



Functions of Management Accounting: Benefits and Drawbacks

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DESCRIPTION

The practice of delivering financial resources and information to managers for decision-making is known as management accounting, and also known as managerial accounting. The only way management accounting differs from financial accounting is that it is solely used by the internal staff of the firm. In this procedure, the company's management team receives financial reports and information from finance administration, including invoices and financial balance sheets. The goal of management accounting is to use this statistical data to make more informed decisions that will help you manage your company's growth and day-to-day operations.

The recording and reporting of data for the benefit of an organization's many stakeholders is known as financial accounting. On the other side, management accounting is the display of financial information and company activities for internal organizational management. We shall discover what management accounting is and how it works in this essay.

Numerous accounting concepts are involved in managerial accounting. It strives to raise the standard of data on corporate operation indicators. The managerial accountants can benefit from information on the price and sales revenue of the company's products and services. A sizable portion of managerial accounting is called cost accounting. Cost accounting focuses on calculating a company's total production costs by analyzing both fixed and variable costs. It aids companies in locating, cutting back on, and maximizing profitable expenses. Expenses can be divided into direct, indirect, fixed, and variable costs. These costs can be measured, identified, and assigned to various product and service types through the use of cost accounting. The overall expenses involved in producing a good or service are thus determined by product costing.

The monetary impact of company choices can be assessed with the aid of cash flow analysis. Since it gives a more accurate representation of a company's true financial status, most businesses use the accrual foundation of accounting to record

their financial information. However, it also makes it challenging to gauge the precise financial impact of a single transaction. One may improve cash flow and make sure that a company has enough liquid assets to pay short-term obligations by putting working capital management measures into place. One must take into account the cash inflow or outflow caused by a particular business action when doing a cash flow analysis.

Calculating inventory turnover is counting how many times an item has been sold and replaced in a certain amount of time. It assists companies in reaching wiser choices on price, production, marketing, and inventory acquisition. Finding the carrying cost of inventory also benefits from inventory turnover analysis. The cost a business incurs to store unsold goods is known as the carrying cost of inventory. Financial leverage is the use of borrowed money to purchase assets and boost an investment's return. The debt and equity mix of the company can be examined through balance sheet analysis in order to determine how best to employ leverage. Managers can detect important information regarding borrowed capital by using performance indicators including return on equity, debt to equity, and return on invested capital.

Although there are numerous goals, the main one is to help the management team of a business make better decisions. The goal of management accounting is to provide the managerial team with financial data to aid in more effective execution of corporate operations and activities.

1. The most significant advantage of the management accounting method is decision making. In actuality, that is its fundamental goal. In this type of accounting, we employ methods from a wide range of disciplines, including costing, economics, statistics, etc.
2. Planning - Unlike financial accounting, managerial accounting does not have a set deadline. In actuality, it is an on-going, continuous process. So, at regular intervals like weekly, monthly, or sometimes even daily, financial and other information is presented to management.

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3. Strategic Management - No law requires the concept of management accounting. So that it can have a structure that is unique to the needs of the organization. As a result, the corporation is allowed to conduct further in-depth study or investigation if it so chooses. This enables them to concentrate on a few crucial areas. They are able to make strategic management decisions thanks to the information provided.

Never think of management accounting as a replacement for or an alternative to management. Rearranging or changing data is the core focus of management accounting. Making decisions based on management accounting, which offers scientific analysis of different scenarios, will take time. As a result, management may forego following a set of rules when making decisions in favor of making them intuitively, which reduces the value of management accounting.