
Management accounting: Information for creating value and managing resources

ANSWERS TO SELECTED REVIEW QUESTIONS

- 1.2** The explosion in e-commerce will affect management accounting in significant ways. One effect will be a drastic reduction in paperwork. Millions of transactions between businesses will be conducted electronically with no hard-copy documentation. Along with this method of communicating for business transactions comes the very significant issue of information security. Businesses need to find ways to protect confidential information in their own computers, while at the same time sharing the information necessary to complete transactions. Another effect of e-commerce is the dramatically increased speed with which business transactions can be conducted. In addition to these business-to-business transactional issues, there will be dramatic changes in the way management accounting procedures are carried out, one example being e-budgeting, the enterprise-wide electronic completion of a company's budgeting process.
- 1.3** Management accounting information prepared on a regular basis includes product costs, profitability reports, and also individual resource costs such as materials purchased and used, labour costs and the costs incurred in providing and managing facilities. On an ad hoc basis, management accounting reports may be prepared to estimate future cash flows relating to the impact of purchasing and operating a new piece of equipment and the expected outcome from changing the product mix.
- 1.4** 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'. Value creation is a central focus for contemporary managers. *Customer value* refers to the value that a customer places on particular features of a good or service (and which is what leads to them purchase the product). *Shareholder value* is the value that shareholders, or owners, place on a business, usually expressed in the form of increased profitability, increased share prices or increased dividends.
- 1.5** The important differences between *management accounting* and *financial accounting* are listed below.
- (a) Management accounting information is provided to managers and employees within the organisation, whereas financial accounting information is provided to interested parties outside the organisation.
 - (b) Management accounting reports are unregulated, whereas financial accounting reports are legally required and must conform to Australian accounting standards and corporations law.
 - (c) The primary source of data for management accounting information is the organisation's basic accounting system, plus data from many other sources. These sources will yield data such as rates of defective products manufactured, physical quantities of material and labour used in production, occupancy rates in hotels and hospitals and average take-off delays in airlines. The primary source of data for financial accounting information is almost exclusively the organisation's basic accounting system, which accumulates financial information.
 - (d) Management accounting reports often focus on sub-units within the organisation, such as departments, divisions, geographical regions or product lines. These reports are based on a combination of historical data, estimates and projections of future costs. The data may be subjective and there is a strong emphasis on reporting information that is relevant and timely. Financial accounting reports tend to focus on the enterprise in its entirety. These reports are based almost exclusively on verifiable transaction data. The focus is often on reliability rather than relevance and the reports are not timely.
- 1.7** The 'Real life' report of Australian organisations in the twenty-first century demonstrates issues such as increasing competition and pressure to reduce costs. This pressure makes it imperative to have a clear idea of a business' costs. Management accountants' role then has become essential to the continuing success of organisations, in terms of providing information that allows management to plan and control their organisations in response to today's rapidly changing business environment.
- 1.8** With the development of management accounting techniques that better assist decision making, management accountants gradually took their place in decision-making teams. It is possible for management accountants to have a presence on the factory floor and in the corporate offices. Very often each plant will have at least one

management accountant. The chief management accountant is then likely to be located in head office where he or she has regular contact with other senior managers and is regularly involved in meetings with these other senior personnel.

1.9 A CFO needs to possess:

- leadership skills that can be applied to the accounting/finance function, senior management and the organisation as a whole
- managerial skills that support the need to balance responsibilities of stewardship with those of strategy development and implementation, thus requiring the effective and efficient acquirement of and use of resources while safeguarding assets through internal controls and risk management
- the ability to build effective, collaborative relationships with internal and external stakeholders
- understanding of the organisation and its environment, such as its competitors, markets, technologies and new developments
- professional qualities as they pertain to professional accountants, including integrity, objectivity and competence.

While the CEO may be the first pilot, the CFO can be an indispensable flight engineer.

1.10 Student answers will vary depending on the organisation chosen, but major processes that management accounting systems use to create value and manage resources include:

- product costing systems that estimate the cost of resources consumed in producing goods and services
- processes that compile information that is required in planning and control, the preparation of budgets (financial plans) and the monitoring of progress in comparison to planned progress (control)
- performance measurement and evaluation processes relating to individuals, discrete parts of the organisation and the organisation as a whole.

1.13 A management accountant might provide the following types of information to assist management in a business that considered product quality to be of key strategic importance:

- number of defects
- quality costs (i.e. the costs incurred in training, maintaining and improving equipment, scrapping or correcting defective work)
- warranty costs
- returns
- analysis of customer needs, inquiries and complaints
- number of new customers
- customer retention rate
- customer satisfaction with products
- customer profitability analysis
- market share.

1.18 The implications of contingency theory for management accounting system design are that the design may be influenced by (that is, be contingent upon) a range of factors that reflect the context within which the organisation operates, including the external environment; technology; organisational structure; organisation size; strategy; and organisational and national culture (Chenhall, 2003). This means that in designing the system, the management accountant will need to take account of the size and complexity of the organisation, the types of markets the organisation operates in, the existing management style within the organisation and so on.

1.19 During the 1980s and 1990s, management accounting started to shift towards the broader techniques of resource management and focused on the creation of customer value and shareholder wealth. Management accountants became more valuable in the formation and evaluation of strategies. Accordingly, by the early 2000s, management accountants were seen as part of the management team, with a clear view of the 'big picture', a full understanding of the business as a whole and as providers of information to managers that could help them to maintain a competitive advantage in order to achieve corporate objectives. The focus of management accounting in the first decades of the 21st century has broadened from the drivers of customer value, shareholder value and organisational innovation to include the drivers of stakeholder value, risk management and sustainability reporting. Students will find that the broader focus on all stakeholders (not just customers and shareholders) is explored in more detail in Chapter 17.

SOLUTIONS TO EXERCISES

EXERCISE 1.21 The nature of management accounting

1 Correct answer: (b)

The primary role of management accounting often involves **predicting future outcomes** to assist managers in decision making. Decisions are about the future so management accountants *are* required to predict future outcomes. Unlike financial accounting, it is *not* confined by a need to provide objective, verifiable information that emphasises accuracy, and does not restrict itself to financial information. Rather, it is often based on estimation, probabilities and expectation. To provide information that is relevant to managers' decisions, management accounting goes beyond financial information to include both quantitative and qualitative, non-financial information.

2 Correct answer: (c)

Other than providing data for the use of financial accountants in preparing financial reports (that is, the cost of goods sold and inventory) and reporting the outcome of past decisions for performance evaluation and feedback on predictive processes, management accounting is **tailored to the needs of managers**. To do this it:

- regularly changes to meet the current changing demands of managers, responding to changes in the business environment
- often provides a detailed analysis of information
- involves far more than cost accounting
- does not over-aggregate information since the detail is usually important to the users.

3 Correct answer: (b)

Management accounting is **relevant to strategy decisions**—management accountants are responsible for providing information to support the planning and implementation of their organisation's strategies and to maintain their sources of competitive advantage. Management accountants assist in implementing strategies through the use of planning and control systems. Long-term plans need to be linked to the budgeting system, to produce annual budgets that support the organisation's strategies. Likewise, performance measurement systems can be used to compare actual outcomes to budgets and other targets that focus on the organisation's strategic objectives. To help managers in decision making management accounting must:

- be relevant to strategic decisions and consistent with attempts at implementing strategy
- provide information that is relevant to decision making and does not contain extraneous information that could confuse management
- be future-focused even if this represents expectations rather than precise measures.

EXERCISE 1.22 The nature of management accounting systems

1 **False.** The management accounting system may not be able to provide all of the information managers need to make decisions. Although management accounting systems are increasingly providing physical information (such as reject rates and material usage) as well as financial information some management decisions require information from other sources. Examples of such information include competitors' prices, market research information, forecasts, environmental impacts, technological possibilities and so on.

2 **True.** There is some overlap between management accounting systems and the information required to produce financial statements, as both draw on the transaction-based accounting system. In particular, the costing system informs the management accounting reports and provides estimates of product costs for inclusion in the balance sheet and income statement. However, management accounting systems are not subject to external regulations and draw data from wider sources, consider the present and the future, and emphasise relevance to managers. Management accounting systems also need to be flexible enough to produce information required by managers for routine decisions and also some of the information needed for decisions that occur infrequently.

- 3 **True.** Management accounting systems do draw on data from a variety of internal and external sources, unlike financial accounting systems, which rely primarily on internal information from the transaction-based accounting system.
- 4 **False.** Management accounting is not directly concerned with product quality, however, management accountants may prepare data to help managers assess whether or not the business is meeting quality expectations and requirements.
- 5 **False.** While management accountants should supply information that is relevant and timely, it may not be 'objective' and 'verifiable' in the financial accounting sense. There is likely to be a trade-off between accuracy and timeliness and the management accountant may well accept estimates rather than verifiable measures to ensure that information is available to support managers' decisions on a timely basis.

EXERCISE 1.23 Differences between management accounting and financial accounting

1	Preparing a balance sheet	(b)	Financial accountant
2	Preparing a profit forecast by product line	(a)	Management accountant
3	Estimating the depreciation expense for a factory's equipment	(a) or (b)	MA or FA
4	Monitoring the effects of a quality improvement program	(a)	Management accountant
5	Estimating the cost of goods produced	(c)	Cost accountant
6	Estimating the cost of a prototype for a new product being developed	(a)	Management accountant
7	Preparing a sales forecast	(a)	Management accountant
8	Monitoring the effects of a waste reduction program	(a)	Management accountant
9	Preparing a report on customer satisfaction	(a)	Management accountant
10	Preparing an income statement	(b)	Financial accountant

EXERCISE 1.24 The role of the management accountant

Many answers are possible. Management accountants' roles and duties should be to support senior executives in planning and setting budgets, and monitoring progress towards achieving strategic goals, mission and vision of the business. A management accountant does this with tools, processes and techniques as well as via analysis of information, to allow management to make better strategic business decisions, thereby adding value to the business as a whole.

EXERCISE 1.25 Management accounting information

- 1 Estimate of enrolment numbers; current number of academics; current academic workload; expected academic workload; level of expertise required; expected salary requirements; financial resources available to employ new staff.
- 2 Estimate of demand in the Burwood area; estimate of building costs, such as construction costs; availability of additional staff; cost of hiring additional staff; cost of complying with legal requirements; costs of market research such as demographic research, competitors and shopping habits of local residents; cost of marketing and promotion; financial resources available for the new project; analysis of how the new store will help to achieve the strategic goals of the business.
- 3 Expected demand for the new flavour; timing of the introduction of the new flavour; demographic features of the target market; trend analysis for the sale of existing products; historical sales of existing products when they were first introduced.

Relevant financial data includes competitors' sales of similar products; costs of marketing and promotion of the new flavour; current production capacity; whether there needs to be an adjustment of the sales mix.

- 4 Forecast of future trends such as whether the increase in patient numbers is likely to be permanent or temporary, cost to employ additional permanent staff and cost to hire agency staff. Patient feedback regarding current levels of care may also be relevant.

EXERCISE 1.26 Major influences on management accounting

- 1 **True.** Many management accounting techniques were developed within the manufacturing sector due to its growth, increasing complexity and diversification.
- 2 **True.** With the changing organisational structures, management accountants may now need to provide information to employees at the operational levels of the business, as well as to middle and senior managers.
- 3 **True.** Management accounting is increasingly concerned with reporting both financial and non-financial information. Management accounting can play a major role in developing measures of customer service but it is not always used to full advantage. However, developing measures of customer service is the responsibility of management accountants in some organisations, as they may form part of the broader performance measurement system.
- 4 **True.** Advances in information technology have a big impact on the way management accountants supply information to managers. Greater volumes of data may be processed in a shorter time, which allows information to be supplied to managers more frequently and in a more timely manner. Printed reports may give way to electronic databases that managers can access when they require information. Numeric information may be supplemented by graphical displays to enhance levels of communication.

EXERCISE 1.27 Management accounting information

- 1 Competitors' services and prices; current market share; cost of developing, producing and marketing the new service; forecasted profitability of the new service; potential impact on sales of existing services; forecasted subscriptions of the new service; additional staffing requirements; additional equipment needed.
- 2 Availability of additional staff; cost of hiring additional staff; effect on morale of existing staff; additional office and vehicle requirements; expected sales and profit generated by additional staff; cost of additional salaries.
- 3 Costs associated with the two alternatives; any impact on customer satisfaction arising from delaying production by a week; cost of overtime; delays to regular production; availability of staff to work overtime.
- 4 Costs and potential profit from the electric-powered cars; expected sales of current car models; competitors' rentals of electric-powered cars; cost of marketing the new product; salaries for additional sales staff or costs of up-skilling existing sales staff; cost of training existing staff or hiring new technical staff for maintenance of new cars; cost of searching for suppliers of new cars and car parts; cost of renting new spaces or renovating existing spaces; strategic goals of the organisation.

EXERCISE 1.28 Management accounting information

Students' answers will vary depending on the website chosen.

EXERCISE 1.29 Management accounting system design

- 1 Institutional theory states that organisations may adopt a certain control and management system to achieve legitimacy or efficacy within or beyond their organisation. It may lead a firm to adopt a strategic management system that is similar to other organisations in the same field, not as a response to a demand to improve internal processes but to be seen as having the latest or the same innovations as other leading companies. For example, organisations may seek legitimacy by adopting 'accepted' practices, such as the balanced scorecard, which has become one of the most adopted management accounting systems since 1992 and is associated with innovative

and responsible business operations.

Organisations who face public scrutiny and accountability may choose to shape their management accounting systems around accepted views of good practice as displayed by other firms to allow them to demonstrate they have followed standard practices.

- 2 In answering this question, students should think about a situation where a firm's accounting system did not provide information that was useful for decision making but was adopted by the organisation anyway. An example is the inappropriate uptake of complex costing systems. A firm that has few products and little diversity among those products does not require a complex costing system as this sophistication can make only minor differences to the product costs developed.

EXERCISE 1.30 (appendix) Evolution of management accounting

- 1 (b)
- 2 (c)
- 3 (d)
- 4 (c)
- 5 (c)

SOLUTIONS TO PROBLEMS

PROBLEM 1.31 Differences between management accounting and financial accounting

1 To: Human Resources Manager
From: Financial Controller
Re: Two new positions

With the growth in the organisation and the increasing demand for the accountants' assistance in the formulation of a new strategic direction, the accounting department seeks the creation of two new positions. For your assistance in distinguishing between the two positions and in filling them I provide below some information with regard to the different roles, one a financial accountant and the other a management accountant.

The financial accountant will be part of the financial accounting team. It is responsible for preparing and reporting accounting information for users external to the organisation. This includes current and prospective shareholders, lenders, government agencies (for example, the Australian Taxation Office), investment analysts and other external stakeholders. The reports for these external bodies focus on what has happened and are based on past transactions and decisions. The financial accountants ensure the accurate recording of transactions so that they can prepare reports that are reliable and verifiable and that conform to detailed accounting standards and corporate law.

In contrast, the management accountant needs the skills required to be able to prepare information that will assist internal decision makers—our managers. The internal reports are more detailed than external reports and are not constrained by external regulation on what is included or how they are prepared. The focus is on assisting the decision being made. Since decisions are about the future, not the past, management accounting information often includes estimates, projections and alternatives. Relevance to the decision is paramount. The management accountant will go beyond financial data to include consideration of qualitative and non-financial quantitative information. The content of the reports must be timely, and will often be subjective, using a variety of techniques to analyse data. The need for relevance means that different detail will be pertinent at different levels of the organisation. The person must also have an understanding of how their output can affect employee engagement.

2 Possible questions and answers:

- i. *Can't we manage with one new position to cover all extra tasks?* The skill set is different for the two positions and we would prefer specialists who are fully familiar with the latest developments. The financial accountant will need to be up to date with changes in accounting standards and legislation. The management accountant develops experience in analysing data, understanding the needs of managers even when those managers cannot articulate what information will be the most useful to them (often because they are not aware of the possibilities), and has knowledge of current developments in management accounting techniques.
- ii. *What experience should the management accountant have?* While they do not need to have experience with all of these it would help if they had experience in some of the following: activity-based costing or at least activity analysis, target costing, cost-volume-profit analysis, life cycle costing, environmental management accounting, process re-engineering, performance evaluation, analysing quality costs and budgeting and project costing. In addition to being able to apply prescribed methods of analysis, the management accountant should show an aptitude for being innovative in the use of these methods and in preparing analyses and reports designed specifically for the use and the user.
- iii. *What experience should the financial accountant have?* While not essential it would help if they had experience in a manufacturing industry so that they are familiar with any changes to the accounting standards that are particularly pertinent to us.
- iv. *How important is it to be a team player?* It is important for the financial accountant to work well with the other accountants, including the management accountants who will need to provide them with product cost information for the external reports. Unlike the senior financial accountants this person will not have much need to interact with managers outside the accounting department. However, all of the management accountants need to interact well with other employees at all levels. They need to understand the other managers' needs, the strategic direction of the company, and the performance variables affecting employees. They also need a detailed understanding of operations and an ability to discuss managers' decisions with them. Part of the management accountant's task will be to motivate good performance from employees through the design and use of the management accounting system.
- v. *What qualifications should they have?* They should both have relevant degrees and membership of relevant

accounting bodies. While they could each be a member of the ICAA, CPA Australia or NIA, the management accountant might be a member of a specialist management accounting body such as the Chartered Institute of Management Accountants (CIMA).

PROBLEM 1.32 Designing a new management accounting system

- 1 As the new management accountant, I am eager to be involved in the design and operation of the new management accounting systems for the hospital. My training as a management accountant provides me with the skills to help design these systems and to ensure that they meet the needs of the business. A management accounting system should be tailored to the specific needs of the organisation. It should flow from the organisation's strategy and take account of a range of contingent factors that are both internal and external to the organisation, such as the competitive environment and organisational structure. I have a good knowledge of strategic planning and well-developed skills in the area of information systems and accounting systems design.

Much of the information needed to operate the management accounting systems will draw on the existing transaction-based accounting system. As an accountant, I am in a good position to advise on the types of data that may be used in costing services and departments. In addition, the management accounting system will provide a range of predicted information, such as departmental budgets, and non-financial information, such as operational performance measures (as described in requirement 2 below).

When consultants are engaged to design the new systems, it is important that there are managers within the hospital who are involved in the design phase, to ensure that the operation of the new systems proceeds smoothly. Management accounting staff are the most appropriate staff to participate and supervise the operation of the systems on an ongoing basis.

- 2 There are many different types of information that may be required weekly or monthly by senior managers as the hospital consists of many different 'businesses'. Some examples are as follows:

- Accident and emergency: number of patients treated, average length of stay, number of referrals to consultant, billing rate, Medicare revenue, private insurance revenue, gap revenue, medical supply costs, average cost per bed, average cost per patient
- Intensive care: bed occupancy rate, number of patients treated, average length of stay, number of patients unable to be accommodated and transferred due to lack of beds, intensive care nursing hours, number of incident reports, billing rate, Medicare revenue, private insurance revenue, gap revenue, medical supply costs, kitchen costs, average cost per bed, average cost per patient
- Neurology: number of patients on waiting list, bed occupancy rate, number of patients treated, average length of stay, billing rate, Medicare revenue, private insurance revenue, gap revenue, kitchen costs, medical supply costs, average cost per bed, average cost per patient
- Cardiology: number of patients on waiting list, bed occupancy rate, number of patients treated, average length of stay, billing rate, Medicare revenue, private insurance revenue, gap revenue, kitchen costs, medical supply costs, nursing costs, average cost per bed, average cost per patient
- Radiology: number of X-rays during period, number of radiology staff hours during period, number of referrals per doctor, billing rates, Medicare revenue, private insurance revenue, gap revenue, medical supply costs, nursing costs, average cost per patient
- Patient records: number of new records, number of patient entries processed, staffing costs

NOTE: More detailed information may be required by middle management and junior managers.

- 3 Weekly and monthly reports may be supplied electronically to allow managers access to information when they require it and at the various levels of detail that they need. Information may be added to databases very soon after the end of each week or month to provide information to managers as quickly as possible.

PROBLEM 1.33 Management accounting information

- 1 Relevant financial information would include a budget for revenue and expenses, as well as a capital budget. Non-financial information would include market prospects, for example, number of dogs in the area you intend to open the salon in, number of dog grooming salons currently in the area, proposed location of the salon and staffing requirements.

- 2** Financial information:
- cost to purchase necessary pieces of equipment
 - cost to furnish the salon
 - projected running costs such as power, rates, insurance, rent, advertising, staff salaries
 - costs relating to business registration and any legal requirements
 - cost for standard grooming service
 - analysis of the impact of different service fees on demand and the resultant projected total monthly revenue stream.
- Non-financial information:
- projected demand at different times and on different days in order to schedule appropriate number of staff
 - demographic profile of residents in surrounding areas
 - number of dogs in the surrounding areas
 - relevant advertising campaign to attract target market
 - customer satisfaction survey results
 - competitor details, such as location of salons and prices.

PROBLEM 1.34 The strategic nature of management accounting

Students should be encouraged to write a report on the role of the management accountant in relation to being part of the strategic leadership team (SLT). The following is a suggested example outlining activities such as financial analysis, strategic plan creation, risk management/mitigation and sustainability initiatives, to name a few strategic areas where management accountants provide information that will assist the SLT to make better business decisions through strategic planning.

To: Human Resources Manager
 From: Financial Controller
 Re: A strategic leadership role

As the new senior management accountant, I am eager to be a member of the Strategic Leadership Team. A few decades ago management accountants were educated and trained to provide financial reports and perform some analyses, largely of financial information, as required. More recently management accounting has developed beyond that role, such that management accountants are equipped to make valuable contributions to the formation and evaluation of strategies. It is common for management accountants to be part of senior management teams, with our clear view of the big picture, a full understanding of the business as a whole, and as a provider of information to managers that can help them maintain a competitive advantage in order to achieve corporate objectives.

Having developed techniques over the last century that assist in the creation of shareholder wealth and customer value, we now also focus on analyses that assist in risk management and sustainability reporting and have a greater understanding of the drivers of stakeholder value. (A stakeholder perspective recognises a wider range of influences over businesses than just shareholders and customers.) I have been educated and gained experience in these areas and would be of great value as a member of your SLT. Strategy underpins all that the management accountant does. Management accountants are at the forefront of monitoring the organisation's strategic advances and strategy development should be integral to my role.

I can bring to the SLT an understanding of financial and non-financial aspects of operations; a breadth of knowledge of operations, as required to provide assistance across all departments; and a depth of knowledge of operations as required to lead my team in our normal reporting and supporting roles. Consequently I can contribute to the latest approaches that enhance success in the modern competitive environment in the context of our particular operating and strategic needs.

PROBLEM 1.35 Information for management

- 1** Areas of concern for Murphy include (but are not limited to) the following:
- inventory control
 - seasonal sales
 - lack of cash flow

- cost increases
- increasing costs of ski trips
- supplier management
- customer satisfaction.

2 There is a variety of information that Murphy could use to help him run his business more effectively. The main areas of concern appear to relate to inventory, cash flow, supplier performance and loss of customers. Also, the ski business may not be profitable. The following information may be useful:

- inventory—inventory turnover, reporting of monthly inventory balances, all by product line
- sales—monthly sales units by product line, sales forecasting
- weekly cash flow budgets
- monthly cost budgets versus actual costs
- monthly profitability statements by sales outlet, by product line, by business (for example, ski trips)
- detailed analysis of costs of the skiing business
- supplier performance indicators, including those that relate to delivery performance, cost and quality
- customer performance measures—customer satisfaction, customer complaints, number of customers retained
- benchmarking of products and selling prices with competitors.

3 No. As an accountant it is important to be able to use both financial and management accounting to analyse and improve businesses, to enable business owners to make better decisions. The role of the accountant is to provide information to managers to assist in managing resources and creating value. This requires that both financial and non-financial information be analysed. Merely providing financial information is not sufficient. There is no evidence that budgeting systems are in place, and these are needed to provide a framework for planning and for controlling operations and the overall business. Profit statements need to focus on areas of the business that are of interest to managers, such as sales outlets and the ski business. Performance indicators will be needed, to assess areas of the business where performance needs to be improved. The accountant could suggest that Murphy needs to put in place more detailed reporting systems, including a budgeting system, detailed profit reporting and performance indicators. If the accountant will not assist in these developments, then other managers may need to be employed to assist—or perhaps the accountant needs to be replaced!

PROBLEM 1.36 Vision, mission statement, objectives and strategy

1 and 2

Many answers are possible. An example of a not-for-profit organisation is:

The Australian Institute of Energy

Vision – *Leadership in Energy*

Mission – *To promote understanding and awareness of energy issues and the development of responsible energy policies in Australia.*

Objectives:

- *A strong independent Institute, representative of all energy sectors, actively networking and debating economic, environmental, social and technology issues*
- *Effective communication and interaction between Members*
- *Excellence in the provision of services to Members*
- *Collaboration with related organisations, in Australia and overseas, in advancing Members' interests*
- *High standards of Member conduct, competence and achievement and professional interest and inquiry*
- *Enhanced community awareness of issues in the production and use of energy and in responsible energy policies.*

(Note that for internal management purposes it is likely that these objectives would be made more specific and narrow and expressed in future orientated, quantifiable and time-related terms.)

Strategies:

- To encourage dynamic branches throughout Australia, with active programmes supporting Members' interests and debating relevant issues
- To encourage and enhance interaction between Members and other interested parties at Institute meetings and conferences and through the Institute's internet site and journal
- To undertake continuous improvement in Member services and develop new, innovative activities for Members
- To develop collaborative arrangements with professional organisations and associations, accessing relevant programmes and publications for Members
- To facilitate participation by students and younger Members in Institute activities
- To promote training opportunities
- To encourage and recognise excellence and high professional standards in Members' activities through awards
- To publicise and promote Institute activities and views to governments and in the wider community.

Source: The Australian Institute Of Energy, available at www.aie.org.au/national/vision.htm, accessed 9 December 2008.

An example of a commercial organisation is: Hunt Energy and Mineral Co Australia Pty Ltd

Vision:

A drilling company that is committed to providing a safe, illness and injury free working environment and long term job security for all its employees.

Mission:

To contribute to the oil and gas industry an efficient and competitive drilling company continually striving for excellence.

Source: Hunt Energy and Mineral Co Australia Pty Ltd, available at www.huntenergy.com.au/statement.htm, accessed 9 December 2008.

Objectives and strategies are not included on the website. From the information that is available the following suggestions are made:

Objectives:

- To win contracts to drill for oil and gas
- To set up and manage drilling projects to maximise returns
- To provide long-term job security for employees
- To provide a safe workplace.

(Note that for internal management purposes it is likely that these objectives would be made more specific and narrow and expressed in quantifiable and time-related terms.)

Strategies:

- To tender for all potential drilling projects
- To benchmark efficiency and productivity of drilling activities and processes
- To purchase drilling machines most suitable for the projects to be undertaken
- To establish a safety committee responsible for reviewing and addressing employee suggestions and concerns and ensuring compliance with world's best safety practices.

The choices of the above objectives and strategies may be explained by their consistency with the vision and mission statement of the drilling company and the activities and projects highlighted on its website.

PROBLEM 1.37 Management accounting information for resource management

- 1 (a) Manager of the online store: monthly costs by line item; stock turnover; back orders; product sales by major product group; customer complaints and feedback.
- (b) Manager of the design team: number of designs completed each month; number of designs in progress; costs by line item; number of designs rejected.
- (c) Marketing manager: customer feedback; monthly sales by product line; new products under design and their anticipated completion dates; monthly cost of advertising; future advertising campaigns planned.
- (d) Manager who negotiates contracts with outside manufacturers: number of contracts in process and their

expiry dates; performance measures for each manufacturer (for example, number of products rejected on delivery, delivery on time); value of payments made to each manufacturer.

- 2 Planning systems are an important management tool which can assist the organisation to implement its strategies and achieve its objectives. Specifically, planning is concerned with setting up objectives and formulating plans for the future operations required to achieve those objectives. This can occur at all levels of the organisation. At the top level of an organisation, objectives for the entire organisation can be developed and long-term strategies for the organisation can be formulated. These strategies are the means by which the organisation plans to achieve its objectives. Plans for shorter time periods (for example, the next twelve months) can also be formulated. Budgeting systems are an example of a short-term plan. Whether we are concerned with long-term or short-term planning, plans allow managers to know where the organisation is headed. They provide a benchmark against which actual activities and outcomes can be evaluated, so managers can evaluate whether the organisation is running according to plan.

Management accounting information may assist in improving the planning function of the organisation. For long-term plans, management accounting information can be used to determine the financial impact of strategies. In short-term planning, such as budgets, management accounting information is used to determine the financial impact of operations for the budget period. Management accounting information can also be used to formulate performance targets for both short-term and long-term plans, in an attempt to improve employee motivation to achieve plans. These performance targets can form part of a control system which should accompany the planning system.

PROBLEM 1.38 (appendix) Behavioural issues; ethics

- 1 Management accounting information can be used to motivate employees to achieve the goals and objectives of the organisation. In this case the bonus system is intended to encourage the sales team to achieve profit goals. However, there are two significant problems with this system. First, to be effective the bonus needs to be based on outcomes that are controllable by the sales team. In this case the team can control sales revenue but probably has little influence over the cost of goods sold, and has no influence over the overhead charged to each product line. It can be very dysfunctional to hold managers/employees responsible for factors outside their control. Second, the allocation of overhead costs to each product line on the basis of sales revenue seems to contradict the goal of encouraging sales, as more sales revenue will result in more overhead charges. (Many businesses allocate overheads on the basis of sales revenue, as this ensures that overhead costs are shared among the business units on the basis of each unit's ability to pay. However, this can have adverse motivational consequences, especially when attached to performance reward systems.)
- 2 As a CPA, Riteous has an obligation (to his profession and the public) to behave ethically, as described in the *Code of ethics for professional accountants* issued by the Accounting Professional and Ethical Standards Board (APESB). His decision to move some of the overhead charges to other salespeople violates this code in a number of areas including integrity, objectivity and professional behaviour.
- 3 For these reasons Riteous should advise Kaniva that he will not comply with her request to move some of the overhead charges to other salespeople. In practice this may be difficult if Kaniva is more senior than Riteous within the organisation. Riteous may need to embark on a process of ethical conflict resolution by consulting first with other appropriate persons in the firm, then the Board of Directors and/or audit committee and if still unresolved CPA Australia and legal advisers, bearing in mind the fundamental principle of confidentiality.

SOLUTIONS TO SELECTED CASES

CASE 1.39 Objectives, strategy and management accounting systems

- 1 There are many advantages in implementing processes to determine organisational objectives, strategies and planning systems. Clarification of objectives and strategies would encourage the company to formally evaluate the competitive market in which it operates, including the activities of competitors and the preferences of customers. It would allow managers to assess the strengths and weaknesses of the company and put in place future plans that would allow it to undertake its strategies to achieve its objectives. The company can formally consider opportunities for producing new products and evaluate whether or not it is advisable to focus solely on old, established product lines. If new products are to be introduced then formal planning systems will allow the business to consider the cash flow implications and establish timelines for introducing those new products. The formalisation of objectives and detailed plans will provide the business with targets against which actual performance can be measured, and communicate to employees the future directions of the business. Currently there seems some uncertainty as to what types of products the company should be offering. As part of the strategic planning process, customer preferences need to be assessed and predictions made of the likely future demand for products.
- 2 The control system that can be put in place may include monthly targets that should derive from the yearly budget and longer-term plans, and a system that monitors areas of key strategic interest. These targets will be used by employees and managers to compare against actual performance. The targets may be financial, such as cost targets and sales revenue. However, it will also be important to set non-financial targets, such as those relating to quality and delivery performance. In selecting these targets the company needs to decide which areas are of the most importance in managing the company. Customer preferences are obviously crucial to this business. The company needs to put systems in place to monitor any changes in customer preferences for particular products. The company must keep track of what competing bakeries are offering and try to anticipate changes in demand for its products by carefully monitoring changes in sales mix.