

Management Accounting

Information for Creating and Managing Value



8th Edition



Langfield-Smith ■ Smith ■ Andon ■ Hilton ■ Thorne

MANAGEMENT ACCOUNTING

MANAGEMENT ACCOUNTING 8E

Information for Creating and Managing Value

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Preface

Management accounting is a dynamic, constantly changing area. It must remain relevant to organisational needs in today's business world of global markets, irrepressible innovation and digital disruption. To understand the nature of management accounting practice, it is important to understand broader aspects of business practice across a range of areas, including strategy, marketing, human resource management, operations management and organisational behaviour. Management accounting both draws on and contributes to these areas.

Our approach in presenting this subject to students and managers is to focus on cutting-edge management accounting as practised by leading organisations in Australia and overseas, while at the same time acknowledging that some firms are satisfied with more traditional approaches. A key way in which we do this is through the inclusion of 'Real life' examples, where we provide practical illustrations of how organisations employ the techniques described in the text. Many of the 'Real life' sections included in the eighth edition are new and reflect the latest in business practice.

Since the first edition of this book appeared in the early 1990s, there have been dramatic changes in thinking about the role of management accounting in organisations. Once it was sufficient to describe management accounting as being concerned with providing information for planning and control, and for decision making. However, the role of management accounting is now more complex. It is now concerned with the processes and technologies that enable the effective use of organisational resources to support managers in enhancing customer and shareholder value. Supply chain management approaches provide a framework for integrating contemporary cost management and performance measurement. The issue of sustainability is now increasingly important as businesses seek to understand and manage any adverse impact they have on the environment and society.

The processes and technologies of management accounting that enhance shareholder and customer value are evolving over time and require an intimate knowledge of the nature of the business, its markets, its strategy and its people. Someone working in the management accounting area in 2018 needs to not only understand the internal characteristics of a business, but also have a detailed knowledge of competitors, customers and suppliers. Over the decades the practice of management accounting has developed to become more integrated with the process of management, and less a part of the practice of accounting, with management accountants playing a significant role as part of the management team. As such, management accountants have the ability to significantly shape an organisation's strategic direction.

The book has been written primarily as a text for one- or two-semester undergraduate management accounting courses. The references at the end of each chapter provide guidance on additional readings. With its description of current practice and strong emphasis on the new developments in management and management accounting, this book also provides a sound foundation for a management accounting unit within an MBA course.

While the origins of this text can be traced to the US text, *Managerial Accounting*, by Ronald Hilton, it has always differed from its US counterpart. The Australian book takes a broad perspective in viewing management accounting as the efficient and effective use of resources, supporting managers in the improvement of customer and shareholder value. The rapidly changing business environment is seen as having implications for the development of new approaches to management accounting, as highlighted through the many 'Real life' cases presented in the book, which focus on current management accounting practices and issues faced by organisations in Australia, New Zealand and the wider Asia–Pacific region.

We sincerely welcome any comments or suggestions from the lecturers and students who use this text.

Kim Langfield-Smith
David Smith
Paul Andon
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About the authors

Kim Langfield-Smith



Kim has a BEc from the University of Sydney, an MEc from Macquarie University and a PhD from Monash University. She is a fellow of both CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ), and a graduate of the Australian Institute of Company Directors. She is a principal at the Nous Group, a leading management consulting company, and an emeritus professor at Monash University. Her most recent university appointment was as Vice-Provost at Monash University where she is also Professor of Management Accounting. Her prior appointments were at La Trobe University, the Universities of Melbourne and Tasmania, and the University of Technology, Sydney. Before her academic career, Kim worked as an accountant in several commercial organisations.

Her research interests are in the area of management control systems, and her research has been published in many journals, including *Accounting, Organizations and Society*; *Journal of Management Accounting Research*; *Management Accounting Research*; *Behavioral Research in Accounting*; *Journal of Accounting Literature*; and *Journal of Management Studies*.

Kim has played an active role in the accounting profession. She was chair of the Professional Qualifications Advisory Committee of CPA Australia, and a former member of the International Accounting Education Standards Board (IAESB), representing the CA ANZ and CPA Australia.

David Smith



David has a BCom (Honours) from La Trobe University and a PhD from Monash University. He is a Professor of Management Accounting in the University of Queensland Business School. He previously held appointments at Monash University, the University of Melbourne and La Trobe University.

David's research is in the area of management control systems, with a particular focus on performance measurement, and his research has been published in journals including *Accounting, Organizations and Society*; *Management Accounting Research*; *Behavioral Research in Accounting*; *Journal of Accounting Literature*; and *Accounting, Auditing and Accountability Journal*. He currently serves as an editor at *Behavioral Research in Accounting*, as well as serving

on several editorial boards.

David has been actively involved in the accounting profession and served as a board member of the Accounting and Finance Association of Australia and New Zealand (AFAANZ) for a number of years. David is also a past Chair of the Chartered Institute of Management Accountants' (CIMA) Centre of Excellence Australasia Research Panel.

Paul Andon



Paul has a BCom (Honours), MCom (Honours) and PhD from UNSW Sydney. He is an Associate Professor in Accounting at UNSW Sydney and a Fellow of Chartered Accountants Australia and New Zealand. Paul teaches and researches in the areas of management accounting, fraud and control systems. His research in these areas has been published in leading international journals, including *Accounting, Organizations and Society*; *Journal of Management Studies*; *Management Accounting Research*; *Accounting, Auditing and Accountability Journal*; and *Critical Perspectives on Accounting*. Recently, Paul received a major Australian Government research grant to study offender strategies and other factors mitigating against the effectiveness of management controls to prevent/detect serious workplace fraud.

Before commencing his academic career, Paul worked in a large professional services firm. He remains active in the accounting profession through his involvement with McGrathNicol's Financial Crime Exchange, and by contributing to the Management Accounting and Applied Finance Module for Chartered Accountants Australia and New Zealand's CA Program.

Helen Thorne



Helen has a BEc and DipAcc from Flinders University, and a PhD from the University of Adelaide. She was Professor and Head of the International Graduate School of Business at the University of South Australia. Helen has also held appointments in the Graduate School of Management and the Commerce Department at the University of Adelaide.

Her research focused on contemporary approaches to management accounting, including activity-based costing and strategic performance measurement systems, and she has published in journals, including *Journal of Accounting Literature*; *Journal of Cost Management*; *Advances in Management Accounting*; and *Australian Accounting Review*.

Before commencing her academic career, Helen worked as a management accountant with a major international company. Since then she has maintained her interests in the 'real world'. She is a member of CPA Australia and has undertaken consulting work in management accounting for a number of organisations in the manufacturing and service industries.

About this edition

In response to requests from adopters, each chapter contains a number of changes. On average, more than 40 per cent of the end-of-chapter learning activities (review questions, exercises, problems and cases) are either completely new or include new data. Major changes to each chapter, including changes to the end-of-chapter material, are described in the table below.

NEW TO THIS EDITION	POINTS OF INTEREST
Chapter 1 Management accounting: information for creating value and managing resources	
<ul style="list-style-type: none"> • Revisions were made to modernise and condense some of the chapter materials. • One new 'Real life' example, covering competitive pressures in the airline industry, has been added. • Thirteen of the 41 end-of-chapter questions are new or include new data. 	<p>Management accounting is presented as supporting managers in their role of enhancing customer and shareholder value through the efficient and effective use of organisational resources. The link between strategy and management accounting lays a foundation for the strategic focus that permeates this book.</p>
Chapter 2 Management accounting: cost terms and concepts	
<ul style="list-style-type: none"> • Some small changes were made to condense the chapter materials. • One new 'Real life' example, on the importance of understanding costs, has been added. • Eighteen of the 42 end-of-chapter questions are new or include new data. 	<p>This chapter introduces students to the terminology of management accounting before covering concepts in more detail later in the book.</p>
Chapter 3 Cost behaviour, cost drivers and cost estimation	
<ul style="list-style-type: none"> • One new 'Real life' example, on cost drivers, has been added. • Fourteen of the 43 end-of-chapter questions are new or include new data. Several questions allow students to respond by constructing an Excel® spreadsheet. 	<p>This chapter maintains the current approach to explaining cost behaviour, cost drivers and cost estimation.</p>
Chapter 4 Product costing systems	
<ul style="list-style-type: none"> • One 'Real life' example has been updated. • Seventeen of the 44 end-of-chapter questions are new or include new data. 	<p>Chapter 4 explains traditional approaches to product costing, focusing primarily on job costing systems.</p>
Chapter 5 Process costing and operation costing	
<ul style="list-style-type: none"> • This classic chapter on alternative approaches to traditional costing approaches did not require any updates to the content for this edition. • Six of the 46 end-of-chapter questions are new or include new data. 	<p>Chapter 5 focuses on the traditional product costing approaches of process costing and operation costing.</p>
Chapter 6 Service costing	
<ul style="list-style-type: none"> • Updates were made to one of the 'Real life' examples. • Seventeen of the 45 end-of-chapter questions are new or include new data. 	<p>This chapter presents traditional and activity-based approaches to the costing of services, in a range of different service contexts.</p>

Chapter 7 A closer look at overhead costs

- Updates were made to one of the 'Real life' examples.
- Ten of the 46 end-of-chapter questions are new or include new data.

Chapter 7 helps students develop a deeper understanding of the processes for allocating overhead costs to products. It includes an introduction to activity-based approaches to estimating overhead costs.

Chapter 7 A closer look at overhead costs

- Updates were made to three of the 'Real life' examples.
- Twelve of the 49 end-of-chapter questions are new or include new data.

This chapter describes common problems with traditional product costing systems and outlines the steps used in activity-based costing.

Chapter 7 A closer look at overhead costs

- One new 'Real life' example on program budgeting has been added.
- Sixteen of the 42 end-of-chapter questions are new or include new data.

This chapter presents a step-by-step guide to the budgeting process and describes some of the behavioural issues associated with budgeting.

Chapter 10 Standard costs for control: direct material and direct labour

- Eighteen of the 46 end-of-chapter questions are new or include new data.

Chapter 10 describes traditional approaches to estimating and controlling product costs through standard costing, focusing on the material and labour components.

Chapter 11 Standard costs for control: flexible budgets and manufacturing overhead

- Sixteen of the 46 end-of-chapter questions are new or include new data.

This chapter explains flexible budgets and standard costing for overhead. It also outlines the criticisms and advantages of standard costing.

Chapter 7 A closer look at overhead costs

- One new 'Real life' example, on transfer pricing issues, has been added.
- Thirteen of the 45 end-of-chapter questions are new or include new data.

Modern and traditional approaches to measuring financial performance are integrated with responsibility accounting performance reports. Includes real-time reporting, the impact of shared services and team-based structures. Transfer pricing scenarios clearly illustrate issues of goal congruence and incentives.

Chapter 13 Financial performance measures and incentive schemes

- Two exhibits were added to help explain the theories of motivation outlined in the chapter.
- The 'Real life' examples on senior executive pay and employee share ownership were significantly revised.
- Thirteen of the 42 end-of-chapter questions are new or include new data.

This chapter presents internal financial reports and traditional financial measures, and an expanded section on value-based management. Up-to-date material on incentive systems is also included.

Chapter 14 Strategic performance measurement systems

- The 'Real life' example of managing performance at IAG was significantly revised.
- Fourteen of the 44 end-of-chapter questions are new or include new data.

This chapter focuses on the design of strategic performance measurement systems—financial and non-financial performance measures, the balanced scorecard and benchmarking.

Chapter 7 A closer look at overhead costs

- The material has been updated throughout the chapter.
- One new 'Real life' example has been added, focusing on the reliance of suppliers on major customers such as Apple.
- Seventeen of the 47 end-of-chapter questions are new or include new data.

Supply chain management is covered, with a focus on managing suppliers, inventory, customers and time. Activity-based approaches to the analysis of supplier and customer costs and performance indicators are outlined.

Chapter 7 A close look at overhead costs

- New material on *kaizen* costing has been added.
- One new 'Real life' example, discussing the adoption of target costing in Australia and New Zealand, has been added.
- Sixteen of the 50 end-of-chapter questions are new or include new data.

Cost management techniques include activity-based management, business process re-engineering, life cycle costing, target costing and managing throughput. Quality concepts and cost of quality reporting are explained.

Chapter 14 Strategic performance measurement systems

- The chapter has been updated to reflect changes in the GRI Standards.
- The corporate responsibility 'Real life' example has been updated. A new 'Real life', on the adoption of integrated reporting, has been added.
- Thirteen of the 41 end-of-chapter questions are new or include new data.

Chapter 17 explains sustainability reporting and the implications for management accounting systems and techniques, including cost analysis and management, performance measurement systems, and capital expenditure analysis.

Chapter 7 A closer look at overhead costs

- The 'Real life' on 'Linneys' has been updated.
- Twenty-three of the 46 end-of-chapter questions are new or include new data.

Cost volume profit analysis is presented as a tool to model the profit impact of changes in selling prices, costs and product mix, using formula-based and graphical approaches. Methods for incorporating activity-based concepts are also included.

Chapter 14 Strategic performance measurement systems

- One new 'Real life' example, on the pros and cons of outsourcing, has been added.
- Nineteen of the 46 end-of-chapter questions are new or include new data.

This chapter demonstrates how management accounting information can be used for a variety of tactical decisions: accept or reject a special order; add or delete a product, service or department; and sell a joint product or process it further.

Chapter 14 Strategic performance measurement systems

- One new 'Real life' example, on ticket pricing in the Australian Football League, has been included.
- Fourteen of the 44 end-of-chapter questions are new or include new data.

This chapter includes factors that influence pricing strategies, models of cost-based pricing, and the legal restrictions on pricing behaviours. Techniques for considering product mix decisions are also covered.

Chapter 14 Strategic performance measurement systems

- Nineteen of the 47 end-of-chapter questions are new or include new data.

This chapter presents techniques for analysing data for long-term investment decisions. The limitations of using traditional techniques to justify investments in advanced technologies are covered.

Text at a glance

'Real life' features

Theory is one thing—but what happens in reality? These short case studies provide examples of management and management accounting in action, largely within Australian and New Zealand organisations.

REALLIFE

HEALTH TEACHING, TRAINING AND RESEARCH: STUDYING THE COST DRIVERS

In 2011, the Commonwealth, state and territory governments of Australia committed to introducing an activity-based funding (ABF) model for public healthcare and associated services. To facilitate the national transition to ABF, the Independent Hospital Pricing Authority (IHPA) was established, and part of its brief is to provide the Commonwealth, state and territory governments (through the intergovernment Standing Council on Health) advice on the feasibility of incorporating teaching, training and research (TTR) activities of health facilities into the ABF model. Healthcare management



Chapter introduction

The chapter introduction is an overview of the material to be covered, including links to relevant topics in previous chapters.

3 Introduction

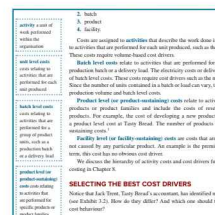
Managers in almost any organisation need to know how costs will be affected by changes in the organisation's activities. You will recall from Chapter 2 that understanding cost behaviour involves examining the relationship between a cost and the level of activity. Managers need to know what activities drive or cause the major costs within their business.

Knowledge about cost behaviours can help managers to manage resources more effectively. To plan operations and prepare budgets, managers at Jacob's Creek winery use their knowledge of cost behaviour and predictions about future activity levels. To control the costs of providing services to the community, local councils need to know the costs they would incur at various levels of activity, so that they can then compare actual costs to these planned costs. In addition, the councils can actively manage and reduce costs by managing the major cost drivers.

Information about cost behaviour can also help managers as they decide how to enhance customer value

Key terms/margin definitions

Key terms are bolded in the text where they first appear, defined in the margin and listed at the end of the chapter. Use the end-of-chapter Key terms checklist to test yourself when you finish the chapter. The definitions are also repeated in a full glossary at the end of the book.



Exhibits

These visual overviews of concepts, flow charts, handy checklists, examples of documents and worked examples add another dimension to the topics covered and help to reinforce learning.



Chapter summary

The chapter summary is presented in dot point form for easy reading and revision.

Summary

In this chapter we considered the relationship between cost behaviour, cost estimation and cost prediction, and described various approaches to identifying cost behaviour and estimating costs. Key points include:

- Cost behaviour refers to the relationship between a cost and the level of activity or cost driver. Cost estimation is the process of determining the cost behaviour of a particular cost item, and cost prediction uses a knowledge of a cost's behaviour to forecast the level of cost at a particular level of activity.
- The term **cost driver** is used to describe an activity or factor that causes a cost to be incurred. Traditional management accounting systems use various measures of production volume as cost drivers to analyse cost behaviour. These cost drivers are called volume-based cost drivers. More recent approaches recognise that some cost drivers are not directly related to production volume. These cost drivers are called non-volume-based cost drivers.
- Activity-based costing is a contemporary approach to costing that recognises a hierarchy of costs and cost drivers: unit, batch, product and facility levels. While unit level cost drivers measure production volume, the cost drivers for batch and product level costs are non-volume-based. There are no obvious cost drivers for facility level costs.
- Understanding a firm's cost behaviour can enable managers to anticipate changes in cost when the organisation's operations change. Cost predictions that are based on cost behaviour patterns facilitate planning and control, and this can help managers to manage resources more effectively and add value to their organisation. However, effective cost management requires an understanding of root cause cost drivers.

References

The end-of-chapter references list material quoted in the chapter and provide opportunities to undertake additional in-depth research on specific topics.

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Self-study problems and solutions

These problems provide the perfect opportunity to better understand and revise key topics and techniques covered in the chapter.

3

Self-study

SELF-STUDY PROBLEM 1: USING THE HIGH-LOW METHOD

The Elswood Library has incurred the following costs in its Loans Department over the past year:

Month	Number of loans	Cost
January	6 100	\$90 000
February	5 300	87 000
March	4 900	76 200
April	4 800	78 100
May	5 050	80 700
June	3 050	61 000
July	4 500	74 500
August	7 100	99 000
September	6 200	95 600

Revised end-of-chapter material

Every chapter contains a significant amount of new and updated end-of-chapter material.

Review questions

Short-answer questions test your knowledge of key words, terms and concepts presented in the chapter.

Review Questions

- 3.1 Define the following terms and explain the relationship between them: *cost estimation, cost behaviour* and *cost prediction*. **LO 3.1**
- 3.2 In explaining cost behaviour we refer to the *level of activity* as a cost driver. What do we mean by *level of activity* and why is it a cost driver? What role do cost drivers play in identifying cost behaviour patterns? **LO 3.2**
- 3.3 What types of cost drivers are used in traditional management accounting systems when costs are classified as fixed or variable? What types of cost drivers are used in more recent approaches, such as in activity-based costing? **LO 3.3**
- 3.4 The first 'Real Life' in 'Cost drivers' provides an example of how Australian governments are attempting to better understand drivers of health-related costs. Why are governments in Australia and elsewhere becoming more interested in this? **LO 3.3 REAL LIFE**
- 3.5 The second 'Real life' in 'Cost drivers' describes some of the steps that BP took to reduce costs. Describe four root cause cost drivers that a petroleum company like BP might identify to help them reduce costs. **LO 3.4 REALITY**

Exercises

These exercises provide an opportunity to apply some of the techniques and concepts relating to the chapter.

Exercises

E3.21 Cost drivers: service firm
Friendly Skies Travel is a travel agency that has branches in many major shopping centres. A typical branch employs five full-time staff: a manager and four customer service staff. Casual customer service staff are called in for periods of high demand and are normally employed for three-hour shifts. Customer service staff book flights for customers on most major airlines. These staff also assist in identifying accommodation and rental car options for customers.

LO3.2

Required:

1. Prepare a list of five major costs likely to be incurred by Friendly Skies Travel.
2. For each cost, suggest a possible cost driver that could be used to estimate cost functions and predict cost behaviour.
3. Having identified these cost drivers, describe the cost behaviour pattern that you would expect for each cost, giving your reasons.

Problems

Longer, more in-depth problems allow you to apply quantitative techniques as well as theoretical concepts to organisational situations.

Problems

P18.31 CVP calculations; multiple break-even points; CVP graph: manufacturer
Scholar Backpacks Pty Ltd has estimated that budgeted production and sales of its backpacks during the coming year will be 70 000 units at an average price of \$60 per unit. Variable manufacturing costs are estimated to be \$24 per unit, and variable marketing costs \$12 per unit sold. Fixed costs are expected to amount to \$1 080 000 for manufacturing and \$432 000 for marketing. There will be no beginning or ending work in process inventory or finished goods inventory. (Ignore income taxes.)

LO18.2
18.3
18.4
18.5

Required:

1. Calculate the company's budgeted break-even point in sales dollars for the coming year.
2. Calculate the number of sales units required to earn a net profit of \$1 080 000 during the coming year.
3. If the company's variable manufacturing costs are 20 per cent higher than budgeted, calculate the break-even point in sales dollars.
4. If the variable manufacturing costs are 20 per cent higher than budgeted, calculate the selling price that

Cases

Cases provide more comprehensive scenarios that require you to demonstrate your skills in applying both quantitative techniques and theoretical issues. The cases provide opportunities for higher-level analysis and may require you to integrate material from more than one chapter.

Cases

C3.41 (appendix) Cost estimation: hospital
'I don't understand this cost report at all', exclaimed John Carter, the newly appointed administrator of AngelCare General Hospital. 'Our administrative costs in the new paediatrics clinic are difficult to understand. One month the report shows \$16 600, and the next month it's \$32 200. What's going on?'

LO3.6
3.9
3.11

Carter's question was posed to Alice Baines, the hospital's accountant. 'The main problem is that the clinic has experienced some widely varying patient loads in its first year of operation', Baines replied. 'There seems

Appendix

COST STRUCTURE AND OPERATING LEVERAGE

The **cost structure** of an organisation is the relative proportion of its fixed and variable costs.⁵ Cost structures differ widely between industries and between firms within an industry. A company using a computer-integrated manufacturing system has a large investment in plant and equipment, which results in a cost structure dominated by fixed costs. In contrast, the cost structure of a retail store has a much higher proportion of variable costs (particularly salaries). The highly automated manufacturing firm is capital-intensive, whereas the retail store is labour-intensive.

An organisation's cost structure has a significant effect on the sensitivity of its profit to changes in volume. A convenient way to portray a firm's cost structure is shown in Exhibit 18.9, which describes the cost structures of three firms: A, B and C. Although these three firms have the same sales revenue (\$500 000) and net profit (\$50 000), they have very different cost structures. Company B's production process is heavily manual, and its cost structure is dominated by variable costs. It has

LO 18.11

cost structure the relative proportions of an organisation's fixed and variable costs

Appendices

To help you extend and build your knowledge, end-of-chapter appendices provide in-depth information on specific topics.

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We would like to thank a number of people who have helped us with the development of this textbook, including the hundreds of management accounting students we have taught over many years and the numerous managers and management accountants with whom we have interacted. Their enthusiasm, comments, questions and experience have assisted our understanding and appreciation of management accounting. We also thank our academic colleagues from around Australia and New Zealand who have provided feedback or reviewed parts of the manuscript. They include the following:

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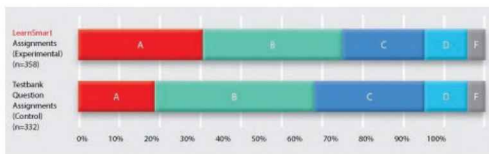


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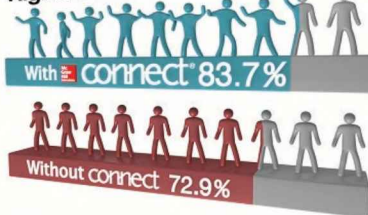


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Part 1

Introduction to management accounting

CHAPTER 1 Management accounting: information for creating value and managing resources

CHAPTER 2 Management accounting: cost terms and concepts

The first part of this book introduces management accounting, its purpose and basic concepts.

In Chapter 1, management accounting is defined as processes and techniques that are focused on the effective and efficient use of organisational resources to support managers in their task of enhancing both customer value and shareholder value. We outline the recent changes in the business environment that have influenced the development of management practices and management accounting systems, and management accounting is distinguished from financial accounting.

The processes and techniques of management accounting that are used to enhance value include systems to support the formulation and implementation of strategy; process improvement and cost management techniques to help develop and manage a firm's competitive advantage; planning and control systems to help managers manage resources; and estimates of the cost of products (goods or services) to support strategic and operational decisions.

In this first chapter we also consider factors that influence the design of a management accounting system, including an awareness of the behavioural implications of management accounting information, and the costs and benefits of designing, producing and using management accounting information. We also recognise that the design of management accounting systems can be influenced by a wide range of factors such as the organisation's competitive environment, strategies, size, and organisational culture, as well as by institutional forces that encourage the adoption of management accounting practices that are used by other organisations.

Chapter 2 introduces some of the basic concepts and terminology used in management accounting. Management accounting systems often include costing, budgeting and performance measurement systems. Modern management accounting systems may also include cost management systems, which focus on the identification and elimination of wasteful activities.

Much of this chapter focuses on the different ways in which costs can be classified and reported to managers. These classifications include variable and fixed costs, direct and indirect costs, and controllable and uncontrollable costs. We use the concept of the value chain to explore the various cost classifications, paying particular attention to the classification of manufacturing costs as direct material, direct labour and manufacturing overhead costs. The key message in this chapter is that costs can be classified in different ways to meet the different information needs of managers.

GRADUATE SPOTLIGHT



NAME: LUKE TREGURTHA

Degree studied: Master of Financial Analysis

University: The University of New South Wales

Current position: Business Development Manager and Small Business Owner

Employer: McPherson's Consumer Products (ASX:MCP) and Marina Diving

What interested you about working in management accounting?

Being able to produce strong outcomes for a company. My view of management accounting is that this is done either through actionable reporting or via recommendations, based on the analysis of the business' activities.

What did you learn in your degree that has been most useful in your career?

The combination of skills (margin analysis, ABC modelling, etc.) that helps to forecast the outcome of decisions regarding company strategy and investment opportunities. When exploring whether opening up Marina Diving's services to opportunities at a new marina would be profitable, it was crucial to be able to quantify the expected resources required to establish a presence, the break-even level of sales and the expected impact on cash flow.

What have you been up to since graduation?

I was hired as the Business Development Manager for McPherson's, a FMCG company. I am working on brand acquisitions and strategic partnerships with opportunities ranging from manuka honey to organic natural skincare. I have an equity partner in Marina Diving who is in charge of the day-to-day operations of the company. As such, I have time to focus on new opportunities, building client relationships and making sure that the business is resourced well for growth.

What do you enjoy most about your job?

At McPherson's, I enjoy the exposure to so many exciting opportunities and being able to run the analysis as to whether they will fit our business model and produce solid results. At Marina Diving, I am currently looking at ways to leverage the success we had from our first year of operation, which is an exciting time for a new business.

What advice would you give students who want to work in management accounting?

When you are learning the content, always think about how this could relate to an industry you are interested in, a business you have involvement with, or a project you are thinking about starting or are already working on.

What are your thoughts on the future of the management accounting industry?

Given the rapid development of business intelligence systems that can produce incredible amounts of data and analysis in short periods of time, being able to ask the right questions will become increasingly important, rather than being able to gather the data and produce the analysis.

Chapter 1

Management accounting: information for creating value and managing resources



Learning objectives

LO

- 1.1 Describe changes that have taken place in the business environment in recent years.
- 1.2 Define *management accounting* in terms of value creation.
- 1.3 Describe the major differences between management accounting and financial accounting information.
- 1.4 Explain where management accountants are located in organisations.
- 1.5 Describe the major processes that management accounting systems use to create value and manage resources.
- 1.6 Explain the basic concepts of strategy and how management accounting systems can support strategies.
- 1.7 Explain how planning and control mechanisms can be used to support resource management.
- 1.8 Explain how costing systems can provide information to support a range of operational and strategic decisions.
- 1.9 Describe the factors that may influence the design of management accounting systems, including behavioural issues, cost–benefit trade-offs and the implications of contingency and institutional theories.
- 1.10 Identify the organisational responses and management accounting responses to changes in the business environment.
- 1.11 After studying the appendix, describe how the focus of management accounting has evolved.
- 1.12 After studying the appendix, discuss the professional qualifications that are relevant to becoming an accountant, and the ethical standards to which accountants must adhere.

Introduction

We all deal with many different types of organisations as part of our daily lives. Manufacturers, retailers, service providers, not-for-profit organisations¹ and government enterprises provide us with a vast array of goods and services. These organisations seem very different, but they have three things in common. First, every organisation should have a stated purpose and objectives. For example, a police department may state that its purpose is to make the community a safer place in which to live. The specific objectives of an organisation flow from its purpose. In the case of the police department, the objectives may be to reduce the crime rate by 50 per cent and decrease the number of road fatalities by 30 per cent within the next five years. The objectives of organisations generally focus on adding value from the perspective of major stakeholders—in particular, owners and customers.

Second, in pursuing objectives managers need to make many decisions, and for this they need information. The information needs of managers extend across financial, production, marketing, legal and environmental areas. Generally, the larger the organisation, the more complex are its operations, and the greater is management's need for information. In the police department, senior officers will need information to assess progress towards objectives. Relevant information could include crime statistics for each quarter of the year, explanations why crime rates may be meeting or exceeding targets, and details of the strategies put into place to reduce crime.

Last, to help achieve the organisation's objectives, managers need to manage their resources effectively and efficiently. Resource management can involve using resources more effectively (i.e. achieving better outcomes) and using resources more efficiently (i.e. using fewer resources to achieve an objective). In the police department, management will need to know the cost of new crime-reduction programs that have been put in place.

Management accounting information helps to satisfy the information needs of managers in setting worthwhile objectives, managing resources efficiently and effectively, and adding value for customers, owners and other key stakeholder groups. Major challenges presented by twenty-first century business environment trends mean that managers rely on management accounting information expertise more than ever for crucial business intelligence as they seek to evolve, adapt and compete in response to rapidly evolving market conditions.

AUSTRALIAN ORGANISATIONS IN THE TWENTY-FIRST CENTURY



LO 1.1

Businesses across Australia and the Asia-Pacific are competing in a rapidly changing and unpredictable business environment characterised by a number of broad trends. Ongoing trade liberalisation through continued negotiation of free trade agreements, and harmonisation of standards and regulations, are reducing trade barriers and increasing competitive pressures around the world. With many tariffs, quotas and subsidies reduced or eliminated, businesses are exposed to a global marketplace, and

1. In New Zealand, not-for-profit organisations (NFPs) are known as public benefit organisations, reflecting the fact that they are generally organised for socially beneficial purposes.