



# **Management Accounting**

(Introduction to Management Accounting)

# *Modules at a Glance*

- o 1 Introduction to Management Accounting
- o 2 Analysis and Interpretation of Accounts
- o 3 Financial Statement analysis: Ratio analysis
- o 4 Cash Flow Analysis
- o 5 Working Capital Management

# Syllabus Objectives

- o To introduce the concept of Management Accounting.
- o How to analysis and interpret financial statements.
- o To make students understand the concept of ratio analysis and how to calculate various ratios and to understand indicating applicability of each ratio.
- o How to analyses cash flows of the business.
- o How to manage and calculate working capital requirement of the firm.

# 1 Introduction to Management Accounting

- o Meaning, Features, Scope, Importance, Functions, role of Management Accounting, Management Accounting Framework, Tools, Management Accounting and Financial Accounting

## 2 Analysis and Interpretation of Accounts

- o a) Vertical Forms of Balance Sheet and Profit and Loss Account suitable for analysis
- o b) Trend Analysis.
- o c) Comparative Statement.
- o d) Common Size Statement.
- o NOTE: Practical Problems based on the above (a) to (d)

# 3 Financial Statement analysis: Ratio analysis

- o Meaning of financial Statement Analysis, steps, Objective and types of Analysis.
- o Ratio analysis: Meaning, classification, Du Point Chart, advantages and Limitations.
- o Balance Sheet Ratios:
  - o i) Current Ratio
  - o ii) Liquid Ratio
  - o iii) Stock Working Capital Ratio
  - o iv) Proprietary Ratio
  - o v) Debt Equity Ratio
  - o vi) Capital Gearing Ratio

**o Revenue Statement Ratios:**

- o** i) Gross Profit Ratio
- o** ii) Expenses Ratio
- o** iii) Operating Ratio
- o** iv) Net Profit Ratio
- o** v) Net Operating Profit Ratio
- o** vi) Stock Turnover Ratio

**o Combined Ratio**

- o** i) Return on Capital employed (Including Long Term Borrowings)
- o** ii) Return on proprietor's Fund (Shareholders Fund and Preference Capital)
- o** iii) Return on Equity Capital
- o** iv) Dividend Payout Ratio
- o** v) Debt Service Ratio
- o** vi) Debtors Turnover
- o** vii) Creditors Turnover

# 4 Cash Flow Analysis

- Preparation of Cash Flow Statement with reference to Accounting Standard No .3. (Indirect method only)



# 5 Working Capital Management

- o A. Concept, Nature of Working Capital ,  
Planning of Working Capital
- o B. Estimation / Projection of Working Capital  
Requirement in case of Trading and  
Manufacturing Organization
- o C. Operating Cycle Practical Problems

# Syllabus Outcomes

- o Understand the concept of management accounting.
- o Analyses and interpret financial statements.
- o Calculate various ratios from the financial statements.
- o Do cash flow analysis.
- o Manage working capital requirement estimations of the firm.