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Advantages and Disadvantages of Management Accounting

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Description

Advantages of management accounting

Planning: For the smooth running of the business, management might design and execute a strategy. Various functional budgets are generated in this context, and accounting information is reorganized departmentally, product-wise, section-wise, and so on for proper planning.

Controlling: Every company activity's real performance is measured and compared to a standard fixed or planned one. If controllable deviations are discovered, management can determine the best course of action for exercising control. In this regard, both standard costing and budgetary control systems are quite beneficial to management.

Coordinating: It is the process of efficiently integrating the numerous tasks performed in an organisation in order to fulfill the organization's goals. As a result, precise coordination between production, buying, finance, staff, sales, and other divisions is necessary. This is accomplished by creating budgets and performance reports.

Motivating: It aids in maintaining a high level of employee morale. The business operation reports are created and presented to the top management on a regular basis. Management can use the report to determine who should be demoted or promoted, as well as who should be rewarded or punished. Employees are motivated in this way.

Communication: If a management accounting system is used, two-way communication is followed in an organisation. Top management receives modified accounting data and performance reports in order to make decisions. In another way, lower-level leaders are informed about work assignments and duties for staff.

Maximization of profit: Employees have a positive attitude. The standards are set, and then the actual performance is measured to determine the variations. Management may take appropriate action if the causes of deviations are rational and manageable. Profit is maximized in this manner.

Disadvantages of management accounting

Based on financial and cost records: Both financial and cost accounting data are used in the management accounting system. The financial and expense records kept play a big role in determining the accuracy and validity of management accounts. These data determine the strength and weakness of management accounting.

Personal bias: The analyst's and interpreter's abilities are completely reliant on financial statement analysis and interpretation. As a result, a person's own biases and prejudices might skew the impartiality and effectiveness of the conclusions and recommendations.

Lack of knowledge and understanding of the related subjects: Management accounting includes areas such as financial accounting, cost accounting, statistics, economics, psychology, and sociology. If the management accountant has a solid understanding of related disciplines, the firm can gain greater benefits from management accounting. If this is not the case, the management accounting system's success is in doubt.

Provides only data: Many alternatives are developed and presented to management under the management accounting system to solve an issue. The management has the option of choosing any one of the many options provided or even discarding them all. As a result, management accounting can simply provide statistics and not advise on how to proceed.

Preference to intuitive decision making: Using management accounting methodologies, scientists may make scientific conclusions. However, the bulk of management accountants and top-level executives prefer to make business judgments based on their prior expertise and intuition. The reason for this is that intuitive decision-making is basic and straightforward.

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