Chapter - V

MANAGERIAL ASPECT

OF ACCOUNTING
5.1) Introduction:

Accounting has to deal with two aspects, namely the financial recording and interpretation of the financial data for effective decision making by the management. Due to this reason it is felt essential to discuss the various managerial aspects of accounting that are of importance to the management.

As it is indicated earlier, accounting can be classified into two categories, i) Financial Accounting and ii) Management Accounting.

Accounting designed to serve the external parties and operating responsibility of the firm i.e. Creditors, investors and Government etc. is termed as financial accounting. While accounting designed to serve the operational responsibility is termed as management accounting. It is to provide information relating to the conduct of the various aspects of the business like costs, funds, profits etc.

In view of the growing importance of management accounting, it is necessary to understand various management accounting concepts and techniques which are increasingly used by management in their decision making process.

5.2) Meaning of Management Accounting:

In simple terms the management accounting refers to accounting for the management that is the accounting which provides necessary information to the management for discharging its functions. The functions of the management are planning, organizing, directing and controlling. Thus management accounting provides information to the management so that planning, organizing, directing, controlling of business operations can be done in an orderly and effective manner. However the above is very
general definition of management accounting, more specific definitions have been given by different authors. Some of the important definitions are:-

The American Accounting Association has defined it as "Management Accounting" is the application of appropriate techniques and concepts in processing historical and projected economic data of an entity to assist management in establishing plans for reasonable economic objectives and in the making of rational decisions with a view towards achieving these objectives".³

The definition given by the American Council of Productivity seems to be more precise. It reads as "Management Accounting is the presentation of accounting information in such a way as to assist management in the creation of policy and in the day to day operation of the undertaking."⁴

The above definitions clearly indicate that management accounting is concerned with accounting information, which is useful to the management. Efficiency of the various phases of management is as a matter of fact, the common thread, which underlies all these definitions. However it should be realized that the management accounting does not supplement financial accounting but rather it supplements it in order to serve the diverse requirements of modern management. The fact is that management accounting rearranges for management control to a great extent the accounting information provided by the financial accounting. It therefore, lies between the following two activities.⁵

1) Completing the accounting results on the one hand.
2) Controlling the business by the management on the other. Management accounting therefore, covers all rearrangement, combination or adjustment of orthodox accounting figures which may be required to provide the chief executive with the information from which he can control the business.

5.3) Functions of Management Accounting

The basic function of management accounting is to assist the management in performing its functions effectively. The functions of the management are planning, organizing, directing and controlling. Management accounting helps in the performance of each of these functions in the following ways:

A) Data provision

Management accounting serves as a vital source of data for management planning. The accounts and documents are a repository of vast quantity of data about the past progress of the enterprise which are a must for making forecasts for the future.

B) Data modification

The accounting data required for managerial decision is properly compiled and classified. For example, purchases figures for different months may be classified to know total purchases made during each period, product wise, supplier wise and territory wise.
C) Data analysis and interpretation

The accounting data is analyzed meaningfully for effective planning and decision making. For this purpose the data is presented in a comparative form. Ratios are calculated and likely trends are prosecuted.

D) Data communication

Management accounting provides a means of communicating management plans upward, downward and outward through the organization. Initially it means identifying the feasibility and consistency of the various segments of the plan. At later stages it keeps all parties informed about the plans that have been agreed upon and their roles in these plans.

E) Control facilitation

Management accounting helps in translating given objectives and strategies into specific goals for attainment by a specified time and sources for effective accomplishment of these goals in an efficient manner. All this is made possible through budgetary control and standard costing which are an integral part of management accounting.

F) Qualitative information

Management accounting does not restrict itself to financial data for helping the management in decision-making, but also uses such information, which may not be capable of being measured in monetary terms. Such information may be collected from special surveys, statistical compilations, engineering records etc.
Management accounting is concerned with presentation of accounting information in the most useful way for the management. Its scope is therefore, quite vast and includes within its fold almost all aspects of business operations. However the following areas can rightly be identified as falling within the ambit of management accounting.

A) Financial Accounting:
Management accounting is mainly concerned with the rearrangement of the information provided by financial accounting. Hence management cannot obtain full control and coordination of operations without a properly designed financial accounting system.

B) Cost Accounting:
Standard costing, marginal costing, opportunity cost analysis, differential costing and other cost techniques plays a useful role in operation and control of the business undertaking.

C) Revaluation accounting
This is concerned with ensuring that capital is maintained intact in real terms and profit is calculated with this fact in mind.

D) Budgetary control
This includes frames of budgets comparison of actual performance with the budgeted performance, computation of variances, finding of their causes etc.

5.4) Scope of Management Accounting
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E) Inventory control
It includes control over inventory from the time it is acquired till its final disposal.

F) Statistical methods
Graphs, charts, pictorial presentations, index numbers and other statistical methods make the information more impressive and intelligible.

G) Interim reporting
This includes preparation of monthly, quarterly, half yearly income statements and other related reports, cash flow and fund flow statements, scrap reports etc.

H) Taxation
This includes computation of income in accordance with the tax laws, filling of returns and making tax payments.

I) Office services
This includes maintenance of proper data processing and other office management services, reporting on best use of mechanical and electronic devices.

J) Internal audit
Development of a suitable internal audit system for internal control.

5.5) Limitation of Management Accounting
Management accounting being comparatively a new discipline suffers from certain limitations, which limits its effectiveness. These limitations are:
A) Limitation of basic records
Management accounting derives its information from financial accounting, cost accounting and other records. The strength and weakness of the management accounting therefore depends upon the strength and weakness of these basic records.

B) Persistent efforts
The conclusions drawn by the management accountant are not executed automatically. He has to convince people at all levels. In other words, he must be an efficient salesman in selling his ideas.

C) Management accounting is only a tool
Management accounting cannot replace the management. It is only an adviser to the management. The decisions regarding implementing his advice are to be taken by the management. There is always a temptation to take an easy course of arriving at decision by intuition rather than going by the advice of the management accountant.

D) Wide scope
Management accounting has a very wide scope in incorporating many disciplines. It considers both monetary as well as non-monetary factors. This all brings inexactness and subjectivity in the conclusions obtained through it.

E) Top-heavy structure
The installation of management accounting system requires heavy costs on account of an elaborate organization and numerous rules and regulations. It can therefore be adopted only by big firms.
Management accounting demands a breakaway from traditional accounting practices. It calls for a rearrangement of the personnel and their activities, which is generally not liked by the people involved.

5.6) Installation of management accounting system

The following steps will have to be taken for installation of an efficient and effective management accounting system.

1) An appropriate organization manual should be prepared and adopted. The manual defines and confines explicitly the scope of authority of each executive in the organization. This prevents overlapping of functions, powers and responsibilities. It also depicts the line of communication.

2) The requisite staff will have to be recruited, trained and developed.

3) Appropriate forms, returns etc. should be designed, prepared and made available.

4) Installation and codification of accounts.

5) Developing a suitable system for the integration of cost and financial data.

6) Setting up of standards of budgetary control.

7) Setting of standards, introducing standard costing techniques.

8) Setting up of cost, budget and profit centers and introduction of operational research techniques.

5.7) Financial statements

Management accounting uses the following tools or techniques to faithfully discharge its duty towards management.
1) Financial statement analysis.
2) Funds flow analysis.
3) Cash flow analysis.
4) Costing techniques including marginal, differential, standard and opportunity costing.
5) Budgetary control.
6) Management reporting.

A) Meaning and types of financial statements.

According to Hampton, a financial statement is an organized collection of data accounting to logical and consistent accounting procedure. Its purpose is to convey and understand some financial aspects of business firm. It may show a position at a moment of time as in the case of a balance sheet or may reveal a series of activities over a given period of time as in the case of an income statement.10

Thus the term financial statements generally refers to two basic statements:

1) The income statement.
2) The balance sheet

Of course a business may also prepare, a statement of retained earnings and statement of changes in financial position. The meaning and significance of each of these statements can be explained as below.

1) Income statement

The income statement, also termed as profit and loss account, is generally considered to be the most useful of all financial statements. It explains what
has happened to a business as a result of operations between two balance sheets dates. For this purpose it matches the revenues and loss incurred in the process of earning revenues and shows the net profit earned or loss suffered during a particular period.

2) Balance sheet

It is a statement of financial position of a business at a specified moment of time. It represents all assets owned by the business at a particular moment of time and the claims of the owner and outsiders against those assets at that time. It is in a way snapshot of the financial condition of a business at that time.

3) Statement of retained earning

The term retained earning means the accumulated excess of earning over losses and dividends. The balance shown by the income statement is transferred to the balance sheet through this statement, after making necessary appropriations. It is thus a connecting link between the balance sheet and the income statement. The statement is also termed as profit and loss appropriation account in case of companies.

4) Statement of changes in financial position

The balance sheet shows the financial condition of the business at a particular moment of time, while the income statement discloses the results of operation of business over a period of time. However for a better understanding of the affairs of business it is essential to identify the moment of working capital or cash in and out of the business. This information is available in the statement.
of changes in financial position of the business. The statement may emphasize any of the following aspects relating to change in financial position of the business.

1. Changes in the firm's working capital.
2. Changes in the firm's cash position.
3. Changes in the firm's total financial position.

B) Nature of financial statements

According to the American Institute of certified public accountants, financial statements reflect "A combination of recorded facts, accounting conventions and personal judgements and the judgements and conventions applied to them materially". This implies that data exhibited in the financial statement are affected by recorded facts, accounting conventions and personal judgements.

1) Recorded facts

The firm recorded facts means facts which have been recorded in the accounting books. Facts which have not been recorded in the financial books are not depicted in the financial statements, however material they might be. For example fixed assets are shown at cost irrespective of their market or replacement price, since such price is not recorded in the books.

2) Accounting conventions

Accounting conventions imply certain fundamental accounting principles which have been sanctified by long usage. For example, on account of the convention of conservatism, provision is made of expected losses, but expected profits are ignored. This means that the real financial position of the...
business may be much better than what has been shown by the financial statements.

3) Personal judgements

Personal judgements have also an important bearing on financial statements. For example, the choice of selecting a method of depreciation lies on the accountant. Similarly the mode of amortization of fictitious assets also depends on the personal judgement of the accountant.

C) Limitation of financial statements

Financial statements are prepared with the object of presenting a periodical review or report on the progress by the management and deal with a) status of the investment in the business and b) results achieved during the period under review. However these objectives are subjected to certain limitations:-

1) Only interim reports

The profit shown by the profit and loss account and the financial position as depicted by the balance sheet is not exact. The exact position can be known only when the business is closed down. Again the existence of contingent liabilities, deferred revenue expenditure makes them more imprecise.

2) Concepts and conventions

Financial statements are prepared on the basis of certain accounting concepts and conventions. On account of this reason the financial position as disclosed by the statement may not be realistic. For example fixed assets in the balance sheet are shown on the basis of going concern concept. This means that value placed on fixed assets may not be the same, which may be realized on their
sale. Similarly on account of convention of conservatism, the income statement may not disclose true income of the business since probable losses are considered, while probable incomes are ignored.

3) Influence of personal judgement

Many items are left to the personal judgment of the accountant. For example, the method of depreciation, mode of amortization of fixed assets, treatment of deferred revenue expenditure, all depends on the personal judgement of the accountant. The soundness of such judgement will necessarily depend upon his competence and integrity.

However, the convention of consistency acts as a controlling factor on making indiscreet personal judgement.  

4) Disclose only monetary facts

Financial statements do not depict those facts which cannot be expressed in terms of money. For example, development of a team of loyal and efficient workers, enlightened management, the reputation of prestige of management with the public, are matters which are of considerable importance for the business, but they are nowhere depicted by financial statements.

5.8) Analysis and interpretation of financial statements:

Financial statements are indicators of the two significant factors:

1) Profitability.

2) Financial soundness.

Analysis and interpretation of financial statements, therefore refers to such a treatment of the information contained in the income statement and the
balance sheet so as to afford full diagnosis of the profitability and financial soundness of the business. A distinction can be made between analysis and interpretation. The term analysis means methodological classification of the data given in the financial statements. The figures given in the financial statements will not help one unless they are put in a simplified manner. For example, all items relating to current assets are put at one place while all items relating to current liabilities are put at other place. The term interpretation means explaining the meaning and significance of the data so simplified. However both analysis and interpretation are complimentary to each other. Interpretation requires analysis, while analysis is useless without interpretation. Most of the authors have used the term analysis only to cover the meanings of both analysis and interpretation, since analysis involves interpretation.

According to Myers "financial statement analysis is largely a study of the relationship among the various financial factors in a business as disclosed by a single set of statements and a study of the trend of these factors as shown in a series of statements". The analysis of financial statement requires:

1. Methodological classification of data is given in the financial statements.
2. Comparison of various interconnected figures with each other, which is termed as ratio analysis. In order to have a meaningful analysis of data, it is necessary that figures should be arranged properly. Usually instead of two column statements, the statements are prepared in single column. This also
facilitates showing the figures of number of firms or number of years side by
side for comparison purpose.

5.9 Ratio Analysis

Accounting ratios are relationships expressed in mathematical terms between
figures which are connected with each other in some manner. Obviously no
purpose will be served by comparison of two sets of figures which are not at
all connected with each other more over absolute figures are also unfit for
comparison.

A) Classification of ratios

Ratios can be classified into different categories depending upon the basis of
classification.

1) Traditional classification: this classification has been on the basis of the
financial statements to which the determinants of a ratio belong. On this basis,
the ratios could be classified as.

a) Profit and loss account ratios, that is ratios calculated on the basis of the
items of the profit and loss account only. e.g. gross profit ratio, stock turnover
ratio etc.

b) Balance sheet ratio, i.e. ratios calculated on the basis of the figures of
balance sheet only e.g. Current ratio, debt equity ratio, etc.

c) Composite ratios or inter statement ratios, i.e. Ratios based on figures of
profit and loss account as well as the balance sheet, e.g. Fixed assets turnover
ratio, overall profitable ratio, etc.
2) Functional classification:
The traditional classification has been found to be too crude and unsuitable because analysis of balance sheet and income statement cannot be done in isolation. They have to be studied together in order to determine the profitability and solvency of the business. In other words that ratio serves as a tool for financial analysis. They are classified according to their functions as follows.

a) Profitability ratios.
b) Turnover ratios.
c) Financial ratios.

a) Profitability ratios:
Profitability in an indication of the efficiency with which the operation of the business are carried on. Poor operational performance may indicate poor sales and hence poor profits, A lower profitability may arise due to the lack of control over the expenses. Bankers, financial institutions and other creditors look at the profitability ratios as an indicator whether or not the firm earns substantially more than it pays interest for the use of borrowed funds and whether the ultimate repayment of their debt appears reasonably certain. Owners are interacted to know the profitability as it indicates the return which they can get on their investments. The following are the important profitability ratios:

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1) Return on investment

It is also called as overall profitability ratio. It indicates the percentage of return on the total capital employed in the business, it is calculated on the basis of the following formula:

\[
\frac{\text{Operating profit}}{\text{Capital employed}} \times 100
\]

The term capital employed has been given different meaning by different accountants. Some of the popular meanings are as follows.

a) Sum-total of all assets whether fixed or current.

b) Sum-total of fixed assets.

c) Sum-total of long term funds employed in the business, i.e. Share capital + reserves and surplus + long term loans + non-business assets.

In management accounting, the term capital employed is generally used in the meanings given in the point third above.

The term operating profit means profit before tax and interest. The term interest means interest on long term borrowings. Interest on short-term borrowing will be deducted for computing operating profit. Non trading incomes such as interest on government securities or non-trading losses or expenses such as loss on account of fire etc. will be excluded.

2) Return on shareholder funds

In case it is desired to work out the profitability of the company from the
shareholder point of view, it should be computed as follows.

\[
\text{Net profit after interest and tax} \quad \frac{\text{X100}}{\text{Shareholders fund}}
\]

The term net profit here means net income after interest and tax. It is different from the net operating profit which is used for computing the return on total capital employed in the business. This is because the shareholders are interested in total income after tax including net non-operating income.

3) Return on equity shareholders funds

The profitability from the point of view of the equity shareholders will be judged after taking into account the amount of dividend payable to the preference shareholders. The return on equity shareholders funds will, therefore, be computed on the following basis.

\[
\text{Net profit after interest, tax and preference dividend} \quad \frac{\text{X100}}{\text{Equity shareholders fund}}
\]

4) Return on total assets

This ratio is computed to know the productivity of the total assets. There are three methods for computing it.

\[
\begin{align*}
\text{Net profit after tax} \quad \frac{\text{X100}}{\text{Total Assets}} \\
\text{Net profit after tax + interest} \quad \frac{\text{X100}}{\text{Total assets}}
\end{align*}
\]
The inclusion of interest is conceptually sound because total assets have been financed from the pool of funds supplied by the creditors and the owners. The objective of computing the return on total assets is to find out how effectively the funds pooled together have been used. Hence it will be proper to include the interest in computing the return on total assets. A further modification of this formula has been suggested by many accountants. It includes intangible assets from the total assets. However, it will be proper to exclude only fictitious assets and not all intangible assets. The term fictitious assets includes assets such as preliminary expenses, debit balance in the profit and loss account etc. The return on assets according to this method, may therefore be calculated as follows:

\[
\text{c) } \frac{\text{Profit after tax + interest}}{\text{Total assets including fictitious}} \times 100
\]

5) Return on gross capital employed

The term gross capital employed means the total of fixed assets and current assets employed in the business. The formula for its computation can be:

\[
\text{5) Return on gross capital employed}
\]

\[
\frac{\text{Net profit before interest and tax}}{\text{Gross capital employed + current assets}} \times 100
\]

6) Average capital employed

Some people prefer to use average capital employed in place of only capital employed. Average capital employed is the average of the capital employed at
the beginning and the end of the accounting period. For example, it is calculated as: -

$$\text{ROI} = \frac{\text{Net profit before interest + tax}}{\text{Average capital employed}} \times 100$$

The return on capital invested is a concept that measures the profit which a firm earns on investing a unit of capital. Yield on capital is another term employed to express the idea. It is desirable to ascertain this periodically the profit being the net result of all operations, the return on capital expresses all efficiencies or inefficiencies of a business collectively and thus is dependable measure for judging its over all efficiency and inefficiency. On this basis there can be comparison of the efficiency of one department with that of another, of one plant with that of another, one company with that of another and one industry with that of another. For this purpose, the amount of profits considered is that before making deductions on account of interest, income tax and dividends and capital in the aggregate of all the capital at the disposal of the company viz. Equity capital, preference capital, reserves, debentures etc. Thus return on capital when calculated in this manner would also show whether the company's borrowings policy was wise economically and whether the capital had been employed fruitfully.

Suppose funds have been borrowed at 8 percent and the return on capital is 7.5 percent, it would have been better not to borrow, unless borrowing was vital for survival. It would also show that the firm had not been employing the fund efficiently. Return on capital may also be calculated on equity shareholders
capital. In that case the profit after deductions for interest, income tax and preference dividend will have to be compared with equity shareholders funds. It would not indicate operational efficiency or inefficiency but merely the maximum rate of dividend that might be declared.

The business can survive only when the return on capital employed is more than the cost of capital employed in the business.

7) **Earning per share**

In order to avoid confusion on account of the varied meanings of term capital employed, the overall profitability can also be judged by calculating earning per share with the help of the following formula:

\[
\text{E.P.S} = \frac{\text{Net profit after tax and preference dividend}}{\text{Number of equity shares}}
\]

The earning per share helps in deterring the market price of the equity share of the company. A comparison of earnings per share of the company with another will also help in deciding whether the equity share capital is being effectively used or not. It also helps in estimating the company's capacity to pay dividend to its equity shareholders.

8) **Price earning ratio**

This ratio indicates the number of times the earning per share is covered by its market price. This is calculated according to the following formula:

\[
\frac{\text{Market price per equity share}}{\text{Earning per share}}
\]
For example, the market price of a share is Rs 30 and earning per share is Rs 5, the price earning ratio could be 6. It means the market value of every one rupee of earning is six times or Rs 6. The ratio is useful in financial forecasting. It also helps in knowing whether the share of a company are under or over valued. For example, if the earning per share of A B limited is Rs 20, its market price Rs 140 and earning ratio of similar companies is 8. It means that market value of share of A B limited should be Rs 160 (8.20). The share of A B limited is therefore undervalued in the market by Rs 20. In case the price-earning ratio of similar companies is only 6, the value of share sales. Its formula is:

\[
\text{Gross Profit} \times 100 \quad \text{X 100}
\]
\[
\text{Net Sales}
\]

This ratio indicates the degree to which the selling price of goods per unit may decline without resulting in losses from operations to the firm. It also helps in ascertaining whether the average percentage of market price of the goods is maintained. There is no norm for judging the gross profit ratio, therefore the evaluation of the business on its basis is a matter of judgement. However, the gross profit should be adequate to cover operating expenses and to provide for fixed charges, dividends, and building up of reserves.

10) **Net profit ratio**

This ratio indicates net margin earned on a sale of Rs 100. It is calculated as
Net operating profit is arrived at by deducting operating expenses from gross profit. This ratio helps in determining the efficiency with which affairs of the business are being managed. An increase in the ratio over the previous period indicates improvement in the operational efficiency of the business provided the gross ratio is constant. The ratio is thus an effective measure to check the profitability of a business. An investor has to judge the adequacy or otherwise of this ratio by taking into account the cost of capital, the return in the industry as a whole and market conditions such as boom or depression period. No norms can be laid down. However, constant increase in the above ratio year after year is a definite indication of improving conditions of the business.

11) Operating ratio

This ratio is a complementary of net profit ratio. In case the net profit ratio is 20 percent, it means that the operating ratio is 80 percent. It is calculated as follows:

\[
\frac{\text{Operating costs}}{\text{Net Sales}} \times 100
\]

Operating costs include the cost of direct materials, direct labour and other overheads, viz. factory, office or selling. Financial charges such as interest, provision for taxation etc. are generally excluded from operating costs. The
ratio can be calculated regarding each element of operating Cost to sales viz.

a) Direct material cost to sales = \[
\frac{\text{Direct material cost}}{\text{Net Sales}} \times 100
\]

b) Direct labour cost to sales = \[
\frac{\text{Direct labour cost}}{\text{Net Sales}} \times 100
\]

c) Factory Overhead to sale = \[
\frac{\text{Factory Overhead}}{\text{Net Overheads}} \times 100
\]

Similarly percentage of other operating costs such as administration and selling costs to sale can be computed. This ratio is the test of the operational efficiency with which the business is being carried. The operating ratio should be low enough to leave a portion of sales to give a fair return to the investors. A comparison of the operating ratio will indicate whether the cost component is high or low in the figure of sales. In case the comparison shown that there is increase in this ratio, the reason for such increase should be found out and management be advised to check the increase.

12) Fixed charges cover

This very important from the lenders point of view. It indicates whether the business would earn sufficient profits to pay periodically the interest charges. The higher the number, the more secure the lender is in respect of his periodical interest income. It is calculated as follows.

\[
\frac{\text{Income before interest and tax}}{\text{Interest charges}}
\]
This ratio is also called as debt service ratio. The standard for this ratio for an industrial company is that interest charges should be covered six to seven times. In case it is desired to compute the fixed dividend cover, it can be computed on the following basis.

\[
\text{FDC} = \frac{\text{Income before interest and tax}}{\text{Preference Dividend}} \times 100
\]

13) Debt service coverage ratio

The interest coverage ratio as explained above does not tell anything about the ability of a company to make payment of principal amount also on time. For this purpose debt service coverage ratio is calculated as follows:

\[
\text{D.S.C.R} = \frac{\text{Net Operating Income}}{\text{Total Debt Service}}
\]

The principal payment installment is adjusted for tax effects since such payment is not deductible from net profit for tax purposes. However some accountants prefer to compute the debt service coverage ratio as:

\[
\text{Cash profit available for debt service} = \frac{\text{Cash profit available for debt service}}{\text{Interest + principal payment installment}}
\]

Cash profit available for debt service is computed by adding to net profit items, like depreciation, interest on debt and amortization of items like good will, preliminary expenses, however the former seems to be a better method since by giving the tax effect, it puts the two items, interest and principal payment installment on the same footing. The higher the ratio, better it is.
14. Payment Ratio:

This ratio indicates what proportion of earnings per share has been used for paying dividend. The ratio can be calculated as:

\[
\frac{\text{Dividend per equity share}}{\text{Earning per equity share}}
\]

A complimentary of this ratio is retained earning ratio. It is calculated as:

\[
\frac{\text{Retained earning per equity share}}{\text{Earning per equity share}}
\]

\[
(\text{Or}) \quad \frac{\text{Retained earnings}}{\text{Total Earnings}} \times 100
\]

The pay out ratio and the retained earnings ratio are indicators of the amount of earning that have been ploughed back in the business. The lower the pay out ratio, the higher will be the amount of earnings ploughed back in the business and vice versa. Similarly the lower the retained earning ratio, the lower will be the amount of earnings ploughed back into the business and vice versa.

Conclusion:

The chapter is mainly confined to the description of managerial aspect of accounting. In the essence, the content of this chapter mainly deals with management accounting. While defining the meaning, efforts were made to describe the functions of Management Accounting as well as scope of Management Accounting. Further the limitation of management accounting
were also mention in this chapter. In the later part of the chapter efforts were made to detail about the financial statement preparation and analysis. A major stress has also been laid on the interpretations of financial statements and analysis of various accounting ratios.
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