



# **SOW PROFESSIONAL SERVICES LTD**

**...WE CREATE EDGE FOR BUSINESSES**

**TAX/AUDIT/MANAGEMENT CONSULTING/  
DIGITAL OPTIMISATION/TRAINING**

# **IMPORTANCE OF MANAGEMENT ACCOUNTING TO BUSINESS**

## **Introduction To Management Accounting**

Management accounting also known as managerial accounting can be defined as a process of providing financial information and resources to the managers in decision making. Management accounting is used by the internal team of the organization, so, this is the major feature which makes it different from financial accounting. In this process, financial information and reports such as invoice, financial balance statement is shared by finance administration with the management team of the company. Objective of management accounting is to use this statistical data to take better and accurate decisions, controlling the enterprise business activities and development.

### **What Is Management Accounting?**

Management accounting is the presentation of financial data and business activities for the internal management of the organization. Management accounting is the application of professional skills and knowledge in the preparation of financial and accounting information in a manner in which it will assist the internal management in the formulation of policies, planning, and control of the operations of the firm.

The basic function of management accounting is to help the management make decisions. There is no fixed structure or format for it. Financial accounting, costing, business analysis, economics etc are some tools and techniques of management accounting.

### **When To Prepare Management Account?**

Management accounting is the process of preparing and producing the financial reports for managers and business owners and it can be prepared weekly, monthly, quarterly or annually. They can be more personalised to your individual organisation's requirements than the formal year-end financial reporting process. Whilst there is no set rule on when management accounts are prepared, they are usually produced on a monthly or quarterly basis to allow business owners to regularly monitor their finances.

Most companies produce management accounts because they need to examine the financial health of the organisation. Preparing monthly management accounts is good business practice. They give a snapshot of your business position and can act as a benchmark to compare past and future performance.

Up-to-date, accurate business information is vital to sustainable growth. Leadership teams need to make decisions based on evidence, they cannot simply rely on their intuition. They need facts and figures to determine the reasons behind underlying problems, to assess the different options for taking action and, if necessary, changing course.

That is why it is also important that finance teams produce management reports as soon as possible after the end of each month. They are providing key information that will be discussed in board meetings and used to plan business strategy. Monthly management reports also inform sales targets and budgets and enable managers to re-allocate resources effectively.

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### **Components of Management Account**

There is no set format for producing monthly management accounts. What is included will depend on the lifecycle stage of the business, its sector, goals and strategy. Generally, as a minimum, finance teams will produce management accounts that cover the organisations:

#### **Key Performance Indicators (KPIs)**

Your KPIs are likely to include analysis by region, country, department, product line and even individual team members. You may also prepare a cost of sales report showing expenses such as materials, production and marketing costs, some companies want reports detailing customer billing/monthly subscriptions. These key performance indicators are an effective way to monitor whether your business is performing to a level that meets your current long-term goals.

#### **Profit And Loss Statement**

This is the detailed revenues, costs and expenses. These are all key information to help managers understand the company's current financial position. It helps them answer questions such as:

Are we making money?

How are we performing against budget?

How does our current financial position compare with the same period last year?

Profit and loss statements are an accurate way to predict business performance against monthly, quarterly and annual forecasts. Plus, it helps to understand exactly where your business is making money so owners can proactively invest

more in 'money-making' departments and cut expenditures where needed.

## Cash Position

Even a profitable company can go out of business if it runs out of cash to pay the bills. Visibility of your cash position (on at least a monthly basis) will help inform decisions around budgets, investments and funding or borrowing needs.

## Balance Sheet

The balance sheet is a snapshot of the health of your business at a particular point in time. It normally consists of:

Assets: fixed assets, current assets, stock, debtors, cash, and prepayments

Current liabilities: creditors, taxes, other liabilities

Sources of finance: debt, net assets, and shareholders' funds.

### How to Prepare your Monthly Management Accounts

You are not bound to follow any set procedures, rules or processes when preparing management accounts. However, it is good practice to be consistent to enable historical comparisons. Management reports are of most value when they contain details pertinent to the organisation and the information is produced in a user-friendly, accessible format for use by colleagues across the business.

An executive summary on the first page of your management accounts can be particularly helpful. This highlights the important monthly facts and figures, any significant changes or red flags. For example, it may include net profit margins, turnover ratio, or losses incurred. It may also include a department summary, so leaders can monitor and compare performance across the business.

### How can businesses benefit from monthly management accounts?

Preparing accurate and timely monthly management accounts brings valuable benefits across the business, not just in the finance team. The insights from these reports are key to running and monitoring your business. For example they:

Provide insights into effective management, resource planning and strategy

Enable managers to assess if goals and targets are being met

Help with price modelling and product profitability

Give a deep understanding of where cash is being spent, business assets and debt position

Inform budgeting, financial forecasting and cost analysis

Provide reassurance to banks and investors that you have a firm grasp of your business.

Conclusively, management accounting helps in analysing and recording financial information which can be used by a company to increase its efficiency and productivity. It presents the financial information in regular intervals using

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For more enquiry on how to prepare your management accounting, kindly contact us at SOW Professional Services Ltd for necessary supports on this

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**THANK YOU!**