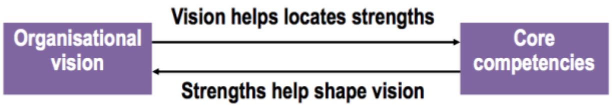
MANAGEMENT ACCOUNTING

Introduction to Management Accounting

Overview of Management Decision Making

Organisational vision: core purpose and ideology which guides an entity's overall direction and approach to stakeholders.

Organisation core competencies: entity's strengths relative to competitors.



Organisational strategies: tactics managers use to work toward the organisational vision while taking advantage of the core competencies. It is long term and includes organisation structure, financial structure and long term resource allocation strategies.

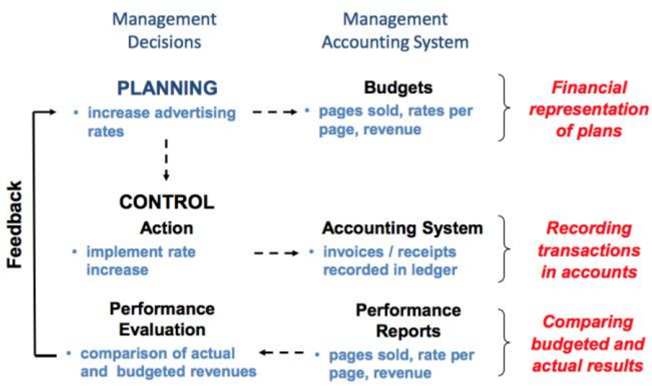
- Strategy specifies how an organisation matches its capabilities with market opportunities.
- Management accountants provide information to management such as who their customers and suppliers are, sensitivity of the market to price and quality and service, an industry characteristics like size and growth.

Operating plans: involve short term implementation of organisational strategies and include specific performance objectives such as budgeted revenues and costs.

Actual operations: actions taken and the results achieved over a period of time. Data is collected and measured by information systems.

All the points above = measure, monitor and motivate performance → 'what you don't measure, you don't manage.'

Managers use results of operations to monitor performance and ensure it is in line with the organisational vision. Results of operations make managers rethink the vision or core competencies.



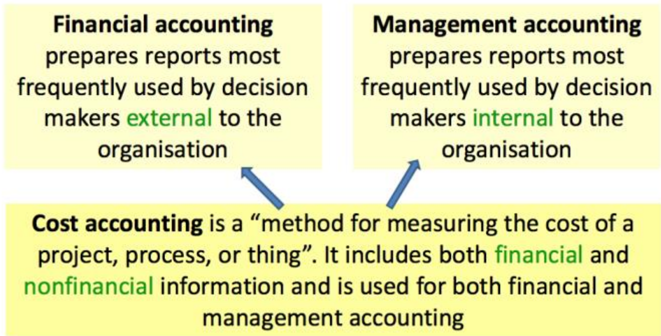
Cost and Management Accounting for decision making

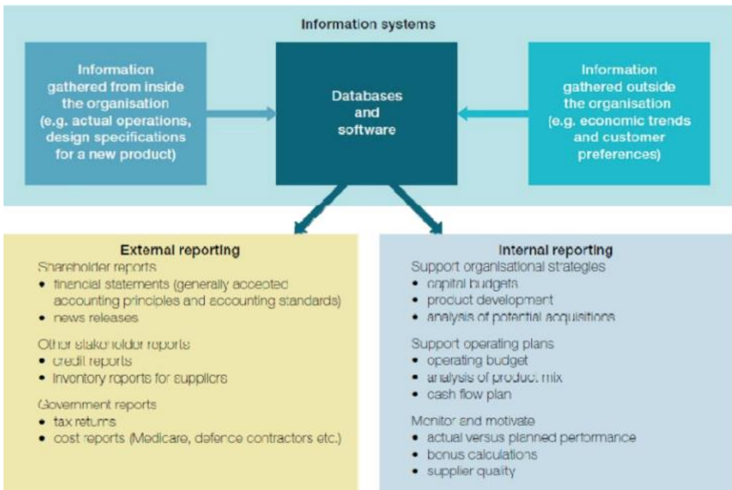
Management accountants must be ready to report information to the manager at any time.

Cost accounting information is used for both management and financial accounting activities. The Institute of Management Accountants defines cost account as a technique or method for determining the cost of a project, process or thing. It is often regarded as the precursor to the term 'management accounting.'

To facilitate internal decision making and meet external reporting requirements, accounting departments within organisations use software to generate internal and external reports that highlight or summarise information.

Elements





Development of cash and management accounting

- 1800s: cost accounting practices existed.
- 1900s – mid 1970s: cost account practices changed little.
- More global environment: the term management accounting began to be used for a range of activities undertaken.
- Today: cost and accounting information used for decision making, measuring and monitoring performance (control) and goal alignment.

Relevant information for decision making

- Managers use many types of information to help them make decisions. It can be gathered formally, such as through point of service character readers that track inventory levels, geographic distribution of sales, trends and the relationship between price and sale, or informally such as collecting information from inside or outside the organisation through journals, websites, etc.
- Most organisations have databases to collected information. There is also some valuable information not readily accessible because it is in the minds of employees – intellectual capital.
- Relevant information helps decision makers evaluate and choose among alternative courses of action, outlines concerns for the future and varies with the action taken.