

## TECHNIQUES OR METHOD OF MANAGEMENT ACCOUNTING

Management accounting employs various techniques or methods to gather, analyze, and present financial and non-financial information to assist management in decision-making, planning, control, and performance evaluation. Here are some common techniques used in management accounting:

### 1. **Cost Accounting:**

- **Purpose:** To track and analyze the costs associated with production processes and activities.
- **Methods:** Job costing, process costing, standard costing, activity-based costing (ABC), and throughput accounting.

### 2. **Budgeting:**

- **Purpose:** To set financial goals, plan for income and expenses, and allocate resources.
- **Methods:** Incremental budgeting, zero-based budgeting, rolling budgets, and flexible budgeting.

### 3. **Variance Analysis:**

- **Purpose:** To compare actual performance against budgeted or standard performance and identify the reasons for any variances.
- **Methods:** Price variance analysis, quantity variance analysis, and overhead variance analysis.

### 4. **Ratio Analysis:**

- **Purpose:** To evaluate the financial health and performance of an organization by examining the relationships between various financial variables.
- **Methods:** Liquidity ratios, profitability ratios, efficiency ratios, and leverage ratios.

### 5. **Break-Even Analysis:**

- **Purpose:** To determine the level of sales or production at which a business neither makes a profit nor incurs a loss.
- **Methods:** Break-even point calculation, contribution margin analysis, and profit-volume (PV) analysis.

### 6. **Activity-Based Costing (ABC):**

- **Purpose:** To allocate indirect costs more accurately by linking them to the specific activities that drive those costs.
- **Methods:** Identifying cost drivers, assigning costs to activities, and then allocating those costs to products or services based on activity usage.

### 7. **Transfer Pricing:**

- **Purpose:** To establish the prices at which goods, services, or resources are transferred between different departments or divisions within an organization.
- **Methods:** Cost-based pricing, market-based pricing, negotiated pricing, and dual pricing.

### 8. **Benchmarking:**

- **Purpose:** To compare an organization's performance with industry benchmarks or best practices to identify areas for improvement.

- **Methods:** Internal benchmarking (within the organization) and external benchmarking (comparing with external entities).

#### 9. **Decision Trees and Risk Analysis:**

- **Purpose:** To evaluate various decision alternatives by considering the probabilities of different outcomes and their associated risks.
- **Methods:** Decision trees, sensitivity analysis, and scenario analysis.

#### 10. **Capital Budgeting:**

- **Purpose:** To assess and make decisions regarding long-term investments in assets or projects.
- **Methods:** Net present value (NPV), internal rate of return (IRR), payback period, and discounted cash flow (DCF) analysis.

#### 11. **Performance Measurement and Key Performance Indicators (KPIs):**

- **Purpose:** To monitor and evaluate the performance of different organizational units and processes.
- **Methods:** Developing and tracking KPIs, balanced scorecards, and performance dashboards.

These techniques are often used in combination, and the choice of method depends on the specific needs and objectives of the organization. The integration of these methods enables management accountants to provide comprehensive and valuable information for effective decision-making and performance management.