Module 1: Fundamentals of Managerial Accounting
Lecture 1: Managerial Accounting

Objectives

In this course you will learn the following

- Need to Know About Accounting.
- Managerial Accounting.

Need to Know About Accounting

- Need to Know About Accounting and Finance.

"Why do I need to learn about finance ... I am very good in my own area of specialization“ How would you react to the above statement?

The job content

Accounting

- Language of Business.
- Performance is reported and evaluated in financial terms.
- Knowledge is useful for personal investment and tax planning as well.
- It is not necessary to become accountant.
- But its very useful if every one understands the accounting and financial concepts and terminology properly.

Need to Learn Accounting

- It assists in management.
- Will help in planning, organisation and control of business.
- Leads to increase in efficiency of business.
Streams of Accounting
- Financial Accounting, Cost Accounting and Management Accounting.
- Let us understand the similarities and difference in these three streams of accounting.

Financial Accounting
- Recording of Financial Transactions.
- Reporting of Financial Results.
- Preparation of Financial Statements.
- Targeted to External Users.

Cost Accounting
- Recording of Costs.
- Analysis of Costs.
- Preparation of Cost Statements.
- Targeted to Internal Users.

Management Accounting
- Recording of Financial & other data.
- Analysis of Financial and other information.
- Preparation of Statements for Managerial Decisions.
- Targeted to Internal Users - All levels of Management.
- This is a broader concept encompasses Financial and Cost Accounting.

Meaning of Management Accounting
- Any form of accounting which enables a business to be conducted more efficiently can be regarded as Management Accounting. (Institute of Chartered Accountants of India- ICAI).
- Management Accounting is the application of professional knowledge and skill in the preparation of accounting information in such a way as to assist management in the formation of policies and in the planning and control of operations of undertaking. (International Capital Market Association, London- ICMA).

Financial Management
- Financial Accounting, Managerial Accounting and Financial Management: Relationship.
- Financial Management deals with raising and utilization of funds.
- Raising of funds may include Cost of Capital, Capital Structure decisions, Capital Markets, IPOs and so on.
- Financial Management deals with raising and utilization of funds.
- Utilization of funds may include Capital Budgeting, Portfolio Management, Working Capital Management and so on.

Managerial V/s Financial Accounting
Complexity of Organisation
- Finance and complexity of organisation.
- As the organizations grow, they become complex.
- Ownership and Management are separated.
- Ownership is widespread.
- This increases the importance of Finance function.

About this course
- Managerial Accounting Course.
- The course will cover Financial Accounting, Cost Accounting and Management Accounting.
- Financial Management is dealt in a different course.

Financial Statements
- What are they?
- Which are important Financial Statements?
- What purposes do they serve?

Company or Organisation

The Basic Business Model
Balance Sheet shows the cumulative position of resources (assets) and sources of funds (liabilities) at the end of the year. Profit & Loss Account shows ‘Revenue & Cost’ performance during a quarter/year.
• Balance sheet may be prepared at any time showing the position as on that date.
• Profit and loss account may be prepared for any particular period.

Balance Sheet
• Owners Funds.
• Non Current liabilities.
• Current liabilities.
• Fixed Assets.
• Non Current Investments.
• Other non current assets.
• Current Assets.

The Annual Report Usually Contains ...
• financial statements which consist of
  o Balance sheet, Profit & Loss A/c.
  o Cash Flow Statements.
  o notes to the financial statements.
  o disclosure of accounting policies.
• Chairman's Statement.
• Board of Directors & Committees.
• Directors Report.
• Directors Responsibility Statement.
• Auditors Report.
• Report on Corporate Governance.
• Disclosure regarding Employee Stock options Schemes.
• List of employees receiving remuneration exceeding Rs. 60 Lakhs.
• Conservation of Energy Reports.
• Consolidated Financial Statements.
• Subsidiaries Financial Statements.
• Management Discussion and Analysis.
• Annual General Meeting Notice.