ACCOUNTING FOR MANAGEMENT:

UNIT 1:

Accountancy is the process of communicating financial information about a business entity to users such as shareholders and managers. The communication is generally in the form of financial statements that show in money terms the economic resources under the control of management; the art lies in selecting the information that is relevant to the user and is reliable.

Accountancy is a branch of mathematical science that is useful in discovering the causes of success and failure in business.The principles of accountancy are applied to business entities in three divisions of practical art, named accounting, bookkeeping, and auditing.

Accounting is defined by the American Institute of Certified Public Accountants (AICPA) as "the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof."

Accounting is thousands of years old; the earliest accounting records, which date back more than 7,000 years, were found in the Middle East. The people of that time relied on primitive accounting methods to record the growth of crops and herds. Accounting evolved, improving over the years and advancing as business advanced.

Early accounts served mainly to assist the memory of the businessperson and the audience for the account was the proprietor or record keeper alone. Cruder forms of accounting were inadequate for the problems created by a business entity involving multiple investors, so double-entry bookkeeping first emerged in northern Italy in the 14th century, where trading ventures began to require more capital than a single individual was able to invest. The development of joint stock companies created wider audiences for accounts, as investors without firsthand knowledge of their operations relied on accounts to provide the requisite information. This development resulted in a split of accounting systems for internal (i.e. management accounting) and external (i.e. financial accounting) purposes, and subsequently also in accounting and disclosure regulations and a growing need for independent attestation of external accounts by auditors.

Today, accounting is called "the language of business" because it is the vehicle for reporting financial information about a business entity to many different groups of people. Accounting that concentrates on reporting to people inside the business entity is called management accounting and is used to provide information to employees, managers, owner-managers and auditors. Management accounting is concerned primarily with providing a basis for making management or operating decisions. Accounting that provides information to people outside the business entity is called financial accounting and provides information to present and potential shareholders, creditors such as banks or vendors, financial analysts, economists, and government agencies. Because these users have different needs, the presentation of financial accounts is very structured and subject to many more rules than management accounting. The body of rules that governs financial accounting is called Generally Accepted Accounting Principles, or GAAP.

BRANCHES OF ACCOUNTING

1)FINANCIAL ACCOUNTING

2)COST ACCOUNTING

3)MANAGEMENT ACCOUNTING

FINANCIAL ACCOUNTING

Financial accountancy (or **financial accounting**) is the field of accountancy concerned with the preparation of financial statements for decision makers, such as stockholders, suppliers, banks, employees, government agencies, owners, and other stakeholders. Financial capital maintenance can be measured in either nominal monetary units or units of constant purchasing power. The fundamental need for financial accounting is to reduce principal-agent problem by measuring and monitoring agents' performance and reporting the results to interested users.

TYPES OF ACCOUNT

- PERSONAL ACCOUNT
- REAL ACCOUNT
- NOMINAL ACCOUNT

GAAPs

CONCEPTS OF ACCOUNTING

- SEPARATE ENTITY CONCEPT
- GOING CONCERN CONCEPT
- MONEY MEASUREMENT CONCEPT
- COST CONCEPT
- DUAL ASPECT CONCEPT
- ACCOUNTING PERIOD CONCEPT
- MATCHING CONCEPT
- REALISATION CONCEPT

CONVENTIONS OF ACCOUNTING

- CONVENTIONS OF FULL DISCLOSURE
- CONVENTIONS OF PRUDENCE
- CONVENTIONS OF CONSISTENCY
- CONVENTIONS OF MATERIALITY

BALANCE SHEET,PROFIT AND LOSS ACCOUNTS RELATED CONCEPTS

BALANCE SHEET:

LIABILITIES

LONG TERM LIABILITIES

CAPITAL

BANK LOAN

DEBENTURE

CURRENT LIABILITIES

CREDITORS

BILLS PAYABLE

ASSETS

FIXED ASSETS

MACHINES

BUILDINGS

FURNITURE

INTANGIBLE ASSETS

GOODWILL

PATENT

TRADEMARKS

COPY RIGHTS

CURRENT ASSETS

CASH

DEBTORS

BILLS RECEIVABLE

PROFIT AND LOSS ACCOUNT

DEBIT SIDE

CREDIT SIDE

INFLATION ACCOUNTING

TRADITIONAL ACCOUNTING – HISTORICAL COST

INFLATION ACCOUNTING - MARKET VALUE

HUMAN RESOURCE ACCOUNTING

COST BENEFIT ANALYSIS

UNIT 2:

COMPANY ACCOUNTS

TYPES OF COMPANIES

- BASED ON OWNERSHIP

PRIVATE SECTOR COMPANY

PUBLIC SECTOR COMPANY

- BASED ON ISSUE OF SHARES

PRIVATE LIMITED COMPANY

PUBLIC LIMITED COMPANY

PUBLIC LIMITED COMPANY

LISTED COMPANY

UNLISTED COMPANY

BOOKS OF ACCONTS MAINTAINED BY A COMPANY

- CASH BOOK
- BANK BOOK
- PURCHASE BOOK
- SALES BOOK
- PURCHASE RETURN BOOK
- SALES RETURN BOOK
- BILLS RECEIVABLE BOOK
- BILLS PAYABLE BOOK
- GENERAL LEDGER
- GENERAL JOURNAL

- DEBTORS LEDGER
- CREDITORS LEDGER

PROFIT AND LOSS PRIOR TO INCORPORATION

PERIOD BEFORE INCORPORATION

PERIOD AFTER INCORPORATION

RATIOS

SALES RATIO

TIME RATIOS

OTHER CONCEPTS

- ALTERATION OF SHARE CAPITAL
- PREFERENTIL ALLOTMENT
- EMPLOYEES STOCK OPTION
- BUY BACK OF SECURITIES

UNIT 3:

RATIO ANALYSIS

PROFITABILITY RATIOS AND MARKET RELATED RATIOS

- GROSS PROFIT RATIO
- OPERATING RATIO
- EXPENSES RATIO

- OPERATING PROFIT RATIO
- NET PROFIT RATIO
- PRICE EARNINGS RATIO
- PAYOUT RATIO
- DIVIDEND YIELD RATIO

COVERAGE RATIOS

- FIXED INTEREST COVERAGE RATIO
- FIXED DIVIDEND COVERAGE RATIO
- DEBT SERVICE COVERAGE RATIO

TURNOVER RATIOS

- CAPITAL TURNOVER RATIO
- FIXED ASSETS TURNOVER RATIO
- WORKING CAPITAL TURNOVER RATIO
- TOTAL ASSETS TURNOVER RATIO
- INVENTORY TURNOVER RATIO
- DEBTORS TURNOVER RATIO
- CREDITORS TURNOVER RATIO

FINANCIAL RATIOS

- LIQUIDITY RATIOS
- CURRENT RATIO
- QUICK RATIO
- SUPER QUICK RATIO

LEVERAGE RATIOS

- OPERATING LEVERAGE
- FINANCIAL LEVERAGE

FUND FLOW STATEMENT

Fund Flow Statements summarize a firm's inflow and outflow of funds. Simply put, it tells investors where funds have come from and where funds have gone. The statements are often used to determine whether companies efficiently source and utilize funds available to them.

How to Prepare a Fund Flow Statement

Fund flow statements are prepared by taking the balance sheets for two dates representing the coverage period. The increases and decreases must then be calculated for each item. Finally, the changes are classified under four categories: (1) Long-term sources, (2) long-term uses, (3) short-term sources, (4) short-term uses.

It is also important to zero out the non-fund based adjustments in order to capture only the changes that are accompanies by flow of funds. However, income accured but received and expenses incurred but not received reckoned in the profit and loss statement should not be excluded from the profit figure for the fund flow statement.

Fund flow statements can be used to identify a variety of problems in the way a company operates. For example, companies that are using short-term money to finance long-term investments may run into liquidity problems in the future. Meanwhile, a company that is using long-term money to finance short-term investments may not be efficiently utilizing its capital.

CASH FLOW STATEMENT

In financial accounting, a cash flow statement, also known as *statement of cash flows* or *funds flow statement*, is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing, and financing activities. Essentially, the cash flow statement is concerned with the flow of cash in and cash out of the business. The statement captures both the current operating results and the accompanying changes in the balance sheet.[1] As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills. International Accounting Standard 7 (IAS 7), is the International Accounting Standard that deals with cash flow statements.

People and groups interested in cash flow statements include:

- Accounting personnel, who need to know whether the organization will be able to cover payroll and other immediate expenses
- Potential lenders or creditors, who want a clear picture of a company's ability to repay
- Potential investors, who need to judge whether the company is financially sound
- Potential employees or contractors, who need to know whether the company will be able to afford compensation
- Shareholders of the business.

UNIT 4

COST ACCOUNTING

ELEMENTS OF COST

DIRECT MATERIALS

DIRECT LABOUR

DIRECT EXPENSES

OVERHEADS

PRODUCTION OVERHEADS

ADMINISTRATION OVERHEADS

SELLING OVERHEADS

DISTRIBUTION OVERHEADS

STANDARD COSTING

MATERIAL VARIANCES

- MATERIAL COST VARIANCE
- MATERIAL PRICE VARIANCE
- MATERIAL USAGE VARIANCE
- MATERIAL MIX VARIANCE
- MATERIAL YIELD VARIANCE

LABOUR VARIANCES

- LABOUR COST VARIANCE
- LABOUR RATE VARIANCE
- LABOUR EFFICIENCY VARIANCE
- LABOUR IDLE TIME VARIANCE
- LABOUR MIX VARIANCE
- LABOUR YIELD VARIANCE

OVERHEAD VARIANCE

- VARIABLE OVERHEAD VARIANCE
- FIXED OVERHEAD VARIANCE

SALES VARIANCES

- SALES VALUE VARIANCE
- SALES VOLUME VARIANCE

- SALES PRICE VARIANCE

BUDGETORY CONTROL

- SALES BUDGET
- PRODUCTION BUDGET
- CASH BUDGET
- MASTER BUDGET
- FIXED BUDGET
- FLEXIBLE BUDGET
- LABOUR BUDGET
- MATERIALS BUDGET
- PURCHASE BUDGET
- ZERO BASE BUDGET

MARGINAL COSTING

BREAK EVEN POINT

MARGIN OF SAFETY

APPLICATIONS OF MARGINAL COSTING

MAKE OR BUY DECISION

SALES MIX DECISION

OTHER TYPES OF COSTING

- ACTIVITY BASED COSTING

- TARGET COSTING
- JOB ORDER COSTING
- BATCH COSTING
- SPECIFIC ORDER COSTING
- PROCESS COSTING

UNIT 5:

ACCOUNTING IN COMPUTERIZED ENVIRONMENT

BENEFITS

- HIGH SPEED
- TIME SAVING
- ACCURACY
- DILIGENCE
- VERSALITY
- STORAGE
- MINIMISE ERRORS

The purpose of accounting is to provide information used in decision making. Accounting may be viewed as a system (a process) that converts data into useful information.

Information processes include:

  - Recording

- Maintaining
- Reporting

Every business has numerous processes. Some simple, others complex and cumbersome. But as the business grows, acquires new customers, enters new markets and keeps pace with constant changes in statutory regulations... the company will need to maintain highly accurate and up-to-date accounting, inventory and statutory records.

This is where a computerized accounting helps simplify, integrate, and streamline all the business processes, cost-effectively and easily.

2. Salient Features of Computerized accounting

2.1. Fast, Powerful, Simple and Integrated

Computerized accounting is designed to automate and integrate all the business operations, such as sales, finance, purchase, inventory and manufacturing. With Computerized accounting, accurate, up-to-date business information is literally at the fingertips. The Computerized accounting combine with enhanced MIS, Multi-lingual and Data organization capabilities to help the company simplify all the business processes easily and cost-effectively.

2.2. Complete Visibility

Computerized accountings giving the company sufficient time to plan, increase the customer base, and enhance customer satisfaction. With Computerized accounting the company will have greater visibility into the day-to-day business operations and access to vital information.

2.3. Enhanced User Experience

Computerized accounting allows the company to enter data in a variety of ways which makes work a pleasure. Adapting to the specific business needs is possible.

2.4. Accuracy, Speed

Computerized accounting has User-definable templates which provides fast, accurate data entry of the transactions; thereafter all documents and reports can be generated automatically, at the press of a button.

2.5. Scalability

Computerized accounting adapts to the current and future needs of the business, irrespective of its size or style.

2.6. Power

Computerized accounting has the ability to handle huge volumes of transactions without compromising on speed or efficiency.

2.7. For Improved Business Performance

Computerized accounting is a highly integrated application that transforms the business processes with its performance enhancing features which encompass accounting, inventory, reporting and statutory processes. This helps the company access information faster, and takes quicker decisions. Computerized accounting also guarantees real-time optimization of operations and enhanced communication.

2.7. Quick Decision Making

Generates real-time, comprehensive MIS reports and ensures access to complete and critical information, instantly.

2.8. Complete Reliability

Computerized accounting makes sure that the critical financial information is accurate, controlled and safe from data corruption.

3. Advantages of Computerized accounting

- Automation of tedious clerical jobs
- Speed and accuracy
- Low cost of packages
- Automatic generation of standard reports
- Redundant data storage permits efficient generations of some reports
- Increase revenue while lowering operating costs and enhancing competitive advantage of the company.

4. Disadvantages of Computerized accounting

- Transactions orientation only
- Periodic not real time reporting
- Limited flexibility for ad hoc reports

SOFTWARE

- TALLY
- CASH MANAGER
- BEST BOOK

GROUPING OF ACCOUNTS

SUPER GROUP

SUB GROUP

METHODS OF CODING

- SEQUENTIAL CODING
- BLOCK CODING
- MNEMONIC CODING
- GROUP CODING