

Management Accounting: Basic Understanding

Management accounting focuses on internal reporting to help businesses track and manage their financial performance.

Main Areas of Management Accounting:

1. **Cost Accounting:** Tracks and analyzes all costs related to production and operations.
2. **Budgeting & Forecasting:** Plans future expenses and income to ensure financial stability.
3. **Profitability Analysis:** Identifies which products, services, or customers bring in the most profit.
4. **Performance Measurement:** Monitors key performance indicators (KPIs) to assess business success.
5. **Decision Support:** Provides financial insights to help managers make smart choices.

The internal reports are categorized into 4:

- **Product Cost Reports:** Show the cost associated with producing a product.
- **Profit Cost Reports:** Focus on the cost of generating profits from a specific business unit or product.
- **Cost Center Reports:** Provide details of costs associated with a particular department or unit.
- **Contribution Margin Reports:** Help analyze the profit contributed by individual products or business units after deducting variable costs.

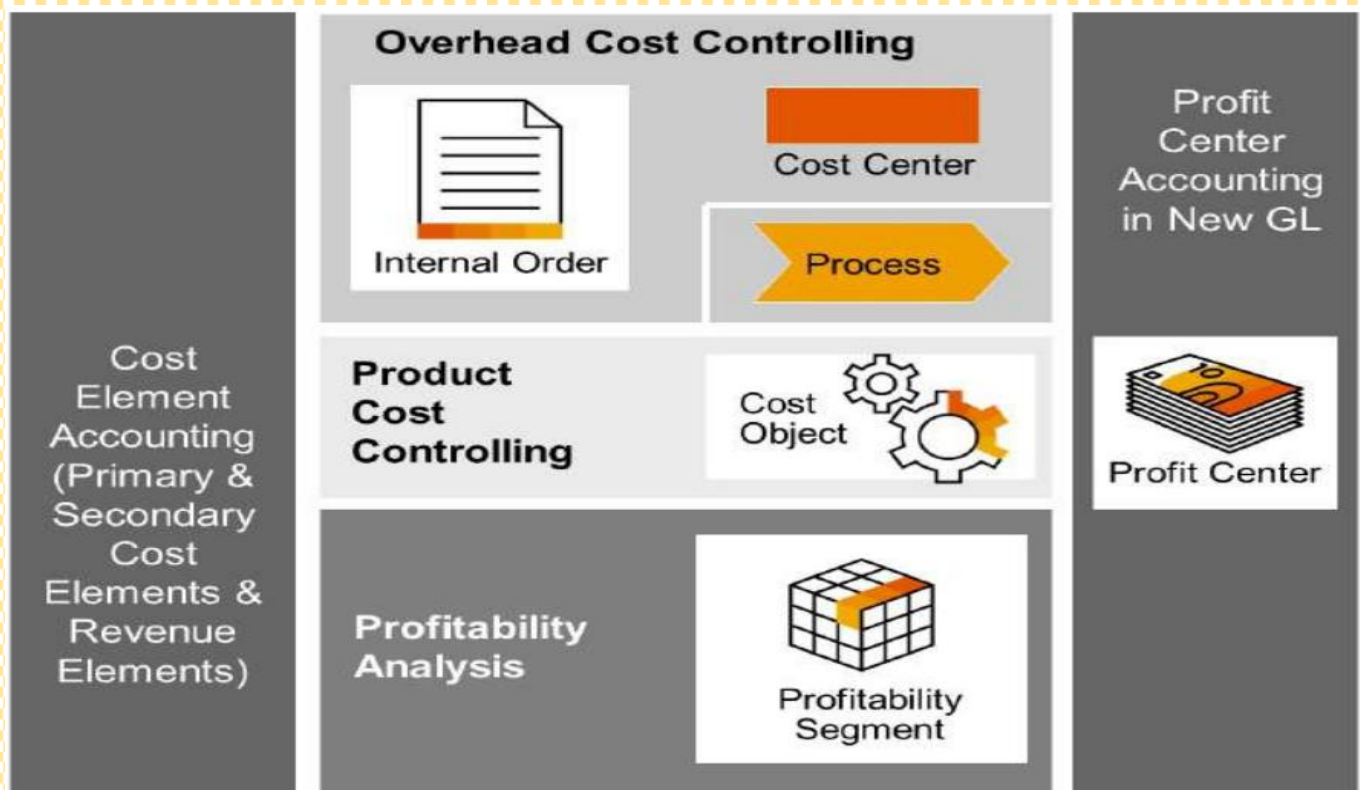


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Key Tasks in Management Accounting:

key tasks in Management Accounting with integration across various modules:

- **Cost Element Accounting:** Involves tracking both primary (direct) and secondary (indirect) costs.
- **Overhead Cost Controlling:** Helps track overhead costs, managing them through cost centers, internal orders, and processes.
- **Profit Center Accounting:** Analyzes financial performance at a business segment or unit level (profit center).
- **Product Cost Controlling:** Focuses on controlling and monitoring the costs associated with manufacturing goods or services.
- **Profitability Analysis:** Analyzes profitability across various segments or cost objects (like product lines or departments).



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Management Accounting Components:

1. Cost & Revenue Element Accounting

- Tracks income and expenses to understand financial performance.

2. Overhead Cost Accounting (Managing indirect costs)

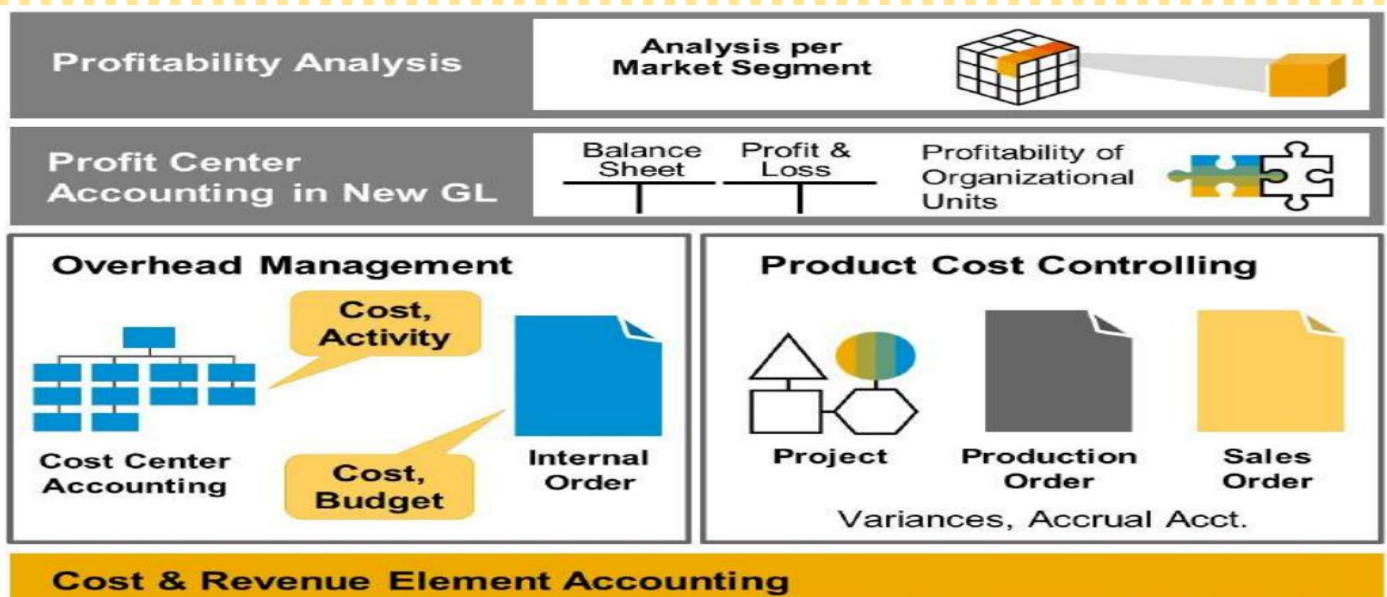
- Cost Center Accounting : Tracks costs for different departments (HR, IT).
- Internal Orders : Monitors costs for specific projects or tasks.
- Activity-Based Costing : Allocates costs based on actual activities performed.

3. Product Cost Controlling (Managing product-related costs)

- Product Cost Planning : Estimates future costs for making a product.
- Cost Object Controlling : Tracks costs for each product or service.
- Actual Costing/Material Ledger : Compares planned vs. actual costs for better cost control.

4. Profitability and Profit Center Analysis (Analyzing profits)

- Profitability Analysis : Studies which products, customers, or regions are most profitable.
- Profit Center Analysis : Evaluates profit earned by different business units or divisions.



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Management Accounting Components Grouped According to purpose:

1. **Classify costs:**

Cost Element Accounting classifies the costs and revenues posted to Management Accounting. The reconciliation between Financial Accounting and Management Accounting is ensured through the system by the use of common tables.

2. **Controlling overhead costs and allocating costs:**

Controlling overhead management examines the origin of costs in the functional areas of an enterprise. Overhead costs are costs that cannot be assigned directly to a product or a service.

In addition to traditional overhead management, can use Activity-Based Costing to make a process-oriented, cross-functional recording of overhead costs.

3. **Evaluate the cost of goods or services:**

Controlling product cost evaluates the cost of goods manufactured for a product and the costs associated with providing a service or when carrying out a project (planned and actual cost). This component provides tools for a comprehensive analysis of the value-adding processes in an enterprise.

4. **Analyze profit:**

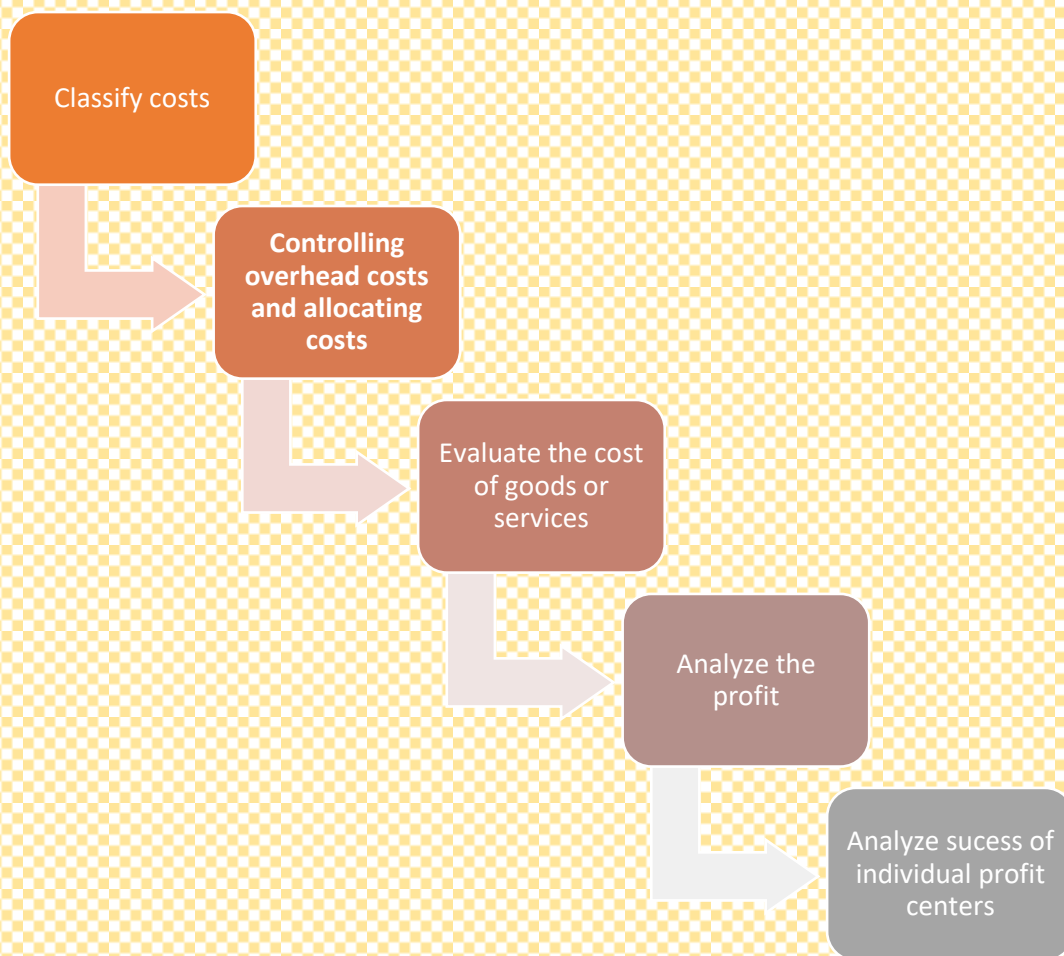
Profitability Analysis enables you to evaluate market segments, with respect to the company's profit or contribution margin. The market segments can be freely classified according to products, customers, orders, or any combination of characteristics as profitability segment.

Further characteristics are strategic business units, such as sales organizations, or business areas. The objective of the system is to provide your sales, marketing, product management, and corporate planning departments with information to support internal accounting and decision-making.

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5. Analyze success of individual profit centers:

Profit Center Accounting in the New General Ledger analyzes the success of the profit centers in an enterprise. With new general ledger accounting, a profit center is a financial accounting account assignment. You can configure the system to produce both the balance sheet and profit and loss statements per profit center.



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