening stock and closing stock does not affect the unit cost of production.
In case of absorption costing the cost per unit reduces, as the production increases as it is fixed cost which reduces, whereas, the variable cost remains the same per unit.	In case of marginal costing the cost per unit remains the same, irrespective of the production as it is valued at variable cost



17. What is a principal budget factor? How is it important? List four such factors

Ans.

A principal budget factor or key factor is also called a constraint, which restricts the other functions of the business. This factor has to be carefully assessed before any functional budget is prepared. The factor may vary from business to business or even from year to year for the same business.

For example, if a company can sell 8000 units, but can produce 4000 units, then production becomes the constraint. If this key factor is given more resources to lessen the extent of constraint, there will be a relaxation in the other budgets as well.

Examples of some such factors are:

- (i) Sales: Consumer demand, shortage of sales staff, inadequate advertising.
- (ii) Material: Availability of supply, restrictions on import.
- (iii) Labour: Shortage of labour.
- (iv) Plant: Availability of capacity, bottlenecks in key resources.
- (v) Management: Lack of capital, pricing policy, shortage of efficient executives, lack of know-how, faulty design of product, etc.

18. Write a short note on flexible budget'

Ans.

- ◆ If the actual level of activity (e.g. production is 12000 units) varies from the budgeted level of activity (e.g., 15,000 units), then it would be meaningless to compare various elements of cost and report the differences. Hence, we redo the figures in the budget, assuming that the actual level of output was indeed budgeted. Then, the comparison becomes more meaningful.
- ◆ In other words, we are eliminating the variance arising out of the difference in the levels of activity. This recomputed meaningful budget is called the flexible budget
- ◆ It may also be considered as a series of static budget (fixed budgets) for different levels of activity
- ◆ The most important pre-requisite for a flexible budget is the study of the behaviour of costs and accurate classification into fixed and variable.
- ◆ Sometimes, there is a semi-fixed cost which has to be broken down into fixed and variable components.
- ◆ The relevant range over which fixed costs remain fixed is also to be reckoned carefully
- ◆ Sometimes, there is a jump in the fixed costs beyond a certain volume or level of activity.



- ◆ A flexible budget, drawn up after considering these factors to match the actual level of activity will give a meaningful analysis of the variances which would be realistic and therefore lead to correct decisions.

19. Write short note on performance budgeting

Ans.

Performance Budgeting: is synonymous with Responsibility Accounting, which means that the responsibility of various levels of management is predetermined in terms of output or result keeping in view the authority is vested with them:

- ◆ Performance budget is a budget that reflects the input of resources and the output of services for each unit of an organization
- ◆ This type of budget is commonly used by the government to show the link between the funds provided to the public and the outcome of these services
- ◆ Performance budgeting is a method of budgeting that provides the purpose and objectives for which funds are needed, costs of programs and related activities proposed to accomplish those objectives and outputs to be produced or services to be rendered under each program
- ◆ Performance budgeting follows the validation that a relaxation of input controls and an increased flexibility enhances managers' performance as long as results are measured and managers are held responsible for their results.
- ◆ The major aim of performance budgeting is to improve the efficiency of public expenditure, by linking the funding of public sector organizations to the results they deliver.
- ◆ It adopts organized performance information (indicators, evaluations, program costings) to make this link. There is a good impact of performance budgeting on organizations in terms of improved prioritization of expenditure, and in improved service effectiveness.
- ◆ Performance budgeting is based on a classification of managerial level for the purpose of establishing a budget for each level.
- ◆ The individual in charge of that level should be made responsible and held accountable for its performance over a given period of time.

20. List out ten functional budgets.

Ans.

Following are some functional budgets:



- (i) Sales budget
- (ii) Production Budget,
- (iii) Raw Material Consumption Budget,
- (iv) Direct Labour cost Budget,
- (v) Direct Material Cost Budget,
- (vi) Factory Overheads Budget,
- (vii) Office and Administrative Overheads Budget
- (viii) Selling and Distribution Overheads Budget
- (ix) Production Cost Budget,
- (x) R&D Budget,
- (xi) Cash Budget,
- (xii) Man Power Planning Budget,
- (xiii) Capital Expenditure Budget.

21. Write short note on Budget Manual.

Ans.

Budget Manual: A budget manual is defined by ICMA as "a document which set out the responsibilities of the person engaged in, the routine of and the forms and records required for budgetary control". The budget manual thus is a schedule, document or booklet, which contains different forms to be used, procedures to be followed, budgeting organization details, and set of instructions to be followed in the budgeting system. It also lists out details of the responsibilities of different persons and the managers involved in the process.

A typical budget manual contains the following:

- ◆ Objectives and managerial policies of the business concern
- ◆ Internal lines of authorities and responsibilities
- ◆ Functions of the budget committee including the role of budget officer
- ◆ Budget period
- ◆ Principal budget factor
- ◆ Detailed program of budget preparation
- ◆ Accounting codes and numbering
- ◆ Follow up procedures.

Advantages of Budget Manual:

- ◆ The methods and procedures of budgetary control are standardized.
- ◆ It is a formal record defining the functions and responsibilities of each executive.
- ◆ there is synchronization of the efforts of all which result in maximization of the profits of the organization.
- ◆ Ambiguity is avoided.



22. Difference between Standard Costing and Budgetary Control.

Ans.

Standard Costing	Budgetary Control
Standards are based on technical assessments.	Budgets are based on past actuals adjusted to future trends.
Standards are mainly for production expenses i.e., elements of cost	Budgets are compiled for sales, production, expenses, Profit, capital expenditure
Standard cost is projection of cost accounts	Budgets are projects of financial account
Standards are minimum targets which are to be attained.	Budgets are the maximum limits of expenses above which expenditure should not be incurred.
Standards are pointers to further improvements.	Budgets are indices, adherence to which keeps a business out of problems
Variiances are accounted for in the books	Variance analysis is only a statistical data
Standards are expressed per unit of production.	Budgets are expressed in totals of amounts
Detailed analysis is needed in case of variances, whether they are favourable or unfavourable.	No further analysis is required if costs are within the budget.

23. What are the limitations of zero-based budgeting?

Ans.

The following are the limitations of Zero Budgeting:

- (i) It is a very detailed procedure and naturally time consuming and lot of paper work is involved in the same.
- (ii) Cost involved in preparation and implementation of this system is very high
- (iii) Moral of staff may be very low as they might feel threatened if a particular activity is discontinued.
- (iv) Ranking of activities and decision-making may become subjective at times
- (v) It may not be advisable to apply this method when there are non-financial considerations, such as ethical and social responsibility because this will dictate rejecting a budget claim low ranking projects



24. Mention the prerequisites for implementation of Budgetary Control System.

Ans.

- (i) Fixation of objective and goal in clear terms.
- (ii) Sound organization structure.
- (iii) Full co-operation from all employees.
- (iv) Proper education of employees.
- (v) Efficient accounting system.
- (vi) Formation of a budget committee.
- (vii) Positive attitude of all employees to accept changes whenever necessary
- (viii) Setting Standard Cost.
- (ix) Top Management support.
- (x) Proper organizational structure.
- (xi) Clear and realistic goals.
- (xii) Flexibility.
- (xiii) Participative process.
- (xiv) Conducive environment.

25. Write short note: Zero based budgeting

Ans.

- ◆ Zero based budgeting starts with the premise that the budget for next period is zero so long the demand for a function, process, project or activity is not justified for each rupee from the first rupee spent
- ◆ The assumptions are that without such a justification no spending will be allowed.
- ◆ The burden of proof thus shifts to each manager to justify why the money should be spent at all and to indicate what would happen if the proposed activity is not carried out and no money is spent.
- ◆ It differs from the conventional system of budgeting mainly it starts from scratch or zero and not on the basis of trends or historical levels of expenditure.
- ◆ In the customary- budgeting system, the last year's figures are accepted as they are, or cut back or increases are granted.
- ◆ The first step in the process of zero base budgeting is to develop an operational plan or decision package.
- ◆ A decision package identifies and describes a particular activity.
- ◆ For this purpose, each package should give details of costs, returns, purpose, expected results, the alternatives available and a statement of the consequences if the activity is reduced or not performed at all.



- ◆ Zero-base Budgeting is more suitably applicable to discretionary- cost areas. These costs may have no relation to volume or activity and generally arise as a result of management policies
- ◆ Where standards are determinable, those costs associated with the inputs should be controlled through the use of standard costing.

26. Difference between Fixed and Flexible Budget.

Ans.

Fixed Budget	Flexible Budget
It does not change with actual volume of activity achieved. Thus it is known as rigid or inflexible budget.	It can be recasted on the basis of activity level to be achieved. Thus it is not rigid.
It operates on one level of activity and under one set of conditions.	It consists of various budgets for different levels of activity.
Here all costs like-Fixed, Variable and Semi-variable are related to only one level of activity.	Here analysis of variance provides useful Information as each cost is analysed according to its behaviour.
If the budgeted and actual activity level differ significantly, then the aspects like cost ascertainment and price fixation do not give a correct picture	Flexible Budgeting at different levels of activity facilities the ascertainment of cost fixation of selling price and tendering of quotations
Comparison of actual performance with budgeted targets will be meaningless specially when there is a difference between the two activity levels.	It provides a meaningful basis of comparison of the actual performance with the budgeted targets.

27. Write a brief note on Master Budget.

Ans.

- ◆ Master Budget is the budget prepared to cover all the functions of the business organization.
- ◆ It can be taken as the integrated budget of business concern, that means, it shows the profit or loss and financial position of the business concern such as Budgeted Profit and Loss Account, Budgeted Balance Sheet etc.
- ◆ Master budget, also known as summary budget or finalized profit plan, combines all the budgets for a period into one harmonious unit and thus, it shows the overall budget plan.



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- ◆ The master budget incorporates all the subsidiary functional budgets and the Budgeted Profit and Loss Account and Budgeted Balance Sheet
- ◆ Before the budget plan is put into operation, the master budget is considered by the management and revised if the position of profit disclosed therein is not found to be satisfactory
- ◆ After suitable revision made, the Master Budget is finally approved and put into action.

28. Write short note on Forecast vs. Budget.

Sol:

Forecast	Budget
Forecasts is mainly concerned with anticipated or probable events	Budget is related to planned events
Forecasts may cover for longer period (often in excess of a year)	Budget is planned or prepared for a shorter period
Forecast is only a tentative estimate.	Budget is a target fixed for a period.
Forecast results in planning	Result of planning is budgeting
The function of forecast ends with the forecast of likely events	The process of budget starts where forecast ends and converts it into a budget
Forecast usually covers a specific business function.	Budget is prepared for the business as a whole
Forecasting does not act as a tool of controlling measurement.	Purpose of budget is not merely a planning device but also a controlling tool

29. State only one basic difference between Fixed Budget and Flexible Budget.

Sol:

Fixed Budget	Flexible Budget
It does not change with actual volume of activity achieved. Thus, it is known as rigid or inflexible budget.	It can be recasted on the basis of activity level to be achieved. Thus, it is not rigid.

30. State only one basic difference between Sales Budget and Sales Forecast.



Sol:

Sales Budget	Sales Forecast
A Sales Budget provides an estimate of quantity and Selling Price for each product for each zone or region.	It is a forecast of the expected units a company intends to sell over a period of time and the revenue it should generate from it.

31. State only one basic difference between Cash Budget and Cash Flow Statement.

Sol:

Cash Budget	Cash Flow Statement
Cash budget represents the expected future cash flow of an organization over a defined period of time.	Cash Flow Statement reveals the changes in Cash Position between two Balance Sheet dates

32. State only one basic difference between Zero Base Budget and Conventional Budget.

Sol:

Zero Base Budget	Conventional Budget
Zero based budgeting starts with the premise that the budget for next period is zero so long the demand for a function, process, project or activity is not justified for each rupee from the first rupee spent.	In Conventional Budget the last year's figures are accepted as they are, or cut back or increases are granted.

33. Write a short note on:

- (i) Profit Centre**
- (ii) Responsibility Centre. How do they differ?**

Ans.

Profit Centre:

- Profit centre is a segment of a business that is responsible for all the activities involved in the production and sales of products, systems and services. Thus, a profit centre encompasses both costs that it incurs and revenue that it generates.



- Profit centres are created to delegate responsibility to individuals and measure their performance. In the concept of responsibility accounting, profit centres are sometimes also responsible for the investment made for the centre.
- The profit is related to the invested capital. Such a profit centre may also be termed as investment centre.

Responsibility Centre:

- A responsibility centre in cost accounting denotes a segment of a business organization for the activities of which responsibility is assigned to a specific person. Thus, a factory may be split into a number of centres and a supervisor is assigned with the responsibility of each centre.
- All costs relating to centre are collected and the Manager responsible for such a cost centre is judged by reference to the activity levels achieved in relation to costs.
- Even an individual machine may be treated as responsibility centre for cost control and cost reduction.

They differ in the following aspects:

- (i) Profit Centre relates to a business segment responsible for costs and revenue. It may be extended to be responsible even for the investment made for the centre.
- (ii) Responsibility centre relates to activity levels achieved in relation to costs. It is meant for cost control and cost reduction.

34. What is Responsibility Accounting? Also state the Principles of Responsibility Accounting

Ans.

- It is a system of accounting that recognizes various responsibility centres throughout the organisation and reflects the plans and actions of each of these centres by assigning particular revenues and costs of the one having the pertinent responsibility.
- It is a system in which the person holding the supervisory posts as president, function head, foreman, etc. are given a report showing the performance of the company or department or section as the case may be
- The report will show the data relating to operational results of the area and the items of which he is responsible for control.
- Responsibility accounting follows the basic principles of any system of cost control and standard costing.
- It differs only in the sense that it lays emphasis on human beings and fixes responsibilities for individuals.
- It is based on the belief that control can be exercised by human beings, so responsibilities should be fixed for individuals.



Principles of Responsibility Accounting:

- (i) A target is fixed for each department or responsibility centre.
- (ii) Actual performance is compared with the target.
- (iii) The variances from plan are analysed so as to fix the responsibility.
- (iv) Corrective action is taken by higher management and is communicated.

35. Write as short note on Performance Budgeting Or Enumerate the main Concepts of Performance Budgeting

Ans.

Performance Budgeting is synonymous with Responsibility Accounting which means the responsibility of various levels of Management is predetermined in terms of. Output or result keeping in view the authority vested with them.

The main concepts of such a system are enumerated below:

- (a) It is based on a classification of managerial level for the purpose of establishing a budget for each level. The individual in-charge of that level should be made responsible and held accountable for its performance over a given period of time.
- (b) The starting point of the performance budgeting system rests with the organisation chart in which the spheres of Authority jurisdiction have been determined. Authority leads to the responsibility for certain costs and expenses which concerned. are forecasted or present in the budget with the knowledge of the manager
- (c) The cost in each individual's or department's budget should be limited to the cost controllable by him.
- (d) Person concerned should have the authority to bear the responsibility.

36. What do you mean by Cost Centre? How is it different from Profit Centre?

Ans.

Cost Centre: A responsibility centre where only costs are aggregated. The manager of the cost centre will be responsible for the costs under his charge.

Profit Centre: A responsibility centre where not only costs but also revenues are accumulated and accounted for. Thus, the manager of this centre will be responsible for the profits of his area.

Cost Centre can differ from Profit Centre because of the following:

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 well costs are controlled. Cost centres commonly include service and administrative departments. For example, a company's



human resources and accounting departments could be considered cost centres because these units do not generate revenues or charge for services, but they do incur costs.

A profit center is an organizational unit whose manager is responsible for generating revenues and managing expenses related to current activity. Thus, profit centres should be independent organizational units whose managers have the ability to obtain resources at the most economical prices.

The profit centre resolves many of the problems just noted for the cost and revenue centre concepts by combining the two. The manager of a profit centre is primarily responsible for generating the highest possible profit (or least possible loss). This results in a strong incentive to pursue only those sales that have a sufficient margin, while also incurring expenses only if they will result in an incremental increase in revenue.

37. What do you mean by Responsibility Centre? Explain in brief the various types of Responsibility Centers.

Ans.

Responsibility Centre:

- A responsibility centre in cost accounting denotes a segment of a business organization for the activities of which responsibility is assigned to a specific person. Thus, a factory may be split into a number of centres and a supervisor is assigned with the responsibility of each centre.
- All costs relating to centre are collected and the Manager responsible for such a cost centre is judged by reference to the activity levels achieved in relation to costs.
- Even an individual machine may be treated as responsibility centre for cost control and cost reduction.

Types of responsibility centres:

- 1) **Cost centre:** a responsibility centre where only costs are aggregated. The manager of the cost centre will be responsible for the costs under his charge.
- 2) **Profit centre:** a responsibility centre where not only costs but also revenues are accumulated and accounted for. Thus, the manager of this centre will be responsible for the profits of his area.
- 3) **Investment centre:** a responsibility centre where the manager will be account-able for costs, revenues and the investment decisions made. The manager is held responsible for both profits and return on investment.

Note: There can be several cost centres within a profit centre and several profit centres within each investment centre, each centre having its own budget and performance targets.



38. A responsibility accounting system helps organizational unit managers to conduct the five basic control functions". In this context, discuss the said basic control functions.

Ans.

A responsibility accounting system helps organizational unit managers to conduct the five basic control functions:

- 1) Preparing a plan (e.g., using budgets and standards) and use it to communicate output expectations and delegate authority.
- 2) 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.
- 3) Monitoring the differences between planned and actual data at scheduled intervals. Responsibility reports for subordinate managers and their immediate super-visors normally include comparisons of actual results with flexible budget figures. In contrast, responsibility reports can provide comparisons of actual performance to the master budget.
- 4) 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.
- 5) Continuing comparing data and responding; then, at the appropriate time, the process will begin again.

39. Describe responsibility centres and explain its different types

Ans.

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 areas may be departments (drilling or maintenance department), product lines (chemicals or fertilizers), territories (North or South) or any other type of identifiable unit or combination of units.

It should be noted that effective planning and control systems are structured around the implicit or explicit areas of responsibility within the organization. Further, to be held accountable for performance, managers must have clearly defined areas of responsibility—activities they control.



When an entity is divided into segments with managers having responsibility over specific areas, the segmented areas are known as responsibility centers. Four types of responsibility centers are commonly identified:

- (i) Cost or Expense Center,
- (ii) Profit Center or Earnings Center, and
- (iii) Revenue Center
- (iv) Investment Center.

(i) Cost Centre

- A cost or expense centre is a segment of an organisation in which the managers are held responsible for the cost incurred in that segment but not for revenues.
- According to CIMA, London a cost centre is “a location person or equipment, for which costs may be ascertained and used for purposes of cost control”
- Responsibility in a cost centre is restricted to cost.
- For planning purposes, the budget estimates are cost estimates; for control purposes, performance evaluation is guided by a cost variance equal to the difference between the actual and budgeted costs for a given period.
- Cost centre managers have control over some or all of the costs in their segment of business, but not over revenues.
- In manufacturing organisations, the production and service departments are classified as cost centre. Also, a marketing department, a sales region or a single sales representative can be defined as a cost centre.
- Cost centre may vary in size from a small department with a few employees to an entire manufacturing plant. In addition, cost centres may exist within other cost centres.
- E.g. accounting department, repairs & maintenance department

(ii) Revenue Centre

- It is a segment of the organisation which is primarily responsible for generating sales revenue.
- A revenue centre manager does not possess control over cost, investment in assets, but usually has control over some of the expense of the marketing department.
- The revenue centre manager will control the selling price, promotion mix and product mix
- The performance of a revenue centre is evaluated by comparing the actual revenue with budgeted revenue, and actual marketing expenses with budgeted marketing expenses.
- E.g. sales department

(iii) Profit Centre

- Also called business centre



- It is a segment of an organisation whose manager is responsible for both revenues and costs.
- In a profit centre, the manager has the responsibility and the authority to make decisions that affect both costs and revenues (and thus profits) for the department or division.
- The managers are encouraged to act as if they were running their own separate business.
- The main purpose of a profit centre is to maximise profit by making decisions relating to production volume, product mix, selling price, marketing strategy.
- Profit centre managers aim at both the production and marketing of a product.

(iv) Investment Centre

- It is responsible for both profits and investments.
- The investment centre manager has control over revenues, expenses and the amounts invested in the centre's assets.
- He also formulates the credit policy which has a direct influence on debt collection, and the inventory policy which determines the investment in inventory.
- The manager of an investment centre has more authority and responsibility than the manager of either a cost centre or a profit centre.
- Besides controlling costs and revenues, he has investment responsibility too. 'Investment on asset' responsibility means the authority to buy, sell and use divisional assets.
- E.g. a new hotel being developed.

40. Explain briefly the concept of Revenue Center.

Ans.

A revenue center is strictly defined as an organizational unit that is responsible for the generation of revenues and has no control over setting selling prices or budgeting costs. For instance, in many retail stores, each sales department is considered an independent unit and managers are evaluated based on their departments' total revenues.

A revenue center is one where the employees located in a specific functional area are solely responsible for attaining preset revenue levels. The sales department is sometimes considered to be a revenue center. In this capacity, employees are essentially encouraged to obtain new sales without regard to the cost of obtaining them. This can be a dangerous way to run a function, unless strict guidelines are set up that control the overall spending limits allowed, the size and type of customer solicited, and the size and type of orders obtained. Otherwise, the sales staff will obtain orders from all kinds of customers, including those with poor credit records or histories of returning goods, not to mention orders that are so small that the cost of processing the order exceeds the profit gained from the sale.



Other counterproductive activities associated with revenue centers are the inordinate use of travel funds to meet with customers, selling products at large discounts from the standard price, offering special promotional guarantees to customers, allowing credits on previously purchased products if the price subsequently declines, and offering to extend payment terms. For all of these reasons, revenue centers are not recommended without the addition of stringent controls to ensure that the sales staff obtains only revenues that will result in adequate levels of profitability.

In a revenue center, performance evaluations are limited because the manager has control over only one item: revenues. Actual performance in revenue centers (as well as in any other area that has revenue control) should be compared against budgeted performance to determine variances from expectations. Budgeted and actual revenues may differ because of either volume of units sold or price of units sold. To compare budgeted and actual revenues, the price and volume components of revenue must be distinguished from one another. The sales price variance is calculated by multiplying the actual number of units sold by the difference between actual and budgeted sales prices. This variance indicates the portion of the total revenue variance that is related to a change in selling price. The sales volume variance is calculated by multiplying the budgeted sales price by the difference between the actual and budgeted sales volumes.

41. Explain the relation between decentralization and responsibility accounting.

Ans.

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. 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. Responsibility accounting systems are tailored to the organizational structure so that revenue and costs are accumulated and reported by centres of responsibility within the organization.

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



A responsibility accounting system produces responsibility reports that assist each successively higher level of management in evaluating the performances of subordinate managers and their respective organizational units. The reports should be tailored to fit the planning, controlling, and decision-making needs of subordinate managers and should include both monetary and nonmonetary information.

In the past, the major emphasis in organizational planning was on optimizing economic resources to achieve company objectives. However, in recent years the value of human resources has been recognized and become an important consideration in planning. In general, a company is organized along lines of responsibility. The traditional organizational chart, with its pyramid shape, illustrates the lines of responsibility flowing from the CEO down through the vice presidents to middle- and lower-level managers. It indicates, as organizations grow larger, these lines of responsibility become longer and more numerous. The structure becomes cumbersome. Contemporary practice is moving toward a flattened hierarchy. This structure—emphasizing teams—is consistent with decentralization. Organizing divisions as responsibility centers creates the opportunity to control the divisions through the use of responsibility accounting. Revenue center control is achieved by evaluating the efficiency and the effectiveness of divisional managers on the basis of sales revenue.

42. List the characteristics of responsibility reporting

Ans.

The characteristics of responsibility reporting:

- 1) Reports should fit the organization chart, that is, the report should be addressed to the individual responsible for the items covered by it, who, in turn, will be able to control those costs under his jurisdiction. Managers must be educated to use the results of the reporting system.
- 2) Report should be prompt and timely. Prompt issuance of a report requires that cost records be organized so that information is available when it is needed
- 3) Reports should be issued with regularity. Promptness and regularity are closely tied up with the mechanical aids used to assemble and issue reports.
- 4) Reports should be easy to understand Often they contain accounting terminology that managers with little or no accounting training find difficult to understand, and vital information may be incorrectly communicated Therefore, accounting terms should be explained or modified to fit the user. Top management should have some knowledge of the kind of items chargeable to an account as well as the methods used to compute overhead rates, make cost allocations and analyse variances.
- 5) Reports should convey sufficient but not excessive details. The amount and nature of the details depend largely on the management level receiving the report. Reports to



management should neither be flooded with immaterial facts nor so condensed that management lacks vital information essential to carrying out its responsibilities.

- 6) Reports should give comparative figures, i.e., a comparison of actual with budgeted figures or of predetermined standards with actual results and the isolation of variances.
- 7) Reports should be analytical. Analysis of underlying papers, such as time tickets, scraps tickets, work orders, and materials requisitions, provide reasons for poor performance which might have been due to power failure, machine breakdown, an inefficient operator, poor quality of materials, or many other similar factors.
- 8) Reports for operating management should, if possible, be stated in physical units as well as in terms of money since monetary information may give a foreman not trained in the language of the accountant a certain amount of difficulty.
- 9) Reports may tend to highlight departmental efficiencies and inefficiencies, results achieved future goals or targets.

43. Interpret the role and scope of management accounting with examples of its applications in business operations.

Ans

The scope of management accounting is very wide and broad-based. It includes all information which is provided to the management for financial analysis and interpretation of the business operations.

1. **Financial Accounting:** Financial accounting though provides historical information but is very useful for future planning and financial forecasting. Designing of a proper financial accounting system is a must for obtaining full control and co-ordination of operations of the business.
2. **Cost Accounting:** It provides various techniques of costing like marginal costing, standard costing, differential and opportunity cost analysis, etc., which play a useful role in operation and control of the business undertakings.
3. **Budgeting and Forecasting:** Forecasting on the various aspects of the business is necessary for budgeting. Budgetary control controls the activities of the business through the operations of budget by comparing the actual with the budgeted figures, finding out the deviations, analysing the deviations in order to pinpoint the responsibility and take remedial action so that adverse things may not happen in future. Both the techniques are necessary for management accountant.
4. **Cost Control Procedure:** These procedures are integral part of the management accounting process and include inventory control, cost control, labour control, budgetary control and variance analysis, etc.
5. **Reporting:** The management accountant is required to submit reports to the management on the various aspects of the undertaking. While reporting, he may use statistical tools for presentation of information as graphs, charts, pictorial presentation,



index numbers and other devices in order to make the information more impressive and intelligent.

6. **Methods and Procedures:** It includes in its study all those methods and procedures which help the concern to use its resources in the most efficient and economical manner. It undertakes special cost studies and estimations and reports on cost volume profit relationship under changing circumstances.
7. **Tax Accounting:** It is an integral part of management accounting and includes preparation of income statement, determination of taxable income and filing up the return of income etc.
8. **Internal Financial Control:** Management accounting includes the internal control methods like internal audit, efficient office management, etc.
9. **Interpretation:** Management accounting is closely related to the interpretation of financial data to the management and advising them on decision-making.
10. **Evaluating the Performance of the Management:** Management accounting provides methods and techniques for evaluating the performance of the management. It evaluates the performance of the management in the light of the objectives of the organisation. Thus, it helps in the implementation of the principle of management by exception.

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

Ans:

Performance Reporting:

- A control system to be effective should be such that deviations from the plans must be reported at the earliest so as to take corrective action for the future. The deviations can be known only when performance is reported.
- Responsibility accounting system is focused on performance reports also known as 'responsibility reports', prepared for each responsibility unit.
- Unlike authority which flows from top to bottom, reporting flows from bottom to top. These reports should be addressed to appropriate persons in respective responsibility centres.
- The reports should contain information in comparative form as to show plans (budgets) and the actual performance and should give details of variances which are related to that centre.
- The variances which are not controllable at a particular responsibility centre should also be mentioned separately in the report.

Pre-requisites of Responsibility Accounting:

- It should be a big company with divisionalised organization structure.



- The organization should have clearly set goals and targets.
- Managers should actively participate in establishing budgets against which their performance is measured.
- Performance reporting should be timely and contain significant information relating to the responsibility centres.
- Managers are held responsible only for those activities over which they exercise significant degree of control.

45. Management Accounting serves as a tool to management – discuss.

Ans:

Strategies are long term plans which help organisations to realise its goal. Strategy is defined as a general direction set for the company and its various components to achieve a desired state in the future. A company's strategy specifies how the organisation matches its own capabilities with the opportunities in the marketplace. Basically businesses follow one of two broad strategies. Some companies follow a cost leadership strategy. These companies, for long term sustenance, choose to provide quality products or services at low prices and by cautiously managing their costs. Other companies follow a product differentiation strategy. These companies offer differentiated or unique products or services that appeal to their customers. The products are often priced higher than the products or services of their competitors.

Managers are faced with various challenges. One such is to decide between the two strategies discussed above. The crucial issue is that this have long term impact on profitability and growth of the company. Management accountants work closely with managers in various departments to formulate strategies by providing information about the sources of competitive advantage, such as:

- the company's cost, productivity, or efficiency advantage relative to competitors or
- the superior prices the company can charge relative to the costs of adding features that make its products or services distinctive.

Strategic cost management describes cost management that specifically focuses on strategic issues. Management accounting information helps managers formulate strategy by answering the following questions:

- A) Who are the most important customers, and how can the company deliver value to the customers?
- B) What substitute products exist in the marketplace, and how do they differ from products of the company in terms of features, price, cost, and quality?
- C) What is most critical capability of the company which may be technology, production, or marketing?



- D) How can we leverage it for new strategic initiatives?
- E) Will adequate cash be available to fund the strategy, or will additional funds need to be raised?

The best-designed strategies and the best-developed capabilities are useless unless they are effectively executed which depends primarily on the information generated and provided by the management accountant. This linkage between successful implementation of strategy and the accounting information generated by management accounting is the subject matter of strategic cost management.

46. List the characteristics of responsibility reporting.

Ans:

The characteristics of responsibility reporting:

1. Reports should fit the organization chart, that is, the report should be addressed to the individual responsible for the items covered by it, who, in turn, will be able to control those costs under his jurisdiction. Managers must be educated to use the results of the reporting system.
2. Report should be prompt and timely. Prompt issuance of a report requires that cost records be organized so that information is available when it is needed.
3. Reports should be issued with regularity. Promptness and regularity are closely tied up with the mechanical aids used to assemble and issue reports.
4. Reports should be easy to understand. Often they contain accounting terminology that managers with little or no accounting training find difficult to understand, and vital information may be incorrectly communicated. Therefore, accounting terms should be explained or modified to fit the user. Top management should have some knowledge of the kind of items chargeable to an account as well as the methods used to compute overhead rates, make cost allocations and analyze variances.
5. Reports should convey sufficient but not excessive details. The amount and nature of the details depend largely on the management level receiving the report. Reports to management should neither be flooded with immaterial facts nor so condensed that management lacks vital information essential to carrying out its responsibilities.
6. Reports should give comparative figures, i.e., a comparison of actual with budgeted figures or of predetermined standards with actual results and the isolation of variances.
7. Reports should be analytical. Analysis of underlying papers, such as time tickets, scraps tickets, work orders, and materials requisitions, provide reasons for poor performance which might have been due to power failure, machine breakdown, an inefficient operator, poor quality of materials, or many other similar factors.
8. Reports for operating management should, if possible, be stated in physical units as well as in terms of money since monetary information may give a foreman not trained in the language of the accountant a certain amount of difficulty.



IMPORTANT QUESTIONNAIRE



9. Reports may tend to highlight departmental efficiencies and inefficiencies, results achieved future goals or targets.