ACCG301 NOTES

Lecture 1 – An Overview of Management Accounting

The purpose of management accounting is to ensure effective and efficient use of organisational resources to enhance value (both customer and shareholder value).

The information provided to managers on a regular basis includes:

- Estimates of COGs
- Information for planning and controlling operations
- Information for measuring performance
- Ad-hoc information to satisfy short and long-term decision making needs.

Value

- Customer value – Measured by customer surveys. (Quality over price)
- Shareholder value – Measured by share price.
- Resources – Includes financial and non-financial. A measure of an organisation's capabilities.

Management vs Financial

	Management accounting	Financial accounting
Users of information	■ Internal: managers and employees at all levels	■ External: shareholders, creditors, banks, securities exchange, trade unions and government agencies
Regulations	■ No accounting standards or external rules are imposed. Information is generated to satisfy managers' information needs	■ Accounting standards and corporations law regulate the content of external financial reports
Source of data	■ Both financial and non-financial data drawn from many sources—the core accounting system; physical and operational data from production systems; and market, customer and economic data from sources external to the organisation	■ Financial data almost exclusively drawn from the organisation's core transaction-based accounting system
Nature of the information	■ Past, current and future-oriented; subjective; relevant; timely; and supplied at various levels of detail to suit managers' specific needs	■ Past; reliable; verifiable; not timely; not always relevant; and highly aggregated

Management Accounting and Strategy

Management accountants aid in the fulfilment of an organisation's objective/mission which tend to be specific to the organisation, often quantified and relates to a specific period of time. This is done by aiding in strategies involving cost and pricing.

Decisions in formulating strategies

- Corporate decisions – What business will we operate? – Deals with entire organisation including constituent business units

- Business strategy – How should we compete in that business? – Deals with a particular business unit
- Strategy implementation – What systems/structures should we have to support our strategies?

Strategies and competitive advantage

- Cost leadership
- Product differentiation

Strategy implementations

When implementing a new strategy, managers must also consider reforming the business in terms of:

- New structures
- New systems
- New production processes
- New marketing approaches
- HR management (retraining old or hiring new staff)

Planning and control

Planning and Control are the two major processes used by management accountants.

Planning involves:

1. Setting goals
2. Formulating steps to achieve goal
3. Predicting results

Control involves measuring results to ensure processes are going according to plan. It involves comparing the **budgeted results** and **actual results**.

Differences between budgeted and actual results

There is often a gap between budgeted and actual results.

This may be caused by environmental factors including political, environment, economic, competition, internal, etc.

Examples include:

- Change in customer wants
- Incorrectly defining customer wants
- New legislation
- Natural disasters
- New competitors
- Changes in technology
- Change in cost of raw materials
- Wasting resources
- Labour strikes
- Low quality training