

Topic 1: Introduction

Management Accounting: the process and techniques that focus on the effective and efficient use of organisational resources to support managers in their tasks of enhancing both customer value and shareholder value.

	Management accounting	Financial accounting
Users of information	<ul style="list-style-type: none"> Internal: managers and employees at all levels 	<ul style="list-style-type: none"> External: shareholders, creditors, banks, securities exchange, trade unions and government agencies
Regulations	<ul style="list-style-type: none"> No accounting standards or external rules are imposed. Information is generated to satisfy managers' information needs 	<ul style="list-style-type: none"> Accounting standards and corporations law regulate the content of external financial reports
Source of data	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Financial data almost exclusively drawn from the organisation's core transaction-based accounting system
Nature of the information	<ul style="list-style-type: none"> Past, current and future-oriented; subjective; relevant; timely; and supplied at various levels of detail to suit managers' specific needs 	<ul style="list-style-type: none"> Past; reliable; verifiable; not timely; not always relevant; and highly aggregated

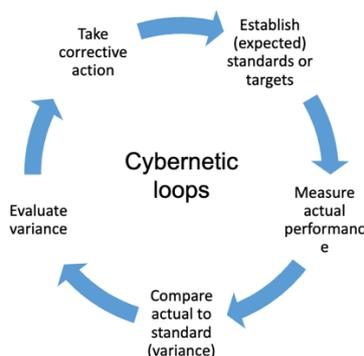
Topic 2: Fundamentals of Performance Measurement

Performance:

- Shaped by what we define as the organisational unit
- Portfolio:** group diversification into a range of unrelated products
- Leverage:** group of business units that operate in different but related industries

Business level strategies:

- Cost leadership:** supplying an equivalent product or service at a lower cost
- Differentiation:** differing products so that customers are willing to pay a price premium that exceeds the cost of creating the differentiation
- Can have a hybrid of cost leadership and differentiation



Design principles of performance measurement:

- Validity:** the extent to which a measure captures what is intended to capture
- Reliability:** the extent of accuracy, objectivity and precision of the measurement
- Clarity:** the extent to which the measure (and measured output) is easy to understand, without vagueness in interpretation
- Cost efficiency:** the cost of collecting and measuring performance information does not outweigh the information benefits
- Timeliness:** the extent to which information arrives in time for analysis and action to be taken
- Access:** the extent to which the measurer has the right to access the required performance information

7. **Controllability:** the extent to which you can improve or reduce the value of the measured output through action
8. **Cannot be gamed:** gaming is when a measure alters the behavioural patterns of employees but does not help achieve the intended objective
9. **Cannot be manipulated:** manipulation is when managers or employees influence a measure so that it no longer reflects what was originally intended

The five traps of performance measurement

1. Measuring against yourself – use external benchmarks instead
2. Looking backward – focus on leading measures instead
3. Putting your faith in numbers – be cautious about applying financial metrics to non-financial activities
4. Gaming your metrics – diversify metrics, loosen the link between meeting metrics and performance/incentives instead
5. Sticking to your numbers too long – be precise about what you want to assess, evolve your metrics with time instead

The strategy clock



- **Purpose:** a market-focused model for analysing competitive strategies, extending beyond Porter's cost leadership vs. differentiation
- **Focus:** looks at customer prices and perceived product/service benefits rather than organisational costs
- **Design:** circular model with continuous strategy options – not distinct categories
- Main strategy zones:
 1. **Low price zone** – competes through low cost
 - a. *Standard low price:* low prices, comparable value
 - b. *No frills:* low prices and low benefits
 2. **Differentiation zone** – focus on high perceived benefits
 - a. *Without price premium:* high value, moderate price
 - b. *With price premium:* high benefits, higher price
 - c. *Focused differentiation:* niche market with high price and loyalty
 3. **Hybrid zone** – mix of low cost and differentiation
 - a. Offers high benefits at relatively low prices
 - b. *Risk:* being stuck in the middle if not executed well
 4. **Non-competitive zone** – low benefits, high prices -> unsustainable/failure

Topic 3: Financial and Non-financial Performance Measurement

- **Decentralisation:** the process of delegating authority to frontline decision makers
- **Responsibility accounting:** assigning authority and responsibility to managers of sub-units, and then measuring and evaluating their performance
 - Each sub-unit of an organisation is designed as a responsibility centre
 - Types of responsibility centres:

Factors	Cost Centre	Revenue Centre	Profit Centre	Investment Centre
Controlled by centre management	Costs	Revenues	Costs, revenues	Cost, revenues and significant control over investment
Not controlled by centre management	Revenue, investment in inventory, and fixed assets	Costs, investment in inventory, and fixed assets	Investment in inventory and fixed assets	
Measured by the accounting system	Costs relative to a budget	Revenue relative to a budget	Profit relative to a budget	Return on investment relative to a budget
Not measured by the accounting system	Performance on critical success factors other than cost	Performance on critical success factors other than revenue	Performance on critical success factors other than profit	Performance on critical success factors other than return on investment

Controllability principle:

- Should only hold employees accountable for what they can control
- Uncontrollable factors distort performance measures and evaluations
 - Managers may still be put in charge of them as it encourages overall responsibility, promotes goal congruence, reflects realistic performance measurement, motivates proactive management, and supports long-term thinking.

Problems with measuring financial performance

- **Too narrow:** only measures one aspect creating an incomplete view of value and management
- **Backwards looking:** focuses on past results, gives limited future insight, weak long-term link
- **Not timely:** available post-period; no input/activity data; lacks early warnings
- **Too aggregated:** includes uncontrollable factors; violates controllability; relies on approximations
- **Too financial:** not intuitive or relevant to daily operations
- **Encourages gaming/manipulation:** misleads about health; promotes short-term focus
- **Myopia:** managers avoid long-term investments or shift profits across periods
 - *Fix:* reduce short-term pressure, extend time horizon, measure non-financial drivers

Why measure non-financial performance

- Captures broader performance dimensions
- More timely, actionable, and relatable (especially operationally)
- Tailored to industry/organisation