Table of Contents

Week 1 Lecture: Introduction to Management Accounting

- Managerial accounting: Measure, analyses and reports financial and non-financial information to help managers to make decisions to fulfill organisational goals.
    - Management accounting primarily for internal use.
        - No need for GAAP appropriate reports.
    - Forward looking - budgets projecting future activities.
    - Can contain subjective information - customer, supplier feedback
    - Internal evaluation and decisions based on very detailed information
- Financial accounting: focuses on reporting to external users including investors, creditors and governmental agencies.
    - Based on GAAP
        - If not, could be found to be negligent.
    - Backward looking - historical information.
    - Objective information
    - Based on the firm as a whole

Sustainability

- Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
    - Identify relevant costs and benefits
    - Using activity-based costing (which activities drive the costs?)
    - Carrying out a cost-benefit analysis of sustainability initiatives.

Strategy and Management Accounting

- Strategy - specifies how an organisation matches its own capabilities with the opportunities in the marketplace to accomplish its objectives
- Strategic cost management - focuses specifically on the cost dimension within a firm's overall strategy.
    - Ensures costs of products and services are as accurate as possible
    - Drop a product or service when in fact it is profitable or vice versa

Four functions of management

- Strategic management - most important.
- Planning and decision making
    - Identification and implementation of specific goals and objectives that provide a competitive advantage.
- management and operational control
- Preparation of financial statements

Management accounting and value

- Creating value is an important part of planning and implementing strategy
- Value is the usefulness a customer gains from a company's product or service.
    - Value chain is the sequence of business functions in which customer usefulness is added to products or services
        - Research and development
        - Design

        - Production
        - Marketing
        - Distribution
        - Customer service.
    - Try to maximise quality for the lowest cost and satisfy customers at each part of the value chain.
    - Cost (target price - margin = target cost) and efficiency
    - Quality
    - Time (new product development time and customer response time
    - Innovation.

Planning and control systems

- Planning selects goals, predicts results, decides how to attain goals and communicates this to the organisation
    - Budget: the most important planning tool
- Control takes actions that implement the planning decision, decides how to evaluate performance and provides feedback to the organisation.

Five step decision making process in planning and control

- 1. Identify the problem
- 2. Collect relevant information
- 3. Determine possible courses of action and consider the consequences of each
- 4. Evaluate each possible course of action and select the best one.
- Implement the decision, evaluate performance, learn

Management accounting guidelines

- Cost-benefit approach is commonly used: benefits generally must exceed costs as a basic decision rule
- Behavioural and technical consideration: people are involved in the decisions, not just dollars and cents
- Different definitions of cost may be used for different applications

Professional ethics

- The fundamental principles of ethical conduct for professional accountants as advanced by the Chartered Institute of Management Accountants:
    - Integrity
    - Objectivity
    - Professional competence and due care
    - Confidentiality
    - Professional behaviour

Readings Chapter 1: Management Accounting

- To provide useful information to management, the management accountant must be aware of the company's relationship with its environment, the dynamics of this relationship, potential strategies, appropriate technologies, relative complexity, location and the like.
- Management accounting measures, analyses and reports financial and non-financial information that helps managers make decisions to fulfil the goals of an organisation.
    - Managers use management accounting information to choose, communicate and implement strategy, as well as coordinate product design, production and marketing decisions, and to evaluate performance.
    - The key questions are always:
        - How will this information help managers do their jobs better?
        - Do the benefits of producing this information exceed the costs?
- Financial accounting focuses on reporting to external parties, such as investors, government agencies, banks and suppliers.
- Cost accounting measures, analyses and reports financial and non-financial information relating to the costs of acquiring or using resources in an organisation.
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	Management Accounting	**Financial Accounting**
Purpose of information	Help managers make decisions to achieve an organisation's goals	Communicate organisation's financial position to investors, banks, regulators and other outside parties
Primary users	Managers of the organisation	External users, such as investors, banks, regulators and suppliers
Focus and emphasis	Future oriented (budget for next year)	Past-oriented (reports on performance for financial year)
Rules of measurement and reporting	Internal measures and reports are based on cost-benefit analysis; they do not have to follow GAAP	Financial statements must be prepared in accordance with GAAP and be certified by external, independent auditors
Time span and type of reports	Varies from hourly information to 15-20 years, with financial and non-financial reports on products, departments, territories and strategies	Annual and quarterly financial reports, primarily on the company as a whole
Behavioural implications	Designed to influence the behaviour of managers and other employees	Primarily reports economic events but also influences behaviour because managers' compensation is

		often based on reported financial results.

- Cost management decisions include decisions such as the amounts and kinds of materials used, changes in plant processes and changes in product designs
    - Information from accounting systems helps managers to manage activities (costs) but the information and the accounting systems themselves are not cost management.
    - Examples of cost management include programs that enhance customer satisfaction and quality, as well as research and development, and marketing programs.

Sustainability

- Concern for sustainability requires that we now consider externalities, such as the pollution of air and water, in addition to cost/benefit analysis when making decisions such as establishing a new plant.

Strategic Decisions

- Strategy relates to how an organisation matches its capabilities with the opportunities in the marketplace to accomplish its objectives.
    - How an organisation chooses to compete and the opportunities its managers should seek and pursue.
- Management accounts work closely with managers in formulating strategy by providing information about the sources of competitive advantage:
    - The cost, productivity or efficiency advantage of their company relative to that of competitors or the premium prices a company can charge relative to the costs of adding features that make its products or services distinctive.
- Strategic cost management describes cost management that specifically focuses on strategic issues.

Value Chain and Supply Chain Analysis

- Value chain analysis
    - The value chain is the sequence of business functions in which customer usefulness is added to products or services.
    - Research and Development:
        - Generating and experimenting with ideas related to new products, services or processes.
    - Design of products, services or processes:
        - Detailed planning and engineering of products, services or processes.
    - Production:
        - Acquiring, coordinating and assembling resources to produce a product or deliver a service
    - Marketing:
        - Promoting and selling products or services to customers or prospective customers.
    - Distribution:
        - Delivering products or services to customers

- Customer service:
        - Providing after-sales support to customers.
    - Customer relationship management (CRM): a strategy that integrates people and technology in all business functions to enhance relationships with customers, partners and distributors.
- Supply chain analysis
    - the flow of goods, services and information from the initial sources of materials and services to the delivery of products o consumers, regardless of whether those activities occur in the same organisation or in other organisations.
    - Cost and efficiency: companies face continuous pressure to reduce the cost of the products or services they sell.
    - Quality: customers expect high levels of quality.
        - Total quality management (TQM): where management improves operations throughout the value chain to deliver products and services that exceed customer expectations.
        - Encompasses designing the product or service to meet the needs and wants of customers, as well as making products with zero or minimal defects and waste and with low inventories.
    - Time: New product development time - the time it takes for new products to be created and brought to market.
        - Customer response time describes the speed at which an organisation responds to customer requests.
        - Delays or bottlenecks occur when the work to be performed exceeds the available capacity.
    - Innovation: a constant flow of innovative products or services is the basis for ongoing company success.
- Tracking the performance of competitors on the same factors serves as a benchmark and alerts managers to the changes their own customers are observing and evaluating.

Decision Making

- 1. Identify the Problem:
    - Increasing revenue? Increase selling price.
    - Effect on demand due to the increase in price unknown.
    - Any increase in price may lead to a decrease in demand, which could offset the higher price and lead to lower overall revenues.
- 2. Collect Relevant Information:
    - Helps gain a better understanding or resolve uncertainties.
- 3. Determine possible courses of action and consider the consequences of each:
    - Evaluation of biases is important when making judgment.
- 4. Evaluate each possible course of action and select the best one:
    - Steps 1 - 4 are referred to as the planning stages.
        - Planning comprises selecting organisation goals, predicting results under various alternative ways of achieving those goals, deciding how to attain the desired goals, and communicating the goals and how to attain them to the entire organisation.
    - The most important planning tool is a budget.
        - A budget is the quantitative expression of a proposed plan of action by

management and is an aid to coordinating what needs to be done to implement that plan.

- 5. Implement the decision, evaluate performance and learn:
    - Report actual performance, compare it to budgeted performance and note variance.
    - Performance measures tell managers how well they and their subunits are doing.
        - Linking rewards to performance helps motivate managers.
    - Learning is examining past performance and systematically exploring alternative ways to make better informed decisions and plans in the future.
    - Control comprises taking actions that implement the planning decisions, deciding how to evaluate performance, and providing feedback and learning to help future decision making
    - The comparison of actual performance to budgeted performance is the control role of information.

Key Management Accounting Guidelines

- Cost benefit approach:
    - Resources should be used if the expected benefits to the company exceed the expected costs.
- Behavioural and technical considerations:
    - Technical considerations help managers make wise economic decisions by providing them with the desired information (costs in various value chain categories) in an appropriate format (actual results versus budgeted amounts) and at the preferred frequency (weekly vs monthly).
    - Behavioural considerations: focus on how to help individuals do their jobs better by helping them to understand the activities that add value and those that do not.
- Difference costs for different purposes:
    - Different costs serve different purposes - a cost concept used for external accounting reports may not be appropriate for internal, routine reporting to managers.

Management Accountants in Organisations

- Line and staff relationships:
    - Line management, such as productions, marketing and distribution management, is directly responsible for attaining the goals of the organisation.
        - EG. Managers of manufacturing divisions may target particular levels of budgeted operating profit, certain levels of product quality and safety, and compliance with environmental laws.
    - Staff management, such as management accountants and information technology and human resources management, exists to provide advice and assistance to line management.
    - A plant manager (line) may be responsible for investing in new equipment.
    - A management accountant (staff) works as a business partner of the plan manager by preparing detailed operating cost comparisons of alternative pieces of equipment.
- The CFO and the management accountant:
    - Responsible for the financial operations of an organisation.

    - Financial reporting, management reporting, treasury, risk management, taxation, investor relations, internal audit.

Professional Ethics

- Accounting Professional and Ethical Standards Board (APESB) is an independent body that produces the code of ethics and professional standards.
    - Mandatory for all members to comply with this code and they should also be guided by the spirit of the code.