



RAMA UNIVERSITY

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FACULTY OF COMMERCE & MANAGEMENT

COURSE: B.COM 3rd SEMESTER

SUBJECT: MANAGEMENT ACCOUNTING

SUBJECT CODE: BCH 302

LECTURE: 14

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Lecture-14



Management Reporting and MIS

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CONTENTS

Objectives

Introduction

14.1 Principles of a Good Reporting System

14.2 Introduction to Management Information System (MIS)

14.2.1 Attributes of Information

14.2.2 Information Needs of Managers

14.3 Performance Measures

14.4 Performance Reports: Format and Essential Features

14.5 Summary

14.6 Keywords

14.7 Review Questions

14.8 Further Readings

Objectives

After studying this Chapter, you will be able to:

Explain the principles of good reporting system

Discuss the concept of MIS

Define performance Measures

Prepare performance reports and format

Introduction

The reporting system involves all levels of management. The reports originate from junior levels of management and go up to top level management, consisting of Board of Directors. The sectional in-charge of every section regularly reports the progress of his section to his superior. Functional managers have Deputy Managers who control departmental sections. The combined reports of different sections reach the departmental manager called functional managers. Different functional managers submit the progress of their departments to the managing director. The brief summaries of departmental reports are submitted to the Board of Directors for reviewing policies and making strategy for the future. Information means data have been shaped into a form that is meaningful and useful to human being. Data are stream of raw facts reporting events occurring in organisation or physical environment before they have been organised and rearranged into a form that people can understand and use.

14.1 Principles of a Good Reporting System

A good reporting system is helpful to the management in planning and controlling. Every level of management needs information relating to its activities centre so that effective planning may

be undertaken and current activities may be controlled and necessary corrective action may also be taken in time, if needed. Some general principles are followed for making the reporting system effective. These principles are discussed below:

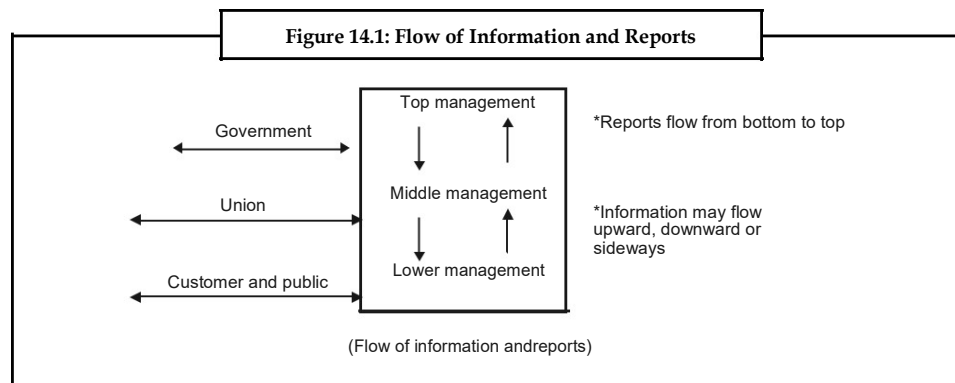
Notes

1. **Proper Flow of Information:** A good reporting system should have a proper flow of information. The information should flow from the proper place to the right levels of management. The information should be sent in the right form and at proper time so that it helps in planning and coordination. The frequency of reports will depend upon the nature of report, the types of data required for preparing the information and cost involved in preparing such reports. The flow of reports should be such that it does not cause delay in taking decisions. The reports should flow at regular intervals so that international needs of different managerial levels are met at a proper time.



Caution Flow of information is a continuous activity and effects all levels of the organisation information may flow upward, downward or sideways within an organization. Orders, instructions, plans, etc. may flow from top to bottom. Reports grievances, suggestions, etc. may flow from bottom to top. Notifications, letters, settlements, complaints may flow from outside. Information also flows sideways, from one manager to another at the same level through meetings discussions, etc.

2. **Proper Timing:** Since reports are used as a controlling device they should be presented at the earliest or immediately after the happenings of an event. The time required for preparation of reports should be reduced to the minimum; for routine reports the period should be known and strictly adhered to. It will be a waste of time and effort to prepare information that is too late to be of any use. The absence of information when needed will either mean wrong decisions or ferment of decisions on matters that may be urgent in nature.



3. **Accurate Information:** The information should be as accurate as possible. However, the degree of accuracy may differ in different reports. Sometimes, part information may be supplied as a guide for future policy making, so the degree of accuracy may be less. The supply of exact figures may involve a problem of understanding. Approximate figures are more understandable than accurate figures given up to paise. Accuracy should also not involve excessive cost of preparation nor it should be achieved at the sacrifice of promptness of presentation. It will be better to have approximate figures at a proper time than delayed information prepared accurately.

Notes

4. **Basis of Comparison:** The information supplied through reports will be more useful when it is supplied in comparison with past figures, standards set or objectives laid down. The decision-making authority will be able to make use of comparative figures while making a decision. Corrective measures can also be initiated to improve upon past performance.
5. **Reports should be Clear and Simple:** The information should be presented in a clear manner by avoiding extraneous data. Only relevant important information should become the part of a report. If supporting information cannot be avoided, then it should be given in appendix or separate chart should be attached to it.

The method of presenting information should be such that it attracts the eye and enables the reader to form an opinion about the information. The graphic presentation of information will enable the reader to find out the trends and also to determine deviations more quickly than in other methods. The arrangement of presentation should be brief, clear and complete. Simplicity is a good guide for reports preparation.
6. **Cost:** The benefits derived from reporting system must be commensurate with the cost involved in it. Though it is not possible to assess the benefit of this system in monetary terms, there should be an endeavour to make the system as economic as possible.
7. **Evaluation of Responsibility:** The reporting system should enable the evaluation of managerial responsibility. The targets are fixed for various functional departmental heads. The record of actual performance is monitored along with the standards so as to enable management to assess the performance of different individuals. So, management reporting should be devised in a way that it helps in evaluating the work assigned to various persons.

Self Assessment

Fill in the blanks:

4. A good reporting system is helpful to the management in planning and
5. A good reporting system should have a proper flow of
6. The of information will enable the reader to find out the trends and also to determine deviations more quickly than in other methods.
7. The decision-making authority will be able to make use of figures while making a decision.
8. Accuracy should also not involve of preparation nor it should be achieved at the sacrifice of promptness of presentation.

14.2 Introduction to Management Information System (MIS)

Management Information System can be developed as an act of interrelated components that collect (or retrieve), process, store and distribute information to support decision-making, coordinate and control in an organisation.

14.2.1 Attributes of Information

For information to be useful to managers, it must possess certain attributes. Some of the important attributes are accuracy, timeliness, relevance and completeness.

Attributes of Information	
Accuracy	Must be true and correct and must accurately describe the item or event.
Timeliness	Available when it is needed and without excessive delay.
Relevance	Pertains to the situation at hand. Information relevant at one time may not be relevant at another if it does not add to the knowledge needed by a decision maker.
Completeness	Provides the user with all details needed to understand a solution. Complete information (that is certainty) is rarely available.
Frequency	Prepared or presented to users often enough to be up-to-date.
Time horizon	Oriented toward past, present or future activities and events.
Scope	Broad or narrow in coverage of an area of interest.
Origin	May originate from sources within the organization or from external sources.
Form of presentation	Tables of numbers or graphic displays of information are the most common written or printed forms. May also include verbal presentation.

14.2.2 Information Needs of Managers

All managers require information to perform their managerial functions (mainly, planning and controlling) and make effective decisions. The information that managers require will vary, depending on the nature of the work they do and the tasks they seek to accomplish. Information needs also vary by levels in the organizational hierarchy (Table 14.1). For instance, top level managers need far less detail (as a general rule) than lower level managers. Since top-level managers have to take a broad perspective of the organisation and its mission, they only need information that helps them develop or enhance the perspectives.

Information that originates within an organisation is referred to as internal information. This type of information is essential for managing day-to-day operations. Some examples of internal information are:

9. Daily receipts and expenditures
10. Quantity of an item in hand or in inventory
11. Cost and selling price of the item
12. Salespeople's quotas

Table 14.1: Information needs by Level of Organisation

Characteristic	Top Management	Middle Management	Operating Management
Planning focus	Heavy	Moderate	Minimum
Control focus	Moderate	Heavy	Heavy
Time frame	Long-term	Short-term	Day to Day
Nature of activity	Unstructured	Moderately structured	Highly structured
Level of complexity	Many open variables, complex	Better defined variables	Straightforward
Result of activity	Mission, Goals, Objectives	Action Plans	End products and services

Notes

Information that originates outside the organisation is referred to as external information. Such information is often required by top level managers to plan and guide the organisation successfully.

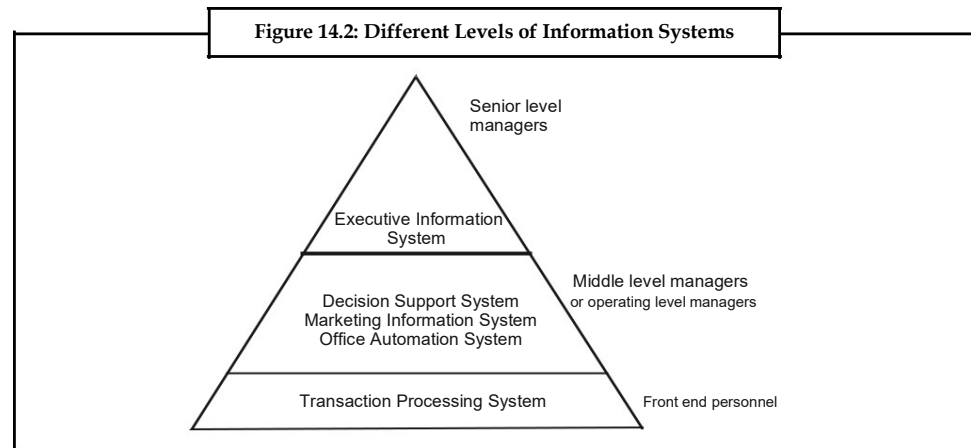
Some examples of external information are:

- 13. Demand for new products or services.
- 14. Information describes customer satisfaction with products and services. Information describing change in policies of suppliers.
- 15. Knowledge of promotional campaigns, price changes, or products planned by competing firms.
- 16. Details of changes in government regulations.

In many instances, firms have to provide information to external users. Some of these are:

- 17. Prices of items and services offered (to customers)
- 18. Quantity of items needed for manufacturing (to suppliers)
- 19. Sales revenues and profit earned (to the government).

Only an effective information system can provide managers with both internal and external information that is timely and accurate.



Management information system can be developed as an act of interrelated components that collect (or retrieve), process, store and distribute information to support decision-making, coordinate and control in an organisation. Information means that data have been shaped into a form that is meaningful and useful to human being. Data are a stream of raw facts reporting events occurring in an organization or physical environment before they have been organised and rearranged into a form that people can understand and use.

The importance of Management Information System has increased in recent times because of the following:

- 20. Emergence of global economy
- 21. Transformation of industrial economies - knowledge and information intense products have become available
- 22. Transformation of multinational enterprises
- 23. Emergence of digital form

Self Assessment

Notes

State whether the following statements are true or false

24. Information that originates within an organisation is referred to as internal information.
25. The internal informations are essential for managing day-to-day operations.
26. External information is often required by top level managers to plan and guide the organisation successfully.
27. Information means that data have been shaped into a form that is meaningful and useful to human being.

14.3 Performance Measures

Performance measures are a central component of management information and reporting system. This section deals with performance measures for different levels of an organization and for managers at these levels – both financial and non-financial performance measures.

Performance measurements of an organisation Chapter should be a prerequisite for allocating resources within that organisation. When a Chapter undertakes new activities projections of revenues, costs and investments are made. An ongoing comparison of the actual revenues, costs and investments with the budgeted amounts can help guide top management's decisions about future allocations.

Performance measurement of managers is used in decisions about their salaries, bonus, future assignments and status, which motivate managers to strive for the goals used in their evaluation.

Table 14.2: Five Level Performance Measures

Representative area at which data gathered	Financial Measures	Non-Financial Measures
(A) Customer/Market Level	(i) Prices of company's products compared with competition. (ii) Prices of company's traded securities.	(i) Market share held by company's products. (ii) Third party quality ratings for all products in the industry.
(B) Total organisational Level	(i) Return on investment (ROI) (ii) Residual income (RI)/EVA (iii) Return on sales	(i) Number of new products introduced (ii) Number of new patents filed.
(C) Individual facility level (includes manufacturing plants, distribution sales, Customer Service Centres, R & D centre)	(i) Cost and revenue measurements for each responsibility centre according to measure of performance used (that is cost, revenue, profit, return on investments) this is known as responsibility accounting. Financial measure includes flexible budget variances).	(i) Capacity utilisation (ii) Throughput time for products. (iii) Percentage of times promised delivery dates met (schedule attainment).
(D) Individual activity level (e.g. activities in a warehouse)	(i) Direct Material Variance and Direct Labour Variances	(i) Time taken to set up machinery for new production run.

Contd...

Notes

facility include receiving, storing, dispatching etc.	(ii) Manufacturing Overhead Variances (iii) Cost per activity level.	(ii) Number of accounts receivables processed per hour. (iii) Inventory level not to exceed certain amounts. (iv) Abiding by plant maintenance schedules.
(E) By Product / Programme	(i) Cost and revenues and Investments across responsibility centres as far as they pertain to programme or product (compared to budgeted / target amounts). This is sometimes referred to as activity costing.	(i) Time period for completion i.e. break-even time is the time from initial idea date to the time when the cumulative present value of cash inflows of the project equals the present value of total (to market) cash outflows.

Self Assessment

Fill in the blanks:

28. Performance measures are a central component of and reporting system.
29. Performance measurements of an organisation Chapter should be a prerequisite for allocating within that organisation.

14.4 Performance Reports: Format and Essential Features

30. *Tailored to the organisation structure and controllability:* The performance report system should be structured to the organisation structure of the enterprise in the same way as budgeting and accounting systems. There should be a separate performance report for each responsibility centre, starting with those at the lowest level which in turn feed into summary reports for each higher level.
31. *Designed to implement the exception principle in management:* Performance report must clearly distinguish between controllable and non-controllable items. Performance measurement requires that actual results be compared with plans, objectives and standards so that differences (exceptions) call management attention to high, low and satisfactory performance. The variances from plans signal the need for investigation and possible action. The action may be corrective, commendatory or revisory. Both favourable and unfavourable variances justify investigation. Unfavourable variances may signal danger and further investigation generally is necessary to pinpoint the precise cause.
32. *Repetitive and relate to short-time spans:* Performance should be repetitive, generally on a monthly basis, although certain problems may suggest the need for weekly or even daily reports that focus on a particular problem.
33. *Adapted to the requirements of the principal user:* Performance reports serve the evaluation and decision-making needs of the user.
34. *Simple, understandable and report only essential information:* Reports should not be too long; complex tabulations should be avoided. Reports should be carefully screened to eliminate all nonessential information. Many performance reports include too much data rather than too little.



Caution Performance reports should be standardised. Executive becomes accustomed to certain terminology, forms and methods of presentation and know where to look to find the specific information. Despite the desirability of standardising performance reports, constant attention must be given to improving them. Improvement necessarily involved changes, but desirable changes, if made at an opportune time and adequately presented, can be accomplished usually with a minimum of confusion. Reports must be kept relevant.

35. **Prepared and presented promptly:** Consistent with the cost of detailed record-keeping and reporting, performance reports should be available on a timely basis. To achieve a realistic balance between immediate reporting and the costs of detailed reporting, monthly performance reports are widely used by industry. When special problem areas are involved, weekly and even daily reporting may be necessary, at least for a time.
36. **Effective management follow-up procedures:** Follow-up procedures constitute a key aspect of effective control. Some companies require written explanations of significant variances. The follow-up procedures preferred by other companies involve constructive conferences where the causes are discussed and corrective action is decided upon. Follow-up procedures should begin at the management level in the executive committee meeting, for example, where both unsatisfactory and satisfactory conditions are discussed and analyzed. Decisions should be made concerning ways and means of correcting unsatisfactory conditions. Favourable variances should be accorded equivalent study, (1) to determine whether the goals were realistic, (2) to give recognition to those responsible for high performances, (3) possibly to transfer some “know-how” to other subdivisions of the company.

Group and individual conference should be held at the various management levels for effective correction action. Follow-up procedures should embody constructive action to correct unfavourable conditions rather than punitive action for failures, the results of which obviously cannot be erased. Another important aspect of follow-up procedure is that the resulting action is strictly a line responsibility rather than a staff responsibility. The budget director, controller or other staff officer should not undertake, nor be assigned, the responsibility of enforcing the budget.



Example: A comprehensive performance report for Production Department X in S Company is shown below, from which following features are worth noting:

37. Identification of responsibility
38. Distinction between controllable and non-controllable items
39. Specific time dimensions – month and cumulative to date
40. Method of reporting variances
41. Adjustment of the (planned) amounts to actual output (that is flexible/variable budget approach).
42. Detail on each category (including service usage in Chapters) and
43. Explanatory comments and suggestions.

Notes

Departmental Performance Report
S Company Performance Report

Dept. Prod. Dept. X Current Month - January						Responsibility of Year to date	
Actual	Planned	Var. Amt.	%	Description	Controllable	Actual Planned	Variance Amount %
87,500	1,00,000	12,500*	13*	Dept. output in Chapters			
				Raw Material A:			
1,76,000	1,75,000	1,000*	1*	Chapters			
32,200	35,000	200*	1*	Cost			
				Director Labour:			
35,357	35,000	357*	1*	Hours			
1.96	2.00	0.04	2	Avg. wage rate			
69,300	70,000	700	1	Cost			
10,000	10,000	-	-	Salaries			
3,740	3,800	60	2	Indirect materials			
7,550	7,250	300	4*	Indirect labour			
560	1,000	440	44	Miscellaneous			
21,850	22,050	200	1	Sub-Total			
				Service Usage:			
530	480	5*	10*	Kilowatt hours (000's)			
72	60	12*	20*	Direct repair hours			
1,26,350	1,27,050	700	1	Grand Total			
				Non-Controllable			
2,000	2,000	-	-	Depreciation			
500	500	-	-	Insurance			
200	200	-	-	Taxes			
2,700	2,700	-	-	Total non-controllable			

* Unfavourable variances

Comments:

44. Output was 13 percent below the planned level due to production scheduling pull back to accommodate 5000 Chapters unfavourable sales volume variance, the department met its production schedule as adjusted.
45. Unfavourable variances in service usage should be carefully investigated to determine underlying causes.

To have the maximum benefit, the monthly report should be designed to indicate the performance of each individual having supervisory responsibility. A well-designed control report should be completely integrated i.e., each schedule should look on a responsibility basis so that (i) major variation may be traced to the source of the problem and (ii) the various segments comprise within themselves a complete report. Please refer to the illustration on previous page – Performance Reports SP Manufacturing Company.

Distribution of the monthly performance report (and its segments) should follow essentially the same pattern as the annual profit budget plan. Certain executives need the complete monthly performance report. Other members of the management only need those schedules related to their particular responsibility centres. Lower levels of management may receive only one of the detailed segments. On the other hand, the higher the level of management, the greater the need for summaries, yet these summaries must be supported by adequate detail to identify particular aspects of operations.

Notes

Types of reports for different levels of management:

46. **Top management including Board of Directors and Financial Management:**

Balance Sheet

Profit and Loss Statement

Position of Stock

Disposition of funds and working capital

Capital expenditure and financial commitments together with the progress of projects in hand.

Cash flow statement

Sales, production and other appropriate statistics.

47. **Sales Management:**

Actual sales compared with budgeted sales to measure performance by products, territories, individual salesman and customers.

Standard profit and loss by product for fixing selling prices and to concentrate on sales of most profitable products.

Selling expenses in relation to budget and sales value analysed by products, territories, individual salesman and customers.

Bad debts and accounts which are slow and difficult to collect.

Status report on new or doubtful customers.

48. **Production Management:**

To buyer: Price variations on purchases analysed by commodities

To foremen/shop leader:

Operational efficiency for individual operations duly summarised as departmental average.

Labour utilisation report and causes of lost time and controlled time.

Indirect shop expenses against the standard allowed and

Scrap report.

Works Manager/Departmental Managers:

Departmental operating statement.

General works operating statements – expenses relating to all works expenses not directly allowable or controllable by departments.

Plant utilisation report.

Departmental scrap report and

Material usage report.

Notes

4. **Specific Report:** These reports may be prepared at the request of general management or at the initiative of the controller. The necessity for them may, in some cases, arise on account of the need for more detailed information on matters of interest first revealed by the routine reports. These reports may range over a very wide read. Some of the matters in respect of which such reports may be required can be:
- (a) Taxation legislation and its effects on profits
 - (b) Estimates of the earning capacity of a new project
 - (c) Breakeven analysis
 - (d) Replacement of capital equipment
 - (e) Special pricing analysis
 - (f) Make or buy certain components
 - (g) Statement of surplus available for payment of bonus.



Task Prepare the proforma of financial reports prepared by the top management of the an organisation.

Self Assessment

Fill in the blanks:

- 49. Performance report must clearly distinguish between and items.
- 50. procedures constitute a key aspect of effective control.
- 51. Group and individual should be held at the various management levels for effective correction action.
- 52. may signal danger and further investigation generally is necessary to pinpoint the precise cause.

14.5 Summary

The reporting system involves all levels of management.

The reports originate from junior levels of management and go up to top level management, consisting of Board of Directors.

A good reporting system is helpful to the management in planning and controlling.

Management Information System is a very important function of any organization in today's global economy.

Performance measures are a central component of management information and reporting system.

There are financial and non-financial performance measures.

The performance measures at different levels of management have been discussed in this Chapter.

The features of performance reports and the formats have been explained with suitable illustrations.

There are different reports based on different levels of management.

14.6 Keywords**Notes**

Information System: It is a set of elements joined together for a common objective. An information system can be defined as the means by which information is generated and communicated to managers at various levels to help them in the decision-making process.

Management Information System (MIS): It refers to the data equipment and computer programmes that are used to develop information for managerial use.

Management Reporting: The process of providing information to the management is known as management reporting. The reports are regularly sent to various levels of management as to enable in judging the effectiveness of their responsibility centres. These reports also become a base for taking corrective measures, if necessary.

Performance Measures: A form of reporting for different levels of an organization and for managers on financial and non-financial performances. It is useful for allocation of resources, costs, revenues.

Report: Report is a form of statement that presents and examines facts relating to an event, problem, progress of action, state of business affairs etc. and for the purpose of conveying information, reporting findings, putting forward ideas and making recommendations as the basis of action.

14.7 Review Questions

53. Why are performance measurements required in Management Information System?
54. What are the financial performance measures?
55. What are the non-financial performance measures?
56. What are the information relationships at various levels of manufacture?
57. Discuss performance reporting at various levels of management. Give examples of some reports.
58. How can accounting based performance measures be designed?
59. All managers require information to perform their managerial functions. What are the key managerial functions and the role of information system in their performance?
60. Suggest some principles for preparing a good reporting system.
61. Only an effective information system can provide managers with both internal and external information that is timely and accurate. Discuss.
62. Different types of reports are prepared at different levels of management. Discuss.

Answers: Self Assessment

- | | |
|----------------------------|------------------------------------|
| 1. controlling | 2. information |
| 3. graphic presentation | 4. comparative |
| 5. excessive cost | 6. True |
| 7. False | 8. False |
| 9. True | 10. management information |
| 11. resources | 12. controllable, non-controllable |
| 13. Follow-up | 14. conference |
| 63. Unfavourable variances | |

Notes

14.8 Further Readings



Books

B.M. Lall Nigam and I.C. Jain, *Cost Accounting*, Prentice-Hall of India (P) Ltd.

Hilton, Maher and Selto, *Cost Management*, 2nd Edition, Tata McGraw-Hill Publishing Company Ltd.

M.N. Arora, *Cost and Management Accounting*, 8th Edition, Vikas Publishing House (P) Ltd.

M.P. Pandikumar, *Management Accounting*, Excel Books.



Online links

www.allbusiness.com

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