

## The Review of Management Accounting

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**Abstract.** Recently management accounting has become a popular topic in the field of accounting, this article traces back to the origin of management accounting and illustrates the history of management accounting. Four stages of managerial accounting's evolution defined by The International Federation of Accountants (IFAC) are also explained. After describing the history of management accounting, various definitions are given by different authoritative organization such as American Accounting Association (AAA), the Institute of Management Accountants (IMA) and so on. Exploring the scope of management accounting can deepen the comprehension about the definition. Consequently, the large scope emphasizes the important status of management accounting. However, there is more area about management accounting can be researched and discussed. In the near future, management accounting will develop rapidly and prosperously with no doubt.

### Introduction

It is widely known that accounting is a kind of subject, which can record the corporate's economic activity and reflect the financial condition. However, with the scientific and technological ongoing progress and globalization, companies grow bigger and face greater competition. Managers who steer in a large organization cannot make important decisions without accounting information [1]. Therefore, using accounting information to make managerial decision in an organization, which is called management accounting, can add competitiveness and make full use of sources. Getting well known of one discipline begins with its history.

### The History of Management Accounting

Johnson and Kaplan think the modern managerial accounting derived from the beginning of the nineteenth century when big private companies showed up during the industrial revolution period [2]. In order to achieve the full use of raw materials and workforces, factories began to hire long-term workers and evaluated the efficiency while the owners didn't supervise[2]. Ratios like cost per ton per mile, cost per passenger per mile and ratio of operating expenses to revenue invented during the high-speed development of railway industry applied in this area also made a great contribution to management accounting [2]. As to Johnson and Kaplan, the evolution of managerial accounting system aimed to assess the effectiveness of inside procedures and get it improved[2]. Nevertheless, management accounting didn't make significant headway until 1950 [1]. At that time, management accounting as a discipline was studied separately after the academic visit by British accounting experts who were supported by the Anglo-American Productivity Council [1].

From then on, management accounting gained rapid development in the past fifty years. In 1998, The International Federation of Accountants (IFAC) divided the evolution of management accounting into four stages [2]. The first stage referred to time before 1950, methods were mainly used to budgeting and cost controlling [2]. Stage two began from 1950 to 1965; the approaches like decision-making analysis and responsibility accounting were emphasized to provide information for managerial plan and control [2]. From 1965 to 1985 was stage three, using analysis and technologies during the production to reduce the excessive use of resources drew more attention [2].

The last stage started in 1985 and ended in 1995, hotspot focus on the value creation by improving the efficiency of resources usage which is driven by the customers and shareholders and the inside organization [2]. In the contemporary world, the function of management accounting tends to be forecast based on the historical information analysis, at the meanwhile, it also helps to strategic management [3].

### **The Definition of Management Accounting**

To start with, here is the illustration about the terminology. The academic phrases Managerial Accounting and Management Accountancy are exactly the same to Management Accounting [1].

Numerous academic accountants and organization explained the definition of management accounting in various ways [1]. However, there is one basic point described in those definitions, which explains management accounting as a method or a subject that providing accounting information for supporting managers to make decisions [1]. Managerial personnel can discover issues and get problems solved based on the information provided by managerial accounting, what's more, use information to assess the efficiency of execution [4].

In England, The Institute of Chartered Accountants of England think management accounting is a kind of accounting, which facilitates the entities operating more efficiently[4]. A formal and overall definition had been given by The Chartered Institute of Management Accountants (CIMA) of UK, who describe management accounting as an internal section offering data to plan and control over activities, make full use of resources, support strategy-making and decision-making[4].

In America, National Association of Accountants think managers use management accounting information which generates from the processing of financial information to assist in planning, evaluating, dominating and guaranteeing efficient usage[4]. While American Accounting Association (AAA) defined Management Accounting as the necessary approaches and concepts which contribute a lot to the efficient schedule, best decision, and better control over the assessment and explanation of implementations [1]. An authoritative definition given by the Institute of Management Accountants (IMA) is as follows, "Management accounting is a profession that involves partnering in management decision making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization's strategy." [3]

All the definitions given above by these famous organization illustrated clearly the crucial role that management accounting played as a multilevel decision support system, in which the effective information was submitted to managerial personnel to plan, control, organize and make decisions [4].

### **The Scope of Management Accounting**

From the definition discussed below, Management Accounting should achieve the main purpose of helping the managers to plan, control, and direct. Hence, different methods and techniques in the diverse area of accounting can serve the important objective of managerial accounting [1]. However, due to various approaches included, it is difficult to circle a comprehensive scope of managerial accounting, which is developing rapidly [1]. But subjects listed below are definitely included:

**Financial Accounting.** Normally speaking, abundant information generates from financial accounting, including the annual financial statements and other reports. Although it only supply with data in the past, it is still very useful to serve the managerial objective. The function of past information is reflecting the performance and giving a foundation to support decision-making and forecast. So Financial Accounting definitely belongs to Management Accounting's area [1]. A good financial accounting system can offer better insight into the company's performance [4].

**Cost Accounting.** The reason why Cost Accounting belongs to Management Accounting is the same with Financial Accounting, generating crucial data for cost control to make efficient use of resources using methods like Standard Costing, Marginal Costing, Budgetary Control, CVP analysis and so on [1].

**Financial Analysis.** The difference between Financial Accounting and Financial Analysis is that Financial Analysis uses various methods like Comparative Financial Statements, Trend Ratios or other Ratio Analysis to analyze and interpret the information offered by Financial Accounting [1]. Thus Financial Analysis can summarize the information in a more intuitive way for managers [4].

**Statistical and Quantitative Techniques.** Sometimes data should be handled in a more complex way than Financial Analysis, methods such as Statistical sampling, Linear Regression, Regression analysis and Probability used in Statistics can solve that problem [1].

**Budgeting and forecasting.** Operating companies in a good way need to events that might happen in the future, and then formulate a practicable plan. That is the way how budgeting and forecasting support each other to assist management [4].

**Tax planning.** According to managerial accountant, taxes are a special kind of liability or costs which can be controlled by taking advantage of stipulations of tax laws, through which entities can save tax or pay later to generate more cash flows [4].

**Internal Control and Internal Audit.** Because management accounting serves for internal users, internal control and internal auditing undoubtedly play an important role in checking and improving the internal financial system [4].

**Management Reporting.** After finishing the different analysis discussed above, a management report, also called internal report, which contains comprehensive contents, should be sent to the upper level management department at regular intervals continuously [1]. From the reports managers will have a better grasp of the operation of companies, then decisions will be made to improve the weakness and strengthen the advantages. Obviously a faster and better management reporting system results in more quicker and effective decisions [4].

## **The Importance of Management Accounting**

The importance of management accounting can be easily emphasized by the large scope it contains. What's more, the six well-known management functions which are plan, control, coordination, organization, motivation and communication can be supported by management accounting information in an efficient and profitable way [1]. The management accounting information summarizing various sources of information can also make up the non-comprehensive financial accounting information. As Gary Biddle said, the relationship between management accounting and financial accounting is similar to the relationship between sun and moon, financial accounting as the moon simply reflects the center of solar system—management accounting [5].

However, along with the globalization and technological evolution external environment changed rapidly, enterprises will face more challenges than the past, there is no doubt that more attention will be paid to management accounting. The scope of management accounting may be enlarged, while methods and techniques applied in this area will improve a lot. Management accounting has already become a spotlight in the field of accounting.

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