

Accounting & Financial Management

MBA (Executive) Program

AGSM MBA Programs

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Overview of Units 7 to 12

The units that we have undertaken to date have covered financial accounting information. Units 7 to 12 discuss the generation and use of management accounting information. The distinctions between management and financial accounting are highlighted in Exhibit 1.

Exhibit 1 *Distinctions between management accounting and financial accounting*

	FINANCIAL ACCOUNTING	MANAGEMENT ACCOUNTING
Primary users	Outside parties such as investors and government agencies but also organisation managers.	Organisation managers at various levels.
Information reported and style of report	Constrained by generally accepted accounting principles (GAAP), and legal requirements.	No constraints other than costs in relation to benefits of improved management decisions.
Behavioural implications	Concern about how to measure and communicate transactions with entities external to the organisation. Behavioural considerations are secondary, although executive compensation based on reported results may have behavioural impacts.	Concern about how measurements and reports will influence managers' daily behaviour.
Time focus	Past orientation, historical evaluation. What has happened in the past financial period.	Future orientation: formal use of budgets as well as historical records. Example: 20×8 budget versus 20×8 actual performance.
Time span	Less flexible. Usually 1 year or half-year.	Flexible, varying from hourly to 10 to 15 years.
Reports	Summary reports: concern primarily with entity as a whole.	Detailed reports: concern about details of parts of the entity, products, departments, territories, etc.

Despite these differences, most organisations prefer to maintain a single general purpose accounting system. Nevertheless, managers are not restricted to this system for their information (though they sometimes behave as if they are!). Management accounting reports can and should be tailored to best support the decisions to be made and the individual decision maker. For example:

1. The management accounting information system may report historical accounting information in a much less summarised form than a financial accounting system. Inventory in financial accounting will be reported at an aggregate level, while for management purposes it may be reported on an item by item basis. This will obviously aid planning and control decisions, including how much inventory to re-order, when to re-order, from whom to order, whether inventory lines should be continued etc. In a similar style, revenue or expenses from different services, projects, divisions or locations may be reported on a disaggregated basis.
2. The management accounting information system may be supported by a management information system or especially gathered information which will often include information of either, or both, a non-financial or future orientation. This will again support planning and control decisions.
3. The type of information gathered can be heavily influenced by management. If a manager finds he/she has insufficient information, then they can request this information. Whether it is supplied will be determined by a cost-benefit analysis. Management also has the ability to determine the style of the report. As there is no set style this should again be determined on a cost-benefit basis so as to facilitate management decision making.

Units 7 to 12 examine the characteristics of managerial information and uses to which it is typically put.

Unit 7 covers cost behaviour and cost–volume–profit analysis. It involves developing an understanding of the nature and behaviour of costs. Understanding cost behaviour allows us to develop analyses which predict how changes in activity levels (e.g. sales) will affect profit. Cost–volume–profit analysis is a technique for developing such predictions which are an important input to financial planning.

Unit 8 examines the uses to which the product and service cost information may be put, how costs may be categorised and how product and service costs may be developed. Both traditional and modern approaches to product and service costing are discussed and illustrated.

Unit 9 provides an overview of financial planning for the organisation as a whole. This includes a master budget which has three main sections: profit plan, cash budget and capital expenditure budget. Our main focus in this unit is profit planning and cash budgeting.

Unit 10 is the first of two units devoted to performance measurement, and examines a variety of budgetary control reports. By comparing actual financial outcomes with budgeted outcomes these reports aim to direct management's attention to problem areas in implementing the current year's budget, and provide information that is useful for improving future plans.

Unit 11 is concerned with capital expenditure decisions. Unlike operating decisions which typically have a short-run (one year) focus, 'caper' decisions involve choice over the longer term. A number of techniques (models) have been developed to aid in the systematic evaluation and selection of proposed capital investments. The purpose of this unit is to introduce the basic elements of these techniques and discuss their applicability in practice.

Unit 12 continues the responsibility accounting theme beyond cost and profit centres. At higher levels of the organisation, managers can frequently control not only costs and revenues, but also the level of the sub-unit investment base. Such sub-units are called 'Investment centres' or 'Divisions'. This unit discusses typical approaches to performance measurement for autonomous divisional operations.



Websites

1. Prentice Hall Learning on the Internet Partnership

<http://cw.prenhall.com/bookbind/pubbooks/horngren5>

This website has been developed by Prentice Hall (a Pearson company) to support its product lines – one of which is a recommended reference text for Units 7 to 12 of *Accounting & Financial Management* – C.T. Horngren, G. Foster and S.M. Datar, *Cost Accounting: A Managerial Emphasis*. It provides chapter outlines, links to related Internet resources (e.g. on outsourcing), and news/financial press stories (predominantly US-based). The site has an online tutor for students of ‘management’ accounting (go through the ‘study hall’ to ‘ask the tutor’).

2. Everest Outsourcing Management Services

- <http://www.outsourcing-mgmt.com>

This site is particularly useful for the workshop with a number of links to related sites, articles and a discussion on outsourcing.