STRATEGIC MANAGEMENT ACCOUNTING 2019

CPA PROGRAM SUBJECT OUTLINE – THIRD EDITION

Strategic management accounting is a key component of the overall skills base of today's professional accountant.

This subject examines the management accountant's role in dynamic organisations operating in the global business environment. In this role, the professional accountant engages with the organisation's management team and contributes to strategy development and implementation, with the aim of creating customer and shareholder value and a strong competitive position for the organisation. The subject highlights the management accounting tools and techniques of value chain analysis and project management that have become increasingly important in contemporary operating environments.

The subject includes discussions on the professional accountant's responsibilities and judgment as introduced in Ethics and Governance. Also discussed are investment evaluation and strategic business analysis in the context of assessing and responding to risk, as covered in the Financial Risk Management and Advanced Audit and Assurance subjects. Candidates are introduced to strategic management concepts that are expanded on in Global Strategy and Leadership.

Exam structure

The Strategic Management Accounting exam is comprised of a combination of multiple-choice and extended response questions.

General objectives

On completion of this subject, you should be able to:

- apply the strategic management process and organisational and industry value analysis to understand value drivers, cost drivers and the reconfiguring of value chains
- explain the role of the management accountant as a trusted adviser and a business partner in supporting strategy development and the day-to-day operations of an organization
- understand stakeholders' various decision-making needs and provide adaptive information solutions
- design an effective budgeting system that incorporates uncertainty to assist in strategy implementation
- discuss the role of project selection, planning, monitoring and completion in strategy implementation
- explain the role of performance measurement and control systems in value creation, strategy implementation and monitoring performance to improve strategies
- apply strategic management accounting tools and techniques to improve the contribution and sustainability of value-creating activities.

Subject content

The ‘weighting’ column in the following table provides an indication of the emphasis placed on each module in the exam, while the ‘proportion of study time’ column is a guide for you to allocate your study time for each module.

Module	**Recommended proportion of study time (%)**	**Weighting (%)**
1. Introduction to strategic management accounting	10	10
2. Information for decision making	14	15
3. Planning, budgeting and forecasting	20	22
4. Project management	13	13
5. Performance management	21	23
6. Tools for creating and managing value	17	17
Case study	5	0

The subject is divided into six modules. A brief outline of each module is provided below.

Module 1: Introduction to strategic management accounting

Contemporary organisations face significant internal and external challenges that must be addressed in order to operate and function effectively. It is essential for them to create value for multiple stakeholders, including customers, employees, management, regulators and their shareholders or owners. This must be achieved in a global environment that is continuously changing and becoming more competitive. This subject focuses on the role strategic management accounting plays in creating, managing and protecting value.

For the purposes of this subject, strategic management accounting is defined as follows:

Creating sustainable value by:

- supporting the formation, selection, implementation and evaluation of organisational strategy
- synthesising information that captures financial and non-financial perspectives for both the internal and external environments, to enable effective resource allocation.

Strategic management accounting requires that management accountants embrace new skills that extend beyond their traditional practices. They must collaborate with general management (operational departments), corporate strategists (senior management team) and product development, in creating, managing and protecting value. Fostering organisational capabilities leads to value creation.

Value creation is essential in contemporary organisations. One way of thinking about commercial organisations, government bodies and not-for-profit entities is as ‘linked chains’ of resources and activities. These chains produce products and services of value to consumers and end users. The essential requirements for successful performance are:

- to generate products and services with value that consumers are willing to pay for
- to constantly develop and improve the resources, activities and processes used to generate that value (Anderson and Narus 1998)

This module first considers management accounting and its role in supporting management. It then describes the key changes that have led to the development of strategic management accounting. The module also identifies the challenges that management accountants face and describes the skills required to perform their role, at present and in the future. The ability to support managers at a strategic level has become critically important for organisational survival, and management accountants must broaden their role from traditional scorekeeping tasks to business advisory positions. Advances in technology and information systems now help with capturing and processing the routine events within an organisation. This allows management accountants to spend more time understanding the organisation's external environment and work on non-routine, complex decisions. This module concludes with an examination of the various analytical techniques available to management accountants that will assist them to support management in their decisions about strategic direction.

Contents:

Module 2: Information for decision making

This module looks at the information that management accountants work with and provide to satisfy a wide variety of stakeholders including investors, financiers, the organisation's managers and other interested parties who need to make judgments and decisions. There are many methods, techniques and tools that a management accountant can use to satisfy the information needs of stakeholders. The aim of this module is to provide an understanding of alternative approaches that are available so that the management accountant can apply the most appropriate method, technique or tool in any particular situation.

At the outset there are a few terms that need to be clarified. The module uses the expression 'information' as an umbrella term—it can mean data, which are numbers, words or symbols, or it can mean coherent sets of numbers and commentary in combination.

The terms ‘data’, ‘information’ and ‘knowledge’ are often confused. Hislop (2005) makes a useful distinction. He defines data as raw numbers, images, words or sounds derived from observation or measurement. Information is data arranged in a meaningful pattern and where some intellectual input has been added. Knowledge emerges from the application, analysis and productive use of data and/or information with a further layer of intellectual analysis whereby it is structured and linked with existing systems of beliefs and bodies of knowledge. Knowledge provides beliefs about causality and the basis for meaningful action and thought (Hislop 2005, pp. 15–16)

Knowledge may be explicit or tacit. You should be aware if you read academic literature on knowledge management that these competing definitions exist. Furthermore, they are sometimes not defined, and sometimes they are used interchangeably, but not always correctly. The American Institute of Certified Public Accountants (AICPA) and the Chartered Institute of Management Accountants (CIMA) produced the Global Management Accounting Principles. The principles are based on the premise that 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. There are four Global Management Accounting Principles:

1. Communication provides insight that is influential.
2. Information is relevant.
3. Impact on value is analysed.
4. Stewardship builds trust (AICPA and CIMA 2014, p. 3).

In its broadest sense, management accounting encompasses both financial and non-financial information that comes from sources that may begin with but move far beyond the financial accounting system. The information produced by management accountants is far more granular than that contained in financial statements. The management accountant, in assembling various sources of information, must be careful to faithfully represent that information to management. This involves recognising and reconciling sources of information that may be inconsistent or ambiguous.

The final introductory point about this module is that it shows many of the reasons why the management accountant has to work closely with the financial accountant. The current reporting obligations for a listed entity mean that internal events which may affect market price or company valuation require timely market disclosure. The management accountant is likely to possess or generate some of this information. Understanding who the external stakeholders are can help to understand how the stakeholders are affected by the entity. Of course, financial accounting systems are a critical source for the management accountant’s work, even though they are supplemented by other sources — for example, non-financial performance measures and operational information sourced from enterprise resource planning (ERP) systems.

The management accountant may have multiple internal stakeholders who rely on the information they provide. This may be to use financial accounting reports to help non-financial managers interpret monthly budget versus actual variance reports. However, where these internal stakeholders are making future-oriented decisions, the management accountant will need to provide additional information to support capital expenditure proposals, process improvements, cost savings, etc.

Management accountants use financial accounting information but because it is historical information it may be less relevant to internal stakeholders, particularly management, who need not only more granular data, but data that is more current, or even prospective. For example, in making decisions about future pricing, purchasing new equipment, introducing new products, etc., the management accountant will need to provide current or future estimates of costs rather than historic costs. The management accountant will also use various tools and techniques to assist in forecasting future revenues and cash flows, using data that is not contained in the financial accounting system.

This module is concerned with information, management accounting and the systems that unite them. The management accountant prepares information for different stakeholders, both internal and external to the organisation. This is explored in Part A, which suggests that stakeholders have different information needs — management accountants should not attempt to treat all stakeholders as the same.

The idea of dimensions of information is introduced in Part B. The management accountant works with a large volume of information, from various sources and of varying quality. The stakeholders who need information to make judgments and decisions can include investors, financiers, the organisation's managers and other interested parties. This means that the management accountant must be mindful that this information needs to be assessed and differentiated in terms of its validity and reliability to ensure that the information provided is fit for the stakeholders' purposes (the characteristics of validity and reliability are defined in Module 5).

An important point about this module is that information provided to stakeholders by management accountants can also be used to build trust and confidence in their analyses and advice. Part C considers the strategic influencing of stakeholders. It is important to appreciate that providing reliable, timely and useful information can be used to build relationships with managers, and the management accountant can become a 'trusted adviser'. Trust is required when making an assessment of an information system and this is particularly the case when identifying its shortcomings.

Part D consolidates concepts from the previous parts of this module and considers situations where the management accountant has found deficiencies in an information system. These deficiencies can arise from limitations of the information system itself, using inappropriate information to make decisions, or a lack of suitable information.

The management accountant needs to carefully consider the approach to be taken (and the tools and techniques to be used) to provide information that best meets the needs of the stakeholder for whom the information is provided. This involves:

1. Judgment — the management accountant needs to consider the time and resources that are available in terms of the scope and depth of the analysis. Any limitations of the management accountant's analysis need to be made clear when the information is provided.
2. Analysis and interpretation — the management accountant needs to decide what tools and techniques to apply, which will depend on the circumstances. Any limitations of specific tools and techniques need to be made clear with the interpretation that the management accountant provides.
3. Flexibility and a focus on risk — the management accountant needs to be flexible in searching out sources of information that are useful, but especially where information is externally sourced; where there are ambiguities between the information generated from different sources, the user must be aware of the risks of relying on any source of data that cannot be verified or triangulated.

Contents:

Part D: Upgrading or replacing information systems

- Stimulus for a new or updated system
- Making a preliminary assessment
- Pitfalls in evaluating major information needs
- Analysing new and existing information systems
- Evaluating a suggested information solution

Module 3: Planning, budgeting and forecasting

The business environment is constantly changing, resulting in many challenges. One such challenge is how an organisation can sustain itself in an uncertain future. The governing board of organisations typically considers the organisation's sustainability in their strategic plan and managers implement the strategic plan through operational plans. Budgets form a part of the operational plan.

Budgets are an accounting tool that helps managers plan to meet the organisation's goals. During this planning, they anticipate and consider the challenges posed by an uncertain future and predict the possible effects of these challenges and uncertainties on their organisation's limited resources. This culminates in setting targets that make best use of the organisation's limited resources and that would achieve the organisation's goals. Once targets are set in the budgets, they are used to gauge the performance of the organisation and the managers.

This module focuses on budgeting as a planning and control mechanism. The role of budgets and their relationship to the organisation's strategy is discussed. The module also describes the various components of budgets and demonstrates how financial forecasts addressing uncertainties are developed.

Variance analyses are then considered as a means to monitor and evaluate the organisation's and managers' performance compared with targets set in the budgets.

The module then discusses the human behavioural issues that typically result when using budgets as a control mechanism. Finally, the module concludes with a discussion of proposed alternative approaches to alleviate the limitations of traditional annual budgets.

Contents:

Part A: Introduction to plans, budgets and forecasts

- Relationship between budgets and strategic planning
- Roles of operational plans, budgets and forecasts
- Purposes of a budget
- Relationship with responsibility accounting
- Planning and control

Part B: Developing master budgets

- Impact of external and internal factors on budgets
- Preparing operational budgets in manufacturing organisations
- Preparing budgets in non-manufacturing organisations
- Preparing financial budgets
- Preparing budgets for various departments
- Preparing flexible budgets

Part C: Variance analyses and control

- Static versus flexible budgets
- Profit- and revenue-related variances
- Direct material analysis
  Direct labour analysis

- Variable manufacturing overhead analysis
- Fixed manufacturing overhead analysis

Part D: Behavioural aspects of budgets

- Participative budgeting
- Setting realistic and achievable targets
- Monetary and non-monetary incentive schemes

Part E: Alternative approaches to budgeting

- Shortcomings of traditional budgets
- Incremental budgeting
- Zero-based budgeting
- Activity-based budgeting
- Beyond Budgeting: Managing without budgets

Module 4: Project management

The organisations we work in have many projects. It is easy to see projects in a company whose operations focus on delivering projects, such as the Lend Lease construction company building the new Western Sydney Stadium (Lend Lease 2018), or a software development company such as Microsoft, which develops and delivers new software for your computer. Projects may be focused on improving a current product, such as Toyota upgrading the new Corolla, or a new edition of a mobile phone, such as the latest Apple iPhone. Projects may also be oriented towards the development of a new product line, such as the Apple Watch. Projects can also focus on improving core processes in an organisation (e.g. process mapping and improvement) or be oriented towards support activities (e.g. IT upgrade of enterprise resource planning software), or decision support software.

These examples show that projects are strategically important to organisations. For example, the development of the Apple Watch was central to the company's strategy to gain competitive advantage in the marketplace by enhancing iPhone use through wearable technologies. To achieve these objectives, project management must be aligned with an organisation's strategic planning.

Projects are very important and management accountants are likely to be constantly involved in them in the workplace. Projects are also challenging. Typically, each project has a different customer and location, a smaller or larger scope, and so on. These characteristics highlight one of the inherent features of any project—it involves doing something that has not been done before; it is unique. Even when a project has similarities with other projects, each project still has its own unique characteristics.

Organisations today operate in an international and fast-paced business environment, which brings constant change. This presents many challenges, but there are also significant rewards for successful project management. Due to the uncertain nature of projects, a combination of technical tools, coordination and individual judgment is required to make them successful. This module considers these issues from a practical viewpoint.

Part A of this module considers the definition of project management, including the stages of a project and organisational structures for projects. Part B discusses the roles within project management teams. Part C explores the role of the management accountant in project selection and the range of analytical techniques that are used in this task. Part D examines planning tools that are central to the successful implementation of a project. Part E considers the management accountant's role in project implementation, risk management and control. Finally, in Part F, the post-completion and review processes are addressed.

Contents:

Module 5: Performance Management

The Strategic Management Accounting subject emphasises the role of the professional accountant in engaging with the organisation's senior management team to contribute to strategy development and implementation. The aim is to create value and a strong competitive position for the organisation. This subject focuses on developing, implementing and monitoring strategies in order to enhance value for the organisation. Such a focus would not be possible without understanding the key role that performance management plays in strategy and value creation. The need for sound design and an understanding of the use and implications of strategic performance management and control systems is gaining increasing importance in all organisations. This module sets the context for performance management and control, including the:

- characteristics of effective performance measures and control systems
- use of performance measures application of performance management to motivate and reward.

Module 5 is concerned with how performance management helps to achieve goals and objectives through setting targets and measuring performance against those targets through control and feedback systems.

Module 5 builds on Module 1 and emphasises the role of the management accountant in supporting the management team in their strategic role. In particular, this module looks at performance management in the context of value creation and the sustainability of performance over time, as well as sustainability in the sense of corporate social responsibility (CSR).

This module also builds on Module 1 by discussing the role of the management accountant in generating and interpreting information about value chain performance. The focus of Module 2 on information is also relevant as it is the basis of performance management. Similarly, Module 3 looks at variance analysis as one way in which performance can be managed through comparisons between actual and expected performance.

The links between strategy, management control systems and performance management, and the limitations of some traditional accounting-based controls, are considered. The various models of performance management, emphasising the balanced scorecard and the strategy mapping process, as well as cascading performance measures and the important role of information systems in performance management, will be highlighted.

Contents:

Part A: The role of performance management

- The multiple roles of performance management

Part B: Strategy, management control and performance management

- Models of performance management

Part C: Determining performance measures and setting performance targets

- Performance management for performance improvement

Module 6: Tools for creating and managing value

This module draws together the material in Modules 1, 2 and 5 by examining specific ways that management accountants are able to contribute to the enhancement of an organisation's value chain. Managers must be able to identify, evaluate and implement strategies that, while leading to improvements in business performance, also address important social and environmental issues such as human rights and the effect of climate change. Management accountants play a pivotal role in developing systems that provide information that business managers must access and use to carry out these tasks. This module illustrates how strategic management accounting techniques assist with the growth of business value.

The module contains an extended Case study that shows how specific strategic management accounting concepts and tools can be used to manage development of a new product and to grow organisational value. It covers the following strategic management accounting concepts and tools:

- activity-based costing (ABC)
- life cycle, target and kaizen costing
- activity-based management (ABM)
- business process management (BPM)
- continuous improvement (CI)
- value chain analysis
- supply chain management
- total quality management (TQM)
- downsizing, outsourcing and offshoring
- customer profitability analysis.

The module also identifies performance measures for assessing the effect of these concepts and tools on an organisation's value chain.

Contents: