

MANAGEMENT ACCOUNTING AND ITS ROLE IN COMPANY PERFORMANCE MANAGEMENT



Bohumil Král
Head of the Management Accounting Dpt.
Faculty of Finance and Accounting
University of Economics, Prague
Czech Republic
kral@vse.cz

Controlling in SMEs – Beyond Numbers
University of Finance and Administration, Prague
April 25, 2014

Presentation Outline

Developmental tendencies of performance measurement

- Performance management and its relation to the performance measurement

... and their reflection in the MA development

- Role of financial information in the managerial control
- Management Accounting – traditional information backbone of the performance management from the managers' position
- Impact of the changes of business environment and managerial needs on the management accounting development

Presentation Outline

Developmental tendencies of performance measurement

- Performance management and its relation to the performance measurement

... and their reflection in the MA development

- Role of financial information in the managerial control
- Management Accounting – traditional information backbone of the performance management from the managers' position
- Impact of the changes of business environment and managerial needs on the management accounting development

Performance measurement and its relation to the performance management

Performance:

Assessment of whether and in what extend an assessed subject fulfils its objectives

Performance management:

The Process of purposeful influence of assessed subject so that it fulfils its objectives

Performance measurement:

The process of assessing the proficiency with which a reporting entity succeeds, by the economic acquisition of resources and their efficient and effective deployment, in achieving its objectives

Developmental tendencies in the performance measurement

Performance measurement is influenced by the following important features:

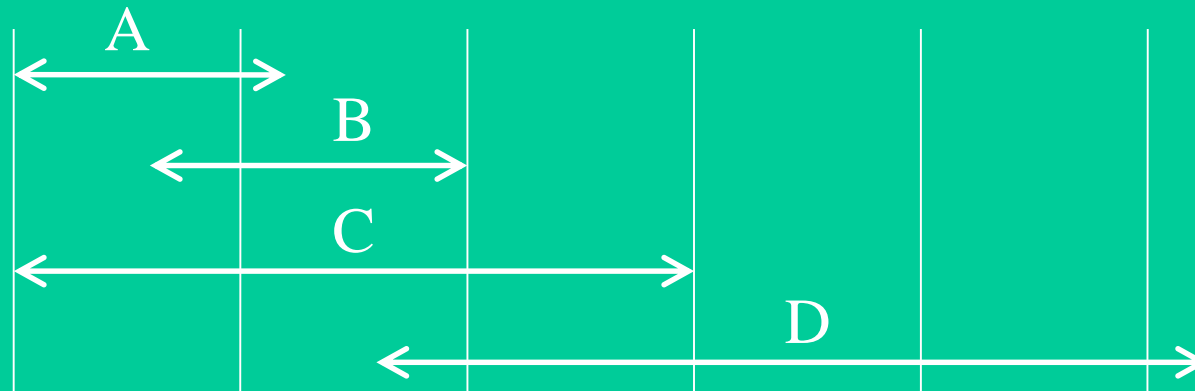
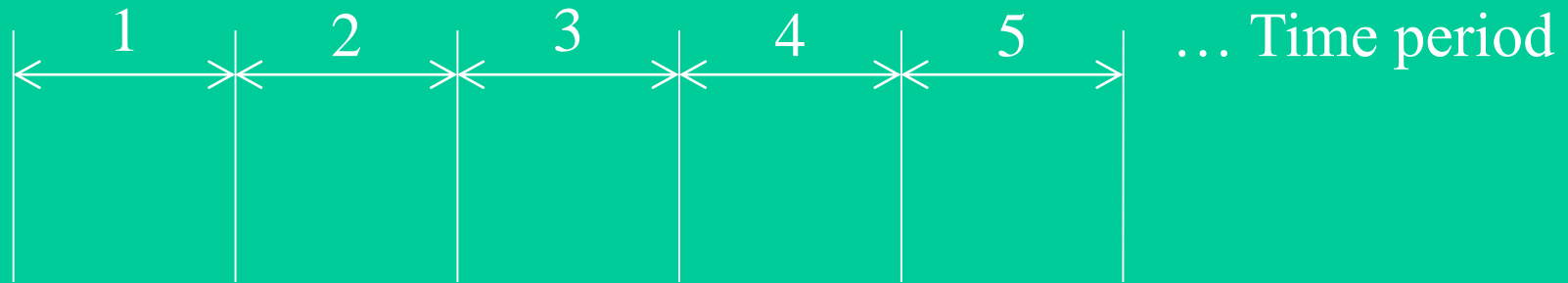
- User aspect of the performance measurement
- Discontinuity of performance measurement
- Performance as a future potential
- Performance as internal source of the ability to achieve success in the external (market) environment
- Performance as strategic parameter
- Performance as activity produced intangible (invisible) assets

Developmental tendencies in the performance measurement

Performance measurement is influenced by the following important features:

- User aspect of the performance measurement
- **Discontinuity of performance measurement**
- Performance as a future potential
- Performance as internal source of the ability to achieve success in the external (market) environment
- Performance as strategic parameter
- Performance as activity produced intangible (invisible) assets

Discontinuity of performance measurement and its relation to business reality

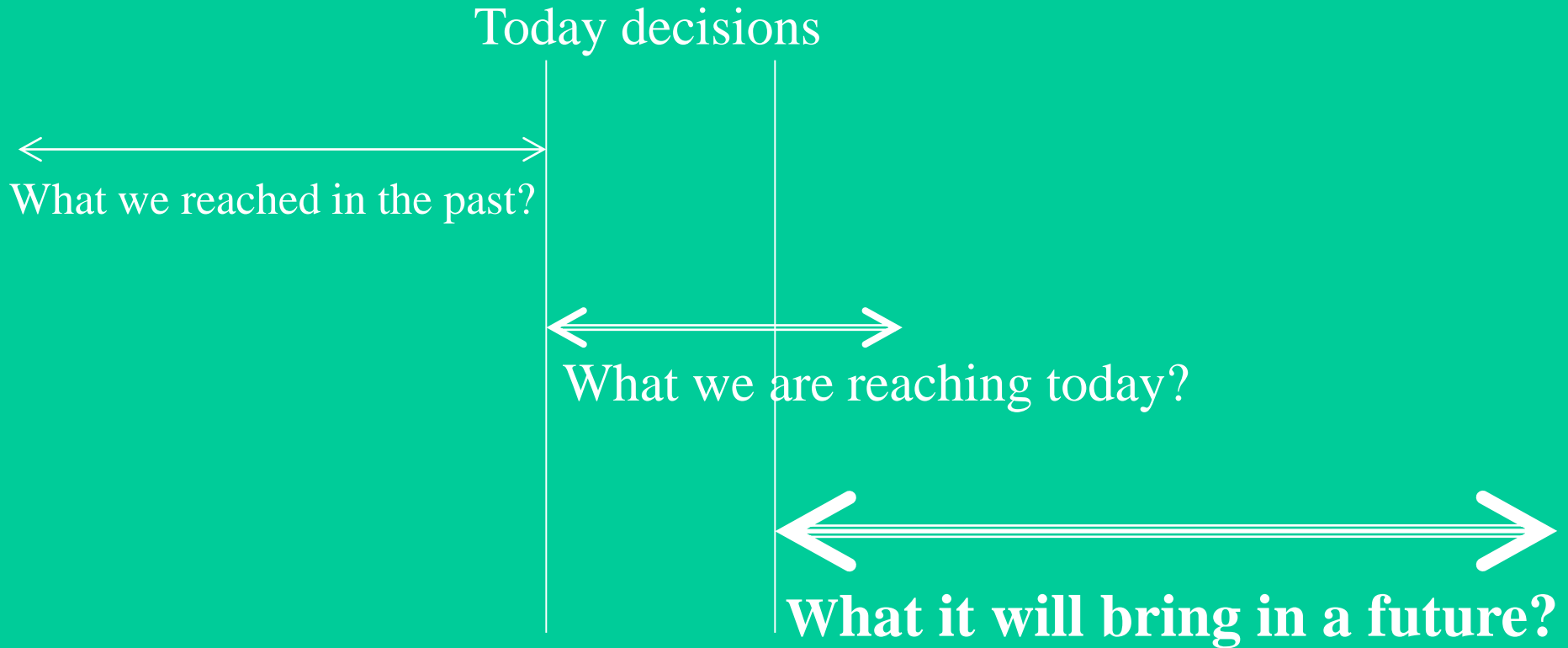


Developmental tendencies in the performance measurement

Performance measurement is influenced by the following important features:

- User aspect of the performance measurement
- Discontinuity of performance measurement
- **Performance as a future potential**
- Performance as internal source of the ability to achieve success in the external (market) environment
- Performance as strategic parameter
- Performance as activity produced intangible (invisible) assets

Performance as a future potential



Developmental tendencies in the performance measurement

Performance measurement is influenced by the following important features:

- User aspect of the performance measurement
- Discontinuity of performance measurement
- Performance as a future potential
- **Performance as internal source of the ability to achieve success in the external (market) environment**
- Performance as strategic parameter
- Performance as activity produced intangible (invisible) assets

Developmental tendencies in the performance measurement

Performance measurement is influenced by the following important features:

- User aspect of the performance measurement
- Discontinuity of performance measurement
- Performance as a future potential
- Performance as internal source of the ability to achieve success in the external (market) environment
- **Performance as strategic parameter**
- Performance as activity produced intangible (invisible) assets

Developmental tendencies in the performance measurement

Performance measurement is influenced by the following important features:

- User aspect of the performance measurement
- Discontinuity of performance measurement
- Performance as a future potential
- Performance as internal source of the ability to achieve success in the external (market) environment
- Performance as strategic parameter
- **Performance as activity produced intangible (invisible) assets**

Balanced Scorecard – initial diagram



Presentation Outline

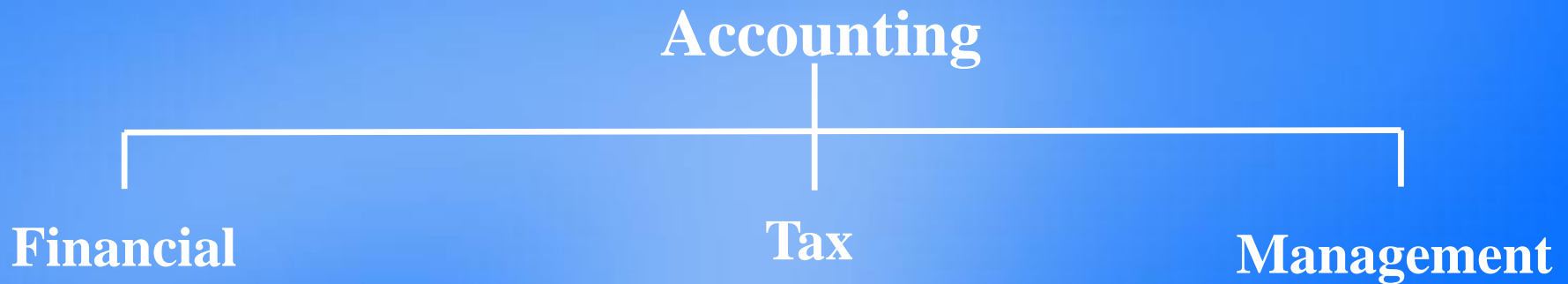
Developmental tendencies of performance measurement

- Performance management and its relation to the performance measurement

... and their reflection in the MA development

- **Role of financial information in the managerial control**
- **Management Accounting – traditional information backbone of the performance management from the managers' position**
- Impact of the changes of business environment and managerial needs on the management accounting development

Mutual Relationship between Financial, Tax and Management Accounting



COST ACCOUNTING

Product (oriented)

Responsibility

Activity Based

FOR DECISION MAKING

On existing capacity

About future capacity

Traditional Values of Management Accounting

- Unlike management accounting, Financial Accounting is more history-oriented; **Management Accounting should provide documentation for:**
 - **the comparison of the actual and the desired situation/layout**
(Cost Accounting)
 - **the decision making about the future variants of business activities**
(Accounting for Decision-Making)
- Financial Accounting focuses particularly on the disclosure of external relationships between the company and its environment; **Management Accounting is focused both on the internal and external relationships between divisions, processes, operation and activities.**
- Management Accounting is fundamentally different from financial accounting in the scope, detail and **variability of information which Management Accounting provides particularly about the cost of products, divisions, processes, operations and activities.**
- Financial Accounting sometimes hides results from sales while **the Management Accounting is significantly oriented to the results from sales.**
- **Management Accounting is the "Accounting for Responsibility Intersections"**

Traditional Elements of Management Accounting

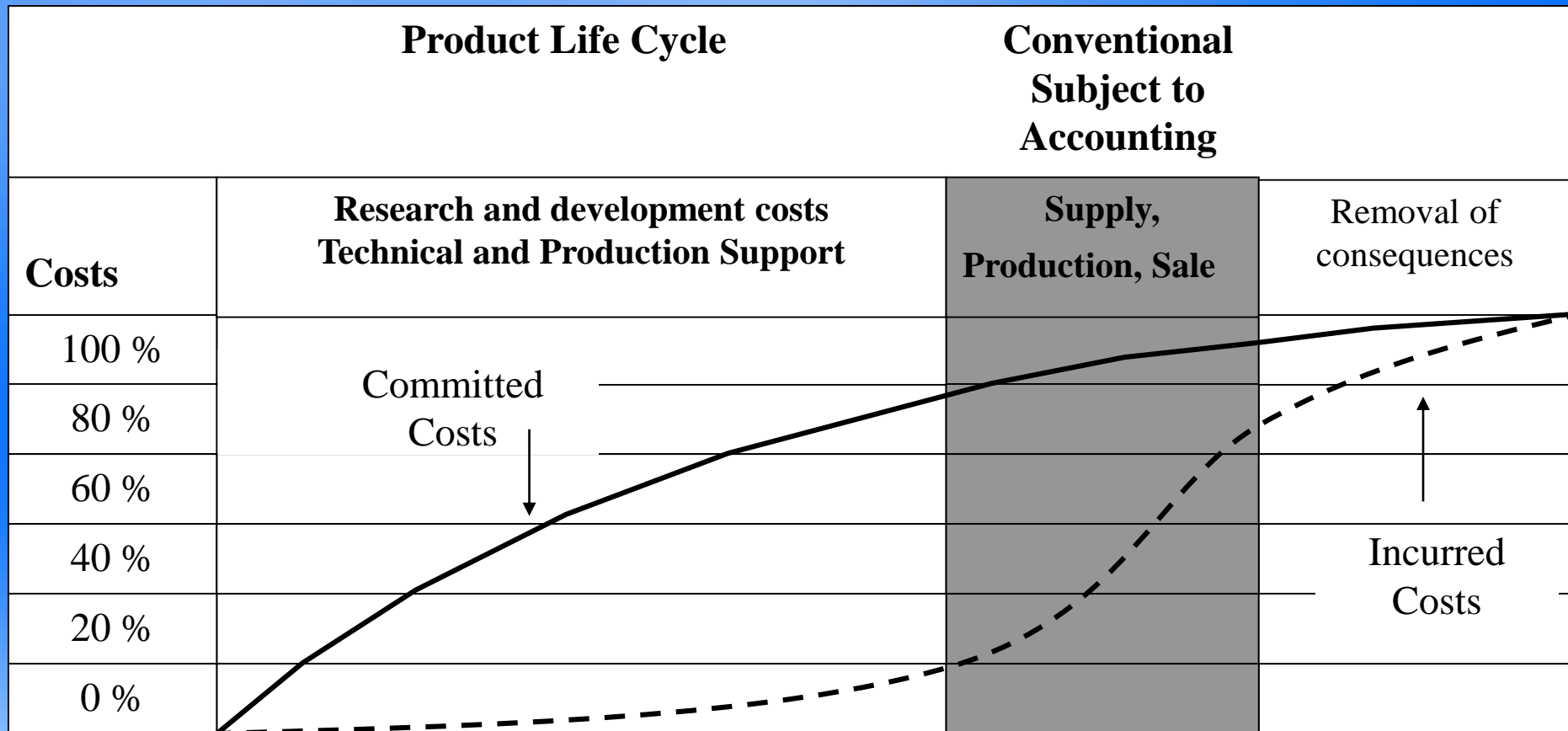
- Unlike management accounting, Financial Accounting is more history-oriented; **Management Accounting should provide documentation for:**
 - the comparison of the actual and the desired situation/layout
(Cost Accounting)
 - the decision making about the future variants of business activities
(Accounting for Decision-Making)
- Financial Accounting focuses particularly on the disclosure of external relationships between the company and its environment; **Management Accounting is focused both on the internal and external relationships between divisions, processes, operation and activities.**
- **Management Accounting is fundamentally different from financial accounting in the scope, detail and variability of information which Management Accounting provides particularly about the cost of products, divisions, processes, operations and activities.**
- **Financial Accounting sometimes hides results from sales while the Management Accounting is significantly oriented to the results from sales.**
- **Management Accounting is the "Accounting for Responsibility Intersections"**

Strategic Cost Management – new component in performance management

Only a small part of overhead costs is to be influenced by operational actions

On the contrary most overhead costs incur as a consequence of previous decisions

Penetration into the market, or extension of the market share is, in a long-term horizon, to be achieved only by **direct or indirect price reduction and pressure on economy**



Structure of the Budget Income Statement

Operating activities (simplified)

Budgeted item	Structure of functional classification		
	•Products and their groups		
	•Customers and their groups		
	•Sales territories		
Revenues from sales	50 000 000	40 000 000	20 000 000
- Variable costs of sold products	-20 000 000	-20 000 000	-12 000 000
Prime unit material	-10 000 000	-14 000 000	-8 000 000
Prime unit personal costs	-6 000 000	-3 000 000	-3 000 000
Variable overhead	-4 000 000	-3 000 000	-1 000 000
Contribution margin	30 000 000	20 000 000	8 000 000
- Fixed costs of product	-8 000 000	-2 000 000	-500 000
Amortisation of product development	-6 000 000	-500 000	-300 000
Depreciation of special instruments	-2 000 000	-1 500 000	-200 000
Margin II	22 000 000	18 000 000	7 500 000
- Fixed costs of the products' group	-15 000 000		
Depreciation of machines...	-15 000 000		
Margin III	25 000 000		7 500 000
- Fixed costs of the centre	-5 400 000		
Margin IV	27 100 000		
- Fixed costs of the company	-4 400 000		
Budgeted profit from sales	22 700 000		

Management Accounting

- current developmental trends

- The strong **integrity of financial information with non-financial parameters of the business process**
- **Management Accounting: system of financial information**
- **Contentual extension** of management accounting (Environmental accounting, Sustainable growth, Corporate Social Responsibility)
- **The extension of the management time horizon** and its information support (Strategic Management Accounting)
- **Emphasizing the time value of the accounting information** in tactical and operational management
- **Dual conception of financial and management accounting**
- Increasing pressure on the **quality of target information**
- **Management Multidimensionality** (and the necessity of its information support)

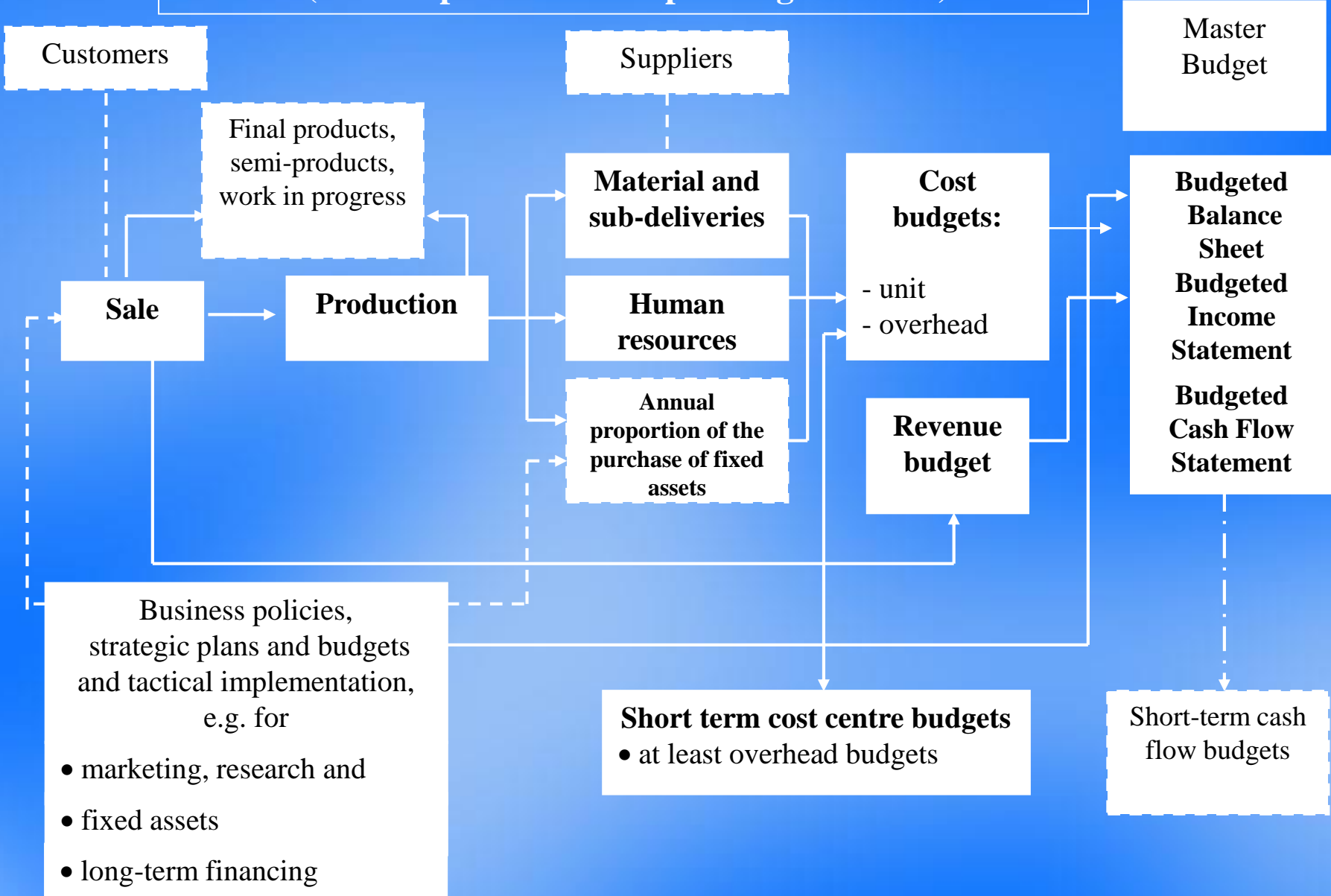
Management Accounting

- current developmental trends

- **The strong integrity of financial information with non-financial parameters of the business process**
- Management Accounting: system of financial information
- **Contentual extension** of management accounting (Environmental accounting, Sustainable growth, Corporate Social Responsibility)
- **The extension of the management time horizon** and its information support (Strategic Management Accounting)
- **Emphasizing the time value of the accounting information** in tactical and operational management
- **Dual conception of financial and management accounting**
- Increasing pressure on the quality of **target information**
- **Management Multidimensionality** (and the necessity of its information support)

System of Company Plans and Budgets

(with emphasis on the operating activities)



Management Accounting

- current developmental trends

- The strong integrity of financial information with non-financial parameters of the business process
- Management Accounting: system of financial information
- Contentual extension of management accounting (Environmental accounting, Sustainable growth, Corporate Social Responsibility)
- **The extension of the management time horizon and its information support (Strategic Management Accounting)**
- Emphasizing the time value of the accounting information in tactical and operational management
- Dual conception of financial and management accounting
- Increasing pressure on the quality of target information
- **Management Multidimensionality** (and the necessity of its information support)

Instruments and Methods of the strategic company management

Primarily focused on the financial parameters ...

- Value Chain Analysis
- Activity Based Management
 - Activity Based Costing
 - Activity Based Budgeting
 - Activity Based Accounting
- **Value Based Management**
 - Extended Enterprise Concept
- Life Time Costing
- Target Costing
- Value Analysis of Product

... and the consequential instruments of non-financial management

- JIT, TQM, CAD, CAM, Functional analysis ...

Management Accounting

- current developmental trends

- The strong **integrity of financial information with non-financial parameters of the business process**
- Management Accounting: **system of financial information**
- **Contentual extension** of management accounting (Environmental accounting, Sustainable growth, Corporate Social Responsibility)
- **The extension of the management time horizon** and its information support (Strategic Management Accounting)
- **Emphasizing the time value of the accounting information in tactical and operational management**
- **Dual conception of financial and management accounting**
- Increasing pressure on the quality of **target information**
- **Management Multidimensionality** (and the necessity of its information support)

Management Accounting

- current developmental trends

- The strong **integrity of financial information with non-financial parameters of the business process**
- Management Accounting: **system of financial information**
- **Interdisciplinary approach, connected with contentual extension of management accounting** (Environmental accounting, Sustainable growth, Corporate Social Responsibility)
- **The extension of the management time horizon** and its information support (Strategic Management Accounting)
- **Emphasizing the time value of the accounting information** in tactical and operational management
- **Dual conception of financial and management accounting**
- Increasing pressure on the **quality of target information**
- **Management Multidimensionality** (and the necessity of its information support)

Dual conception of financial and management accounting

Key Motto:

Different content of the decision tasks solved by external and internal users of accounting information implies necessarily different requirements for their information support.

As for internal users the content differentiation results not only in requirements for more detailed information and more frequently provided accounting information but also requirements for:

- **differently defined assets and liabilities**
- **more variations of their evaluation**

This difference in contents as a consequence implies different specification of costs, revenues and profit.

Principle questions of the development and usage of the company system of plans and budgets

- What is the principle aim of the system?
- What are its time dimensions?
- What principles it is necessary to respect in the development and usage of tactically oriented plans and budgets of the company as a whole?
- How to translate the company targets to lower levels?
- How to use the system as a tool of coordination and communication?
- What are the possibilities of the system usage as an instrument of stimulation and motivation?
- What forms of budgets to use?
- What are the main principles of comparison of the targeted and actual results?



Types of budgets

In the use of the budget types the following tendencies are apparent:

- **From fixed to flexible budgets**
- **From index budgets to zero based budgeting**
- **From budgets given to fixed time period to rolling budgets**
- **From universal cost drivers to „Activity Based Budgeting“**
- **From limit to indicative budgets**

Management Accounting - supporting tendency

Visualization of the desired situation/layout and development trends in interrelationships between the financial and non-financial indicators of the business process

**Ladies and gentlemen,
thank you very much for your
attention.**