**Limitations of Management Accounting**

* **Data based on Financial accounting** – Decisions taken by the management team are based on the data provided by Financial Accounting
* **Less knowledge** – Management has insufficient knowledge of economics, finance, statistics, etc.
* **Outdated data** – Management team receives historical data, which may change eventually when management is taking the decisions.
* **Expensive** – Setting up a management accounting system requires a lot of investment.

### ****Difference between Management Accounting and Financial Accounting****

|  |  |  |
| --- | --- | --- |
| **.** | **Management Accounting** | **Financial Accounting** |
| 1 | Only used for internal purposes of the firm | For external reporting to various stakeholders and mandatory by law in most cases |
| 2 | Is not under the regulation of any law or regulations | Is governed by Standards, Laws, regulations, etc |
| 3 | The main purpose is to help internal management take decisions | Helps investors, creditors, etc. take investment decisions |
| 4 | Includes both financial and non-financial information | Is only concerned with financial information |
| 5 | Not subject to any audits or investigation | Financial records are audited as per the norms |

## Important tools and techniques used in management accounting

Some of the important tools and techniques are briefly explained below.

### 1. Financial Planning

The main objective of any business organization is maximization of profits. This objective is achieved by making proper or sound financial planning. Hence, financial planning is considered as best tool for achieving business objectives.

### 2. Financial Statement Analysis

Profit and Loss account and Balance Sheet are important financial statements. These [statements are analyzed](https://accountlearning.com/financial-statement-analysis-purpose-limitations/) for different period. This type of analysis helps the management to know the rate of growth of business concern. This analysis is done through comparative financial statements, common size statements and ratio analysis.

### 3. Cost Accounting

[Cost accounting](https://accountlearning.com/cost-and-management-accounting-elements-of-cost/) presents cost data in product wise, process wise, department wise, branch wise and the like. These cost data are compared with predetermined one. This comparison of two costs enables the management to decide the reasons responsible for the difference between these costs.

### 4. Fund Flow Analysis

This analysis find out the movement of fund from one period to another. Moreover, this analysis is very useful to know whether the fund is properly used or not in a year when compared to the previous year. The [working capital changes](https://accountlearning.com/procedures-to-forecasting-working-capital/) and funds from operation are also found through this analysis.

### 5. Cash Flow Analysis

The movement of cash from one period to another can be find out through this analysis. Besides, the reasons for cash balance and changes between two periods are also find out. It studies the cash from operation and the movement of cash in a period.

### 6. Standard Costing

[Standard costing](https://accountlearning.com/standard-costing-as-management-tool-advantages-of-standard-costing/) is predetermined cost. It provides a [yard stick](https://accountlearning.com/yardsticks-for-ratio-analysis/) for measuring actual performance. It is used to find the reasons for the deviations if any.

### 7. Marginal Costing

[Marginal costing technique](https://accountlearning.com/marginal-costing-advantages-and-disadvantages/) is used to fix the selling price, selection of best sales mix, best use of scarce raw materials or resources, to take make or buy decision, acceptance or rejection of bulk order and foreign order and the like. This is based on the fixed cost, variable cost and contribution.

### 8. Budgetary Control

Under Budgetary control techniques, future financial needs are estimated and arranged according to an orderly basis. It is used to control the financial performances of business concern. Business operations are directed in a desired direction.

### 9. Revaluation Accounting

The fixed assets are revalued as per the revaluation accounting method so that the capital is properly represented with the assets value. It helps to find out the fair return on capital employed.

### 10. Decision-making Accounting

A business problem can be solved by choosing any one of the best and most profitable alternative. To select such alternative, the relevant costs are compared. Thus, accounting information are used to solve the business problem which are arising out of increasing complexity of nature of business.

### 11. Management Information System

The free flow communication within the organization is essential for effective functioning of business. Hence, the management can design the system through which every employee of an organization can assess the information and used for discharging their duties and taking quality decisions.

### 12. Statistical Techniques

There are a lot of statistical techniques used in removing management problems. Methods of least square, regression and quality control etc. are some examples of statistical techniques.

### 13. Historical Cost Accounting

It means that costs are recorded after being incurred. This is used for comparing with predetermined costs to evaluate performance.

### 14. Ratio Analysis

It is used to management in the discharge of its basic functions of forecasting, planning, coordination, communication and control. It paves the way for effective control of business operations by undertaking an appraisal of both the physical and monetary targets.