Management accounting is those areas of accounting concerned with financial planning, principally through the interpretation and use of financial data for important management of the business. The role of accounting is to provide relevant information, which will assist management with decision-making, planning economic performance, controlling costs and improving profitability. However, note that the information generated by the management accounting function is just one component part of the decision-making process. It is not the 'be all and end all'; it must be used in conjunction with other data. The purpose of this essay is outline the objectives of and the main stages in, a managerial planning, decision making and control process and describe the role served by managerial accounting in this process.

The aim of management accounting is to provide management with information, which will help them to:

- Achieve their objectives/goals.
- Formulate policy.
- Monitor and assess performance.
- Appreciate the financial implications of changes in the internal and external environment in which the organization operates.
- Plan for the future.
- Make comparisons between alternative scenarios.
- Manage more efficiently the scarce resources, which are at their disposal.
- Control the day-to-day operations.
- Focus their attention on specific issues, which really need their consideration.
- Solve a variety of problems, e.g. investment decisions.
- Take account of behavioural factors.

Understanding the nature of measurement and communication, the characteristics of economics information, the theories and practices of the decision making process and the identification of accounting information users are crucial to the understanding of accounting in general.

The major users in accounting information can be divided into three groups:

1. Internal managers who use the information for short run planning and controlling everyday operation.
2. Internal managers who use the information for making non-routine decisions and formulating overall policies and long run plans.
3. External parties, such as investor and shareholders, who use the information for making decisions about the company in general.

An accounting system is a formal mechanism for collecting, arranging and communicating information about an organization's activities. This will only be develops if the benefits from its use, in term of improved decisions, are expected to exceed the costs of establishing and operating it.

Differing from financial accounting, the focus of management accounting is usually on the information at a more details level, on results for any products and on costs for particular productive operations. Understanding the role of management accounting requires an appreciation of what is involved in management and the kinds of decision that management is faced with.

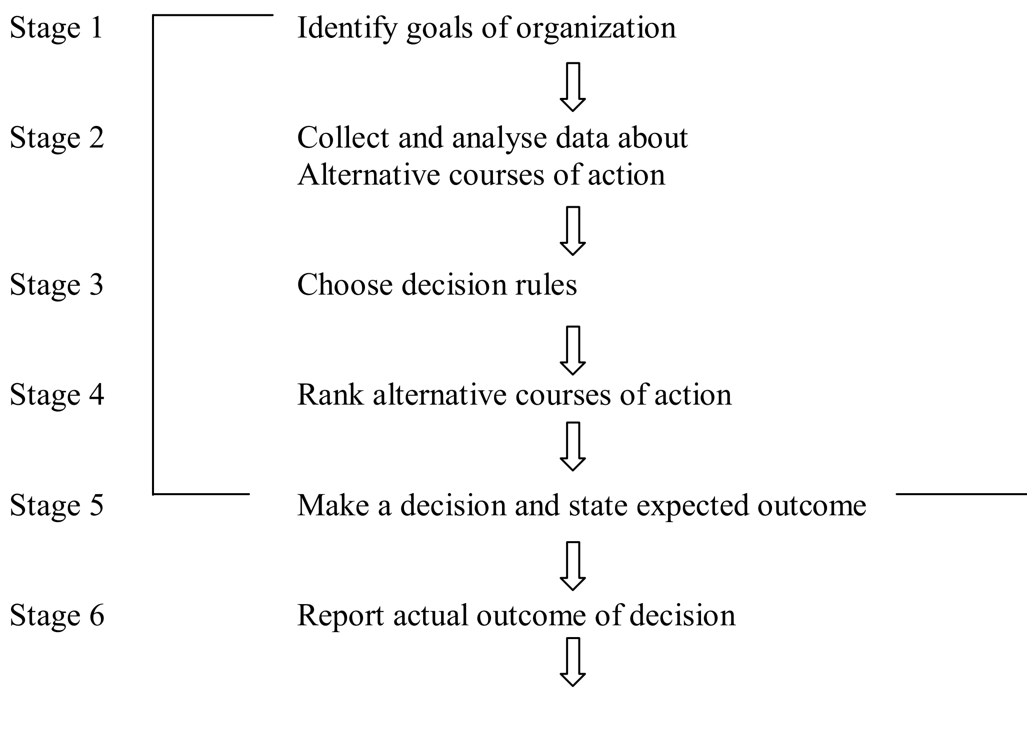
Information is important in management decision making. The objective of the management accounting system is to provide the best information for assessments of the amounts, timing and uncertainty of cash flows to the business from each alternative course of action available to the business.

The purpose of management accounting involves identifying the types of decision needed in management accounting in order to provide useful information for managers.
The main types of decision include:

- Output decision-These are decisions on what types of goods or services should be supplied, at what prices and in what quantities.
- Input decision-These are decisions on how the outputs should be produced, i.e. the allocation of quantities used in raw materials, labour etc.

I think that these two types of decisions are inter-connected, because the cost of resources to produce goods and provide services is relevant to decisions on the best production output and best pricing strategy required.

The framework for managerial planning, decision-making and control process incorporates seven stages, and this is illustrated by a flow chart.



Stage 7	Monitor actual outcome to ensure actions under control	________

Stage 1 : The identification of goals

The management process consists of a series of activities in a cycle of planning and control. Planning can be specified as the choice of company objectives and the methods of their attainment.

The most obvious goal of any organization is to maximize shareholders' wealth, i.e. profit. This is normally assumed in a traditional microeconomics analysis. Maximizing owners' wealth also implies maximizing market share and long growth. Management must devise realistic goals for it's firm, achievable in the short term preferably, otherwise there will be no benchmark for comparison between a firm's progress now and say, a year later. Having said that, it's often difficult for a firm to follow realistic goals as different participants within the organization may have their own disparate interests.

However, the first and foremost objective in organizational planning is the maximization of the present value of the organization's future cash flows. This is adapted for a number of reasons:

- It is quantitative and therefore provides a clear guide for future comparisons.
- Unlike conventional profit calculations, which are based on arbitrary accounting measurements therefore doesn't have the problem of imprecision.
- It deals directly with cash available to individuals for them to acquire satisfactory products or services.
- It gives some leeway to the distribution of cash among all members concerned in the firm.

Stage 2 : The collection and analysis of data about alternative courses of action

The decisions made by management can be classified into long-term decisions, such as those involving significant changed with an organization's operation, or short-term decisions such as those, which only affects its running for a short time like the production of a certain product.

Management has the responsibility to draw up and evaluate the relative costs and benefits to the organization whichever of the decisions they are undertaking.

Sometimes, a decision which appears to be easily quantified and clear cut on paper may not be so straight forward when put into practice, thus management must contemplate carefully as these decisions will ultimately determine whether a decision is correct or not.

For example, managers should not only take into accounts the costs, revenues, incomes, etc. But also the less obvious factors such as the competition environment, interest rates

imposed by the government, future operating conditions and any other uncertainty associated with the costs and benefits contribution.

Stage 3 and 4 : The choice of decision rules and ranking of alternative courses of action

Making competent decisions depends on two indispensable criteria selected by managers:

1. The appropriate basis for decision making
2. The types of data to use in decision-making and, by implication, the types of data not to use.

Decision means choices, thus decision-making implies making choices between alternatives, competing course of action. If there is no available alternative, then decision-making is not necessary. Management has to assess whether choosing a particular product X has the overall benefits or choosing an alternative, Y i.e. compare the two products, and weight up any differences between choosing on and not the other.

Management accounting is a key part in an iterative decision making process:

- Alternative courses of actions are identified.
- Estimating is made of the results of each alternative.
- Preferred courses of actions are chosen in terms of business objectives.
- Actual results are compared with corresponding estimates.
- New course of action are identified.

This is a continuous process.

The fundamental question for consideration here is, "How is management to choose from among these so many possible alternatives so as to maximize the present value of the expected future cash flows?" The answer to this question is indirect. Each potential alternative will have different cash consequences and change continuously with time. Therefore, analyzing the differences between available alternatives is essential to good decision-making. This analysis is called 'differential' or 'incremental' cash analysis. This basically gives managers an overlook of the advantages and disadvantages of the choice of alternatives. The final decision is to accept the alternative with the greatest net present value or cash flow, i.e. NPV

Stage 5, 6 and 7 : The decision making and control processes

Stage 5 is the forecasting stage in which it predicts the most likely outcome of a decision, expressed in a budget form. The budget is prepared on estimates of differential costs and revenues in the chosen course of action with some valid assumptions.

Meeting budget targets can be implemented by monitoring the actual performance, this is known as the control process. This is illustrated in stage 6 and 7. Regular control reports provide a useful feedback for management to assess the progress so far.

A management control system may be used here. It is a logical integration of management accounting tools to gather and report data and to evaluate performance.

Management accounting has a role in all stages of the management process.

- **Planning**
  It evaluates capital expenditures, identifies and measures information on products and markets and is especially critical in short term planning through budgets.

- **Implementation**
  It develops accounting standards for operations, provides an internal reporting system for a particular business structure and this is known as "responsibility accounting".

- **Control**
  This is broken down further into three aspects:

  1. Monitoring performance and results
     Here, management accounting identifies any alterations from plans, gives prompt news on any unforeseen problems and explains the nature of results published with the organization.

  2. Motivating
     It encourages staff to work at their best by rewards and incentives, and the budget and performance reports can influence outcome.

  3. Communicating
     It serves as a language tool for most business organization and provides a useful link to information system.

In conclusion, management accounting ensures the transformation process from inputs, through the production process to output is viable, and it plays a principal role in management decision-making. Management accounting is the process of identifying, measuring, accumulating, analyzing, preparing, interpreting and communicating information that helps managers fulfill organization objectives. Accounting responds to the need for quantitative financial information. It is interpreted as a language of economic activity. The purpose of accounting is ultimately to assist someone to make decisions by the accumulation of all accounting information. The information to be provided by the accounting system depends on who is making the decisions and for what purpose.

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