



Management Accounting & Improving Strategic Decision Making

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Most Los Angeles and Southern California business owners and entrepreneurs are familiar with the concepts of cost and financial accounting. These form the basis of the financial operations for practically any business, regardless of its size.

However, there are limitations to the overall usefulness of cost and financial accounting for businesses. While they are adequate for providing information to stakeholders outside of the company, they can be insufficient when it comes to providing the kind of actionable financial and operational data that can support and improve internal strategic decision making.

At the Heart of Decision Making

This is where management accounting comes into the picture. Management accounting “is at the heart of quality decision making, because it brings to the fore the most relevant information and analysis to generate and preserve value,” stated in a document recently prepared by the American Institute of Certified Public Accountants (AICPA) and the Chartered Institute of Management Accountants (CIMA).

This document laid out four Global Management Accounting Principles[®] that are designed to improve organizational decision making:

1. **Influence** — Management accounting should provide influential insights to key decision makers.
2. **Relevance** — The information provided by management accounting should be relevant to the issues decision makers are facing.
3. **Value** — The impact of the value of the information generated by management accounting should be analyzed by decision makers.
4. **Trust** — Credibility and trust should be built by balancing short-term commercial interests against long-run stakeholder value.

These Global Management Accounting Principles can be used by all companies, regardless of their size or whether they are publically or privately held, to derive value out of the ever-growing volume of information that is available in today’s data-driven business world. An effective management accounting function brings together the 4 Ps of People, Principles, Performance systems and Practice areas.

Best Practices Checklists

The Global Management Accounting Principles document includes comprehensive best practices checklists to help CEOs and CFOs apply each of these four principles to a wide range of different accounting and finance disciplines. These disciplines include external reporting; internal controls; financial strategy; cost transformation and management; project, resource and risk management; treasury and cash management; and internal audit, to name a few.

The AICPA's associate director of management accounting, Paul Parks, made the point in an article published on CFO.com¹ that "this is a very practical document that enables a type of benchmarking of the finance function." Indeed, the proper use of management accounting enables the presentment of dashboard information setting KPIs that can be used to help align your personnel with your corporate strategy.

Your company could benefit from a number of positive outcomes by putting management accounting principles into practice, including:

1. It will make it easier for both your financial and non-financial personnel to collaborate on strategic decision making.
2. It will help foster a more informed and competitive workforce.
3. It may result in improved business planning skills.
4. It may improve your financial and operating results.
5. It will help build trust throughout your organization in the quality of credible, understandable information generated by your accounting systems.

Conversely, not putting management accounting principles into practice can result in a number of possible negative outcomes. These include the use of irrelevant and/or outdated data by your organization, a disconnect between different departments within your organization and misunderstandings of the information that's presented, and actions that end up being taken based on inaccurate data.

Concluding Thoughts

Cost and financial accounting form the basis of the financial operations for practically any business. However, there are limitations to the overall usefulness of cost and financial accounting for businesses. This is where management accounting comes into the picture. The AICPA and CIMA have released a document that lays out four Global Management Accounting Principles that are designed to improve organizational decision making. These Principles can be used by all companies to derive value out of the ever-growing volume of information that is available in today's data-driven business world.

¹ Source: <http://ww2.cfo.com/management-accounting/2014/10/get-better-management-accounting/>

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