

1_Introduction to management accounting

Eva Švandová

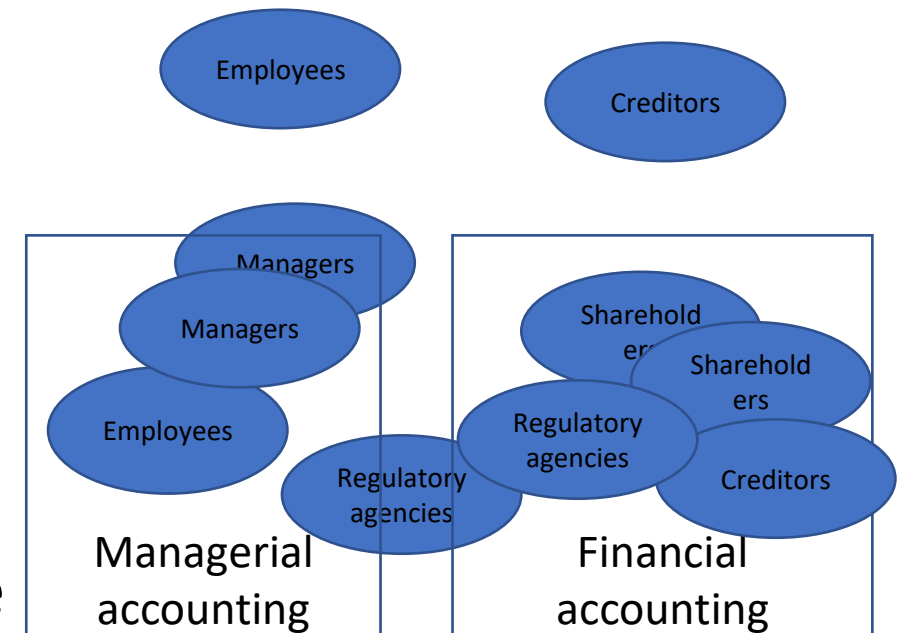
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What will it be about today?

- Framing Managerial Accounting (MA)
- Development of MA
- Challenges for MA
- MA in sustainability mode

Managerial accounting within „accounting“

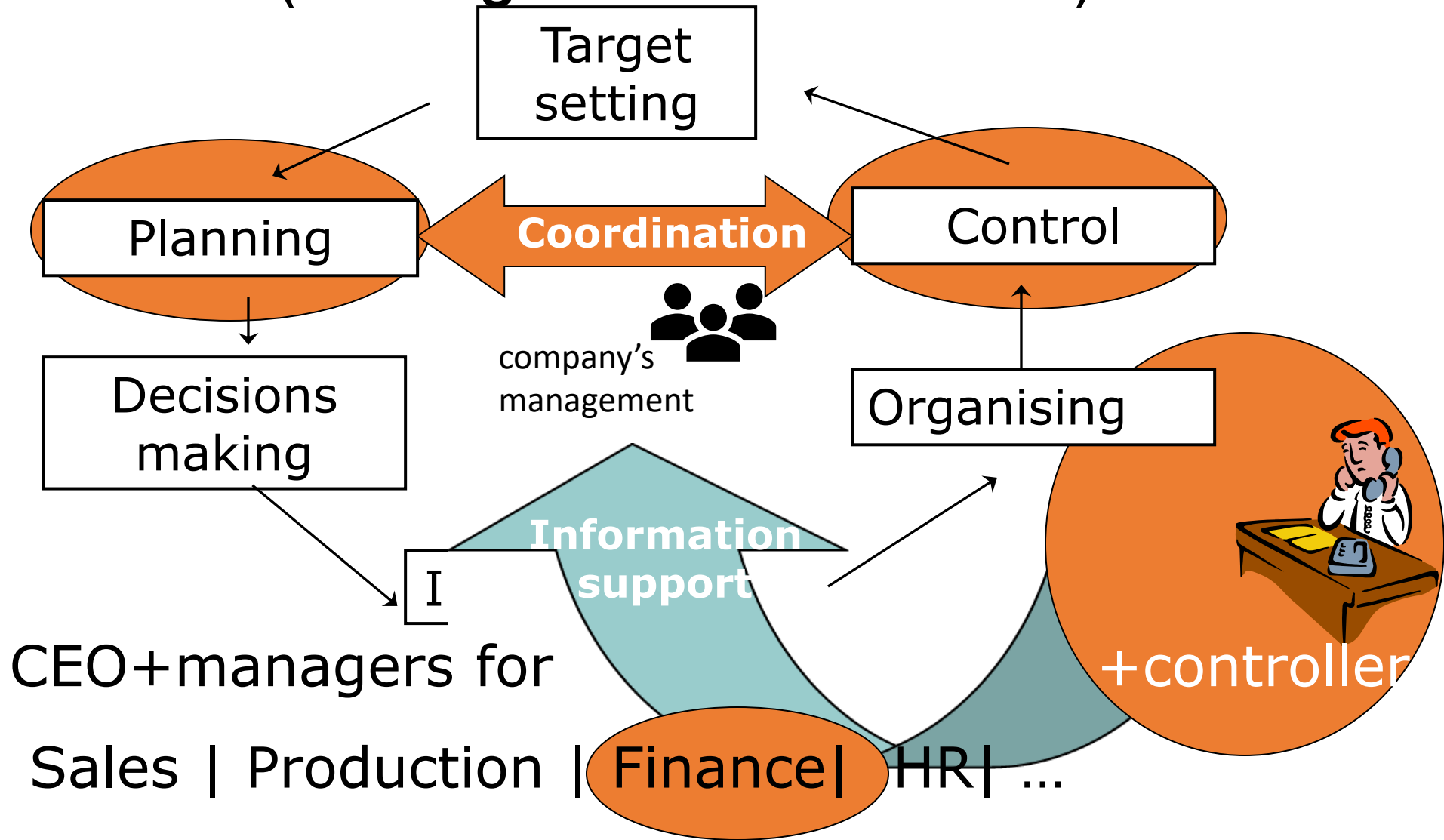
- **Accounting:** the process of identifying, measuring and communicating **economic information** to permit informed judgements and decisions by **users** of the information (American Accounting Association):
- **Who are the users of these information and what information they need?**
- To provide sufficient information to meet the needs of the various users at the lowest possible cost.
- Management accounting:



What we focus on (in managerial accounting)?

- Providing information timely and relevant for managers to contribute to effective **decision making** (chief executives officer, line managers, staff positions)
- Managers make decision within three basic functions:
 - Planning
 - Directing
 - Controlling
- Three basic types of business operations – service, merchandising, manufacturing

Who does it?
Controllers (Managerial Accountants)



Differences between managerial and financial accounting

ILLUSTRATION 1.1 Differences between financial and managerial accounting

Feature	Financial Accounting	Managerial Accounting
Primary Users of Reports	External users: stockholders, creditors, and regulators.	Internal users: officers and managers.
Types and Frequency of Reports	External financial statements. Quarterly and annually.	Internal reports. As frequently as needed.
Purpose of Reports	General-purpose.	Special-purpose for specific decisions.
Content of Reports	Pertains to business as a whole. Highly aggregated (condensed). Limited to accrual accounting and cost data. Governed by generally accepted accounting principles (GAAP).	Pertains to subunits of the business. Very detailed. Extends beyond accrual accounting to any relevant data. Evaluated based on relevance to decisions.
Verification Process	Audited by CPA.	No independent audits.

Organize following characteristics into three groups – 1) specific for MA, 2) specific for FA and 3) Valid for both

Management Accounting from historical perspective

- The end of the 1800s – almost no allocation of fixed costs
- Scientific management – allocating overhead costs to products (not fixed costs), standard costing literature evolved (1918, Harrison)
- DuPont management control systems development till 1925
- Post-war era (II) development of standard costing
- GM and DuPont developed multi-divisional firm – centralized control with decentralized responsibility

The Evolution of Management Accounting Practice

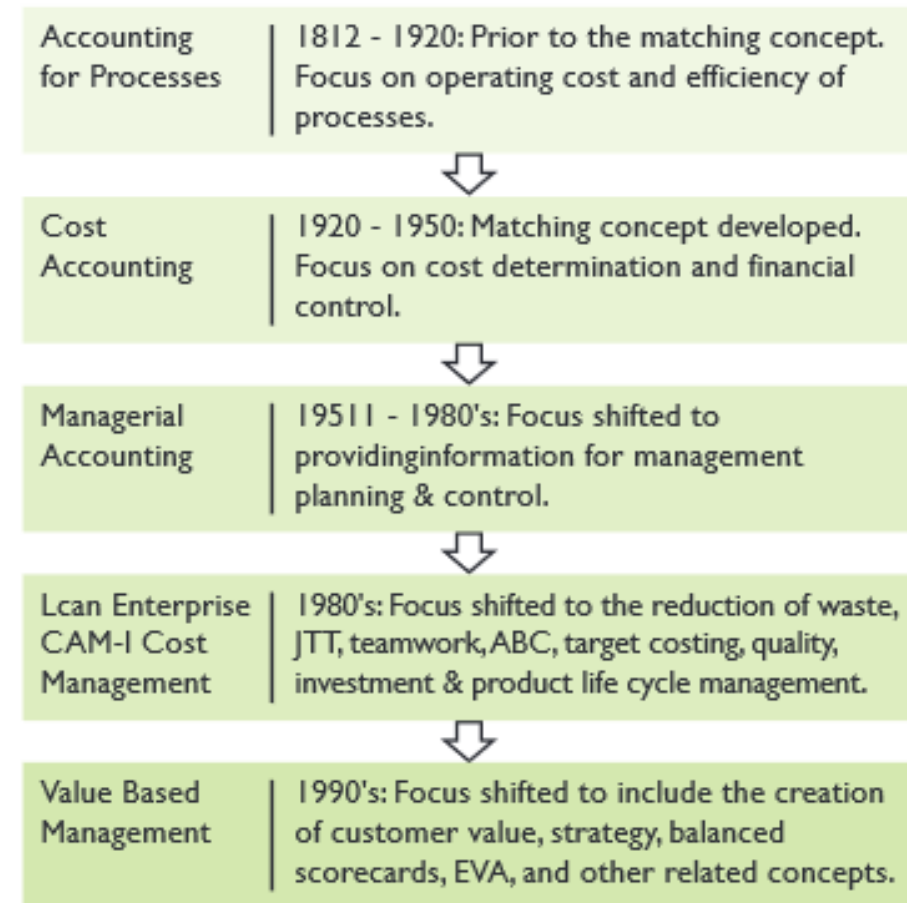


Figure 2: The Evolution of Management Accounting Practice

Source: (Martin, 2006)

1980s Criticism of MA developmnet

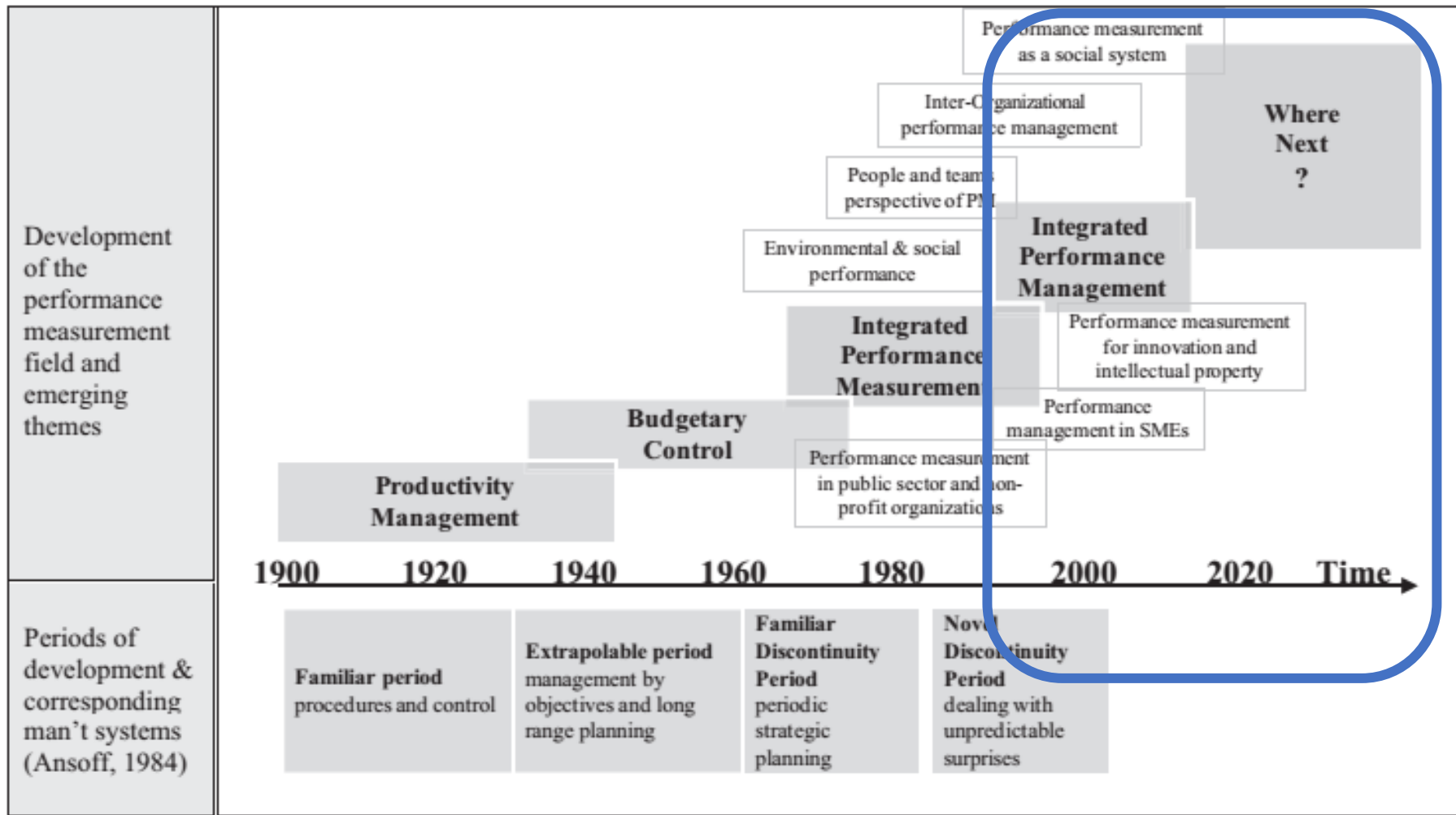
- **H. Thomas Johnson, Robert S. Kaplan**
minimal progress after 1925

Main concepts:

- **Activity Based Costing / Management**
(1980s/1990s)
- Target Costing (Japan, 1990s)
- Life Cycle Costing
- **Balanced Scorecard**
(1996)
and Strategy Maps
- in German speaking countries
Controlling
(Controllershhip)
instead of
Managerial Accounting

Development
of managerial
accounting
late in the
20th century

Roots of current trends



Zdroj: Bititci, U., Garengo, P., Dörfler, V., Nudurupati, S. (2012) : Performance Measurement: Challenges for Tomorrow. International Journal of Management Reviews, vol. 14, issue 3, s. 305-327, p. 312

What are the challenges supporting managerial accounting development

- Business environment has changed – **How was management accounting influenced by following features?**
 - Globalization
 - Changing product life cycles
 - Advances in manufacturing technologies
 - Advances in information technology (IoT)
 - Environmental and sustainability issues
 - „ different organizational structures and new management practices (intellectual capital, customer orientation)



Managerial accounting practice toward sustainability

- Measuring and reporting on sustainability performance, integrating sustainability considerations into economic (also financial) analysis – cost management included
- Risk management connected in environmental and social factors
- Developing internal controls and reporting toward sustainability
- Strategic planning incorporating sustainability into financial analysis and forecasts (align strategies with SDGs)
- Communication and collaboration to build bridge between traditional accounting practices and sustainability initiative

• **See the Starbucks global impact report and find out information of environmental, social and governance criteria of sustainability**

- <https://stories.starbucks.com/uploads/2024/02/2023-Starbucks-Global-Impact-Report.pdf>



Legal background for sustainability reporting

- NFRD – non-financial reporting directive (2014)
- CSRD – Corporate Sustainability Reporting Directive(2023)
- IFRS Sustainability Disclosure Standards Standards **IFRS S1** and **IFRS S2** issued by ISSB (International sustainability Standard Board)
- CSDDD – EU Corporate Sustainability Due Diligence Directive (2024)
- GRI – global reporting initiative
- ISSB –SASB – Sustainability Accounting Standards board
- SDG s– United nations Sustainable development goals
- ESG – environmental, social, governance
- **Provide maximum 2 slides presentation of these initiatives**



To sum up.....



We know differences between managerial and financial accounting



We know what is the job of Management Accountant



We understand the management accounting practice as a result of situation in the company (contingent approaches)



We know basic initiatives pressing us toward sustainability



We can compile the list of metrics needed to be presented within EDG report