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**AC  
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**MANAGEMENT**

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**SIVABALAN WAKEFIELD SAWYERS  
JACKSON JENKINS**



ASIA-PACIFIC EDITION

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CT** **4**  
**MANAGEMENT**

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**SIVABALAN WAKEFIELD SAWYERS  
JACKSON JENKINS**

ACCT4 Management  
4th Asia-Pacific Edition  
Prabhu Sivabalan  
James Wakefield  
Roby B. Sawyers  
Steve Jackson  
Greg Jenkins

Portfolio lead: Fiona Hammond  
Product manager: Geoff Howard/Rachael Pictor  
Content developer: Talia Lewis  
Project editor: Sutha Surenddar  
Editor: Pete Cruttenden  
Proofreader: Craig MacKenzie  
Permissions/Photo researcher: Liz McShane  
Text designer: Cengage Creative Studio  
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Cengage Learning Australia  
Level 7, 80 Dorcas Street  
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Cengage Learning New Zealand  
Unit 4B Rosedale Office Park  
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# Guide to the text

As you read this text you will find a number of features in every chapter to enhance your study of management accounting and help you understand how the theory is applied in the real world.

## CHAPTER OPENING FEATURES

**Learning objectives** at the start of each chapter identify key concepts that will be covered. **Learning objective icons** appear throughout the chapter to identify where each objective is discussed.

### accounting information system (AIS)

A transaction-processing system that captures financial data resulting from accounting transactions within a company.

### LO1 Accounting information

Accounting information is usually provided by a company's **accounting information system (AIS)**. Traditionally, the AIS was simply a transaction-processing

### Learning Objectives

After studying the material in this chapter, you should be able to:

- LO1 Describe the contemporary view of accounting information systems and describe and give examples of financial and non-financial accounting information.
- LO2 Compare and contrast management accounting with financial accounting and distinguish between the information needs of external and internal users.
- LO3 Recognise the role of relevant factors in decision making.

## FEATURES WITHIN CHAPTERS

**Making it Real** boxes present real-life financial accounting scenarios to demonstrate the chapter concepts in practice.



### Making it Real

#### BUZZFEED PULLS PLUG ON UK AND AUSTRALIAN NEWS OPERATIONS

BuzzFeed is to end its news operations in the UK and Australia, effectively marking the end of the digital upstart's global ambition to shake up traditional news media.

Once derided for its focus on traffic-grabbing 'listicles', BuzzFeed transformed into a highly respected peer to traditional media outlets. On Wednesday it said it was giving up on local news and politics coverage in favour of news that 'hits big' in the United States.

The company, which had been struggling before the coronavirus pandemic further hammered its lifeblood of advertising revenue, has furloughed its 10 UK news staff and four in Australia as part of the strategic cutback. BuzzFeed launched a local news operation in the UK just over six years ago.

BuzzFeed pulls plug on UK and Australian news operations by Mark Sweney, The Guardian, 14 May 2020. Copyright Guardian News & Media Ltd 2021.

Important **key terms** are marked in bold in the text and defined in the margin when they are used in the text for the first time.

### Opportunity costs

**Opportunity costs** are the benefits forgone by choosing one alternative over another and are relevant costs for decision-making purposes. For example, if you choose to go to university, you are forgoing the salary you could earn by working full-time. In the 'Making it real' box concerning BuzzFeed's decision to shut down

#### opportunity costs

The benefits forgone by choosing one alternative over another.

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## END-OF-CHAPTER FEATURES

At the end of each chapter you will find several tools to help you to review, practise and extend your knowledge of the key learning objectives.

**Chapter tear-out cards** at the back of the book provide a portable study tool, summarising each chapter for class preparation and revision.

**EXERCISES**

**1 Users of accounting information** LO1

Accounting information is used by a variety of individuals and organisations for numerous purposes. Below is a small set of potential users of accounting information.

- Bank loan officer
- Employee union
- Production manager
- Current shareholder
- Sales manager
- Company chairperson

**REQUIRED**

Identify the types of accounting information that may be of interest to each of these potential users. Be as specific as you can.

**2 Management versus financial accounting** LO2

Financial and management accounting information serve different purposes. The following phrases are commonly used to describe either financial or management accounting:

- Must follow AASB
- Focused on past performance
- Timeliness is critical
- Emphasises reporting on the whole company
- Information is often less precise
- Future orientation
- Information is often 'old'
- Reports results by segments
- Highly consumable

**REQUIRED**

Indicate whether each of the above phrases describes financial accounting or management accounting.

**3 Management versus financial accounting** LO2

List a range of stakeholders who might be interested in Google Inc's financial accounting information, then do the same for management accounting information. How are these potential interested stakeholders different?

**4 Types of business managers** LO3

Business managers do not all have the same information needs. Some require comprehensive production data, while others need detailed data about sales and marketing performance. Read the following statements that describe business managers:

- These managers make decisions about how to raise capital as well as where and how it is invested.
- These managers need to know how much a product costs to make in order to establish a reasonable selling price.
- These managers support other managers by recruiting staff, designing compensation and benefit packages, and providing training and development opportunities for employees.
- These managers make decisions about how and when products and services are produced or provided.

**REQUIRED**

Identify the type of business manager described in each of the preceding statements.

**5 Types of business managers** LO3

Consider the informational needs of a production manager working for Haigh's Chocolates versus the human resources manager in the same organisation. How might their management accounting information needs differ?

**6 Types of business managers** LO3

For the global online travel business Expedia, consider the management accounting informational needs of a sales manager versus those of the CEO. How would their needs differ? What information might be more relevant for an online travel business versus a bricks-and-mortar (physical store) travel business?

**7 Types of business managers** LO3

Explain three roles in practice outside of accounting that you think a management accountant might be equipped to do. Be as creative and broad (with justification), in identifying your answers. What is a key attribute linking all three roles you identify? Identify three information sources that might be relevant to your functioning of one of these three roles.

**8 Decision making and ethics** LO4

Tall Grass Batteries (TGB) Pty Ltd produces batteries for ride-on lawnmowers, and supplies batteries to some of the largest lawnmower manufacturers in Australia. In the last few months, the company has received reports of batteries exploding as a result of high heat. The incidents have all been in northern states and have occurred with only one particular brand and model of lawnmower. In this model, the batteries are installed beneath the seats of the mower. In more than one case, the exploding batteries have resulted in serious injuries. TGB officials are aware of the potential danger, but have been unable to determine the cause of the problem. Some company officials think that the problem may be with the lawnmower and not with the batteries, and internal testing has been inconclusive.

**REQUIRED**

- In your opinion, what responsibility does the company bear for the potential dangers of the battery?
- Should company officials try to shift blame to the manufacturer of the lawnmower, as the problems are only with one particular brand of mower?
- Identify the stakeholders who are impacted by the issue and discuss ethical considerations faced by company officials in this situation.

CHAPTER 1 Introduction to management accounting 15

**REVIEW 1 INTRODUCTION TO MANAGEMENT ACCOUNTING**

**LEARNING OBJECTIVES**

**Key Definitions**

**data** Reports such as financial statements, customer lists and inventory records.

**external users** Shareholders, potential investors, creditors, government taxing agencies, regulators, suppliers, customers and others outside the company.

**internal users** Individual employees, teams, departments, regions, senior management and others inside the company—often referred to as managers.

**planning** The development of both the short-term (operational) and long-term (strategic) objectives and goals of an organisation and the identification of the resources needed to achieve them.

**operational planning** The development of short-term objectives and goals (typically, those to be achieved in less than one year).

**strategic planning** Planning that addresses long-term questions of how an organisation positions and distinguishes itself from competitors.

**management accounting** The area of accounting primarily concerned with generating financial and non-financial information for use by managers in their decision-making roles within a company.

**stakeholder** Any person or group that either affects or is affected by the company's actions and decisions, includes:

- both external and internal users of information.
- creditors, government taxing agencies, regulators, suppliers, customers and others outside the company.
- individual employees, teams, departments, regions, senior management and others inside the company—often referred to as managers.
- the development of both the short-term (operational) and long-term (strategic) objectives and goals of an organisation and the identification of the resources needed to achieve them.
- the development of short-term objectives and goals (typically, those to be achieved in less than one year).
- the motivation and monitoring of employees and the evaluation of people and other resources used in the operations of the organisation.

**LO1 Describe the contemporary view of accounting information systems and describe and give examples of financial and non-financial accounting information.**

**LO2 Compare and contrast management accounting with financial accounting and distinguish between the information needs of external and internal users.**

**LO3 Recognise the role of relevant factors in decision making.**

**LO4 Understand sources of ethical issues in business and the importance of maintaining an ethical business environment.**

**Key concepts**

- Accounting information includes both financial and non-financial information used by decision makers.
- Financial accounting information is focused on the information needs of external users, while management accounting information is focused on the information needs of internal users.
- Opportunity costs are relevant. Future costs that do not differ among alternatives are not relevant. Sunk costs are not relevant.
- Establishing an ethical business environment encourages employees to act with integrity and conduct business in a fair and just manner.

**Concept questions**

- Discuss the relationships among data, information and knowledge.
- What is the primary purpose of financial accounting and of management accounting?
- Define strategic and operational planning.
- Briefly describe the role of the finance function within an organisation.
- Why has the role of the managerial accountant changed in recent years?
- Define sunk costs and opportunity costs, and discuss their importance in decision making.
- 'Businesses must first do well before they can do good.' Do you agree or disagree with the preceding statement? Why or why not?

# Guide to the online resources

## FOR THE INSTRUCTOR

Cengage is pleased to provide you with a selection of resources that will help you to prepare your lectures and assessments, when you choose this textbook for your course.

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### INSTRUCTOR'S MANUAL

The Instructor's Manual includes:

- Overview of the chapter content and Learning Objectives
- Lecture outlines
- Teaching tips for difficult content
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# PART ONE

## AN INTRODUCTION TO MANAGEMENT ACCOUNTING

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- 1** Introduction to management accounting
- 2** Product costing: manufacturing processes, cost terminology and cost flows
- 3** Fixed and rolling budgets for planning and decision making
- 4** Cost behaviour
- 5** Cost-volume-profit analysis
- 6** Relevant costs and product planning decisions
- 7** Long-term (capital investment) decisions

# 1

# INTRODUCTION TO MANAGEMENT ACCOUNTING

## Learning Objectives

After studying the material in this chapter, you should be able to:

- L01** Describe the contemporary view of accounting information systems and describe and give examples of financial and non-financial accounting information.
- L02** Compare and contrast management accounting with financial accounting and distinguish between the information needs of external and internal users.
- L03** Recognise the role of relevant factors in decision making.
- L04** Understand sources of ethical issues in business and the importance of maintaining an ethical business environment.

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Accountants are, at their core, numerical storytellers. Ideally, the stories constructed by accountants must represent high-quality, ethical, honest and meaningful explanations of the position, performance and general health of organisations. In times of crises and high uncertainty, such as the challenges presented by COVID-19, very few, if any, individuals in an organisation are equipped with the skills to see a set of financial numbers and read meaning into these numbers as much as an accountant. In Australia, the need for competent accountants is greater than ever before because of the increasingly complex global business models, the ever-increasing ability to access operational information through technology and big data, and the pressure for more efficient resource allocation in highly competitive and transparent markets caused by modernisation more generally. Businesses need qualified people who are able to not only prepare accounting numbers but also analyse and interpret or 'story-tell' their meaning in a way that influences the decisions of senior executives.

The Australian economy has undergone significant change in the past four decades. In the past, our country was more reliant on the agricultural sector, but is now increasingly dominated by service sectors. With the observed slowdown of activity in mining, and the closures of automotive manufacturing plants in Australia, as well as the rise of new industries such as the gig economy and 'green energy' production and distribution, investors are being increasingly challenged to consider new opportunities for value creation. Indeed, the issue of the world's growing population and the greater awareness of consumers regarding healthy food and beverage consumption has led to the re-emergence of the agricultural sector.

Two decades ago, the mainstream and global use of the internet fundamentally altered how existing businesses functioned. It created a whole new area of business (electronic commerce, or e-business) and new industries. Managing these new business models and information channels requires a broader range of information than ever before. Previous downsizing, combined with a more mobile and service-driven skilled workforce, has placed a premium on retaining talented, knowledgeable employees. Customers demand specialised products and services and real-time information concerning product availability, order status and delivery times. Suppliers need information on their buyers' sales and inventory levels to tailor production schedules and delivery times to meet buyers' demands. Shareholders demand greater value from their investments. Although these changes provide opportunities for those companies able to adapt to take advantage of them, they also create many challenges. Above all else, these changes require effective management of knowledge within an organisation. In

today's business environment, knowledge is power and must be managed well for a company to remain competitive.

Management accountant skill sets are highly sought after, not only within accounting but also outside of accounting firms. Management accountants work for professional accounting firms, consulting firms, in-house within organisations or corporations, as business managers and analysts, and in more senior roles such as chief executives or general managers. Why is this? Management accounting is inherently interdisciplinary. It is not enough that a management accountant can 'crunch' numbers – she must understand and analyse information in a way that allows those making decisions to better conceptualise the performance of their organisations and make superior decisions. This requires the coming together of two previously disparate worlds – the world of numbers, and the operational (real) world faced by firms. Management accountants transcend organisational finance and accounting roles in corporations to occupy very senior leadership positions in organisations owing to their capacity to grasp this capability.

#### data

Reports such as financial statements, customer lists and inventory records.

#### information

Data that have been organised, processed and summarised.

#### knowledge

Information that is shared and exploited so that it adds value to an organisation.

Although the terms are sometimes used interchangeably, knowledge should not be confused with data or information. Companies generate tonnes of **data** – financial statements, customer lists, inventory records and the number and type of products and services sold. However, translating data into an accessible and usable form is another matter. When data are organised, processed and summarised, they become **information**. When that information is shared and exploited so that it influences decision making and

adds value to an organisation, it becomes **knowledge**. This knowledge is subsequently used to drive actions in organisations, which ultimately affect their performance.

All types of organisations, from large multinational manufacturing companies such as the Ford Motor Corporation to small manufacturers of items such

as custom furniture, need accounting information. Retailers such as Woolworths, Coles, David Jones and Myer, hardware stores such as Bunnings, large service companies such as Australian Air Express need the services that can be provided by local certified public accounting (CPA, IPA), chartered accounting (CA) and management accounting (AICPA/CIMA) professions, as well as the Association of Chartered Certified Accountants (ACCA). Even disciplines outside of accounting, such as law or architectural firms, need accounting to measure their position and performance. Further, non-profit organisations such as the Australian Red Cross, Mission Australia and small local museums, as well as valuable charities such as Beehive Industries, use accounting information to more efficiently allocate their precious and often scarce resources. This information is therefore used by internal managers to assist their day-to-day decision making and also by external users, such as investors, creditors, donors and government bodies such as the Australian Taxation Office (ATO) and the Australian Securities and Investments Commission (ASIC).



Turning data into knowledge is a key to business success.

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#### accounting information system (AIS)

A transaction-processing system that captures financial data resulting from accounting transactions within a company.

## LO1 Accounting information

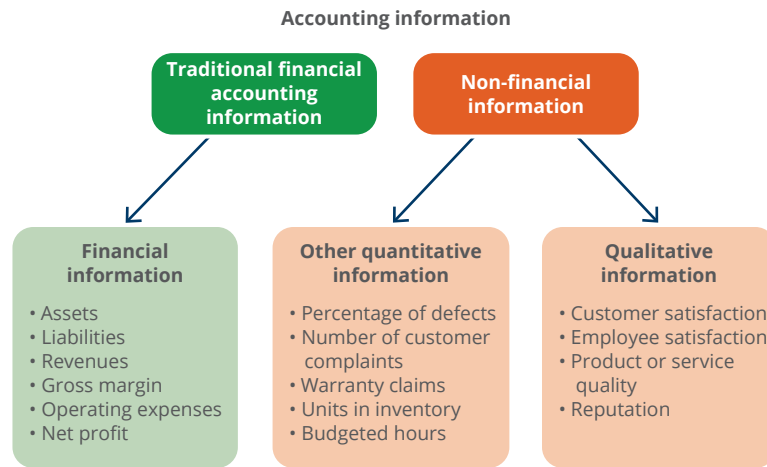
Accounting information is usually provided by a company's **accounting information system (AIS)**. Traditionally, the AIS was simply a transaction-processing

system that captured financial data resulting from accounting transactions. For example, the AIS might document a transaction to purchase materials by recording a journal entry showing the date of purchase, an increase to raw materials inventory and a corresponding increase to accounts payable or decrease in cash.

From this perspective of an AIS, accounting information simply represents financial information



## Exhibit 1.1 A CONTEMPORARY VIEW OF ACCOUNTING INFORMATION



(sales, net income, total assets, costs of products, and so on) expressed in terms of Australian dollars or other monetary units (for example, yen, euros or pesos). Other, non-financial information – such as the number of units of materials or inventory on hand, the number of budgeted labour hours to produce a product, the number of units necessary to break even and the time it takes to manufacture a product – were likely collected and processed outside the traditional AIS. However, using multiple information systems within a company can cause problems. It is costly to support multiple systems. Perhaps more importantly, it is difficult to integrate information coming from various systems and to make decisions for a company with multiple sources of information. In addition, other useful transaction information – such as the quality of the materials purchased, the timeliness of its delivery or customer satisfaction with an order – may not be captured at all and, therefore, management cannot evaluate it.

### enterprise resource planning (ERP) system

Software that integrates the traditional AIS with other information systems to capture both quantitative and qualitative data that can be collated into useful information for an organisation.

In recent years, **enterprise resource planning (ERP) systems** have been developed in an attempt to address these shortcomings. ERP systems integrate the traditional AIS with other information systems to capture both quantitative and qualitative data to collect and organise into useful information. ERP systems also help transform that information into knowledge that can be communicated

throughout an organisation.

Throughout our study of accounting information and its use in decision making, we emphasise the importance of considering both quantitative and qualitative information. To provide managers with the information they need to make effective business decisions, financial data must be linked to

non-financial data, transformed into useful information and knowledge, and communicated throughout an organisation (see **Exhibit 1.1**). This is also important as non-financial data usually represent leading indicators of future financial results. For example, if we purchase higher-quality materials today (non-financial data), the resulting positive customer perception will likely drive customer loyalty and higher subsequent repeat customer acquisitions, causing sales revenues (financial data) to increase in the future.



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## LO2 A comparison of financial and management accounting

**Financial accounting** is the area of accounting primarily concerned with the preparation of general-use financial statements for creditors, investors and other users outside the company (external users). On the other hand, **management accounting** is primarily concerned with generating financial and non-financial information for use by managers in their decision-making roles within a company (internal users).

This information is not usually shared with those outside the company. Although both financial accounting information and management accounting information are generated from the same AIS,

### financial accounting

The area of accounting primarily concerned with the preparation and use of financial statements by creditors, investors and other users outside the company.

### management accounting

The area of accounting primarily concerned with generating financial and non-financial information for use by managers in their decision-making roles within a company.

### stakeholder

Any person or group that either affects or is affected by the company's actions and decisions; includes both external and internal users of information.

the information is used in different ways by the various stakeholders of the company. A **stakeholder** is any person or group that either affects or is affected by the company's actions and decisions. As such, stakeholders include both external and internal users of information.

## External users

Shareholders, potential investors, creditors, government bodies, regulators, suppliers and customers are all **external users**. What types of information do external users need? Shareholders and potential investors might want information to help them analyse the current and future profitability of an organisation. The advent of COVID-19 might cause businesses to rethink how they report

### external users

Shareholders, potential investors, creditors, government taxing agencies, regulators, suppliers, customers and others outside the company.

their profitability and financial position. For example, how might companies report JobKeeper payments on their profit and loss statements?

Companies that have issued shares to the public (or those that plan to) provide this information in the form of annual reports, registration statements, prospectuses and other reports issued to shareholders, potential investors and ASIC. The information required in these reports and the accounting methods used to prepare them are governed by the Australian Accounting Standards Board (AASB) and ASIC. Although this information is primarily financial (such as sales and net profit), it may also include non-financial information, such as units shipped and market share. Additionally, it might include qualitative information typically described in the 'Management's Discussion and Analysis' section of annual reports.

What about smaller companies that are owned by just a few members of a family (called 'closely held') or non-profit organisations, such as the Salvation Army, Mission Australia or the Australian Red Cross? External users of financial information, such as banks or potential donors to non-profit organisations, still need accounting information to make good decisions about lending or donating money. However, their needs may differ from those of shareholders and potential investors. In times of crises, do we tighten our funding of these invaluable not for profit organisations, or do we release even more funds to them as there are more people requiring assistance than ever before?

Creditors generally want to assess a company's overall financial health and may be particularly

interested in a company's cash flow or ability to repay their loans. Potential contributors to non-profit organisations may have a need for both financial information, such as how much of the Australian Red Cross's budget is spent for charitable purposes, and non-financial information, such as how many single parents with children are served by the local homeless shelter of Mission Australia or the Salvation Army. This information might be financial or non-financial. Consider the often used ratio profit per unit (of product sold). The value 'profit' is a financial value, but the value 'units' is units sold, which is an operational piece of information that many different individuals in an organisation care about, beyond accountants. Accounting, even at its most basic level, must incorporate a range of non-financial numbers to better understand an entity's financial position and performance.

Government agencies (federal, state and local) have very specific information needs, including measuring the income, payroll and assets of an organisation to then assess taxes owed. This accounting information is typically provided on income tax returns, payroll reports and other forms designed specifically to meet the requirements of each agency.

Generally, accounting information provided to shareholders, creditors and government agencies is characterised by a lack of flexibility (its content is often dictated by the user), the reporting of past events using historical costs (financial statements for the previous three years) and an emphasis on the organisation as a whole.

Suppliers and customers are also external users. However, their accounting information needs are likely to be very different from those of other external users and may be more clearly aligned with the needs of internal users. For example, suppliers of parts to a manufacturer need detailed information on inventory levels of specific parts in order to know when to manufacture and ship parts. They will want to ensure if the manufacturer goes out of business, the company will still pay its suppliers until it closes – if earlier, then the financial ramifications of such a loss of a major customer must be communicated to suppliers.

Bank customers may want to check their account or loan balances before making a major purchase. Someone buying a new computer may want to check on the expected delivery date or whether a product is back-ordered before placing an order. This type of information needs to be much more detailed and timely than that provided to most other external users.

## Internal users

### internal users

Individual employees, teams, departments, regions, senior management and others inside the company – often referred to as managers.

**Internal users** of accounting information include individual employees as well as teams, departments, regions and top management of an organisation. For convenience, these internal users are often referred to as managers. Managers are involved in three primary activities: planning, operating and controlling.



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Management accounting is primarily concerned with generating financial and non-financial information for managers to use when making decisions within a company (internal users).

## Planning activities

### planning

The development of both the short-term (operational) and long-term (strategic) objectives and goals of an organisation and the identification of the resources needed to achieve them.

### operational planning

The development of short-term objectives and goals (typically, those to be achieved in less than one year).

**Planning** involves developing both the short-term (operational) and long-term (strategic) objectives and goals of an organisation and identifying the resources needed to achieve them. **Operational planning** involves developing short-term objectives and goals (typically, those to be achieved in less than one year). Sometimes, these goals do not manifest and companies such as Max Brenner Café (specialising in chocolate), notwithstanding their high-quality products, must rethink a path forward with decreasing demand. Examples of operational planning for Max

Brenner might include planning the raw material and production needs for each type of chocolate for the next annual period or determining their short-term cash needs. Operational planning for the Epworth Hospital in Melbourne will include budgeting for the number of doctors, nurses and other staff needed for the upcoming month or determining the appropriate level of medical supplies to have in inventory. Operational planning also involves determining short-term performance goals and objectives,

including meeting customer service expectations, hospital bed quotas and time limits.

**Strategic planning** addresses long-term questions of how an organisation positions and distinguishes itself from its competitors. For example, Max Brenner's strategy to produce high-quality chocolate would differ from that of a company producing a store brand of low-priced chocolate. When Max Brenner's financials began to show many stores to be less profitable than expected, management took difficult decisions to rationalise the number of stores – these more fundamental decisions might be classed as strategic planning decisions. Long-term decisions about where to locate plants and other facilities, whether to invest in new, state-of-the-art production equipment and whether to introduce new products or services and enter new markets are therefore strategic planning decisions. Strategic planning also involves determining long-term performance and profitability measures, such as measures of market share, sales growth and share price.

### strategic planning

Planning that addresses long-term questions of how an organisation positions and distinguishes itself from competitors.

## Operating activities

**Operating activities** encompass what managers must do to run the business on a day-to-day basis. Operating decisions for manufacturing

### operating activities

The day-to-day operations of a business.

companies include whether to accept special orders, how many parts or other raw materials to buy (or whether to make the parts internally), whether to sell a product or to process it further, whether to schedule overtime, which products to produce and what prices to charge. Other operating decisions affecting all organisations include assigning tasks to individual employees, choosing whether to advertise (and predicting the corresponding impact of advertising on sales and profits), choosing whether to hire full-time employees or to outsource staff, and reflecting on a stronger take-away strategy when societal crises driven by pandemics cause a decline in eat-in activity.

## Controlling activities

**Controlling activities** involve the motivation and monitoring of employees and evaluating people and other resources used in the organisation's operations. The purpose of control is to make sure that the organisation is attaining its goals. This includes using incentives and other rewards to motivate employees to accomplish an

### controlling activities

The motivation and monitoring of employees and the evaluation of people and other resources used in the operations of the organisation.



organisation's goals and using mechanisms to detect and correct deviations from those goals. Control often involves comparing actual outcomes (cost of products, sales, and so on) with the desired outcomes (as stated in the organisation's operating and strategic plans). Control decisions include questions of how to evaluate performance, what measures to use and what types of incentives to implement. For example, a company that emphasises high-quality products and excellent customer service may evaluate and reward workers who have exceeded goals based on these virtues. (Such goals may include specific metrics such as the percentage of allowable defective units or the number of customer complaints per month.)



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A management accountant is expected to meet the informational needs of many different arms of an organisation, be it a production department or any other department.

## The functional areas of management

Managers are found in all functional areas of an organisation, including operations and production, marketing, finance and human resources. Although managers rely on the same information provided to external users, they have other needs as well.

### Operations and production

#### operations and production function

The function responsible for the creation of products or services that an organisation sells to its customers.

The **operations and production function** is responsible for the products or services that an organisation sells to its customers. Operations and production managers are concerned with providing quality products and services that

can compete in a global marketplace. They need accounting information to make planning decisions affecting how and when products are produced and services are provided. They need to know the costs of

producing and storing products in order to decide how much inventory to keep on hand. They need to know the costs of labour when making decisions on whether to schedule overtime to complete a production run or when deciding how many physicians are needed in an emergency department. These decisions are also influenced by information provided by marketing managers, including the expected customer reaction if products are not available when orders are placed or if doctors are not available when patients need them.

### Marketing

The **marketing function** is involved with developing, pricing, promoting and distributing goods and services sold to customers. Marketing managers need to know how much a product costs to produce to help establish a

#### marketing function

The function responsible for developing, pricing, promoting and distributing goods and services sold to customers.

reasonable selling price. They need to know how a given advertising campaign and its resulting impact on the number of units sold is expected to affect income. They need to know how enhancing a product's features or changing its packaging will influence its cost. Commissions paid to sales representatives may be based on a company's profits. All these marketing decisions require accounting information.

### Finance

The **finance function** is responsible for managing the financial resources of the organisation. Finance managers make decisions about how to raise capital as well as where and how to invest it. Finance managers need accounting information to decide such issues as whether money should be raised through borrowing (issuing bonds) or selling shares, whether a new piece of manufacturing equipment should be purchased or leased, and whether a plant expansion should be paid for in cash or by borrowing money.

#### finance function

The function responsible for managing the financial resources of the organisation.

### Human resources

Although all managers who supervise, motivate and evaluate other employees are human resource managers, the **human resource function** is concerned with the best use of human resources to help an organisation reach its goals. More specifically, human resource managers support other functions and managers by recruiting staff, designing compensation and benefit packages,

#### human resource function

The function concerned with the best use of human resources to help an organisation reach its goals.



ensuring the safety and overall health of personnel, and providing training and development opportunities for employees. These decisions require input from all other functional areas.

What kind of accounting information do human resource managers need? Human resource decisions, such as hiring new employees, are often made within budget constraints. Ensuring safe workplaces for employees may involve redesigning manufacturing processes. Accountants can provide information regarding the cost of the redesign. The decision to train employees to use new equipment may require an analysis of the costs and benefits of the new program.

## The information needs of internal and external users

As you can see, the information needs of internal and external users differ in significant ways. Because of

### generally accepted accounting principles (GAAP)

An agreed-upon set of accounting principles, standards and procedures that organisations follow when putting together financial statements.

the varying needs of internal users, management accounting is more flexible than financial accounting. While financial accounting is geared towards preparing financial statements and other reports according to **generally accepted accounting principles (GAAP)** and other rules, management accounting

can be customised to a specific company or segment of a company. Financial accounting is primarily concerned with reporting on the company as a whole, while management accounting emphasises the various segments of a company such as divisions, departments, sales regions and product lines.

Because of the decision focus of internal managers, management accounting information must focus on the future rather than the past. Planning is an integral part of the manager's job, and in order to plan effectively, managers need up-to-date information. Although the timeliness of information is paramount, management accounting information frequently is less precise than financial accounting information and often includes estimates.

**Exhibit 1.2** summarises the external and internal users of accounting information, the type of information typically needed by these users and the source of the information.

## The role of the management accountant

What is the role of the management accountant in providing information to this diverse group of users? Management accountants have traditionally been thought of as the bean counters or number crunchers of an organisation. However, advances

**Exhibit 1.2 EXTERNAL AND INTERNAL USERS OF ACCOUNTING INFORMATION**

Internal or external	Users	Type of accounting information needed	Source
External	Shareholders and creditors	<ul style="list-style-type: none"> <li>Sales, gross profit, net income, cash flow, assets and liabilities, earnings per share and so on.</li> <li>Although this information is primarily financial, it may also include non-financial information (for example, units in inventory).</li> <li>This information is often provided in summary form (for the company as a whole) and typically is historical in nature.</li> </ul>	Annual reports, financial statements and other available documents
External	Government bodies	<ul style="list-style-type: none"> <li>Varies by agency but includes taxable income, sales, assets, comparisons of actual expenditures to budgets and so on.</li> <li>This information is usually provided for the company as a whole and is historical in nature. It can include both financial and non-financial information.</li> </ul>	Tax returns and other reports
External	Customers and suppliers	<ul style="list-style-type: none"> <li>Order status, shipping dates, inventory levels, etc.</li> <li>This information must be detailed and timely to be useful.</li> </ul>	Limited-access databases available to specific customers and suppliers
Internal	Marketing, operations and production, finance and human resource managers	<ul style="list-style-type: none"> <li>Timely and detailed information on sales and expenses, product costs, budget information and measures of performance.</li> <li>Often includes non-financial data (direct labour hours, units to break even, etc.).</li> <li>Accounting information is often needed for segments of an organisation and is more likely future oriented than historical.</li> </ul>	Cost reports, budgets and other internal documents

in AIS and other changes in the past decade have resulted in the automation of traditional accounting functions involving data collection, data entry and data reporting, and a corresponding shift of those functions from management accounting to clerical staff.

As a result, management accountants in many companies now focus on analysing information and creating knowledge from it rather than collecting data. Management accountants have become decision-support specialists who see their role as interpreting information, putting it into a useful format for other managers and facilitating management decision making. Put simply, the management accountant of the future must ask ‘What can I do that a computer cannot?’ Given the complexity of human interactions, customer behaviours and expanding markets, management accountants analyse accounting information to help managers plan, control and evaluate their future with consideration for the above factors. This has potential to add considerable value to organisations. In short, the management accountant is not only a finance professional in an organisation but also a business partner.<sup>1</sup> Computers might offer invaluable information regarding the impacts of COVID-19 on business cash flows and profitability, but it is the management accountant that takes this information, makes sense of it, and recommends strategic and operational decisions from the same information.

managers in organisations differ, the process they follow for **decision making** is remarkably uniform. In fact, it is the same decision-making model that you are likely to use when making your own decisions outside the corporate sphere. Do you remember the process you went through the last time you made a major decision? It could have been choosing to buy or sell a car, a computer or a stereo system. It could have been a decision to attend a particular university, accept a particular job or perhaps even get married!

Decisions have many variables or factors that must be considered. If you are making a decision about whether to purchase the latest iPhone or a Samsung Galaxy, you might consider variables such as cost, features, its ‘look’, and your friends’ choices and experiences, as well as the phone-plan options with different providers. If you are deciding which university to attend, factors might include the cost, proximity to your home and academic reputation of the institution. Different decision makers might even consider different factors for the same decision situation. For example, the colour of a phone may be unimportant to one buyer but critical to another. The number and type of variables considered might differ for each individual and for each decision that individual makes.

Decisions may have to be made within time, budget or other constraints. Your choice of an iPhone may be limited to those phone plans that cost under \$70 per month. Your decision to accept a summer job may be limited to those that are within 30 kilometres of your home. Your decision to attend university may have to be made by a certain date. In addition, many decisions are made with missing or imperfect information. In deciding which car to buy, you might want to consider the cost of future repairs for various models. Although you might estimate these costs by reading information from sources such as the Drive or Carsales websites, you cannot be certain about the future costs. Decisions may not be perfect, but they should be the best you can make given the information that is available to you at the time. The process you go through serves to gather all the information you can in order to reduce the risk of an incorrect or less-than-optimal decision.

Finally, decisions often lead to other decisions. Once you have decided to buy a car or a computer, you need to make other decisions, such as whether to pay cash or use credit or whether to buy an extended warranty. Life does seem like a never-ending string of decisions.

#### decision making

The process of identifying alternative courses of action and selecting an appropriate alternative in a given decision-making situation.



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Management accountants facilitate management decision making.

## **LO3** Relevant factors for decision making

Although the problems and questions facing marketing, production, finance and human resource