

# Tools and Techniques of Management Accounting

Some of the important tools and techniques used in management accounting are explained below:

## 1. Financial Planning:

The main aim of any business organisation is maximisation of profits, which needs a sound financial planning. Hence, financial planning is considered as best tool for achieving business objectives.

## 2. Financial Statement Analysis:

The analysis of financial statements helps the management to know the rate of growth of business concern. This analysis is done through comparative financial statements, common size statements and ratio analysis.

## 3. Cost Accounting:

Cost accounting provides the cost data. These cost data i.e. the actual cost is compared with the budgeted cost and the variance between two enables the management to find out the reasons of variance and then take important decisions to reduce these differences.

#### 4. Fund Flow Analysis:

Fund flow analysis find out the movement of fund and is also used to know whether the fund is properly used or not. The change in working capital and funds from operation are also find out.

#### 5. Cash Flow Analysis:

The movement of cash from one period to another can be find out through this analysis. It studies the cash from operation and the movement of cash in a period.

#### 6. Standard Costing:

Standard costing is a predetermined cost. It is used to find out the variance with the actual cost and then the reasons for such deviations are find.

#### 7. Marginal Costing:

Marginal costing technique is important to take some important decisions like fixing the selling price, selection of best sales mix, best use of scarce raw materials, decision to make or buy, accepting or rejecting of an order, etc. This is based on the fixed cost, variable cost and contribution.

### 8. Budgetary Control:

Budgetary control techniques are used to control the financial performances of business concern.

### 9. Revaluation Accounting:

Through revaluation accounting fair return on capital employed is calculated.

### 10. Decision making Accounting:

In business 'choosing the best alternative' is very important and full of risk. To select the best and most profitable alternative the relevant costs are compared.

### 11. Management Information System:

The free flow communication within the organisation is very essential for an effective functioning of business.

### 12. Statistical Techniques:

Statistical techniques such as, least square method, regression, quality control are used to remove the management problems.

### 13. Historical Cost Accounting:

It means that cost are recorded after being incurred.

This is used for comparing with predetermined costs to evaluate performance.

#### 14. Management Reporting :

The management accountant prepares report on the basis of informations provided by the financial statements and submit the same before the top management. These reports disclose the strengths and weaknesses of business activities which are useful for the management in decision making.

#### 15. Ratio Analysis :

Ratio analysis is useful for the management in its basic functions of forecasting, planning, communication and control. It enables the managers to control business operations effectively.

Above are some of the important techniques used in management accounting.