

CIMA

Subject BA2

Fundamentals of
Management Accounting

Study Text



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Introduction

How to Use the Materials

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chances of success in your CIMA Cert BA Objective Test Examination.

The product range contains a number of features to help you in the study process. They include:

- a detailed explanation of all syllabus areas
- extensive 'practical' materials
- generous question practice, together with full solutions.

This Study Text has been designed with the needs of home-study and distance-learning candidates in mind. Such students require very full coverage of the syllabus topics, and also the facility to undertake extensive question practice. However, the Study Text is also ideal for fully taught courses.

The main body of the text is divided into a number of chapters, each of which is organised on the following pattern:

- **Detailed learning outcomes.** These describe the knowledge expected after your studies of the chapter are complete. You should assimilate these before beginning detailed work on the chapter, so that you can appreciate where your studies are leading.
- **Step-by-step topic coverage.** This is the heart of each chapter, containing detailed explanatory text supported where appropriate by worked examples and exercises. You should work carefully through this section, ensuring that you understand the material being explained and can tackle the examples and exercises successfully. Remember that in many cases knowledge is cumulative: if you fail to digest earlier material thoroughly, you may struggle to understand later chapters.
- **Activities.** Some chapters are illustrated by more practical elements, such as comments and questions designed to stimulate discussion.
- **Question practice.** The text contains exam-style objective test questions (OTQs).
- **Solutions.** Avoid the temptation merely to 'audit' the solutions provided. It is an illusion to think that this provides the same benefits as you would gain from a serious attempt of your own. However, if you are struggling to get started on a question you should read the introductory guidance provided at the beginning of the solution, where provided, and then make your own attempt before referring back to the full solution.

If you work conscientiously through this Official CIMA Study Text according to the guidelines above you will be giving yourself an excellent chance of success in your Objective Text Examination. Good luck with your studies!

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Our Quality Coordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

Icon explanations



Definition – These sections explain important areas of knowledge which must be understood and reproduced in an assessment environment.



Key point – Identifies topics which are key to success and are often examined.



Supplementary reading – These sections will help to provide a deeper understanding of core areas. The supplementary reading is **NOT** optional reading. It is vital to provide you with the breadth of knowledge you will need to address the wide range of topics within your syllabus that could feature in an assessment question. **Reference to this text is vital when self-studying.**



Test your understanding – Following key points and definitions are exercises which give the opportunity to assess the understanding of these core areas.



Illustration – To help develop an understanding of particular topics. The illustrative examples are useful in preparing for the Test your understanding exercises.



Exclamation mark – This symbol signifies a topic which can be more difficult to understand. When reviewing these areas, care should be taken.

Study technique

In this section we briefly outline some tips for effective study during the earlier stages of your approach to the Objective Test Examination. We also mention some techniques that you will find useful at the revision stage. Use of effective study and revision techniques can improve your chances of success in the CIMA Cert BA and CIMA Professional Qualification examinations.

Planning

To begin with, formal planning is essential to get the best return from the time you spend studying. Estimate how much time in total you are going to need for each subject you are studying. Remember that you need to allow time for revision as well as for initial study of the material.

With your study material before you, decide which chapters you are going to study in each week, and which weeks you will devote to revision and final question practice.

Prepare a written schedule summarising the above and stick to it!

It is essential to know your syllabus. As your studies progress you will become more familiar with how long it takes to cover topics in sufficient depth. Your timetable may need to be adapted to allocate enough time for the whole syllabus.

Students are advised to refer to the CIMA website, www.cimaglobal.com, to ensure they are up-to-date.

Students are advised to consult the syllabus when allocating their study time. The percentage weighting shown against each syllabus topic is intended as a guide to the proportion of study time each topic requires.

Tips for effective studying

- (1) Aim to find a quiet and undisturbed location for your study and plan as far as possible to use the same period of time each day. Getting into a routine helps to avoid wasting time. Make sure that you have all the materials you need before you begin so as to minimise interruptions.
- (2) Store all your materials in one place, so that you do not waste time searching for items every time you want to begin studying. If you have to pack everything away after each study period, keep your study materials in a box, or even a suitcase, which will not be disturbed until the next time.
- (3) Limit distractions. To make the most effective use of your study periods you should be able to apply total concentration, so turn off all entertainment equipment, set your phones to silent mode, and put up your 'do not disturb' sign.
- (4) Your timetable will tell you which topic to study. However, before diving in and becoming engrossed in the finer points, make sure you have an overall picture of all the areas that need to be covered by the end of that session. After an hour, allow yourself a short break and move away from your Study Text. With experience, you will learn to assess the pace you need to work at. Each study session should focus on component learning outcomes – the basis for all questions.

- (5) Work carefully through a chapter, making notes as you go. When you have covered a suitable amount of material, vary the pattern by attempting a practice question. When you have finished your attempt, make notes of any mistakes you made, or any areas that you failed to cover or covered more briefly. Be aware that all component learning outcomes are examinable.
- (6) Make notes as you study, and discover the techniques that work best for you. Your notes may be in the form of lists, bullet points, diagrams, summaries, 'mind maps' or the written word, but remember that you will need to refer back to them at a later date, so they must be intelligible. If you are on a taught course, make sure you highlight any issues you would like to follow up with your lecturer.
- (7) Organise your notes. Make sure that all your notes, calculations etc. can be effectively filed and easily retrieved later.

Progression

There are two elements of progression that we can measure: how quickly students move through individual topics within a subject; and how quickly they move from one course to the next. We know that there is an optimum for both, but it can vary from subject to subject and from student to student. However, using data and our experience of student performance over many years, we can make some generalisations.

A fixed period of study set out at the start of a course with key milestones is important. This can be within a subject, for example 'I will finish this topic by 30 June', or for overall achievement, such as 'I want to be qualified by the end of next year'.

Your qualification is cumulative, as earlier papers provide a foundation for your subsequent studies, so do not allow there to be too big a gap between one subject and another. For example, E1 *Managing finance in a digital world* builds on your knowledge of the finance function from certificate level and lays the foundations for E2 *Managing performance* and all strategic papers particularly E3 *Strategic management* and P3 *Risk management*.

We know that exams encourage techniques that lead to some degree of short term retention, the result being that you will simply forget much of what you have already learned unless it is refreshed (look up Ebbinghaus Forgetting Curve for more details on this). This makes it more difficult as you move from one subject to another: not only will you have to learn the new subject, you will also have to relearn all the underpinning knowledge as well. This is very inefficient and slows down your overall progression which makes it more likely you may not succeed at all.

In addition, delaying your studies slows your path to qualification which can have negative impacts on your career, postponing the opportunity to apply for higher level positions and therefore higher pay.

You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress. Make sure you carefully review the 2019 CIMA syllabus transition rules and seek appropriate advice if you are unsure about your progression through the qualification.



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Objective Test

Objective Test questions require you to choose or provide a response to a question whose correct answer is predetermined.

The most common types of Objective Test question you will see are:

- multiple choice, where you have to choose the correct answer(s) from a list of possible answers – this could either be numbers or text
- multiple response with more choices and answers, for example, choosing two correct answers from a list of five available answers – this could be either numbers or text
- number entry, where you give your numeric answer to one or more parts of a question, for example, gross profit is \$25,000 and the accrual for heat and light charges is \$750.
- drag and drop, where you match one or more items with others from the list available, for example, matching several accounting terms with the appropriate definition
- drop down, where you choose the correct answer from those available in a drop down menu, for example, choosing the correct calculation of an accounting ratio, or stating whether an individual statement is true or false
- hot spot, where, for example, you use your computer cursor or mouse to identify the point of profit maximisation on a graph
- other types could be matching text with graphs and labelling/indicating areas on graphs or diagrams.

CIMA has provided the following guidance relating to the format of questions and their marking:

- questions which require narrative responses to be typed will not be used
- for number entry questions, a small range of answers will be accepted. Clear guidance will usually be given about the format in which the answer is required e.g. 'to the nearest \$' or 'to two decimal places'
- item set questions provide a scenario which then forms the basis of more than one question (usually 2–4 questions). These sets of questions would appear together in the test and are most likely to appear in BA2 and BA3
- all questions are independent so that, where questions are based on a common item set scenario, each question will be distinct and the answer to a later question will not be dependent upon answering an earlier question correctly
- all items are equally weighted and, where a question consists of more than one element, all elements must be answered correctly for the question to be marked correct.

Throughout this Study Text we have introduced these types of questions, but obviously we have had to label answers A, B, C etc. rather than using click boxes. For convenience we have retained quite a few questions where an initial scenario leads to a number of sub-questions. There will be questions of this type in the Objective Test Examination but they will rarely have more than three sub-questions.

Guidance re CIMA on-screen calculator

As part of the CIMA Objective Test software, candidates are provided with a calculator. This calculator is on-screen and is available for the duration of the assessment. The calculator is available in Objective Test Examinations for BA1, BA2 and BA3 (it is not required for BA4).

Guidance regarding calculator use in the Objective Test Examinations is available online at: <https://connect.cimaglobal.com/>

CIMA Cert BA Objective Tests

The Objective Tests are a two-hour assessment comprising compulsory questions, each with one or more parts. There will be no choice and all questions should be attempted. The numbers of questions in each assessment are as follows:

BA1 Fundamentals of Business Economics – 60 questions

BA2 Fundamentals of Management Accounting – 60 questions

BA3 Fundamentals of Financial Accounting – 60 questions

BA4 Fundamentals of Ethics, Corporate Governance and Business Law
– 85 questions

All questions are equally weighted. All parts of a question must be answered correctly for the question to be marked correct. Where questions are based upon a common scenario, each question will be independent, and answers to later questions will not be dependent upon answering earlier questions correctly.

Structure of subjects and learning outcomes

Each subject within the syllabus is divided into a number of broad syllabus topics. The topics contain one or more lead learning outcomes, related component learning outcomes and indicative syllabus content.

A learning outcome has two main purposes:

- (a) to define the skill or ability that a well prepared candidate should be able to exhibit in the examination
- (b) to demonstrate the approach likely to be taken in examination questions.

The learning outcomes are part of a hierarchy of learning objectives. The verbs used at the beginning of each learning outcome relate to a specific learning objective e.g.

Calculate the break-even point, profit target, margin of safety and profit/volume ratio for a single product or service.

The verb ‘**calculate**’ indicates a level three learning objective. The following table lists the learning objectives and the verbs that appear in the CIMA Cert BA syllabus learning outcomes.

CIMA VERB HIERARCHY

CIMA place great importance on the definition of verbs in structuring objective tests. It is therefore crucial that you understand the verbs in order to appreciate the depth and breadth of a topic and the level of skill required. The objective tests will focus on levels one, two and three of the CIMA hierarchy of verbs. However, they will also test levels four and five, especially at the management and strategic levels.

Skill level	Verbs used	Definition
Level 3 Application How you are expected to apply your knowledge	Apply Calculate Conduct Demonstrate Prepare Reconcile	Put to practical use Ascertain or reckon mathematically Organise and carry out Prove with certainty or exhibit by practical means Make or get ready for use Make or prove consistent/compatible
Level 2 Comprehension What you are expected to understand	Describe Distinguish Explain Identify Illustrate	Communicate the key features of Highlight the differences between Make clear or intelligible/state the meaning or purpose of Recognise, establish or select after consideration Use an example to describe or explain something
Level 1 Knowledge What you are expected to know	List State Define Outline	Make a list of Express, fully or clearly, the details/facts of Give the exact meaning of Give a summary of

CIMA Cert BA resources

Access to CIMA Cert BA resources including syllabus information is available online at www.cimaglobal.com.

Additional resources

This Study Text is designed to be comprehensive and therefore sufficient to meet the needs of students studying this subject. However, CIMA recognises that many students also want to read around particular topic(s), either to extend their knowledge and understanding, or because it is particularly relevant to their work environment.

CIMA has therefore produced a related reading list for those students who wish to extend their knowledge and understanding, whether for personal interest or to help support work activities as follows:

BA1 – Fundamentals of Business Economics

Principles of Economics 3rd ed.	McDowell & Thom
Applied Economics 12th ed.	Griffiths & Wall
Mathematics for Economists: An Introductory Textbook 4th ed.	Pemberton & Rau

BA2 – Fundamentals of Management Accounting

Management and Cost Accounting	Colin Drury
Management Accounting	Catherine Gowthorpe

BA3 – Fundamentals of Financial Accounting

Financial Accounting – An Introduction	Pauline Weetman
Frank Wood's Business Accounting 1 & 2	Frank Wood & Alan Sangster

BA4 – Fundamentals of Ethics, Corporate Governance and Business Law

Students can find out about the specific law and regulation in their jurisdiction by referring to appropriate texts and publications for their country.

Managing Responsible Business	CGMA Report 2015
Global Management Accounting Principles	CIMA 2015
Embedded Ethical Values: A guide for CIMA Partners	CIMA Report 2014
Business Ethics for SMEs: A Guide for CIMA Partners	CIMA Report 2014
Ethics: Ethical Checklist	CIMA 2014
Ethics Support Guide	CIMA 2014
Acting under Pressure: How management accountants manage ethical issues	CIMA 2012

Information concerning formulae and tables will be provided via the CIMA website, www.cimaglobal.com.

SYLLABUS GRIDS

BA2: Fundamentals of Management Accounting

Syllabus overview

This subject deals with the fundamental knowledge and techniques that underpin management accounting. It identifies the position of the management accountant within organisations and the role of CIMA. The subject portrays the role of management accounting in the contexts of commercial and public sector bodies and its wider role in society.

The identification and classification of costs and their behaviour provides the basis for understanding and applying the tools and techniques needed to plan, control and make decisions. Budgetary control requires the setting of targets and standards which then allow the performance of organisations to be reported and analysed by the calculation of variances. Investment appraisal, break-even analysis and profit maximisation are used to inform both long and short-term decision making.

Assessment strategy

There will be a two hour computer based assessment, comprising 60 compulsory objective test questions. Short scenarios may be given to which one or more objective test questions relate.

Syllabus structure

The syllabus comprises the following topics and weightings:

Content area		Weighting
A	The context of management accounting	10%
B	Costing	25%
C	Planning and control	30%
D	Decision making	35%
		100%

BA2A: The context of management accounting (10%)

Learning outcomes

On completion of their studies, students should be able to:

Lead	Component	Level	Indicative syllabus content
1. Explain the purpose of management accounting and the role of the Management Accountant.	a. Explain the need for management accounting.	2	<ul style="list-style-type: none">• The Global Management Accounting Principles.• Characteristics of financial information.• The CIMA definition of the role of the management accountant.• The IFAC definition of the domain of the professional accountant in business.• The positioning of management accounting within the organisation.
	b. Explain the characteristics of financial information for operational, managerial and strategic levels within organisation.	2	
	c. Explain the role of the management accountant.	2	
	d. Explain the relationships between the management accountant and the organisation's managers.	2	
2. Explain the role of CIMA as a professional body for Management Accountants.	a. Explain the role of CIMA in developing the practice of management accounting.	2	<ul style="list-style-type: none">• The need for a professional body in management accounting.• CIMA's role in relation to its members, students, the profession of management accounting and society.

BA2B: Costing (25%)

Learning outcomes

On completion of their studies, students should be able to:

Lead	Component	Level	Indicative syllabus content
1. Demonstrate cost identification and classification.	a. Explain the classification of costs in relation to output.	2	<ul style="list-style-type: none"> • Direct and indirect costs. • Variable, semi-variable, stepped and fixed costs. • The use of 'high-low', graphical and regression analysis methods to establish and predict total cost. • Relevant and irrelevant costs.
	b. Explain the classification of costs in relation to activity level.	2	
	c. Calculate appropriate costs having identified cost behaviour.	3	
	d. Explain the classification of costs in relation to decisions.	2	
2. Apply absorption costing and marginal costing.	a. Prepare overhead cost statements.	3	<ul style="list-style-type: none"> • Overhead cost statements: allocation, apportionment and reciprocal servicing. <p>Note: The repeated distribution and simultaneous equations methods will be used for reciprocal servicing.</p> <ul style="list-style-type: none"> • The treatment of direct and indirect costs in ascertaining the full cost of a 'cost object' e.g. a product, service, activity, customer. • Overhead absorption rates. • Under or over absorbed overheads. • The treatment of direct and indirect costs in ascertaining the marginal cost of a 'cost object' e.g. a product, service, activity, customer. • The difference between marginal and absorption profits. • Marginal cost pricing and full-cost pricing to achieve specified targets (return on sales, return on investment, mark-up and margins). <p>Note: Students are not expected to have a detailed knowledge of activity-based costing (ABC).</p>
	b. Calculate the full cost of products, services and activities.	3	
	c. Calculate the marginal cost of products, services and activities.	3	
	d. Reconcile the differences between profits calculated using absorption costing and those calculated using marginal costing.	3	
	e. Apply cost information in pricing decisions.	3	

BA2C: Planning and control (30%)

Learning outcomes

On completion of their studies, students should be able to:

Lead	Component	Level	Indicative syllabus content
1. Prepare budgets for planning and control.	a. Explain why organisations prepare forecasts and plans	2	<ul style="list-style-type: none"> Budgeting for planning and control. Functional budgets. Master budget, including statements of profit and loss, financial position and cash flow. The importance of cash budgets. Fixed and flexible budgeting. Budget variances.
	b. Prepare functional budgets	3	
	c. Explain budget statements	2	
	d. Identify the impact of budgeted cash surpluses and shortfalls on business operations	2	
	e. Prepare a flexible budget	3	
	f. Calculate budget variances.	3	
2. Apply variance analysis to reconcile budgeted and actual profits in a marginal format.	a. Explain why planned standard costs, prices and volumes are useful.	2	<ul style="list-style-type: none"> Principles of standard costing. Standards for the selling price and variable costs of a product or service. Variances: materials (total, price and usage); labour (total, rate and efficiency); variable overhead (total, expenditure and efficiency); sales (sales price and sales volume contribution). The use of variances to reconcile the budgeted and actual profits that have been calculated using marginal costing. Interpretation of variances.
	b. Calculate variances for materials, labour, variable overheads, sales prices and sales volumes.	3	
	c. Prepare a statement that reconciles budgeted profit with actual profit calculated using marginal costing.	3	
	d. Explain why variances could have arisen and the inter-relationships between variances.	2	
3. Calculate appropriate financial and non-financial performance measures.	a. Explain the need for appropriate performance measures.	2	<ul style="list-style-type: none"> Characteristics of service industries. Responsibility accounting (authority, responsibility and controllability). The use of appropriate financial and non-financial performance measures in a variety of contexts (e.g. manufacturing and service sectors). <p>Note: Detailed knowledge of the balanced scorecard is not required.</p>
	b. Calculate appropriate financial and non-financial performance measures in a variety of contexts.	3	
4. Prepare accounts and reports for managers.	a. Explain the integration of the cost accounts with the financial accounting system.	2	<ul style="list-style-type: none"> Manufacturing accounts including raw material, work-in-progress, finished goods and manufacturing overhead control accounts. Integrated ledgers including accounting for over and under absorption of production overhead. The treatment of variances in integrated ledger systems. Job and batch costing. Cost accounting statements for management information in manufacturing, service and not-for-profit organisations.
	b. Prepare a set of integrated accounts, showing standard cost variances.	3	
	c. Prepare appropriate accounts for job and batch costing.	3	
	d. Prepare reports in a range of organisations.	3	

BA2D: Decision making (35%)

Learning outcomes

On completion of their studies, students should be able to:

Lead	Component	Level	Indicative syllabus content
1. Demonstrate the impact of risk.	a. Explain the concepts of risk and uncertainty.	2	<ul style="list-style-type: none"> • Risk and uncertainty. • Probability and its relationship with proportions and percentages. • Expected values and expected values tables. • Limitations of expected values. • Arithmetic mean, median, mode, range, variance, standard deviation and coefficient of variation for both ungrouped and grouped data. • Graphs/diagrams and use of normal distribution tables. <p>Note: Students will not be asked to apply techniques to deal with uncertainty.</p>
	b. Demonstrate the use of expected values and joint probabilities in decision making.	3	
	c. Calculate summary measures of central tendency and dispersion for both grouped and ungrouped data.	3	
	d. Demonstrate the use of the normal distribution.	3	
2. Demonstrate the use of appropriate techniques for short-term decision making.	a. Apply breakeven analysis.	3	<ul style="list-style-type: none"> • Breakeven charts, profit volume graphs, breakeven point, target profit, margin of safety. • Make or buy decisions. • Limiting factor analysis for a multi-product company that has one scarce resource.
	b. Demonstrate make or buy decisions.	3	
	c. Calculate the profit maximising sales mix after using limiting factor analysis.	3	
3. Demonstrate the use of appropriate techniques for long-term decision making.	a. Explain the time value of money.	2	<ul style="list-style-type: none"> • The time value of money. • Discounting, compounding, annuities and perpetuities. • Net present value, internal rate of return and payback.
	b. Apply financial mathematics.	3	
	c. Calculate the net present value, internal rate of return and payback for an investment or project.	3	

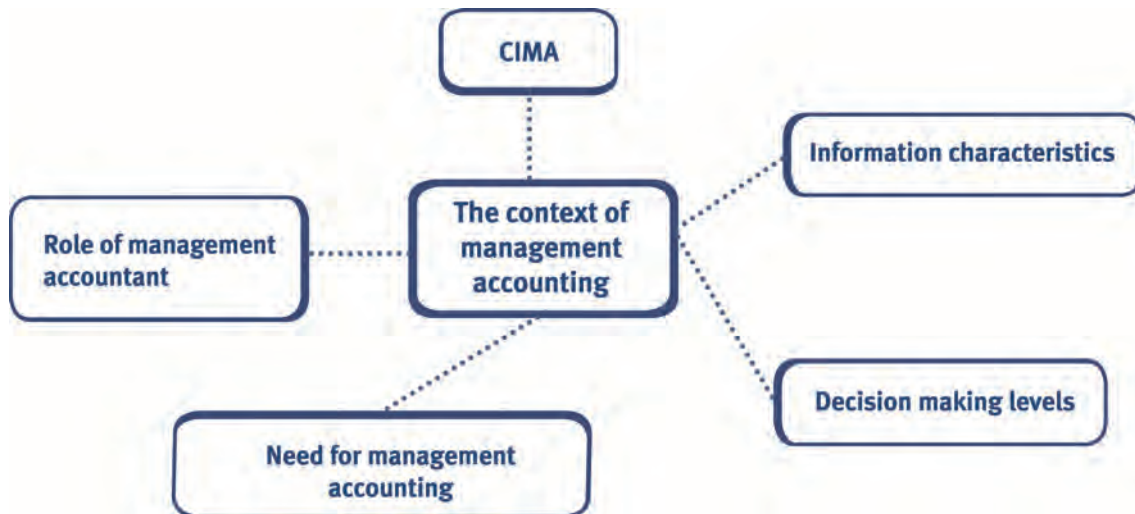
The context of management accounting

Chapter learning objectives

After completing this chapter, you should be able to

- explain the need for management accounting
- explain the characteristics of financial information for operational, managerial and strategic levels within organisations
- explain the role of the management accountant
- explain the relationships between the management accountant and the organisation's managers
- explain the role of CIMA in developing the practice of management accounting.

1 Session content diagram



2 Management accounting

Accountancy involves the measurement, analysing and reporting of financial and non-financial information to help managers, shareholders and other interested parties make decisions about organisations.

As a student of CIMA, you have decided to focus on management accounting and this subject, *Fundamentals of Management Accounting*, will introduce you to all the main aspects of management accounting. We will start with defining what management accounting is.



The *CIMA Terminology* defines **management accounting** as 'the application of the principles of accounting and financial management to create, protect, preserve and increase value for the stakeholders of for-profit and not-for-profit enterprises in the public and private sectors.'

The key phrase in this definition is the focus on **value**. Management accounting aims to 'create... and increase' the value of an organisation. It achieves this by providing **relevant information** to the management of these organisations, who use this information to make decisions regarding the organisation. These decisions are what will create and increase the value of the organisation.

An important skill of the management accountant is to **communicate** effectively with management in order to influence the decision making process and that management must **trust** the information provided by the management accountant as they will act on it.

3 The Global Management Accounting Principles

Business environments are constantly changing, at a faster rate than ever before and organisations must be able to respond quickly in order to ensure that they maintain and improve their competitive position and stay successful.

A feature of organisations today is that they have vast amounts of data available to them, from a variety of sources. The challenge they face is how to turn that data into useful information which can enhance their decision making.

Good information and quality decision making is crucial within organisations today. CIMA believe that management accounting is at the heart of good decision making and that effective management accounting is about '**improving decisions and building successful organisations**'.

CIMA, together with the American Institute of CPAs (AICPA) have developed the Global Management Accounting Principles which should be used to guide best practice in management accounting.

The four Global Management Accounting Principles are:

Influence	Relevance
Trust	Value

We will now expand on the Global Management Accounting Principles to give us a better insight about how CIMA view the role of management accounting within today's organisations.

Influence	Relevance
Communication provides insight that is influential. Management accounting begins and ends with conversations. The Principles have been designed to help organisations encourage integrated thinking, leading to better decision making.	Information is relevant. Management accounting makes relevant information available to decision makers when they need it. The Principles provide guidance on identifying past, present and future information, including financial and non-financial data from internal and external sources. This includes social, environmental and economic data.
Trust	Value
Stewardship builds trust. Accountability and scrutiny make the decision-making process more objective. Balancing short-term commercial interests against long run value for stakeholders enhances credibility and trust.	Impact on value is analysed. Management accounting connects the organisation's strategy to its business model. This Principle helps organisations to simulate different scenarios to understand their impact on generating and preserving value.

Throughout your management accounting studies you should focus on these Principles and remember that the focus is on creating, protecting, preserving and increasing value.

In *Fundamentals of Management Accounting* you will learn many techniques which will help you provide relevant information to management within all types of organisations.

4 Management information

From the above we can see that the key to successful business is good decision making and the key to good decision making is good, relevant information. So we need to consider what information actually is, what types of information different managers need and what makes information good.

Thanks to technological advances, the operations of organisations generate a huge quantity of **data**. Data consist of raw facts and statistics before they have been processed. Once data have been processed into a useful form, it can be called **information**.



Data vs information

An organisation must record every sale of every product each day. At the end of a period this could equate to a long list of sales transactions. This list would be classified as data, and in itself would not be very useful for decision making.

It would be more helpful to group the data in meaningful ways, such as the sales for a particular product or the sales for a particular day. Using these groupings turns the data into information which is much more useful. It is useful to see which product has the highest level of sales, or on which day of the month the sales are highest. Knowing these things can affect decisions such as the amount of each product which should be available for sale each month, or the number of members of staff required each day.

Characteristics of good information

From the example above you can see that the sales data could be analysed in a variety of ways and a lot of information could be provided to management. However, not all information is worthwhile.

A useful way to remember the characteristics of good information is

ACCURATE

This stands for:

A. Accurate: The degree of accuracy depends on the reason the information is needed.

For example, reports may show figures to the nearest \$1,000, or to the nearest \$100,000 for a report on the performance of different divisions. Alternatively, when calculating the cost of a unit of output, managers may want the cost to be accurate to the nearest dollar or even cent.

C. Complete: Managers should be given all the information they need, but information should not be excessive, for example a complete control report on variances should include all standard and actual costs necessary to understand the variance calculations.

C. Cost beneficial: The cost of producing information should not exceed its value. Management information is valuable, because it assists decision making. If a decision backed by information is different from what it would have been without the information, the value of information equates the amount of money saved or generated as a result.

U. Understandable: Use of technical language or jargon must be limited. Accountants must always be careful about the way in which they present financial information to non-financial managers.

R. Relevant: The information contained within a report should be relevant to its purpose. Redundant parts should be removed as this can make it harder for the user to get a clear picture of what is important.

A. Authoritative: Information should be trusted and provided from reliable sources so that the users can have confidence in their decision making.

T. Timely: Information should be provided to a manager in good time to allow them to make decisions based on that information. Using out of date information can result in poor decisions being made.

E. Easy to use: We must always think about the person using the information we provide and make sure the information meets their needs.



Test your understanding 1

M is a management accountant. One of her roles is to provide each functional manager with a monthly report. The production manager has complained to M about his report, stating the following:

- The report for month 2 was not received until month 5 making the information too out of date to be useful.
- The report contained terminology which he did not understand.
- The report was too long which made it difficult for him to find the parts he really needed and some of the important information he required was missing.

Which elements of ACCURATE has M NOT managed to address in her report for the production manager?

Information for different levels of management

Now that we know what good information is, we can consider the different information needs of different levels of management.

Organisations are generally split into three levels; strategic, managerial/tactical and operational/functional.



Information needs differ at each of these levels.

Strategic level: Top-level management need to know about developments in the markets in which they operate and in the general economic situation. They also need to know about any new technology that emerges, and about the activities of competitors. Decisions made at this level:

- will have a large impact on the whole organisation
- will be long term
- tend to be unstructured.

Tactical level: Management at this level might want to know about issues such as product or service quality, speed of handling customer complaints, customer satisfaction levels, employee skills levels and employee morale. Decisions made at this level:

- will have a medium impact on the whole organisation
- will be medium-term
- will act as a bridge between the strategic and operational levels.

Operational level: Lower-level management may want to know about the number of rejects per machine, the lead time for delivering materials and the number of labour and machine hours available. Decisions made at this level:

- will have a small impact on the whole organisation; they will normally only affect one business unit or department
- will be short-term
- tend to be highly structured.

You can see from the above that the information requirements change at the different levels within the organisation. The nature of the information also changes.



Illustration 1

XYZ is a successful pizza restaurant which currently operates a chain of four restaurants, all of which offer the same standard menu.

Consider the following decisions which XYZ may have to make and suggest at what levels these decisions would be made.

- Start producing frozen pizzas and selling these through supermarkets.
- Hire a new waiter in one of the restaurants.
- Decide on the pricing of the dishes on the standard menu.
- Open a new restaurant.

Solution:

- Starting production and sales of frozen pizzas is a fundamental change to what the company currently do and involves entering a new market. This would therefore be a **strategic** decision.
- Hiring a new waiter would be an **operational** decision as it involves a day to day decision which should be able to be made at a lower level.
- Deciding on the pricing is likely to be a **tactical** decision. In general the strategic level will decide on which markets in which to operate and the managerial level will decide on how to operate within these markets. Pricing would come under this remit.
- Opening a new restaurant is a more difficult one. In this case a decision to expand the number of restaurants would likely be a **strategic** decision. In some much larger organisations this type of decision would be made at the tactical level, however given that XYZ only has four restaurants, then the decision to open a fifth would likely be made by the senior managers.



Test your understanding 2

LMN is an international clothing manufacturer specialising in producing waterproof jackets.

Consider the following decisions and match each to the level of the organisation where these decisions would be made.

Decision	Level
A decision to take over a rival company in order to expand its production into different markets	Strategic
A decision on the ordering of material for production	Tactical
A decision about the pricing of the products	Operational

Now we have looked at the levels of decision, we can return to our pizza restaurant, XYZ, example and consider some of the different types of information which could be required for each decision.

Note: These lists give some suggestions for types of information required but they are not exhaustive.

Start producing frozen pizzas and selling these through supermarkets.

- The cost to produce frozen pizzas.
- The cost of packaging equipment.
- The selling prices of competitors' frozen pizzas.
- The estimated demand for their frozen pizzas.

Hire a new waiter in one of the restaurants.

- The hours required to be worked by the new waiter.
- The average rate of pay for trained waiters in the local area.
- The rates of pay of existing members of staff.
- The availability of trained labour in the area.

Decide on the pricing of the dishes on the standard menu.

- The cost of the ingredients for each dish.
- The prices charged by competitors.
- The profit required by each restaurant.

Open a new restaurant.

- The cost of available premises.
- The cost of fitting out the restaurant.
- The estimated number of potential customers.
- The number and types of existing local restaurants.
- The average prices at existing restaurants.

You can see from this that the type of information required changes with each decision.

Information required for lower level decisions tends to be more **accurate** and **detailed** (e.g. the new waiter is required for 20 hours per week and will be paid \$10 per hour) and is usually needed within a **shorter timescale**. It also tends to be information which is **more readily available** (e.g. the average rate of pay trained waiters in the local area is \$9.50).

Strategic level information tends to be more **summarised** (e.g. the average price of a frozen pizza is \$2) and will contain **more subjective** estimates (e.g. the estimated number of potential customers is 1,000 per week).

Strategic information also tends to require more **external** information whereas operational information tends to be mainly from **internal** sources.

For the tactical level, just as tactical decision making forms a link between strategic and operational management, the information it requires has some of the characteristics of each.

The table below provides a useful summary:

Information	Strategic level	Operational level
Source	Historical and forecasts.	Historical.
Timeliness	The timeliness is less crucial at this level as decisions tend to be taken over a period of months or years.	Information must be available immediately as decisions are taken daily.
Accuracy	Information will contain many subjective estimates.	Information will be objective and accurate.
Breadth	Wide variety of information in different forms, covering many aspects of the organisation's operations.	Focused on the decision to be made.
Detail	Highly summarised.	Detailed.



Test your understanding 3

Use the following words to complete the sentences regarding levels of information.

- Strategic
- Tactical
- Operational
- Higher
- Lower
- More
- Less

A decision to diversify into a new market would be taken at the _____ level.

Information for operational level decisions will have a _____ level of detail than information for strategic level decisions.

Strategic level information will be _____ subjective than operational level information.

5 Non-financial information

In the example of a pizza business, some of the information was financial, such as the cost of ingredients, but some was not, such as the number of expected customers.

Information which is not given in \$ terms is called non-financial information and it is very important that management accountants provide both types to management.

Financial information is important for management because many objectives of an organisation are financial in nature, such as making profits. While profit cannot be ignored as it is usually the main objective of commercial organisations, performance measures should not focus on profit alone. Managers also need information of a non-financial nature such as customer numbers, number of complaints or the number of orders processed.

This distinction will be looked at in more detail in the performance measurement chapter.



Requirements of different users

We have seen that management information is required by a variety of different users, each with different needs. Below we briefly consider the needs of different types of organisations.

Commercial organisations

The main objective of commercial organisations is usually to maximise the wealth of its shareholders (owners). Key financial information required by this type of business would focus on the profit made by each area or each product/service.

There are different types of commercial organisations. For example manufacturing companies produce goods, retail companies sell goods and service companies sell services. Each of these types of organisations could require different types of information relevant to their type of operation.

Not-for-profit organisations

Not-for-profit organisations are organisations whose main objective is not to make profit. These include public bodies, such as state run schools and hospitals, and charities. The objective of not-for-profit organisations is often value for money.

The main objective of public bodies is to provide services to the public in line with government requirements. The information requirement of public bodies will differ from commercial organisations. There will be no profit measurements but there will still be a requirement for financial information which will focus more on cost management and efficiency. As these bodies must be run in the public interest, the level of information must be detailed and accurate and allow assessment of the efficiency and effectiveness of the organisation to be assessed by central government and by the public.

Charities are also not-for-profit organisations with objectives such as helping feed the poor, or raising funds to research illnesses. Again different information will be required by charities such as funds raised and amounts donated to their causes. The objective of a school could be 'to educate children' or the objective of a charity could be 'to improve the lives of the poor'. These are difficult objectives to measure and it is therefore difficult to determine what information needs to be provided.

Reporting for different types of organisations will be looked at in more detail in the preparing accounts and reports for management chapter.

Society

In addition to the organisations discussed above, society also has a need for information relating to the organisations it deals with. Members of the public may be shareholders, employees or customers of these organisations and they will have an interest in how these organisations are run and are performing. Society will also be interested in the impact organisations have on the local and wider community. For example, environmental reporting, where organisations measure and report on their impact on the environment, can be of great use to the public.

6 The purpose of management accounting

We have now looked at the importance of providing relevant information and the types of information we may need to provide to management so that they can make good decisions.

While providing information for decision making is clearly key to what management accountants do, their role is usually expanded to include **three** main elements:

- **Planning**
- **Control**
- **Decision making.**

Planning

Planning involves establishing the objectives and goals of an organisation, i.e. what they are trying to achieve, and formulating relevant strategies (long-term plans) that can be used to achieve those objectives and goals.

In order to make plans, it helps to know what has happened in the past so that decisions about what is achievable in the future can be made. For example, if a manager is planning future sales volumes, it would help to know what sales volumes have been achieved in the past.

We looked at the levels of the organisation earlier. Planning can also be done at different levels in an organisation:

- **Strategic** – long-term planning carried out by the highest level of the organisation.
- **Tactical** – short- to medium-term planning, carried out by middle level management.
- **Operational** – short-term planning for day-to-day operations.

The main types of plans that management accountants get involved in are **budgets** where an estimation of the revenue and expenses over a specified future period of time is made.

Planning is looked at in more detail in the budgeting chapter.

Control

Once planning has been carried out, and budgets prepared, targets can be set. This allows for evaluation of performance. Without targets it is difficult to judge how good the performance has been.

Information relating to the actual results of an organisation must be gathered and compared to the targets. The differences between the actual and the planned results can be calculated and reported to management. These are known as **variances**. This type of information facilitates managers to control their operations.

Many measures can be used to measure performance within an organisation; it is largely dependent on the type of organisation. Some common performance measurements are:

- **Variances** – comparison of actual results against budgeted results.
- **Financial/profitability measures.**
- **Non-financial measures.**

This type of control and the production of performance measures allow management to focus on areas that require attention and helps them to drive the business forward and 'add value'.

These measures will be covered in more detail in the performance measurement chapter.

Decision making

We have seen already that decision making involves considering information that has been provided and making informed decisions. In most situations, decision making involves making a choice between two or more alternatives. Managers need reliable information to compare the different courses of action available and understand what the consequences might be of choosing each of them.

These three purposes of management accounting (planning, control and decision making) form the basis of your *Fundamentals of Management Accounting subject*. Each of these areas will be looked at in detail throughout this text book.

7 Financial accounting

Now that we are very clear about the purpose of management accounting we can compare it with another branch of accounting, financial accounting, which you will study as part of your CIMA qualification.



The *CIMA Terminology* defines **financial accounting** as 'classification and recording of the monetary transactions of an entity in accordance with established concepts, principles, accounting standards and legal requirements and their presentation, by means of statements of profit or loss, statements of financial position and cash flow statements, during and at the end of an accounting period'.

Look back at the definition of management accounting and you will see that these two are very different.

You can see from this that the role of the financial accountant is much more clearly defined and narrower than that of the management accountant. There is also a legal aspect to financial accounting. It is a legal requirement for organisations to produce financial statements which show a true and fair view of their financial position for each accounting period. There is no legal requirement to have management accounting.

Financial accounting is also governed by many rules and regulations whereas there are no rules covering how the management accountant provides information. They will provide whatever is required by their managers in whatever format suits.

Financial accountants deal with historical (past) financial information, while management accountants deal with all types of information (financial and non-financial) both historical and future.

The main role of financial accounting is to produce the statutory financial statements, whereas management accountants provide any information needed by management.

It is important from this to see that the audiences using management and financial accounting information are different. Management accountants provide information internally to managers. The statutory financial reports produced by the financial accountants are available to the public and to anyone who has an interest in the organisation.

The differences can be summarised as follows:

Financial accounting	Management accounting
For external use	For internal use
Statutory requirement	At the discretion of management
Concerned with the production of statutory accounts for an organisation	Concerned with the provision of information to management to aid decision making
Governed by many rules and regulations	Not governed by rules or regulations, can be provided in any format



Test your understanding 4

Consider the following statements relating to financial accounting:

- (i) The main purpose of financial accounting statements is to provide a true and fair view of the financial position of an organisation at the end of an accounting period.
- (ii) Financial information may be presented in any format deemed suitable by management.

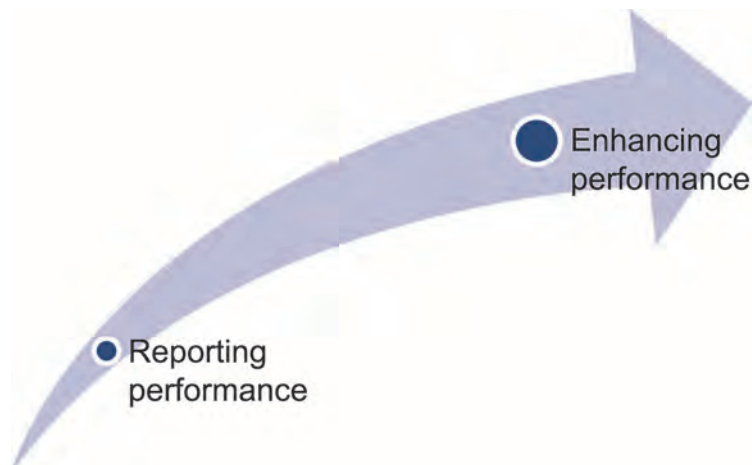
Which of the above statements is/are true?

- A (i) and (ii)
- B (i) only
- C (ii) only
- D neither

8 The management accountant

At this point it is worth looking in more detail at the various roles management accountants play in organisations and how this has changed over the years.

The whole of the accountancy profession is changing, and this is especially true for the management accountant.



The traditional management accountant was largely involved in reporting business results to management, but this is no longer the case. Management accountants today are seen as **value-adding business partners** and are expected to not only forecast the future of the business, but to assist in delivering this future by identifying opportunities for enhancing organisational performance. Management accountants now work alongside business managers as mentors, advisors and drivers of performance.

Management accountants are an integral part of any business, providing a variety of information to management for the purposes of planning, control and decision making. Management accountants often hold senior positions in the organisation.



CIMA's definition of the role of the management accountant

The work of the Chartered Management Accountant (produced by CIMA):

Chartered management accountants help organisations establish viable strategies and convert them into profit (in a commercial context) or into value for money (in a not-for-profit context). To achieve this they work as an integral part of multi-skilled management teams in carrying out the:

- formulation of policy and setting of corporate objectives
- formulation of strategic plans derived from corporate objectives
- formulation of shorter-term operational plans
- acquisition and use of finance
- design of systems, recording of events and transactions and management of information systems
- generation, communication and interpretation of financial and operating information for management and other stakeholders
- provision of specific information and analysis on which decisions are based
- monitoring of outcomes against plans and other benchmarks and the initiation of responsive action for performance improvement
- derivation of performance measures and benchmarks, financial and non-financial, quantitative and qualitative, for monitoring and control; and
- improvement of business systems and processes through risk management and internal audit review.

Through these forward-looking roles and by application of their expert skills management accountants help organisations improve their performance, security, growth and competitiveness in an ever more demanding environment.

We will start to look at some of these functions in the *Fundamentals of Management Accounting* syllabus, and others will be studied in later subjects.

It can be seen from this that there is no one clear definition of the role of the management accountant. Their work, experience and responsibilities are extraordinarily varied and continue to change to reflect the changing needs of stakeholders.



The domain of the professional accountant in business

The **IFAC (International Federation of Accountants)** is the worldwide organisation for the accounting profession. Its members include the professional accounting bodies across the world, including **CIMA**. It represents more than 2.5 million accountants.

Of the 2.5 million professional accountants who are members of the IFAC, over half of these work in business. This includes those who work in commerce, industry, the public sector, education and the not-for-profit sector.

According to the IFAC, the roles of the professional accountant in business include:

- implementing and maintaining operational and fiduciary controls
- providing analytical support for strategic planning and decision making
- ensuring that effective risk management processes are in place, and
- assisting management in setting the tone for ethical practices.'

The domain of the professional accountant in business:

The IFAC have analysed the main activities of the professional accountant in business as:

- The generation or creation of value through the effective use of resources (financial and otherwise) through the understanding of the drivers of stakeholder value (which may include shareholders, customers, employees, suppliers, communities, and government) and organisational innovation.
- The provision, analysis and interpretation of information to management for formulation of strategy, planning, decision making and control.
- Performance measurement and communication to stakeholders, including the financial recording of transactions and subsequent reporting to stakeholders typically under national or international Generally Accepted Accounting Principles (GAAP).
- Cost determination and financial control, through the use of cost accounting techniques, budgeting and forecasting.

- The reduction of waste in resources used in business processes through the use of process analysis and cost management.
- Risk management and business assurance.

Again, this demonstrates the extraordinarily varied nature of the roles undertaken by the accountant.

IFAC list of the typical mainstream job titles held by accountants in business

These include:

- finance director
- financial controller
- financial analyst
- treasurer
- planning manager
- strategy analyst
- internal auditor
- compliance officer
- project manager
- programme manager.

Many professional accountants also move on to have more general management responsibilities such as operations director, chief executive officer (CEO), chairman and non-executive director.

9 The positioning of management accounting within the organisation

It is clear that the breadth of the work carried out by management accountants, and their remit continues to grow. Accountants within business can be part of an internal finance function, or may be part of a business partnering role. When deciding on their structure, it is important for organisations to consider where best to position the management accountant within the organisation.

There are three options available:

- Dedicated business partners
- Shared services centres (SSC)
- Business Process Outsourcing (BPO).

Dedicated business partners

With this approach, the management accountant is an integral part of the business area that they support. This brings many benefits to both the accountants and the management of the area.

The relationship between the management accountant and the managers of the business area is an important business relationship. To work in the best interests of the company, they must work as business partners and the relationship must be based on trust, honesty and respect.

From the accountant's point of view, they must:

- **act professionally at all times** – as representatives of the accounting profession, they are expected to show professional care and attention in the way they conduct themselves
- **demonstrate technical awareness** – this can be demonstrated by being a qualified member of CIMA and maintaining their technical knowledge through continued professional development (CPD)
- **demonstrate business awareness** – they must be aware of the nature of the business and the needs of the managers
- **act with integrity** – the work of the management accountant should be done in the best interests of the company and society and they should never put themselves in a position where their personal interests conflict with these interests.

From the manager's point of view, they must:

- **trust** the accountant and the information being provided
- **respect** the accountant's knowledge, experience and professionalism
- be able to discuss all aspects of work **confidentially** with the accountant
- be able to **state clearly what their requirements are**.

It is important to remember that both the management accountant and the managers of the business want the business to succeed and they have to work together to achieve this.

The management accountant as an adviser

The management accountant plays a range of roles within the organisation from their more traditional score-keeping role to a full-fledged, value-adding, business partner. An advisory role falls in between these extremes. As a technical expert, the management accountant is expected to advise management on a range of topics, including financial and non-financial analysis, costing, pricing, Business Process Reengineering and performance management.

As advisers, management accountants no longer simply need financial skills, but increasingly, communication and presentation skills.

The advantages of this approach are:

- The management accounting function is part of the business it serves.
- Increased knowledge of the business area and its needs.
- Strong relationships can be built up between the accountant and the business.

The disadvantages of this approach are:

- Duplication of effort across the organisation.
- Lack of knowledge sharing. There is no sharing of knowledge which can happen within a larger, more diverse team.
- The accountants can feel isolated within the business and may develop their own ways of working which may not constitute best practice.
- The accountant can lose sight of the overall goals of the organisation.

Shared services centre (SSC)

An alternative to having the management accountant as a dedicated business partner is to set up a shared services centre (SSC). This is where the whole finance function is brought together as one centre and this centre provides all the accounting needs of the whole organisation.

The advantages of this approach are:

- Cost reduction. This comes from reduced headcount, premises and associated costs. The SSC, for example, may be located in a geographic area with favourable labour or property rates.
- Increased quality of service. The central team can become very experienced and adopt best practice.
- Consistency of management information throughout the organisation.

The disadvantages of this approach are:

- Loss of strong relationships between the accountant and the business.
- Less knowledge of the business areas and their needs.
- Standard reporting may not provide for all of the needs of each business area.

Business Process Outsourcing (BPO)

While setting up a SSC is often thought of as 'internal outsourcing', some organisations decide to outsource the finance function completely. BPO is contracting with a third party (external supplier) to provide all or part of a business process or function. Typically the functions which are outsourced include procurement, ordering, invoicing and reporting functions, although decision support and other corporate functions may also be outsourced.

The advantages of this approach are:

- Cost reduction. As with SSCs, there will be headcount reduction and reduction in property and associated costs.
- Access to specialist providers. This can bring new expertise into the organisation.
- Release of capacity. If only the more routine functions are outsourced, the retained finance function can concentrate on their role of providing the best information for management decision making.

The disadvantages of this approach are:

- Loss of control. The work is being carried out remotely so management are unable to supervise the function on a day-to-day basis.
- Over-reliance on external providers. Often the systems containing the information are not accessible to the organisation, meaning that they are only able to get the information the outsourcers provide. It can also become very difficult to bring the function back in-house.
- Confidentiality risk. Important information could end up getting into the wrong hands.
- Loss of quality. Quality requirements must be specified when the contract is set up and quality control must be put in place to monitor the work of the outsourced function.



Test your understanding 5

Which of the following is NOT an advantage of setting up a shared services centre?

- A Closer to the business needs
- B Cost savings
- C Consistency of information across the organisation
- D Adoption of best practice

10 The Chartered Institute of Management Accountants (CIMA)

CIMA was formed in 1919 (originally as the Institute of Cost and Works Accountants (ICWA)). It was granted its Royal Charter in 1975 and became known as the Chartered Institute of Management Accountants in 1986.

CIMA is the world's largest and leading professional body of management accountants, with over 200,000 members. Members and students are located in over 170 countries. CIMA supports organisations in both the private and public sector. It focuses on the needs of businesses, no matter what type of business.

The CIMA qualification

The CIMA qualification is very highly regarded across the world and CIMA members hold many high profile finance positions.

The CIMA qualification is constantly updated to ensure that it continues to meet the needs of business. Full details of the qualification, study resources and detailed guidance can be found on the cimaglobal website.

Before admission to membership, students must demonstrate their experience by completing their professional experience records. This ensures that CIMA members do not just have the technical knowledge, but also practical knowledge of business.

Members are required to undertake continuing professional development (CPD) to ensure that they maintain and develop their knowledge. Details about CPD requirements can be found on the cimaglobal website. The website also contains a range of CPD resources to support members in maintaining and developing their knowledge throughout their careers.

All of this ensures that CIMA members and students will enhance any business they join and it gives assurances to potential employers that they are recruiting well-trained and knowledgeable individuals.

The cimaglobal website also contains a full recruitment site where CIMA members and students can find career advice and employment opportunities.

Professional standards

In addition to the technical requirements for members, CIMA are committed to upholding the highest **ethical and professional standards**. This ensures that employers and members of the public can have confidence in CIMA and CIMA members and students.

CIMA has a **code of ethics** which all members and students are required to comply with.

The code of ethics is made up of five fundamental principles:

- **Integrity:** Being straightforward, honest and truthful in all professional and business relationships.
- **Objectivity:** Not allowing bias, conflict of interest or the influence of other people to override your professional judgement.
- **Professional competence and due care:** An ongoing commitment to your level of professional knowledge and skill.
- **Confidentiality:** You should not disclose professional information unless you have specific permission, or a legal or professional duty, to do so.
- **Professional behaviour:** Compliance with relevant laws and regulations. You must also avoid any action that could negatively affect the reputation of the profession.

Ethical support for members and students

CIMA provides students and members with guidance on how to handle situations where their ethics may be compromised. Such situations may arise from:

- Pressure from management or shareholders to achieve unrealistic deadlines or produce certain results
- Pressure to cut costs or operate with fewer resources
- Intimidation or threats from management
- Desire to act in one's own self-interest or in the interest of the organisation.

Members or students facing an ethical dilemma, concerned about threats to their professionalism or seeking advice on how to handle situations arising in their professional duties can contact CIMA for help and guidance. CIMA provide a free, confidential helpline for members and students offering support and advice.

Other member benefits

In addition to the above CIMA provides members with much more in terms of resources and support to help all members develop and reach their potential. CIMA and CGMA provide members with regular updates about what is happening in the profession and in business in general. Members receive regular magazines and newsletters to keep them up to date with recent developments.

Members can also network with other like-minded members at numerous events which are run from many locations, and on line throughout the year. CIMA use social media to keep in touch with members so that they are always aware of events which may be of interest to them and as a way of introducing members to each other. Networking is a valuable way to progress your career.

In addition CIMA provides research and insights to challenge members' thinking in order to keep CIMA members at the forefront of the profession.

CIMA is keen to support members throughout their career and offers advice and support to help with career development. It also provides a comprehensive job site which advertises suitable jobs from across the world.

Details of all of the above, including the CIMA jobs website can be found on the cimaglobal website.

Maintaining public confidence in management accounting

As part of its commitment to upholding the highest ethical and professional standards, and to maintaining public confidence in management accounting, CIMA will also deal with complaints against members or students. Any member of the public with a complaint about a student or member of CIMA can contact CIMA directly and it will investigate the complaint through its conduct process.

This process will aim to determine if the complaint is valid and if CIMA's standards of professional behaviour have been met. The conduct committee will determine what action, if any, should be taken.

The work of CIMA ensures that the public and businesses are protected and that members are trained to the highest levels and adhere to the highest ethical and professional standards.

Chartered Global Management Accountants (CGMA)

In 2012, CIMA undertook a joint venture with the AICPA (American Institute of Certified Public Accountants). Together they have created a new designation for management accountants known as CGMA.

When you become a qualified CIMA member you will be entitled to use the CGMA designation.

The purpose of the new designation is to elevate the profession of management accounting around the world. Businesses around the world will recognise the CGMA designation and will be confident that members of CGMA will be able to assist them in making critical business decisions and will contribute to driving strong business performance.



Test your understanding 6

Mr H is a CIMA student, working in the finance department of a publishing company. He has recently undertaken a review of business expenses and has discovered that one of his colleagues, also a CIMA student, has been claiming for non-work related expenses.

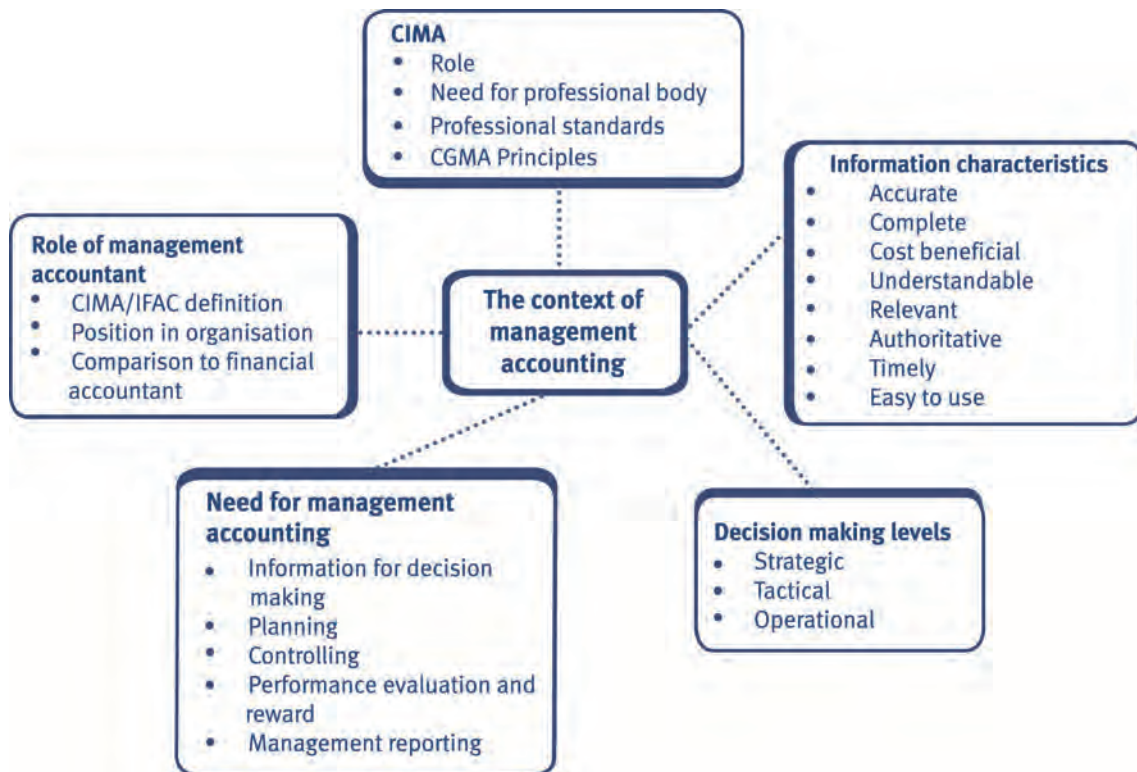
This is against the expenses policy of the company.

Mr H is friendly with the colleague and does not want to get him into trouble but feels that he should report his findings.

If Mr H fails to report his findings to protect his friend, which of the fundamental principles would he be failing to comply with?

- Objectivity
- Confidentiality
- Professional behaviour
- Integrity
- Professional competence and due care

11 Chapter summary



12 End of chapter questions



Question 1

What, if any, is the difference between data and information?

- A They are the same
- B Data can only be figures, whereas information can be facts or figures
- C Information results from sorting and analysing data
- D Data results from obtaining many individual pieces of information



Question 2

Which three of the following are possible disadvantages of business process outsourcing?

- A Loss of control
- B Reduction in quality
- C Duplication of effort
- D Increased cost
- E Confidentiality risk



Question 3

Which three of the following statements about CIMA are true?

- A CIMA's main focus is financial accounting
- B CIMA was established over 90 years ago
- C Members of CIMA are known as Chartered Global Management Accountants
- D CIMA only covers organisations based in the UK
- E CIMA has a code of ethics which all students and members must adhere to



Question 4

Which of the following is NOT one of the roles of management accounting as defined by CIMA?

- A Plan long, medium and short-run operations.
- B Design reward strategies for executives and shareholders.
- C Prepare statutory accounts consisting of statement of profit or loss, statement of financial position and cash flow statements.
- D Control operations and ensure the efficient use of resources.
- E Measure and report financial and non-financial performance to management and other stakeholders.



Question 5

Consider the following information characteristics.

For each, decide which characteristic is most appropriate at the strategic level and which would be more appropriate at the operational level.

	Strategic	Operational
Subjective/Objective		
Detailed/Summarised		
Historical/Future		
Focused/Wide ranging		
Frequent/Infrequent		

**Question 6**

The Global Management Accounting Principles have been developed to support organisations in benchmarking and improving their management accounting systems. The Principles help the public and private sectors make better decisions, respond appropriately to the risks they face and protect the value they generate.

From the list below, identify the four Global Management Accounting Principles:

- Influence
- Confidentiality
- Relevance
- Professional behaviour
- Integrity
- Trust
- Value

**Question 7**

State which three of the following characteristics relate to financial accounting:

- A For internal use
- B Governed by rules and regulations
- C Required by law
- D Output is mainly used by external parties
- E One of its main purposes is planning



Question 8

**Which of the following are characteristics of good information?
Mark all that apply.**

- Cost beneficial
- Detailed
- Understandable
- Accurate
- Complete
- Regular
- Timely
- Accountable



Question 9

Which three of the following are fundamental principles from the CIMA code of ethics?

- A Confidentiality
- B Responsibility
- C Integrity
- D Accountability
- E Objectivity



Question 10

Decide whether the following statements are true or false.

Financial accounting information is historical

Financial accounting is concerned with the production of statutory accounts

Management accounting information is used for internal decision making

Management accounting information is used by company shareholders

True	False

Test your understanding and end of chapter answers



Test your understanding 1

The report has failed in a number of respects:

The report is not **complete** as some important information is missing.

The report is not **understandable** as it uses terminology which the recipient does not understand.

The report is not **relevant** as it contains too much information, much of which is not required by the manager.

The report is not **timely** as it was received late, making the information less useful.

The report is not **easy to use** as M has not considered the user when producing it and as a result it does not meet the needs of the manager.



Test your understanding 2

The correct matching is:

Decision	Level
A decision to take over a rival company in order to expand its production into different markets	Strategic
A decision on the ordering of material for production	Operational
A decision about the pricing of the products	Tactical



Test your understanding 3

The completed sentences are:

A decision to diversify into a new market would be taken at the **strategic** level.

Information for operational level decisions will have a **higher** level of detail than information for strategic level decisions.

Strategic level information will be **more** subjective than operational level information.



Test your understanding 4

B

Statement (ii) is incorrect as statements for external use must be presented in the prescribed formats.



Test your understanding 5

A

Being closer to the business needs is an advantage of having the management accountant as a dedicated business partner.

B, C and D are advantages of a SSC.



Test your understanding 6

In this example if Mr H fails to report his findings to protect his friend, he would be breaching a number of principles:

Professional behaviour has been breached. By ignoring his colleague's action, Mr H is condoning dishonest behaviour which could discredit the profession.

Professional competence and due care is breached since Mr H is expected to deliver a competent behaviour towards his employer and act with due care in accordance with applicable technical and professional standards.

Objectivity has also been breached as this requires a professional accountant not to allow bias, conflict of interest or undue influence of others to override professional or business judgement. His friendship is compromising his objectivity.

Integrity is the requirement to act honestly. Covering up an illegal act is not acting honestly towards the company.

Confidentiality could also be seen as being breached. Mr H would have a duty to disclose this information to his superiors as part of his professional duty.



Question 1

C

The two terms are frequently used synonymously but strictly speaking they mean different things. Data consists of raw facts and statistics and is turned into information by sorting and analysis. Both data and information can comprise either facts or figures.

**Question 2****A, B and E**

C and D are disadvantages of business partnering.

**Question 3****B, C and E**

A is false. CIMA's main focus is management accounting.

D is false. CIMA is a worldwide organisation.

**Question 4****C**

Preparing statutory accounts is NOT a role of management accounting. It is a financial accounting role.

**Question 5**

Strategic	Operational
Subjective	Objective
Summarised	Detailed
Future	Historical
Wide ranging	Focused
Infrequent	Frequent

**Question 6**

The four Global Management Accounting Principles are:

- Influence
- Relevance
- Trust
- Value

Confidentiality, professional behaviour and integrity are three of the five fundamental principles of the CIMA code of ethics.



Question 7

B, C and D

A and E relate to management accounting.

Management accounting is internally focused and one of its main purposes is planning.

Financial accounting is governed by rules and regulations, required by law and its output is mainly used by external parties.



Question 8

- Cost beneficial
- Understandable
- Accurate
- Complete
- Timely

The characteristics of good information can be remembered using ACCURATE which stands for Accurate, Complete, Cost beneficial, Understandable, Relevant, Authoritative, Timely and Easy to use.



Question 9

A, C and E

Confidentiality, integrity and objectivity are all fundamental principles from the CIMA code of ethics. The other two principles are professional competence and due care and professional behaviour.



Question 10

	True	False
Financial accounting information is historical	✓	
Financial accounting is concerned with the production of statutory accounts	✓	
Management accounting information is used for internal decision making	✓	
Management accounting information is used by company shareholders		✓