

 **MONASH**  
University

Chapter 1

Management accounting: information for  
creating value and managing resources

 UNIVERSITY OF WOLLONGONG




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**Welcome to ACC/ACF2200!** 

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**What we're going to do today.....**

- Introduce the unit
- Discuss briefly the assessment tasks
- Learn what management accounting is
- Highlight how management accounting is very different to financial accounting




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### ACC/ACF2200: Introduction to Management Accounting

An introductory management accounting unit that focuses on the types of cost information that can be produced to assist managers and other employees within organisations with planning, control, and decision making.




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**Deloitte.**

**ERNST & YOUNG**

**KPMG**

**pwc**

**Coca-Cola**



**Google**



**Walt Disney**



**Nintendo**



**WALMART**




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### How is this unit assessed?



| ASSESSMENT TASK                               | DUE DATE                                        | VALUE       |
|-----------------------------------------------|-------------------------------------------------|-------------|
| <b>Tutorial preparation and participation</b> | Ongoing across all tutorials (including Week 1) | 10%         |
| <b>Individual assignment</b>                  | by 5pm 4 <sup>th</sup> of October (Week 10)     | 20%         |
| <b>Online quizzes</b>                         | Online during Weeks 7 & 12                      | 20%         |
| <b>Final examination</b>                      | To be advised                                   | 50%         |
| <b>TOTAL</b>                                  |                                                 | <b>100%</b> |

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### Unit schedule and planned tutorial activities



| WEEK                                | DATE         | LECTURE TOPIC                                    | READINGS   | HOMEWORK QUESTIONS (TUTORIAL)                      | IN-CLASS QUESTIONS (TUTORIAL) |
|-------------------------------------|--------------|--------------------------------------------------|------------|----------------------------------------------------|-------------------------------|
| 1                                   | 23 JULY      | Introduction to Management Accounting            | Chapter 1  | Introduction to the unit and case study discussion |                               |
| 2                                   | 30 JULY      | Cost terms, concepts and classifications         | Chapter 2  | 1.5, 1.6, 1.7, 1.27                                | 1.35                          |
| 3                                   | 6 AUGUST     | Cost behaviour, cost drivers and cost estimation | Chapter 3  | 2.5, 2.6, 2.7, 2.22                                | 2.41                          |
| 4                                   | 13 AUGUST    | Product costing systems                          | Chapter 4  | 3.3, 3.9, 3.14, 3.26, 3.27                         | 3.42                          |
| 5                                   | 20 AUGUST    | Process costing systems                          | Chapter 5  | 4.3, 4.11, 4.13, 4.22, 4.40                        | 4.43, 4.36                    |
| 6                                   | 27 AUGUST    | A closer look at overhead costs                  | Chapter 7  | 5.8, 5.9, 5.10, 5.27, 5.38                         | 5.44                          |
| 7                                   | 3 SEPTEMBER  | Activity-based costing (ABC)                     | Chapter 8  | 7.1, 7.9, 7.10, 7.28, 7.29, 7.30                   | 7.40, 7.41                    |
| 8                                   | 10 SEPTEMBER | Relevant costs for decision making               | Chapter 19 | 8.2, 8.9, 8.11, 8.29, 8.45                         | 8.38                          |
| 9                                   | 17 SEPTEMBER | Pricing and product mix decisions                | Chapter 20 | 19.9, 19.14, 19.29, 19.36                          | 19.39                         |
| IN-SEMESTER BREAK 24 – 28 SEPTEMBER |              |                                                  |            |                                                    |                               |
| 10                                  | 1 OCTOBER    | Cost volume profit analysis                      | Chapter 18 | 20.1, 20.12, 20.18, 20.26, 20.27                   | 20.43                         |
| 11                                  | 8 OCTOBER    | Capital expenditure decisions                    | Chapter 21 | 18.5, 18.8, 18.11, 18.33, 18.43                    | 18.37                         |
| 12                                  | 15 OCTOBER   | Course overview                                  |            | 21.23, 21.24, 21.27, 21.28, 21.30                  | 21.34                         |

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### Available now at the Campus bookstore



**Management Accounting**  
**Information for Creating and Managing Value**  
 Langfield-Smith | Smith | Andon | Thorne | Hilton

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## Some housekeeping....

- Please only attend the tutorial to which you are allocated
- Questions about the unit or any topics within it should be posted on Moodle or addressed in during consultation hours - and not e-mailed to lecturers or tutors (unless it is of a personal nature)
- Your lecture will be recorded
- Please be aware of the policy regarding the use of Monash University coursework material
  - Further details are found on Moodle





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## Tutorials: Preparation and Participation



10% of in-semester marks  
Please read the following on Moodle carefully:

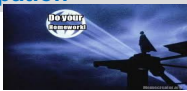
- Tutorial schedule
- Unit schedule and planned tutorial activities

Tutorials will run in three stages:

1. Discussion of solution to homework question(s)
2. Practice of in-class tutorial question
3. Discussion of in-class tutorial question

Student responsibilities:

- Study relevant textbook chapter
- Complete homework questions
- Be proactive in seeking feedback and help with your work

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## Gulf Air achieves significant cost-savings across its business

Gulf Air, the national carrier of the Kingdom of Bahrain, has made significant achievements across its business operations resulting in BD25.5m overall in cost savings in 2011.





The airline's aggressive cost-saving plans and measures, started in 2010 following its new business strategy, has yielded positive results in terms of cost-control, cost-efficiency, expenditure reduction and manpower optimization.

Encouraged by the results, the national carrier is pushing forward with its cost-efficiency measures in 2012 and is targeting a further 15% reduction in its cost base for the full year; it has already achieved a savings of BD6.8m between Jan and May this year.

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طيران الخليج  
GULF AIR



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Tutorial One  
Reflection on 'Cost Savings in  
Gulf-Air'

1. Why did Gulf-Air implement aggressive cost-control?
2. How did Gulf-Air cut costs?
  - (Please note: This question doesn't ask you to list what costs were cut (you will do this in the next question – Q3). Instead it asks how costs were cut – i.e. what techniques were used?)
3. What costs were cut?
4. Besides cost, what *other factors* were taken into consideration?
5. What *skills* does a management/cost accountant need to embark on a cost-cutting project similar to Gulf-Air's?
  - (Hint: It may be useful to watch the videos uploaded on Moodle (Week 1)).

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## What is Management Accounting?

.....and why is it important?

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**What do management accountants (MA's) do in the workplace?**

- Support managers in the process of making decisions
- Identify problems and help solve them
- Apply accounting concepts and techniques to real world problems
- Explain accounting concepts and techniques to managers who are not trained in accounting



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### What does this mean to you as a management accounting student?

- You must develop a strong ability to apply accounting techniques to *real life problems*.
- You must let go of any rote learning mentality
- You must gain and improve excellent analytical skills through constant practice
- You must be patient! You may not be good at this straight away but with enough practice and effort every week, you will improve.



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### Some history....



- During the industrial revolution large manufacturers and producers needed information to measure their companies' performance.
- These companies were privately-owned so accounting did not follow (financial) accounting standards.
- Owners developed management accounting as a way to track the costs relating to the production of goods and services.
- These methods became quite complex and laid the foundation for today's cost accounting techniques
- As competitors began entering economic markets and owners needed external financing for their companies, financial accounting became more important than management accounting.

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### In recent times....



<http://www.businessinsider.com/10-companies-control-the-food-industry-2016-9/?r=AU&IR=T/#kelloggs-1>

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Key Point

So....

Managers need information that is much more detailed than that found in financial reports to *make decisions, solve problems, and plan for the future.*

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Contemporary management accounting techniques have developed to support new organisational structures, systems and practices, as a response to a rapidly changing business environment




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## What is management accounting?

“... the processes 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*”




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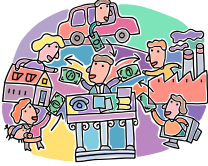
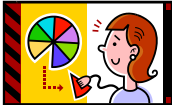
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- **Customer value**
  - The value that a customer places on particular features of a product or service

- **Shareholder value**
  - The value that shareholders or owners place on a business

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### MA information

- Management accounting systems produce the information required by managers to create value for customers and shareholders
- Examples of management accounting information include:
  - *The reported expense of an operating department, such as the assembly department of an automobile plant or an electronics company*
  - *The costs and benefits of producing a product*
  - *The costs and benefits of delivering a service*
  - *The cost of performing an activity or business process – such as creating a customer invoice*

➡ Difficult to extract this information from financial reports

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### How MA differs from Financial Accounting....

- Financial accounting:
  - The practice of preparing and reporting accounting information for parties **outside** the organisation
- Management Accounting:
  - Focuses on the information needs of managers **inside** the organisation.




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| MONASH University                |                                                                                                                                                                                                                                     |                                                                                                            |
|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
|                                  | Management accounting                                                                                                                                                                                                               | Financial accounting                                                                                       |
| <b>Users of information</b>      | ■ Internal: managers and employees at all levels                                                                                                                                                                                    | ■ External: shareholders, creditors, banks, securities exchange, trade unions and government agencies      |
| <b>Regulations</b>               | ■ No accounting standards or external rules are imposed. Information is generated to satisfy managers' information needs                                                                                                            | ■ Accounting standards and corporations law regulate the content of external financial reports             |
| <b>Source of data</b>            | ■ 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 | ■ Financial data almost exclusively drawn from the organisation's core transaction-based accounting system |
| <b>Nature of the information</b> | ■ Past, current and future-oriented; subjective; relevant; timely; and supplied at various levels of detail to suit managers' specific needs                                                                                        | ■ Past; reliable; verifiable; not timely; not always relevant; and highly aggregated                       |

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| MONASH University                                                                                                                          |                                                                                                                                                                                              |
|--------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial Acc Information                                                                                                                  | Management Acc Information                                                                                                                                                                   |
| <b>Shareholder reports</b> <ul style="list-style-type: none"> <li>Financial statements</li> <li>News releases</li> </ul>                   | <b>Support organisational strategies</b> <ul style="list-style-type: none"> <li>Capital budgets</li> <li>Product development analysis</li> <li>Analysis of potential acquisitions</li> </ul> |
| <b>Other stakeholder reports</b> <ul style="list-style-type: none"> <li>Credit reports</li> <li>Inventory reports for suppliers</li> </ul> | <b>Support operating plans</b> <ul style="list-style-type: none"> <li>Operating budgets</li> <li>Analysis of product mix</li> <li>Cash flow plan</li> </ul>                                  |
| <b>Government reports</b> <ul style="list-style-type: none"> <li>Tax returns</li> <li>Cost reports</li> </ul>                              | <b>Monitoring and motivation</b> <ul style="list-style-type: none"> <li>Actual vs. planned performance</li> <li>Bonus computations</li> <li>Supplier quality report</li> </ul>               |

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## MA processes and techniques help to....

- Formulate and implement strategy
- Improve competitive advantage through process improvement and cost management
- Manage resources through systems of planning and control
- Estimate the costs of an organisation's inputs and outputs
- Support the strategic and operational decision needs of managers

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## Management accounting and strategy

Mission statement:

- Defines the purpose and boundaries of the organization

Vision:

- The desired future state or aspiration of an organisation
- Used by senior managers

Objectives (or goals):

- The specific aims of the organisation
- Often quantified
- Relates to a specific period of time




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## Strategy

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

- Focus on ways to manage the organisation's resources to create value for customers and shareholders




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## Competitive advantage

- Advantages of one business over another that are difficult to imitate, achieved by:
  - ✓ Cost leadership
    - Economies of production
    - Superior process technologies
    - Tight cost control
  - ✓ Product differentiation
    - Superior quality
    - Customer service
    - Delivery performance
    - Product features

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**Major decisions in formulating strategies** 

- In what type of business will we operate in?
  - What products and services should we launch or discontinue?
  - What strategic alliances and business networks should we enter into?
  - What should we invest or divest in?
- How should we compete in that business?
- What systems and structures should we have in place to support our strategies?




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**Two aspects to this....** 

- Strategic planning
  - Long-term planning
  - Deciding how a business competes within its chosen market
- Strategy implementation
  - Planning and managing the implementation of strategy
  - Performance measurement systems compare actual outcomes to budgets and other targets
  - New structures, new systems, new production processes, new marketing approaches, new human resource management policies

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**Strategy, planning and controlling** 



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graph TD
    Vision([Vision]) --> FormObj([Formulation of organisational objectives])
    FormObj --> FormStrat([Formulation of strategies])
    FormStrat --> Planning([Planning  
Managers prepare plans to support strategies])
    Planning --> Control([Control  
Managers evaluate performance against plans and take corrective actions])
    Control --> Planning
    Planning --> Implement([Managers implement plans and design control systems])
    Implement --> Control
    Implement --> FormObj
    Control --> FormObj
  
```

Management activities  
Information flows in a management accounting system

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### High level of flexibility in MA....



- Focus is on the *needs* of managers within the organisation
- Influenced by:
  - Managers' information needs and the nature of the resources they manage
  - Differences in production and service technologies, organisational structure, organisational size, the external environment, level of sophistication of computer systems

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### Overlap with Financial Accounting?



- Not much!!
- Product costs are prepared to meet external reporting purposes
- However..... *different* product costs may also be produced outside of the financial accounting system, to better meet managers' decision-making needs
  - These costs may not comply with GAAP or accounting standards – **FLEXIBILITY NEEDED**

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### Therefore, quite often....



- ....while accounting staff and processes may be found at the corporate level to help determine the organisation's overall strategy, they are also found in operating divisions
- Managers from other functional areas may also undertake management accounting activities, for example – customer service and warehouse managers




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## Cost accounting systems



- We need ways of categorising, accumulating and analysing costs.

- Examples:

- job costing systems
- process costing systems
- hybrid costing systems
- activity-based costing systems



Key Point

- No two cost accounting systems are alike, as organisations differ, so too do costing systems

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## Acknowledgement



Some slides contained in this presentation were adapted from:

*Management Accounting: Information for managing and creating value 7e*, Langfield-Smith, Thorne, Smith, Hilton  
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