

# Integration and Disintegration of Management Accounting

The ICPAK Management Accounting  
Seminar

# Course Outline

- What is Management Accounting? Do we need it?
- The state of Management Accounting- Has it Disintegrated?
- Integration of Management Accounting Into Business Management
- Management Accounting Value Chain



# Management Fads

Quality circles (for total quality management, or TQM)	Core competency
One minute manager	Intrapreneuring
Business process reengineering (BPR)	Search for excellence
Management by objectives (MBOs)	Best practices
Six Sigma	Management by walking around (M
Matrix management	

# Management Fads

- Many organizations jump from one improvement program to another, hoping that each new one will provide that big competitive edge, only to discover with hindsight that it was just a *method du jour*.
- Most managers would acknowledge that pulling one lever for improvement rarely results in a substantial change—particularly a long-term sustained change.
- Will the management accounting trends that we describe here take root or be just another fad or fashion?

# What is Management Accounting?

Management accounting is a profession that involves partnering in management decision making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization's strategy.



# What is Management Accounting?

- Contrary to beliefs that the only purpose of management accounting is to collect, transform, and report data, its primary purpose is first and foremost to influence behavior at all levels, from the desk of the CEO down to each employee. It should support decisions.
- A secondary purpose is to stimulate investigation and discovery by signaling relevant information (and, consequently, bringing focus) and by generating questions.

# Difference Between FA&MA

Managerial Accounting	Financial Accounting
Internal Focused-Management	External Focused- Shareholders, Govt etc
Not required by law	Required by Law
Specific Standards not required	Compliance with specific standards required
Focused on specific area of interest, a product, a department etc	Covers entire organisation
Reports Generated for any period of time- Daily, weekly etc	Periods are specific e.g Quarterly, Half Yearly, Annual
Reports are future looking with forecasting value	Reports mainly a record of the past- Historically factual with predictive value for investors

# Idea in Practice

- When was the last time you were involved in preparation of Management Accounts?
- In Groups of Two or Three, Write down examples of Management Accounts prepared by or for your department.



# The Eras of Management Accounting

Era	Year	Description
Ancient	20000 BC	Rocks and Stone Piles
Medieval	1494	Precious Metal and Paper Money Piles; leading to double entry accounting by Luca Pacioli-1494
Industrial Age	1911	Standard cost accounting –to reflect Fredrick Taylors Scientific Manufacturing Methods.
Regulatory Compliance	1930	The US Great Depression resulted in regulatory reforms to protect investors



# The Eras of Management Accounting

Era	Year	Description
Consumer	1980	“Causal” cost tracing of increasingly diverse types of products, services, channels, and customers- Emergence of ABC Costing.
Analytics	2015	A shift of emphasis from a historical to a predictive view of strategy and operations

# Major Trends in Management Accounting

- Expansion from product to channel and customer profitability analysis (Use of ABC for more cost visibility).
- Management accounting's expanding role with enterprise performance management (EPM) - Integration.
- The shift to predictive accounting.
- Business analytics embedded in EPM methods.

# Major Trends in Management Accounting

- Coexisting and improved management accounting methods.
- Managing information technology and shared services as a business.
- The need for better skills and competency with behavioral cost management.

# Decision-making Categories for Applying Management Accounting

## Product, channel, and customer

- Rationalization—Which products, stock keeping units (SKUs), services, channels, routes, customers, and the like are best to retain or improve?
- And which ones aren't and should potentially be abandoned or terminated?

# Decision-making Categories for Applying Management Accounting

## Customer lifetime value (CLV)

- It's useful to know how profitable a customer has been, but in some cases the future potential profit levels, especially in business-to-consumer (B2C) relationships, is more relevant because customers go through life cycles.

# Decision-making Categories for Applying Management Accounting

## Planning, budgeting, and rolling financial forecasts

- Based on forecasts of future demand volume and mix for types of services or products, combined with assumptions of other proposed changes, how much will it cost to match demand with our supplied resources (for example, workforce staffing levels, purchased materials)?

# Decision-making Categories for Applying Management Accounting

## Capital expense justification

- Is the return on investment (ROI) of a proposed asset purchase, such as equipment or an information system, justified?

## Make vs. buy and general outsourcing decisions

- Should we continue to do it ourselves or contract with a third party?



# Decision-making Categories for Applying Management Accounting

## Process and productivity improvement

- What can be changed? How can we identify opportunities?
- How should we compare and differentiate high-impact opportunities from nominal ones?

# Taxonomy of Accounting

- Please refer to handout

# Integration and Disintegration of Management Accounting

- Has Management Accounting Integrated?
- Has Management Accounting Disintegrated?

# Discussion

- Discussion/ Question and Answers

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