

ACC2131: Cost information for decision making

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Chapter 1 - Management accounting: Information for creating value and managing resources

What is management accounting?

Management accounting

The process/techniques that focus on the effective/efficient use of organisational resources to support managers to enhance customer/shareholder value.

- Trade-off between acting upon \uparrow *customer* or *shareholder* value
 - \uparrow one may be detrimental to other (shareholder is priority)
- Decisions:
 - Products to produce, \$\$\$, equipment
- Effectiveness - successful achievement of an objective
- Efficiency - least possible consumption of resources (info, employees, etc)

Customer value

The value that a customer places on particular features of a product

Shareholder value

The value that shareholders/owners place on a business

- \uparrow profits, capital, share price, dividends

Management accounting system (info)

An info system that produces the info required by managers to create value/manage resources

- Provided on a regular basis, inc:
 - Estimate cost of producing G&S
 - info for planning/controlling operations
- Long/short-term goals
- Differences:

| | |
|--|---|
| <ul style="list-style-type: none"> ○ Managers needs/resources vary \therefore mgmt. acc system varies ○ Production/service technologies | <ul style="list-style-type: none"> ○ Organisational structure/size ○ External environment ○ Computer systems |
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Management VS. Financial accounting info

| | Management accounting | Financial accounting |
|-----------------------|---|--|
| Users of info | <u>Internal</u> : managers/employees at all levels | External: shareholders, creditors, banks |
| Regulations | No acc. Standards/external rules imposed. Info. satisfies manager's info needs | Acc. Standards/corporations law regulate the content of external financial reports |
| Source of data | Both non/financial data: <ul style="list-style-type: none"> ○ Core accounting system ○ Physical/operational ○ Market/customer/economic ○ Manufacturing/sales data | Financial data from organisation's core transaction-based system |
| Nature of info | <ul style="list-style-type: none"> ○ Past/current/future | <ul style="list-style-type: none"> ○ Past |

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|--|---|---|
| | <ul style="list-style-type: none"> ○ Subjective ○ Relevant ○ Timely ○ Various level of detail | <ul style="list-style-type: none"> ○ Reliable ○ Verifiable ○ Not timely ○ Not always relevant ○ ↑ aggregated |
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Financial accounting

The practice of preparing and reporting accounting info for parties outside the organisation

Cost accounting system

Estimates cost of G&S as well as organisational units

Management accountants within organisations

Different roles:

- Financial controller (responsible for financial/management activities, advises managers)
- Finance manager
- Financial analyst
- Business analyst
- General manager of accounting
- Group accountant

Management accounting processes and techniques

- Supports the organisation's formulation/implementation of strategy
- Contributes to improving the organisation's competitive advantage through modern process improvement and cost management techniques:
 - Quality
 - Delivery
 - Time
 - Flexibility
 - Innovation
 - cost
- info to help manage resources
 - Systems for planning (budgets)
 - Control (performance measures)
- Estimates of costs of output, supporting strategic/operational decision needs of managers

Management accounting and strategy

Strategy (strategic planning)

The direction that the organisation intends to take over the long-term, to meet its mission and achieve its objectives

- Competitive advantage - over another business (hard to imitate)
- Product differentiation - offer G&S's of different characteristics to competitors

Implementing strategies

- All managers share responsibility for implementation
- Long-term plans need to be linked to budgeting systems
- Actual vs. predicted and other targets using performance measurement systems

Planning

- Formulating the direction for future operations
- budget - detailed plan summarising financial consequences of operating activities