

# Preface

Management accounting seeks to provide information and insight to assist organizational managers in their decision-making. It comprises multiple tools and techniques which together form a fluid portfolio of organization-specific information that focuses on both the short and long-term and which, through careful planning and monitoring can help an organization pursue its goals.

The gathering and use of such information for decision-making in organizations has never been so crucial, it is the life blood of sustainable organizational practice. The recent and continuing global financial crisis has revealed many challenges, possibly the most important of all being that all organizations, no matter their size, location or sector, need an abundance of both financial expertise and broad business acumen to help guide decision makers towards achieving their long-run objectives and with this, the knowledge and competency of management accountants has become increasingly important.

This textbook is written for a new generation of management accountants who will command multi-faceted roles in tomorrow's organizations. It is contemporary in its approach but respectful of the classics and presents students with a broad coverage of both well-established and new management accounting tools and techniques and most importantly, it places such tools and techniques in the fast-changing contexts in which they operate.

There are new skills and capabilities which tomorrow's management accountants must equip themselves with if they are to continue being 'masters' of useful business information. Such new skills require both hard skills (e.g. accounting techniques, IT awareness, broad business understandings) and soft skills (e.g. communication, interpersonal, and critical thinking). It is the intention to permeate these new skills throughout the proposed textbook by taking the students beyond accounting calculations and numbers *per se*, to place accounting information and the roles of management accountants in the context of broader organizational themes and challenges. That is, whilst it remains crucial for students to emerge from their studies with a sound comprehension of all the relevant management accounting techniques, it is nowadays equally important for students to comprehend how such techniques integrate within broader and continually changing organizational and environmental settings.

Accordingly, this cutting-edge textbook provides a definitive education for tomorrow's advisory management accountants, as well as finance-literate managers. Theoretically rigorous but useful to practitioners, we believe this text is an essential companion for undergraduate management accounting students, as well as those studying at masters-level.

## Key features of the textbook:

- Broad coverage of both traditional and contemporary management accounting tools and techniques.
- Emphasis throughout on the roles and skills required from tomorrow's management accountants.
- Positions the role of management accountants in tomorrow's organizational dilemmas, looking at contemporary issues such as sustainable development, ethics, hyper-competition, 'Big Data' and more.
- Exploration of the more technical aspects of management accounting in its broader organizational, institutional and social context.
- An underlying focus on the drivers and consequences of management accounting, viewed as a relatively stable yet changeable aspect of organizational life.
- Offering a wealth of real-life and research-informed examples, including well-known companies such as Apple Inc., Wikipedia, Facebook, Handelsbanken, Netflix, Tesco, Innocent, Procter & Gamble, Novo Nordisk, SAP, Coca-Cola and more.

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### Approach and Aims:

The book is intended to be useful to students who are new to the subject of management accounting, but there are particular features which aim to make the book a 'must have' for intermediate and advanced students as well, such as:

- Consistent and unwavering attempt to connect the technical aspects of management accounting to the 'bigger picture' in which organizations design, implement and use management accounting. Reinforced through the inclusion of many real-world illustrations such as 'Management Accounting in Practice' and using the most recent and cutting-edge research in the 'Management Accounting Insight' exhibits and end-of-chapter case studies.
- An integrated approach whereby each individual chapter or topic can be taken in its own right but where considerable attention is drawn to how different individual themes inter-connect and overlap. Management accounting is a holistic and broad-sweeping feature of organizational life, and this is reflected in how we present our textbook.
- Significant opportunities for students to test their knowledge, with worked examples and mini-case questions throughout the text. Also, at the end of each chapter, there are review questions, group discussion and activities questions, exercises and case-study-based problems (all organized by level of difficulty to help both the student and lecturer) that have a contemporary and modern feel and resonate with the skills required by tomorrow's management accountants.
- Comprehensive readings and references in each chapter, comprising the latest research and practitioner-oriented literature, for inspiration and to encourage students to broaden their knowledge and understanding.
- The text is accompanied by a high-quality resource package which comprises full online instructor and student support – including brand new Excel video walkthroughs and McGraw-Hill's fully integrated assessment package Connect™. Extending this innovative resource package further still, there is also an authors' blog at [www.burnsetal.com](http://www.burnsetal.com) which will be updated weekly by the authors, as well as a twitter account at: <https://twitter.com/Burnsetal>.

### Overview of the Book

The textbook comprises six sections which together represent a comprehensive insight into management accounting – its technical attributes, changeable wider context, and the multiple roles of management accountants. The sections cover: (1) an introduction to management accounting, (2) how organizations account for their costs, (3) the importance of tools and techniques which assist organizational planning and control, (4) the various dimensions of making business decisions, (5) the complex issues surrounding measurement of organizational performance, and (6) accounting for an organization's strategic aims and future. Spread across these sections, there are twenty-two chapters, the key focus of which can be summarized as follows:

**Chapter 1 – Introduction to management accounting and its changing context** sets the scene for tomorrow's world of management accounting, including its definition and an understanding of the key drivers of change. We also explore the roles and skills required by tomorrow's so-called 'advisory' management accountants. Such background is important for students to be able to comprehend both traditional and new tools and techniques that comprise much of this book.

**Chapter 2 – Information and management accounting** highlights the importance of management accounting information in organizations, and how such information constitutes much more than 'just' the outputs of tools and techniques for presenting data to managers. We establish how powerful management accounting information can be, as well as emphasizing a need to carefully manage the information process.

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**Chapter 3 – The classification of cost(s)** introduces key cost terms and concepts, as essential grounding for later chapters. We discuss how costs can be captured, identified and categorized in multiple ways, and how such different views can shape a variety of approaches towards decision-making.

**Chapter 4 – Costing systems** covers how organizations assign costs to products and services, which then form the basic cost data that managers use to plan, control and make decisions. We consider three types of costing system – job, process and contract costing.

**Chapter 5 – Cost reporting** explores the differences between two costing techniques (variable and absorption costing), emphasizing its application to internal performance measurement and reporting. We also briefly cover the potential of some novel management concepts when reporting internally.

**Chapter 6 – Activity based costing** explores a technique which offers a more sophisticated approach for allocating indirect costs (or overheads) to products, services or other ‘cost objects’. We pay particular attention to the role(s) of management accountants in designing and implementing this technique, and highlight some of its common problems.

**Chapter 7 – Planning and control: ideas, theories and principles** considers some of the underlying reasons why and how organizations engage in planning and control, and we illustrate the usefulness of management accounting techniques in doing so.

**Chapter 8 – Traditional budgeting** examines budgeting techniques which are still popular in many organizations across multiple sectors. We consider the role of budgets and their different functional types, and highlight the management accountant’s role in the budgeting process.

**Chapter 9 – Standard costing, flexible budgets and variance analysis** covers techniques which are commonly used in organizations for planning, control, decision making and product costing. Such techniques are amongst the most widely used in organizations, we also apply them to innovative real-world settings.

**Chapter 10 – Beyond traditional budgeting** examines alternative and more contemporary techniques such as rolling forecasts and activity-based budgeting. We consider the management philosophy known as ‘beyond budgeting’, and explore the role of management accountants to find a budgeting system that aligns with an organization’s strategy and operating style.

**Chapter 11 – Short-term decision making: cost-volume-profit analysis** explores the main tools used by management accountants when making short-term decisions, assisting managers to tackle dilemmas such as how much sales volume is needed to cover their costs.

**Chapter 12 – Cost behaviour and estimation** shows how an understanding of cost behaviour can help estimate business costs. We explore for example how, by being able to predict how costs behave in response to changing activity levels, managers can anticipate the cost impacts of alternative strategies and decisions.

**Chapter 13 – Decision making: relevant costs and revenues** presents more techniques available to management accountants when providing information for decision-making across different time horizons.

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In particular, it extends knowledge on how and when some costs or revenues may or may not be relevant to a particular decision-making scenario.

**Chapter 14 – Pricing** covers both the basic calculations for, and the wider implications of, pricing decisions for organizations. We use real-world examples to illustrate how some leading organizations utilize pricing strategies in a proactive way.

**Chapter 15 – Capital investment decisions** introduces some of the financial techniques available for analysing capital investments. We explain how financial numbers alone do not determine the final decision on whether an investment project goes ahead or not, and we stress the strategic nature of a management accountant's role in such activity.

**Chapter 16 – Performance measurement and management: ideas, theories and principles** is a general overview of how, why and when management accounting can facilitate performance measurement and management, and considers the potential contribution that management accountants have in this respect.

**Chapter 17 – Accounting for strategic management** explores contemporary ways in which managers have attempted to align organizational behaviour and decision-making with strategic goals. In particular, we consider and critically review the strategic-facing management accounting tool known as the 'balanced scorecard'.

**Chapter 18 – Financial performance measurement and transfer pricing** is a synthetic, yet rigorous analysis of the main techniques for performance measurement in divisionalised and multinational organizations. We expose the multiple challenges faced by management accountants when working in such complex settings.

**Chapter 19 – Cost management, value creation and sustainable development** explores managing and balancing costs and value. We present new techniques for informing decisions that ensure future costs will be supported by generated value, but also with aims for sustainable development.

**Chapter 20 – Managing quality and time** looks at two increasingly essential characteristics for competing in today's markets: quality and time. We provide numerous examples of how management accountants play an important role in measuring and managing quality and time, hence creating value for their organizations.

**Chapter 21 – Information systems and management accounting** discusses how information systems are increasingly relevant for tomorrow's management accountants. It covers key issues a management accountant needs to know about information systems and technology, and reviews some major trends and developments such as ERPs, cloud accounting and 'Big Data'.

**Chapter 22 – Managing change and challenges for the future** explores the complexities of management accounting change, as well as teasing out the multiple challenges faced when managing change. We look at specific areas for change in the future, and explore their ramifications for management accountants.