LANGFIELD-SMITH ◆ THORNE ◆ SMITH ◆ HILTON

MANAGEMENT ACCOUNTING

Information for Creating and Managing Value

7e

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Preface

One of the challenges we always face in writing new editions of this book is to capture current thinking and practice in management accounting, which are in a continual state of change. Unlike the financial accounting area, there are no accounting standards or legally enforceable practices in management accounting. Management accounting takes place within organisations and can be quite specific to each business. Also, to understand the nature of management accounting practice we need to understand the 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.

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. 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.

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 the text can be traced to the US text, *Managerial Accounting*, by Ronald Hilton, it has always differed from its US counterpart. It has been developed using major cases based on real Australian businesses, and it includes numerous illustrations—'Real lifes'—of current management accounting practices of organisations in Australia, New Zealand and the wider Asia-Pacific region. 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. We sincerely welcome any comments or suggestions from the lecturers and students who use this text.

Kim Langfield-Smith   Helen Thorne   David Smith

About the authors

Kim Langfield-Smith

Kim has a BEc from the University of Sydney, a MEc from Macquarie University and a PhD from Monash University. She is a fellow of CPA Australia and the Institute of Chartered Accountants in Australia (ICAA), and a graduate of the Australian Institute of Company Directors. She is a Vice-provost at Monash University as well as 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 entering academic life 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 continues to play an active role in the accounting profession. She is chair of the Professional Qualifications Advisory Committee of CPA Australia, and a former member of the International Accounting Education Standards Board (IAESB), representing the ICAA and CPA Australia.

Helen Thorne

Helen has a BEc and DipAcc from Flinders University, and a PhD from the University of Adelaide. She is an adjunct professor in 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 focuses 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.

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 Department of Accounting at Monash University and has previously held appointments at 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*.

David is actively involved in the accounting profession and is a current board member of the Accounting and Finance Association of Australia and New Zealand (AFAANZ). David is also a member of the Chartered Institute of Management Accountants' (CIMA) Centre of Excellence Australasia Research Panel.

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	
• Extensive revisions simplify and modernise the material. • The Wendy's case that was the chapter focus in prior editions has been replaced with a range of more recent case examples. • The 'Strategy and the management accountant' material has been updated. • New 'Real lifes' covering big data and the management accountant, and the accountant in the modern environment have been added. Other 'Real lifes' have been updated. • Seventeen of the 42 end-of-chapter questions are new or include new data.	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.
Chapter 2 Management accounting: cost terms and concepts	
• This classic chapter, which lays the foundation by introducing students to a range of commonly used cost concepts, has not required any significant updates, although 19 of the 42 end-of-chapter questions are new or include new data.	This chapter introduces students to the terminology of management accounting before covering concepts in more detail later in the book.
Chapter 3 Cost behaviour, cost drivers and cost estimation	
• One new 'Real life' has been added and another has been updated, and linked to end-of-chapter questions. • Fifteen of the 43 end-of-chapter questions are new or include new data. Several questions allow students to respond by constructing an Excel® spreadsheet.	This chapter maintains the current approach to explaining cost behaviour, cost drivers and cost estimation.
Chapter 4 Product costing systems	
• One 'Real life' example has been updated. • Seventeen of the 43 end-of-chapter questions are new or include new data.	Chapters 4 and 5 focus on traditional approaches to product costing, focusing primarily on job costing systems.
Chapter 5 Process costing and operation costing	
• Twenty of the 45 end-of-chapter questions are new or include new data.	Chapters 4 and 5 focus on traditional product costing approaches of process costing and operation costing.
Chapter 6 Service costing	
• Nineteen of the 48 end-of-chapter questions are new or include new data.	This chapter presents traditional and activity-based approaches to the costing of services, in a range of different service contexts.

Chapter 7 A closer look at overhead costs	
• Twenty-two of the 45 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 8 Activity-based costing	
• Three new 'Real life' examples have been provided—one looking at costing in the UK's National Health Service, one on the use of activity-based costing in the New Zealand Blood Service, and one focusing on calculating the cost of childhood immunisations. • Eighteen 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 9 Budgeting systems	
• A new 'Real life' on budgeting for major events has been added and the 'Real life' on budgeting practices in Australia has been updated. • Twenty-two 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	
• The 'Real life' on cost pressures and variance analysis in hospitals has been updated. • Material on standards and behaviour has been brought together in a single section. • Twenty of the 46 end-of-chapter questions are new or include new data.	Chapter 10 focuses on 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	
• A new 'Real life' on adapting standard costs for modern times is included. • Nineteen of the 45 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 12 Managing and reporting performance	
• This chapter has a new title to better reflect its focus. • Some of the chapter has been restructured: the sections on the purposes and the characteristics of performance measurement systems have moved here from Chapter 14. • A new 'Real life' on the principles for reporting performance outcomes has been added. • Sixteen 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

- The chapter has a new title, to reflect the change in focus from 'reward systems' to the more modern term 'incentive systems'.
- The 'Real life' examples have been updated and linked to end-of-chapter questions.
- Sixteen 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 chapter title and the learning objectives have been revised to reflect changes in coverage of some material in the chapter.
- The section on strategic performance measurement systems, including balanced scorecards and strategy maps, has been reorganised.
- A new 'Real life' on measuring performance in charitable organisations has been added.
- Twenty-one 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 design of strategic performance measurement systems, and benchmarking.

Chapter 15 Managing suppliers and customers

- The material has been updated throughout the chapter.
- Two new 'Real life' examples have been added on supply chain management at Coles, and using social media to manage customers. Other 'Real lifes' have been updated.
- Twenty-one of the 46 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 16 Managing costs and quality

- The material has been revised throughout the chapter.
- The section on throughput accounting has been simplified.
- A new 'Real life' example on lean thinking has been added. Other 'Real lifes' have been updated.
- Eighteen of the 50 end-of-chapter questions are new or include new data.

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

Chapter 17 Sustainability and management accounting

- Major revision and modernisation of the material throughout the chapter.
- Modern sustainability frameworks of the GRI and integrated reporting are now included.
- A number of new exhibits and four new 'Real life' examples have been added on corporate responsibility around the globe, sustainability reporting, sustainability scorecards, and the valuation of environmental impact.
- Fifteen 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.

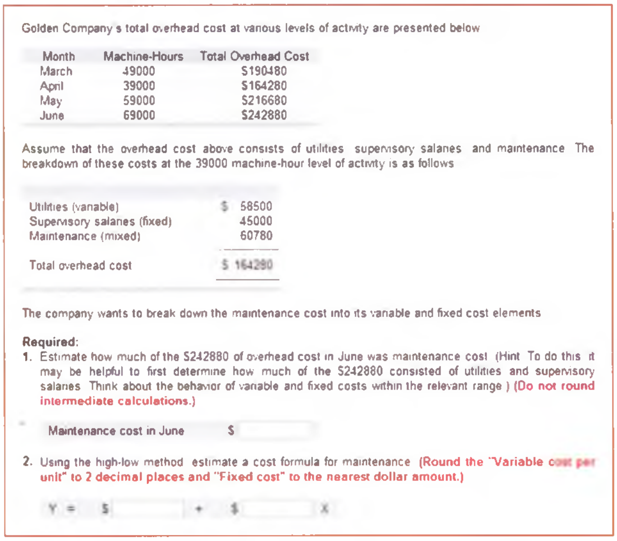
Chapter 18 Cost volume profit analysis	
• Two new 'Real lifes' on the use of CVP analysis in the Tasmanian salmon farming industry and in the management of coffee shops. • Twenty-seven of the 46 end-of-chapter questions are new or include new data.	Cost volume profit analysis is presented as a tool to model the profit impact of changes in selling prices, costs and product mix, and formula-based and graphical approaches. Methods for incorporating activity-based concepts are also included.
Chapter 19 Information for decisions: relevant costs and benefits	
• The section on costing by-products has been moved from the Appendix to the main chapter. • New 'Real life' examples on the role of accountants in management decision making and sustainable solutions for by-products have 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 20 Pricing and product mix decisions	
• Material on the legal constraints on pricing has been updated. • Two new 'Real life' examples on the airline industry and price fixing have 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 of pricing behaviours. Techniques for considering product mix decisions are also covered.
Chapter 21 Information for capital expenditure decisions	
• Includes a new section on real-options pricing analysis. • The 'Real lifes' have been updated. • Sixteen 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.

About the digital resources

Management Accounting 7e comes with McGraw-Hill Connect—a digital teaching and learning environment that responds to contemporary students' needs. Connect brings every learning resource that accompanies this text together in one place, and can also integrate and interact with your LMS.

Connect provides access to interactive versions of selected end-of-chapter exercises and problems with worksheet and graphing functionality to allow students to practise what they are learning. Quizzes have been prepared for each chapter to provide the opportunity to check knowledge and understanding of chapter concepts.

Instructors also have access to an Instructor Manual including solutions to end-of-chapter activities, PowerPoint® presentations and the testbank.



Golden Company's total overhead cost at various levels of activity are presented below

Month	Machine-Hours	Total Overhead Cost
March	49000	$190480
April	39000	$164280
May	59000	$216680
June	69000	$242880

Assume that the overhead cost above consists of utilities supervisory salaries and maintenance The breakdown of these costs at the 39000 machine-hour level of activity is as follows

Utilities (variable)	$ 58500
Supervisory salaries (fixed)	45000
Maintenance (mixed)	60780
Total overhead cost	$ 164280

The company wants to break down the maintenance cost into its variable and fixed cost elements

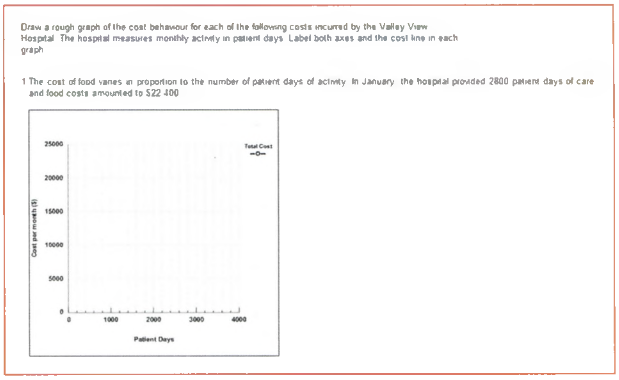
Required:

1. Estimate how much of the $242880 of overhead cost in June was maintenance cost (Hint To do this it may be helpful to first determine how much of the $242880 consisted of utilities and supervisory salaries Think about the behavior of variable and fixed costs within the relevant range) **(Do not round intermediate calculations.)**

Maintenance cost in June $

2. Using the high-low method estimate a cost formula for maintenance **(Round the "Variable cost per unit" to 2 decimal places and "Fixed cost" to the nearest dollar amount.)**

Y = $ + $ X



Gweneth Norris *BCom, MCom, PhD, FCPA, CMA*

Gweneth prepared the Instructor Manual.

Gweneth retired from Charles Darwin University as Professor of Management (Accounting), where she was responsible for the accounting program and accounting research. She also spent many years at the University of South Australia and at Deakin University in Geelong, Victoria. She is a past vice-president of the Institute of Certified Management Accountants (ICMA), and worked on the Geelong Branch Council of CPA Australia for 11 years, serving terms as chair and deputy chair. Gweneth was also a presenter of the ICMA graduate course 'Advanced Management Accounting' in Asia, teaching in both Singapore and Hong Kong.

Robyn Parry *BBus (Acc), MEd, MComm, CPA, AFAANZ*

Robyn prepared the testbank, PowerPoint slides and online chapter quizzes.

Robyn has been an academic for over 12 years. She has taught accounting for decision making, financial and management accounting, corporate accounting, accounting theory and auditing in undergraduate and postgraduate accounting programs. Robyn is part of the academic team at the University of Queensland and was previously with James Cook University (Brisbane) and CQ University (Brisbane).

Robyn's career has evolved through public practice, including in the mining, construction and government sectors, before moving to accounting education. She has a keen interest in the development of accounting education and promoting the professional accounting bodies to students.

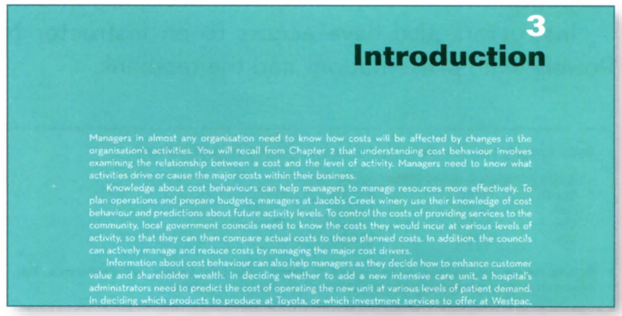
Text at a glance

'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.

Chapter introduction

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



Key terms/margin definitions

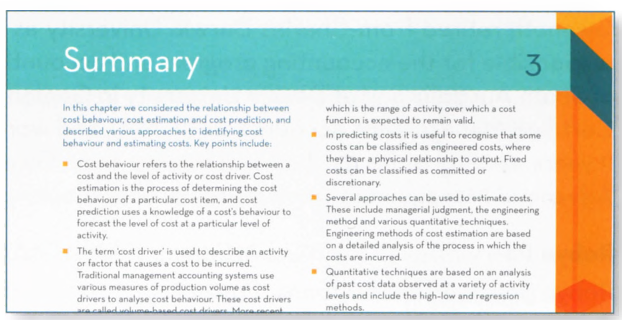
Key terms are bolded in the text where they first appear, defined in the margin and listed at the end of the chapter. Use the end-of-chapter Key terms checklist to test yourself when you finish the chapter. The definitions are also repeated in a full glossary at the end of the book.

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, and links back to the learning objectives.

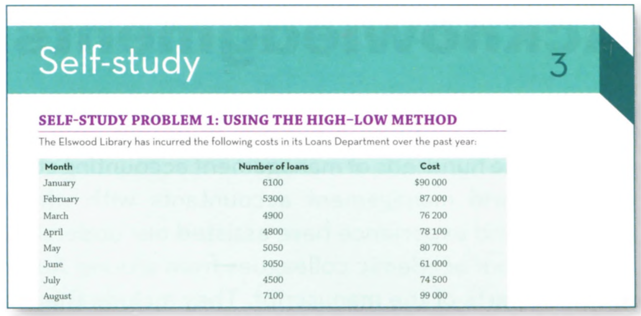


References

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

Self-study problems and solutions

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


Self-study 3

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

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

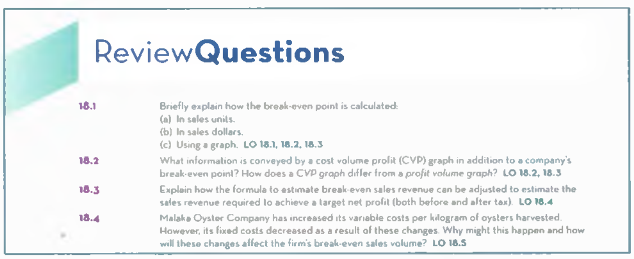
Month	Number of loans	Cost
January	6100	$90 000
February	5300	87 000
March	4900	76 200
April	4800	78 100
May	5050	80 700
June	3050	61 000
July	4500	74 500
August	7100	99 000

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.


ReviewQuestions

18.1 Briefly explain how the break-even point is calculated:
(a) In sales units.
(b) In sales dollars.
(c) Using a graph. LO 18.1, 18.2, 18.3

18.2 What information is conveyed by a cost volume profit (CVP) graph in addition to a company's break-even point? How does a CVP graph differ from a *profit volume graph*? LO 18.2, 18.3

18.3 Explain how the formula to estimate break-even sales revenue can be adjusted to estimate the sales revenue required to achieve a target net profit (both before and after tax). LO 18.4

18.4 Malaka Oyster Company has increased its variable costs per kilogram of oysters harvested. However, its fixed costs decreased as a result of these changes. Why might this happen and how will these changes affect the firm's break-even sales volume? LO 18.5

Exercises

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

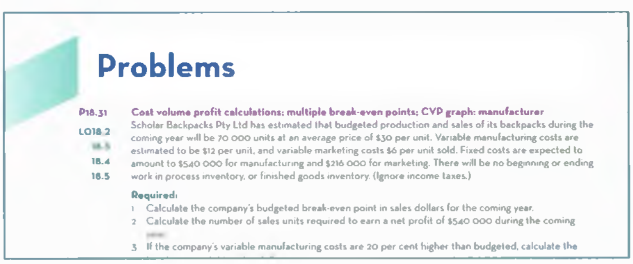

Exercises

E3.21 LO3.2 **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.

Required:
1 Prepare a list of five major costs likely to be incurred by Friendly Skies Travel.

Problems

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

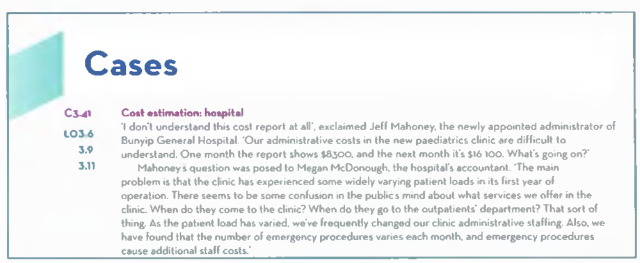

Problems

P18.31 LO18.2 18.3 18.4 18.5 **Cost volume profit 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 $30 per unit. Variable manufacturing costs are estimated to be $12 per unit, and variable marketing costs $6 per unit sold. Fixed costs are expected to amount to $540 000 for manufacturing and $216 000 for marketing. There will be no beginning or ending work in process inventory, or finished goods inventory. (Ignore income taxes.)

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 $540 000 during the coming year.
3 If the company's variable manufacturing costs are 20 per cent higher than budgeted, calculate the

Cases

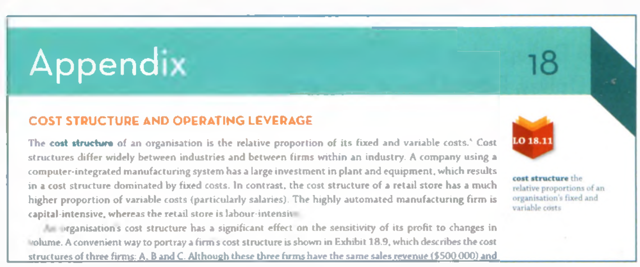
Cases provide more comprehensive scenarios that require you to demonstrate your skills in applying both quantitative techniques and theoretical issues. The cases provide opportunities for higher-level analysis and may require you to integrate material from more than one chapter.


Cases

C3.41 LO3.6 3.9 3.11 **Cost estimation: hospital**
'I don't understand this cost report at all', exclaimed Jeff Mahoney, the newly appointed administrator of Bunyip General Hospital. 'Our administrative costs in the new paediatrics clinic are difficult to understand. One month the report shows $8300, and the next month it's $16 100. What's going on?'
Mahoney's question was posed to Megan McDonough, the hospital's accountant. 'The main problem is that the clinic has experienced some widely varying patient loads in its first year of operation. There seems to be some confusion in the public's mind about what services we offer in the clinic. When do they come to the clinic? When do they go to the outpatients' department? That sort of thing. As the patient load has varied, we've frequently changed our clinic administrative staffing. Also, we have found that the number of emergency procedures varies each month, and emergency procedures cause additional staff costs.'

Appendices

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


Appendix 18

COST STRUCTURE AND OPERATING LEVERAGE

LO 18.11

The **cost structure** of an organisation is the relative proportion of its fixed and variable costs.[1] 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

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

Acknowledgments

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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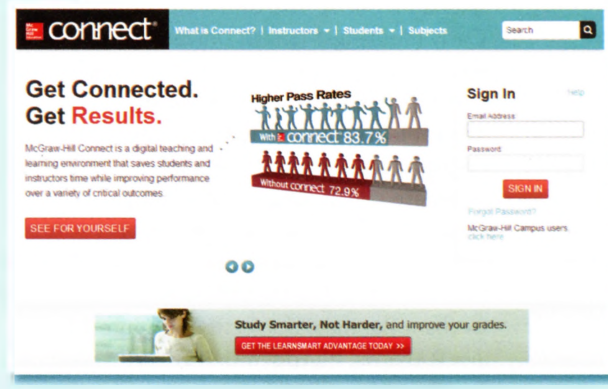

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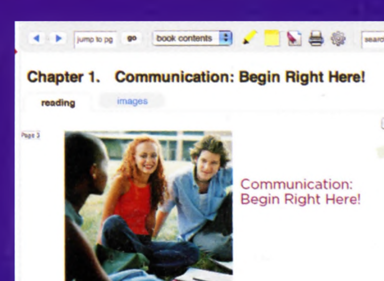

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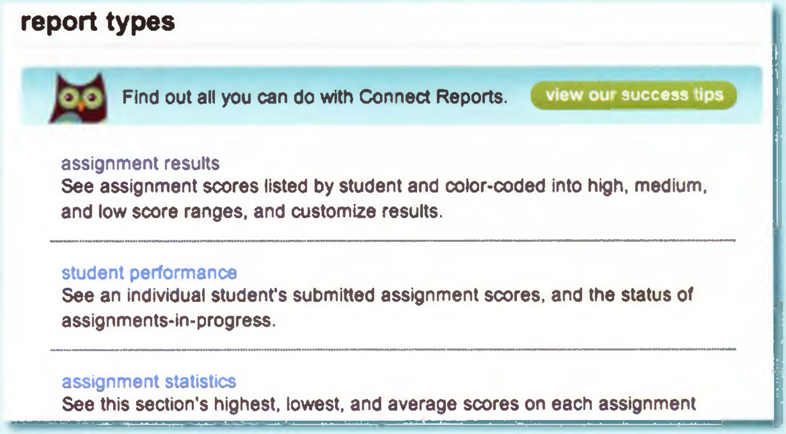

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Part 1
Introduction to management accounting

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.

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

Learning objectives

LO

1.1 Describe the 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 Recognise how various management accounting techniques have been developed to support a firm's competitive advantage.

1.8 Explain how planning and control mechanisms can be used to support resource management.

1.9 Explain how costing systems can provide information to support a range of operational and strategic decisions.

1.10 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.

1.11 Identify the organisational responses and management accounting responses to changes in the business environment.

1.12 (After studying the appendix) describe how the focus of management accounting has evolved.

1.13 (After studying the appendix) discuss the professional qualifications that are relevant to becoming an accountant, and the ethical standards to which accountants must adhere.

1 Introduction

We all deal with many different types of organisations as part of our daily lives. Manufacturers, retailers, service providers, not-for-profit organisations[1] 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 of 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 so that they can manage resources effectively and efficiently and add value for customers and the organisation as a whole.

We start our discussion by exploring the business environment in which management accounting has evolved and operates.

AUSTRALIAN ORGANISATIONS IN THE TWENTY-FIRST CENTURY

LO 1.1

In the last 20 years, many Australian organisations have become exposed to global competition for the first time. Australian companies can no longer ignore the activities of companies operating in Asia, Europe and the United States (US). Import tariffs, quotas and, over time, subsidies have been gradually reduced or eliminated. Many overseas companies are now direct competitors for Australian businesses. For example,

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.