Management Accounting: Definition, Types And Analysis

With appropriate examples of management accounting techniques, consider how management accounting has changed in the past 50 years to accommodate for the changes in the external environment, specifically in terms of nature and scope of management accounting.

Management accounting occurred in the early years of the industrial revolution tracing back its origins to stewardship roles that existed in the European merchant groups and the government tax records that have been in use to date (Kaplan, 1984). Accounting refers to the process in which proper records are kept for every financial transaction; it occurs in an organization or a business set up. While in management, the accounting concept is utilized in the planning and budgeting processes to measure the level of performance a company achieves. In project decision making, this concept refers to the process in which the managers use reports such as job costing in weighing the benefits and costs of participating in an exact project. Therefore, the research that occurs in a management accounting set up contains a tradition with varied theoretical approaches that are utilized and managed in the process.

Over the years, several meta-theories or theories have been utilized in several research approaches with the initial studies using a quantitative approach containing mathematical concepts that operated on minimal belief, trusting that all-important aspects had been captured. Another vital theory appropriate in this context is the contingency approach (Burns et al., 2000). This paper focuses on the major concepts utilized in accounting and the techniques suitable for management accounting. Furthermore, the study concentrates on the appropriate accounting techniques and the changes it has occurred in the accounting field for the past 50 years concerning the nature and scope of management accounting.

Management Accounting Concepts

In the manufacturing industry, management accounting has evolved with the output in each unit expressed according to the subsequent process of production. First, a job order represents a unique identification of each unit, while a batch process represents output product in groups known as batches. However, the unit from one batch to another differs expressively. Thus, every unit similar from one batch to the next is stored within proximity. Thirdly, an assembly line refers to it relates to the production of similar units in a sequence using a highly automated operation. Finally, a continuous process refers to the constant product flow during all the procedure hours of the industry (Schaltegger et al., 2017). Hence, it is essential to distinguish the operation flow on the continuum since it influences the type of system used in management accounting. Furthermore, in decision making, large companies utilize the decentralized system where several responsibility centers play roles in the autonomy of the managers. The group entails a cost, profit, and investment centers, each dealing in the individual responsibility assigned.

Management Accounting Techniques

Marginal analysis

This technique is mainly concerned with the benefits of accrued incrementally from increased production in a firm. The procedure is fundamental in the calculation and reception of the break-even points used in the determination of optimal company sales of the product mix. The method further aids in the managerial decision-making process. Thus, the idea operates around the prediction and commitment of the impact of the organizational goals per unit changes. Hence, determine the optimal point of resource allocation after giving due diligence to the business constraints. The theory of marginalism states that a firm only benefits from production if the marginal revenue surpasses the minimal cost (Dechow et al., 2011). The benefits are highest when the difference is significant.

An example is an industry that manufactures toys, and the company is expected to continue with the production of the toys of the marginal benefit equals the negligible expense. Therefore, the breakeven point of the company operation will be achieved through measurable decisions that can be used in the optimization of profits. Thus, the applicability of the accounting technique outside the profit range production process is vast, and each resource allocation decision benefits from the method as long as the benefits and costs of businesses are identifiable. The changes in the nature and scope of management accounting are captured well in the technique as the records of every transaction made in the industry. Therefore, the analysis technique has been in use for years, and its trends with the changes in the nature and scope of management accounting (Machlup,1946).

Constraint analysis

The business production line identifies the major bottlenecks through constraint analysis and the several inefficiencies created by the holdups and the severe impact on the industry’s ability to generate profit and revenues. Therefore, this technique is applicable in the exercise of control across all the business's profitability. The bottlenecks surround the operations of the company from both the internal and external environment. One primary factor under consideration is the position in which the business utilizes all salespersons since the requirement states that a high degree of technical knowledge is required. However, increment in sales will not occur until salespersons are hired and trained, respectively. Therefore, in an innovative global world, the changes in the business world determine the adaptation and ease of business to adapt to these changes (Raa, 2005). Hence, constraint analysis plays a significant factor in the determination of future business orientation and ensure to capture the unforeseen business misfortunes before occurrence. Furthermore, in production, a single unit cannot be the product if one component of the new group is available from one supplier operating at the thoroughgoing level.

Capital budgeting

This managerial technique is applicable in the analysis of information and data necessary for the decision-making process of capital expenditures of the company. Thus, in this analysis. The accountants in the managerial department calculate the internal rate of return and the net present value to assist the managers in the determination of the decisions concerning capital budgets. The traditional methods, such as the payback period, refers to the retro phase in which a proposal generates enough cash used in the recovery of the initial capital investment in the project. The emphasis of the method lies in the economic project life, cash inflows, and project investment (Warren et al., 2018). These factors, however, rely on the basic thumb rule; hence

time value is not considered and concentrates on profitability majorly. Consequently, the technique has been in use over a long period due to the long-term business functioning through high, irreversible investment in the industry; hence, the method works in line with the changes in the nature and scope of management accounting.

Product costing and Inventory valuation

This process involves the analysis and identification of the actual costs associated with inventory and products of the company. Thus, the process implies that allotment and calculation of overhead controls with the direct costs are interrelated to the cost of goods sold. Therefore, inventory valuation appears in the entity's balance sheet as a current asset in the company. Thus, the expenses incurred while acquiring an inventory form the basis of inventory valuation. The process involves the conversion of the inventory into a particular unit of sale, and the condition should be retained throughout the transportation process of the stock. The catalog should not contain any selling or administrative costs included in the direct material and labor, freight charges, factory overhead, handling, and importing duties charges (Ogungbade et al., 2018). Cost flow assumptions should be incorporated in the determination of the flow of inventory through an entity.

The cost-flow methods used in the valuation of inventory include the first-in, first-out method, specific identification method, last in, last out process, and the weighted average means. Thus, it is essential to value invention for the determination of the income taxes, loan ratios, and the effect on the cost of goods sold. Therefore, the inventory valuation and product costing have had several milestones over the years and generated a significant impact on the business environment. While the trends in the business continually occur, the accounting technique is in-sync with the changes in the nature and scope of management accounting.

Forecasting and Trend analysis

This analysis is highly involved in the identifications of trends and patterns of product costs. It recognizes the presence of unusual patterns and variances from the values under forecast and the explanations for the presence of these discrepancies. The process in trend analysis entails the collection of relevant information from several periods and obtaining plots of the data in a horizontal line that allows the further review to occur. Thus, trend analysis has been used in the business environment for several ways, first, in investment analysis. The process enables an investor to create the historical share prices trend line and exploit the information to obtain changes in the future prices of the stock.

Furthermore, the trend line can be associated with other data, which can advance the cause-effect relationship. The trend analysis can be used to further detect the changes in the stock market by distinguishing signs of imminent fluctuations from bear to bull or bull to bear market. Secondly, cost and revenue analysis involve the retrieval of information from an income statement of a company through the preparation of a trend line of several reporting periods and examine the inconsistencies and trends in the patterns occurring (Appelbaum et al., 2017). A typical example is an unexpected spear in a single outflow period. The trend analysis here determines the preliminary examination of the inaccuracies in the financial statements and identify if any adjustments should be made to the financial statements before release at the yearly period. Thus, the trend analysis ad forecasting encompasses the management

accounting changes occurring over the years, thus playing essential roles in the field.

Analyze a modern /historic management accounting technique explaining how it applies to the current business landscape.

Political

Harsh and unbearable conditions for business operations provide negative influences on the profitability of the company generally. Through trend analysis, a business can forecast the legislative changes and environment of a particular country and identify whether it is viable to invest in such conditions and the expected outcomes. Hence, it is necessary to identify the peak seasons in which a business should operate and maximize the opportunity (Rastogi et. al. 2016). However, not all political environments influence a negative impact on a business as others create avenues for specific organizations to bloom during such periods.

Economical

The economic factor is crucial in the daily operations of the business, and the factors surrounding the market should be positive to allow constructive growth in the industry. Therefore, the trend analysis technique has been useful in the determination of the viable economic culture for the company to utilize in every financial period.

Social

The people surrounding an organization are the major shareholders of the company, and the social environment determines the growth of the business. Therefore, a business should utilize proper corporate responsibility strategies that encourage business development and influence the external environment to appreciate the social culture created (Gray et al. 2020). However, changes in every century occur in the CSR of a company due to the difference in the social environment. Hence, trend analysis is instrumental in the allocation of specific business culture to fit the social context of the particular business.

Technological

In the advancement of management accounting techniques, the concentration on technology was necessary to ensure that the product evolved with the changes in every decade and century. Therefore, the methods used long ago and today are similar but vary in the technology since machines, software, and tools become obsolete over time, while new technologies reintroduced. Therefore, the advancement concentrates on processes such as the just-in-time and total quality management systems used in the production criteria (Rastogi et. al. 2016). Hence, the trend analysis technique has been useful in the determination of the changes in the trends of the technology and allow the business to adjust to the current trend and keep customers updated.

Legal

Each country constraints the management accounting procedures according to the several legal

restrictions in each country. Therefore, the difference in the legal framework of business enables the operation of the company in every state to varying in-terms of legal representation. Thus, trend analysis plays a significant role in the identification of the changes in the nature and scope of the management accounting technique of each country an allow update consecutively.

Environment

A business environment is an essential entity in the determination of the location of the business at the onset. The decision of the surrounding factors of the operations of a business is important to identify the effect of the business to the external environment and vice versa (Gray et al. 2020). Therefore, trend analysis assists in the determination of the changes in the business environment and provides the solution to the proper investment location and disposal of the industries pollutants to prevent the effluence of the environment.

References

1. Appelbaum, D., Kogan, A., Vasarhelyi, M., and Yan, Z., 2017. Impact of business analytics and enterprise systems on managerial accounting. International Journal of Accounting Information Systems, 25, pp.29-44.
2. Burns, J., and Scapens, R.W., 2000. Conceptualizing management accounting change: an institutional framework. Management accounting research, 11(1), pp.3-25.
3. Dechow, P.M., Ge, W., Larson, C.R. and Sloan, R.G., 2011. Predicting material accounting misstatements. Contemporary accounting research, 28(1), pp.17-82.
4. Gray, S., O'Mahony, C., Hills, J., O'Dwyer, B., Devoy, R. and Gault, J., 2020. Strengthening coastal adaptation planning through scenario analysis: A beneficial but incomplete solution. Marine Policy, 111, p.102391.
5. Kaplan, R.S., 1984. The evolution of management accounting. In Readings in accounting for management control (pp. 586-621). Springer, Boston, MA.
6. Machlup, F., 1946. Marginal analysis and empirical research. The American Economic Review, 36(4), pp.519-554.
7. Ogungbade, O.I. And Tabitha, N., 2018. Cost Accounting Techniques Adopted by Manufacturing and Service Industry within the Last Decade. IJAME.
8. Raa, T.T., 2005. The economics of input-output analysis.
9. Rastogi, N.I.T.A.N.K. and Trivedi, M.K., 2016. PESTLE technique–a tool to identify external risks in construction projects. International Research Journal of Engineering and Technology (IRJET), 3(1), pp.384-388.
10. Schaltegger, S., and Burritt, R., 2017. Contemporary environmental accounting: issues, concepts, and practice. Routledge.
11. Warren, L., and Jack, L., 2018. The capital budgeting process and the energy trilemma-A strategic conduct analysis: the Accounting Review, 50(5), pp.481-496.