



PERSPECTIVES ON MANAGEMENT ACCOUNTING

by Rosemarie Kelly, Examiner F2 Management Accounting

Accounting may be defined as: 'the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information'¹. It is important to make a further distinction, that is, between management accounting and financial accounting. This article outlines the key differences between management accounting and financial accounting and also describes the factors that affect the type, quantity and quality of information that management accounting provides.

Difference between management accounting and financial accounting

There are five key differences between management accounting and financial accounting. Firstly, the primary users of the information generated are different. Secondly, the format and content of the information provided under each type of accounting varies greatly. Thirdly, the frequency of information produced is not the same for management and financial accounting. Fourthly, the information produced has a different focus under each type of accounting. Finally, the existence or absence of a legal requirement requiring information to be produced. Table 1 below lists these five differences in more detail.

Table 1 - Key differences between management accounting and financial accounting

Issue	Management Accounting	Financial Accounting
Primary users	<ul style="list-style-type: none">Internal management of the organisation.	<ul style="list-style-type: none">Wide and varied range of external users (shareholders, investors, lenders, employees etc.) and internal management of the organisation.
Format and content	<ul style="list-style-type: none">More detailed reporting, at product, department, customer level etc.May provide financial and non-financial information.No set format for reporting – every company may have different reports and gather different information based on their own particular requirements.	<ul style="list-style-type: none">Summarised financial information prepared based on Company Law and Accounting Standards.
Frequency	<ul style="list-style-type: none">No requirement to prepare management accounts for any particular period. Management accounting reports may be	<ul style="list-style-type: none">Financial statements must be produced annually. In addition, regulation may require some companies to prepare half yearly or quarterly financial statements.

¹ American Accounting Association, *A Statement of Basic Accounting Theory* (Evanston, IL: American Accounting Association, 1966), p.1

	prepared daily, weekly, monthly or at any time when required.	
Focus	<ul style="list-style-type: none"> Focus is more forward looking; using past information to prepare projections of future trends and to control the performance of the business. 	<ul style="list-style-type: none"> Focus is on historic information, reporting what has happened in the past.
Legal requirements	<ul style="list-style-type: none"> No legal requirement for management accounts to be prepared. Nor is there a requirement for management accounts to be audited. 	<ul style="list-style-type: none"> Company law requires limited companies to prepare financial statements on an annual basis, in accordance with accounting principles, and which may require to be audited.

Factors influencing management accounting information

The type, quantity and quality of management accounting information required by companies is affected by many factors including, increased competition, the global marketplace, focus on customer satisfaction, new management approaches, changing product lifecycles, changing cost structures information technology, internet opportunities, management styles and organisational form, and environmental and ethical matter²³. Each of these factors is discussed below and summarised in Figure 1.

Increased competition – it is now more important than ever to have accurate cost information as companies are competing not just in terms of product price but also other factors such as product quality and customer service. Access to accurate product cost information allows companies to focus attention away from pricing to other significant factors.

Global marketplace – with improvements in transportation and communication the market for customers has expanded and so too have company operations. Management accounting enables cost information to be provided and analysed across divisions, segments and countries to support overall activities of the organisation.

Focus on customer satisfaction – customers have become more discerning and it is now more important to have pertinent information relating to customers and their profitability to a business. Management accounting allows companies to use cost information and techniques to obtain data on the cost of providing services to customers.

New management approaches – to facilitate placing the focus on customer satisfaction companies are adopting a variety of new management approaches such as Total Quality Management, Value Chain Analysis and Benchmarking. In addition, companies are adopting a philosophy of continuous improvement and promoting employee empowerment. Consequently, more detailed information regarding an organisation's performance is available.

Changing product lifecycles – due to intense competition and changing customer needs product lifecycles are becoming shorter. Companies need to be ready and able to introduce new products quickly and management accounting can facilitate this process by providing essential information for costing and decision making.

² Colin Drury, *Cost and Management Accounting: An Introduction 8th Edition* (Andover: Cengage, 2015)

³ John Burns, Martin Quinn, Liz Warren and João Oliveira, *Management Accounting* (Maidenhead: McGraw Hill, 2013)

Changing cost structures – in the past materials and labour comprised the highest product costs but this has changed, overheads are now more significant and need to be carefully monitored. The changing cost structures have prompted companies to revise and update their information requirements. Management accounting facilitates the provision of information reflecting the changes that have occurred and enabling better monitoring and control of costs.

Information technology – over the past few decades significant technological change has occurred in production design and technology, and in the delivery of products and services to customers. There have also been substantial changes in information preparation, processing and dissemination; reports and analyses that previously took days to produce may now be obtained at very short notice, sometimes in minutes. Hence, a greater volume of more detailed information is required and may be prepared and disseminated quickly.

Internet opportunities – as result of significant improvements in information technology, the internet has created e-commerce, providing companies with greater opportunities to buy and sell products and services more easily, and to monitor competitors and consumer trends. Management accounting information now comprises more diverse and comparative cost information that has been compiled from a variety of sources.

Management styles and organisational forms – a company's organisational structure and way of working can affect the management accounting information that is produced. As an example, mergers and acquisitions are much more commonplace now than in the past, resulting in large, global complex organisations and conglomerates. This corporate activity has led to changes in the way that organisations collate and use management accounting information.

Environmental and ethical matters – in recent times, due to many financial and business scandals, and operational disasters, there has been increased attention focused on ethics and the environment. This has had the effect of changing management accounting in relation to these issues, increasing the quality and quantity of information that companies must produce.

Figure 1 - Factors influencing management accounting information



Management accounting plays a vital role in the success of any business venture and it is important to understand why. This article has attempted to do this by providing a comparison of management accounting and financial accounting, and by outlining some of the main factors influencing the type, quantity and quality of management accounting information required by organisations.