

Module 1: Notes 1 - Management Accounting

Management Accounting



What is management accounting? Is it different from financial accounting? Do management accountants support the strategic decisions of an organization?

You will receive answers to these questions and more in this course. You will also learn how management accounting aids decision making and what professional ethics mean to management accountants.

Management and Financial Accounting Differences

Management Accounting and **Financial Accounting** fulfill two different roles in an organizational setting.

- Management accounting helps managers arrive at decisions while financial accounting communicates the financial position of the organization to investors, banks, regulators and other interested parties.
- The primary users of management accounting are the managers of the organization, while the primary users of financial accounting are investors, banks, regulators and suppliers.
- The focus and emphasis of management accounting is future-oriented, while financial accounting focuses on the past.
- Financial accounting measures and records business transactions and provides financial statements that are based on Generally Accepted Accounting Principles (GAAP), while management accounting is based on cost-benefit analysis.
- Financial accounting is concerned with quarterly and annual financial reports primarily on the company as a whole, while management accounting varies from hourly information to over a span of two decades, with both financial and non-financial reports on products, departments, territories and strategies.
- Management accounting is designed to influence the behavior of managers and other employees. Financial accounting reports economic events but also influences behavior because a manager's compensation is often based on the financial results of the company.

Refer to **Exhibit 1-2** in the assigned textbook for more information on the differences between Management and Financial Accounting.

Decision Making, Planning and Controlling

Management accountants serve as business partners in the decision making process. The decision making process comprises two main categories - **planning** and **controlling**.

Planning involves identifying the problem and uncertainties, selecting the related organizational goals, gathering information, making future predictions for various alternatives, choosing the alternative to the achieve goals and communicating the decision to the organization. A budget is an important planning tool that numerically communicates the expected result of implementing the decision.

Controlling includes implementing the decision of management, evaluating how actual performance compares to budget and providing feedback to enable learning.

Organizational Structure

In an organization, line management is directly responsible for achieving the goals of the organization such as production, marketing and distribution, while staff management provides advice, support and assistance to line management.

The **Chief Financial Officer (CFO)** is an important staff function whose responsibilities include controlling, treasury, risk management, taxation and investor relations. The **Controller** is primarily responsible for management accounting and financial accounting.

Some of the skills you must possess or acquire to become an effective management accountant, besides a strong sense of integrity, are abilities to:

- Work well in cross-functional teams.
- Promote fact-based analysis and make hard critical judgments.
- Lead and motivate people to change and be innovative.
- Communicate clearly, openly and candidly.

Professional Ethics

Ethical standards are important for all organizations and form the culture of the organization and expected behavior of individuals in the organization. Many companies have internal ethical standards that are applicable to all employees. However, accountants have additional ethical standards due to their responsibility for the integrity of the company's financial information.

The **Sarbanes-Oxley Act (SOX)** was enacted in 2002 and focuses on internal control, corporate governance, monitoring and disclosures. SOX imposes penalties on managers and accountants for non-compliance.

Additionally, ethical certification programs are offered by professional accounting organizations that promote high ethical standards for financial accounting or management accounting.

The **Institute of Management Accountants (IMA)** provides guidelines to management accountants that focus on competence, confidentiality, integrity and credibility.

Please refer to **Exhibit 1-7** in the assigned textbook for more information on the IMA's guidelines.