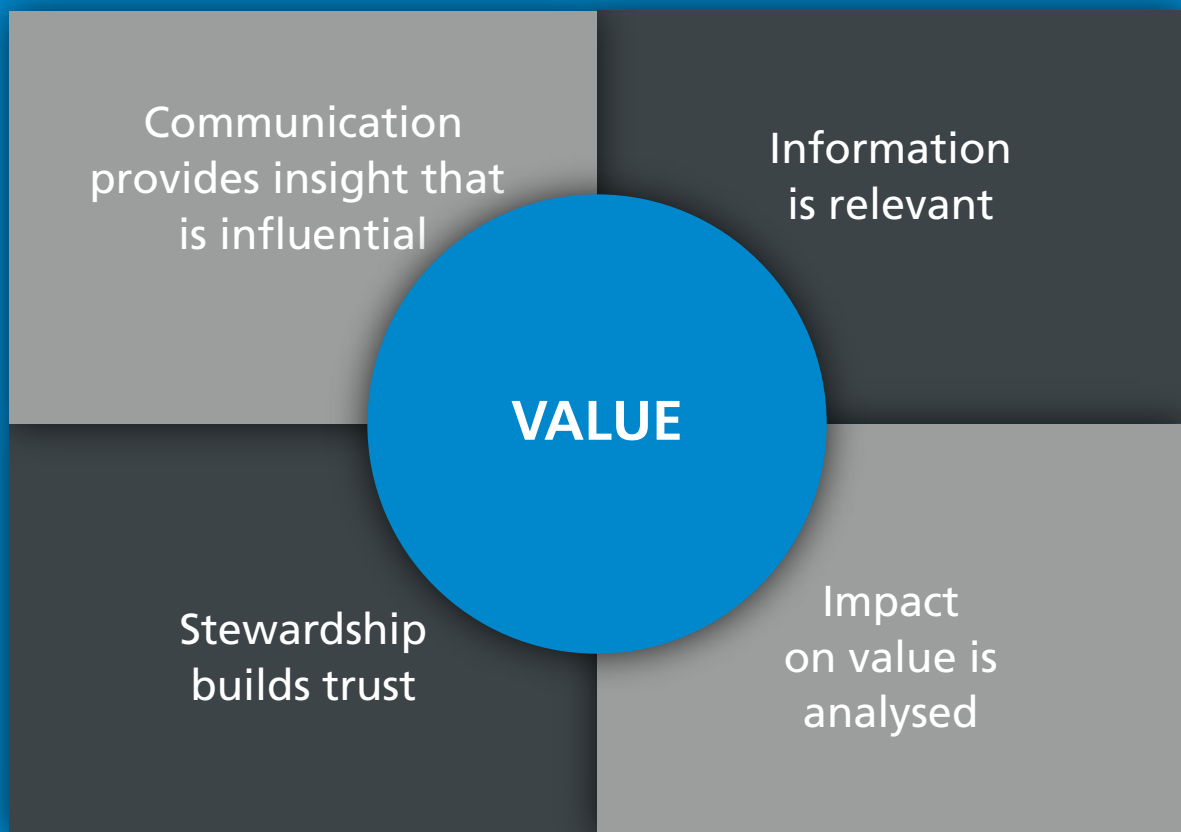


PAS 1919:2016

Guide to management accounting principles



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Foreword

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The recommendations described in this PAS were developed from the *Global Management Accounting Principles* [1].

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It has been assumed in the preparation of this PAS that the execution of its provisions will be entrusted to appropriately qualified and experienced people, for whose use it has been produced.

Presentational conventions

The guidance in this standard is presented in roman (i.e. upright) type. Any recommendations are expressed in sentences in which the principal auxiliary verb is “should”.

Explanation and general informative material is presented in italic type, and does not constitute a normative element.

Where words have alternative spellings, the preferred spelling of the Shorter Oxford English Dictionary is used (e.g. “organization” rather than “organisation”).

Contractual and legal considerations

This publication does not purport to include all the necessary provisions of a contract. Users are responsible for its correct application.

Introduction

Management accounting lies at the heart of an organization, at the crossroads between finance and management. It provides structured solutions to unstructured problems, by translating the complex into the understandable and compelling. Bringing together both financial and non-financial considerations, it is a discipline that could be used to run the organization, to control and improve performance.

The business model is the means by which an organization generates value, because management accounting requires a thorough understanding of the business model, as well as the organization's market and macroeconomic environment. It contributes to sustainable success, through the achievement of long-term economic performance while minimizing environmental impacts and generating positive value for society.

Management accounting helps organizations make better decisions by extracting value from information. Rooting decisions in evidence, or basing them on informed judgement rather than conjecture, makes sustainable success more achievable. All the management accounting principles (see Clause 3) flow from this ambition.

As a profession, management accounting requires a thorough understanding of the business and its operating environment so that organizational risks and opportunities are known. By managing and responding to risks, organizations can exploit opportunities and generate value for stakeholders over time.

The role of Chief Finance Officers (CFOs) is changing; in many organizations that remit is expanding to include IT, human resources, and even operations. However, a core part of the CFO's responsibility is the management accounting function. To ensure breadth of relevance to organizations globally, this PAS therefore limits the application of the principles to the key activities (see Clause 6) that the management accounting function, under the leadership of the CFO or equivalent, does in order to assure stakeholders of sustainable performance.

Frameworks that underpin the Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards, provide clarity about how to report the organization's financial position and past performance. Until now, there has been no equivalent framework to guide management accountants in supporting decision-making, contributing to improved performance and achieving sustainable success. The management accounting principles set out in this PAS fill this void by providing a basis on which organizations can set their own benchmarks for the management accounting function.

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1 Scope

This PAS gives guidance for organizations on assessing the performance of the management accounting function.

It covers the four management accounting principles that:

- communication provides insight that is influential – encouraging insightful communication that drives better decisions across an organization;
- information is relevant – reviewing past, present and forward looking performance management information;
- impact on value is analysed – understanding an organization's strategy and business model; and
- stewardship builds trust – balancing short-term commercial interests against long-term value for stakeholders.

This PAS is for use by all organizations, including but not limited to; large, small, public, private, local and international and their investors and stakeholders.

NOTE *It is aimed at those responsible for providing and delivering management accounting functions, including chief executives, chief financial officers and other board members.*

2 Terms and definitions

For the purposes of this PAS, the following terms and definitions apply.

2.1 business model

organization's chosen system of inputs, business activities, outputs and outcomes that aim to create value over the short, medium and long term

{SOURCE: International Integrated Reporting Council, *Business model background paper for IR* [2]}

2.2 business partnership

any external body along the value chain with which the organization has a relationship

NOTE *For example, customers and suppliers.*

2.3 cost driver

factor that causes a change in the cost of an activity

NOTE *For example, the number of client calls answered, hours spent on servicing an account or the number of sales personnel in a department.*

2.4 cost transformation and management

sustained identification and reduction of waste across the organization while freeing up resource to invest in innovation that drives future value for stakeholders

2.5 data plan

sourcing, assembling, refining and presenting of all the data that is needed to evaluate and prioritize, set targets, predict outcomes and measure the execution of plans

NOTE *See also 5.2.2.2 for further information on data plans.*

2.6 ethics

application of standards to business behaviour

NOTE *Ethics are relevant both to the conduct of individuals and to the conduct of the organization as a whole. They apply to any and all aspects of business conduct, from boardroom strategies and how organizations treat their employees and suppliers to sales techniques and accounting practices.*

2.7 execution

implementation of plans over time

2.8 external reporting

provision of an integrated and comprehensive view of the organization's strategy, business model, and performance which together forms the basis for an effective assessment for external stakeholders

2.9 financial strategy

identification of the possible strategies capable of maximizing an entity's net present value, the allocation of scarce capital resources among the competing opportunities and the implementation and monitoring of the chosen strategy to achieve stated objectives

2.10 integrated thinking

active consideration by an organization of the relationship between its various operating and functional units and the resources that the organization uses or affects

2.11 internal audit

provision of independent assurance that an organization's risk management, governance and internal control processes are operating effectively

{SOURCE: www.iaa.org.uk/about-us/what-is-internal-audit/ [3]}

2.12 investment appraisal

assessment of whether or not to pursue a particular asset based on alignment with strategy, prioritization of options, affordability and acceptable returns versus unacceptable risks

2.13 management accounting

sourcing, analysis, communication and use of decision-relevant performance information to generate and preserve value for the organization

2.14 management and budgetary control

system of developing and validating targets and thereafter controlling performance against predetermined targets at all levels of the organization

NOTE *These can include projects, people, activities, processes, sales volumes and revenues, resource quantities, operating costs and expenses, assets, liabilities and cash flows, as well as other non-financial measures.*

2.15 management accounting principles

fundamental values, qualities, norms and features that guide management accounting

NOTE *There are four principles: communication provides insight that is influential, information is relevant, impact on value is analysed, and stewardship builds trust (see Clause 3).*

2.16 plan

description of how the organization intends to achieve its strategic objectives

2.17 practice area

activity undertaken by or with contribution from the management accounting function

2.18 price, discount and product decision

deciding what to produce or what service to provide and determining the selling price and discount structure for a product or a service

2.19 project management

integration of all aspects of a project, so that the proper knowledge and resources are available when and where needed and above all, to ensure that the expected outcome is produced in a timely, cost-effective and quality controlled manner

2.20 regulatory adherence and compliance

fulfilment of statutory and regulatory obligations in relation to accounting, statutory reporting, tax and other regulatory compliance

***NOTE** The objective is to prevent penalties and other enforcement activity and promote the reputation of the organization for good corporate citizenship.*

2.21 relationship

interaction the organization has with a supplier, customer, investor, member, employee and the community that provide access to resources and to markets

***NOTE** An organization might incur a cost in maintaining relationships but also derives value from them.*

2.22 resource

input that an organization uses to create value

***NOTE** These may include people, raw materials, technology, financial and other resources. Security of supply, quality and cost are essential.*

2.23 resource management

consideration of the priority of resource availability in the context of organizational decision-making

***NOTE** Resource management helps organizations to efficiently and effectively manage transformational or continuous improvements to products and processes. It involves the alignment of resources, systems and employees to strategic objectives and the organization's priorities.*

2.24 reviewing and refining

assessment and reporting on past and forecast performance, refining plans and strategies

2.25 risk

possibility that an objective cannot be achieved and that the business is unable to operate as planned

***NOTE** Risks can apply to all the activities in which the organization is involved. Risks can arise from the interaction of relationships and resources, as well as from changes in the external business environment.*

2.26 risk management

process of identifying, assessing and responding to uncertainty arising from setting and achieving the organization's objectives to support the delivery of its strategic objectives

2.27 scenario simulation

generating insight from the results of different models to understand the effect on value of undertaking a particular opportunity and its associated risk

2.28 stewardship

active management of relationships and resources so that the financial and non-financial assets, reputation and value of the organization are protected

2.29 strategic tax management

role of tax in financial analysis and decision-making while proactively managing the organization's tax position so that legal requirements and ethical standards are met

2.30 strategy

statement of organization's purpose, explanation of its value proposition to customers and principle stakeholders and definition of its core objectives together with their measures and targets

2.31 sustainability

achievement of short-, medium- and/or long-term economic performance while minimizing environmental impacts and generating positive value for society

2.32 timely

prepared in time for the decision to be made

NOTE 1 This may mean the information is supplied a week beforehand, because it is complex and the decision-makers need to consider the information/data, or it may mean in time for the meeting when the decision is being made.

NOTE 2 Timeliness is an accounting principle, that is written on the basis of the concepts/principles of timeliness (as well as others such as relevance and accuracy). See <http://accounting-simplified.com/financial/concepts-and-principles/timeliness.html> [4].

2.33 treasury and cash management

tactical and strategic handling of all financial matters impacting the business including: the generation and deployment of funds for business and investors, sourcing funding internally, from banks, capital markets and specialists; the management of currency, interest rate, liquidity and other risks, and cash management

2.34 value

satisfaction of stakeholder requirements and the wider society

3 Management accounting principles

3.1 General

The purpose of the management accounting principles is to support CEOs, CFOs, boards of directors, or equivalent, in benchmarking and improving their management accounting functions. This helps them to meet the needs of their organizations, effectively and efficiently, by checking that they are adding value for their internal and external stakeholders.

There are four overarching management accounting principles that describe the values, qualities, norms and features for management accountants to aspire to (see Figure 1). The four principles are:

- a) communication provides insight that is influential (see 3.2);
- b) information is relevant (see 3.3);
- c) impact on value is analysed (see 3.4); and
- d) stewardship builds trust (see 3.5).

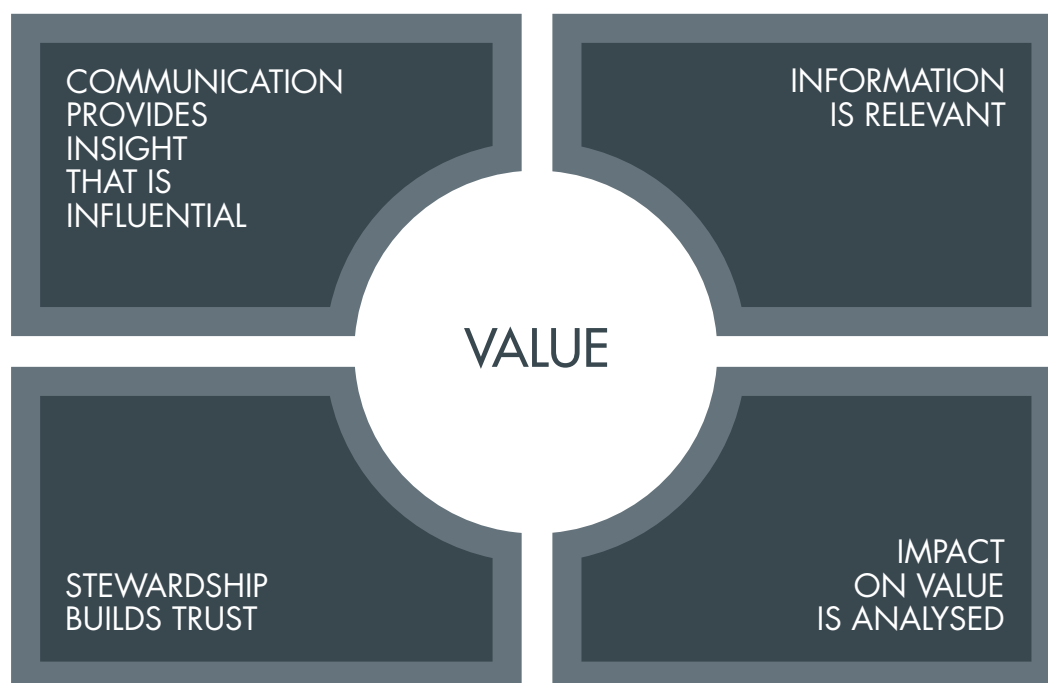
3.2 Communication provides insight that is influential

3.2.1 Objective

The objective of this principle is to drive decisions about an organization's strategy and its execution at all hierarchical levels, through insightful communication.

Management accounting begins and ends with communication. It improves decision-making by communicating information at all stages of the process. Communication of information allows management accounting to cut across silos and facilitate integrated thinking. Through effective communication, the consequences of actions in one area of the business on another can be better understood, accepted or changed.

Figure 1 – Management accounting principles



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By discussing the needs of decision makers, the most relevant information can be sourced and analysed. This results in recommendations which are useful to the decision-maker and achieve influence.

This principle therefore requires the breaking down of complexity and the provision of transparency about how conclusions have been reached.

***NOTE** When the right people have the right information at the right time, they are better placed to make decisions that drive long-term value generation.*

3.2.2 Strategy development and execution is a conversation

Conversations about strategy execution should take place at all levels of the organization and should involve all employees, eliminating silo activity and thinking. This allows a clear line of sight between top-line objectives and individual targets. Management accounting can bring rigour to these conversations, allowing decisions to be made about the future of the organization.

3.2.3 Communication is tailored

The level of detail and method of communication should be tailored to users of the information, to the decision under discussion and to different decision styles or processes used.

The level of the audience's financial knowledge should be established and information presented in a way that is easy for them to understand. Impact is achieved through robust, credible, timely and appropriate evidence-based information.

Communication should offer an integrated, comprehensive and balanced view of the organization's past performance, its current position, future prospects and planned innovations. Management reports should always be based on the concepts of transparency, prudence, stewardship and reliability, eliminating immaterial information, clutter, jargon, opacity and poor structure.

3.2.4 Communication facilitates better decisions

Since the purpose of management accounting is to improve organizational decision-making, recommendations based on the other three management accounting principles (see 3.3 to 3.5) need to be presented clearly, succinctly and in an appropriate format for the user, taking into account the organization's context, and providing rationale. This can help build consensus about the best course of action, with the final decision being justified.

Management accounting also requires an understanding of the decisions the organization needs to make. This informs the data collection and analysis, in line with the "information is relevant" principle (see 3.3). No amount of information and analysis is useful unless it has influence and helps to generate and protect the long-term value of the organization.

3.3 Information is relevant

3.3.1 Objective

The objective of this management accounting principle is to help organizations plan for and source the information needed for creating strategy and monitoring tactics for execution.

A central role for management accounting is to make relevant information available to decision-makers on a timely basis (see 3.3.2). Following the communication principle (see 3.2), the decision at hand and needs of the decision-maker are known and understood.

This principle therefore involves the identification, collection, validation, preparation and storage of information. It requires the organization to achieve balance between:

- a) past, present and forward looking information;
- b) internal and external information; and
- c) performance (including environmental and social issues) information.

3.3.2 Information is the best available

Management accounting identifies sources and quality assures information that relates to the decision-maker. It also takes into account the operating environment, including the decision style or process being used. By understanding the needs of stakeholders the information for decision-making is identified, collected and prepared for analysis.

3.3.3 Data are reliable and accessible

Data needs to be cleaned, sorted and filtered before being used for analysis. The value of data is based on its quality, accuracy, consistency, usefulness and timeliness. It is timely in relation to decisions that have been or are to be taken in a given period.

Data should be protected to avoid the risks of corruption and loss. If incomplete or unverified data has to be presented, it should always be flagged as such so that decision-makers can take a view on the level of confidence they wish to have in the data.

3.3.4 Information is contextual

Management accounting should use information with the following three key characteristics.

- a) Time-related – information is drawn from past and present as well as from predictive insights about the future.
- b) Boundary-related – information is not constrained by organizational boundaries. It is drawn from inside and outside the organization, including from financial and operational systems, from customers, business partnerships, suppliers, markets and the macroeconomy.
- c) Data-related – information is both quantitative (both financial and non-financial – including environmental and social issues) and qualitative.

Quantitative and qualitative skills are needed in management accounting, to inform decision-making on the basis of past and present data and predictive insights.

***NOTE** For example, management accounting can provide hindsight to determine performance. It can provide insight from real-time information about the present, to monitor the execution of strategies and plans and to bring them in line with targets. By using simulations, forecasting and other predictive tools, management accounting also provides foresight to guide the crafting of strategy.*

Once the information has been prepared, it should be used to model and analyse value generation.

3.4 Impact on value is analysed

3.4.1 Objective

The objective of this principle is to simulate different scenarios and models that demonstrate the potential cause-and-effect relationships between inputs and outcomes.

The focus of this principle is on the interaction between management accounting and the business model. By modelling the impact of opportunities and risks, the effect on strategic outcomes is quantified, and the likelihood of a given outcome to generate, preserve or destroy value is assessed.

Management accounting uses relevant information (see 3.3) to develop simulations. The effort in assessing simulations should be proportionate to the importance of the decision being made.

***NOTE** Some simulations might be simple and take very little time while others might need to be sophisticated and consider more complex factors.*

This principle therefore also requires an understanding of the business model and the wider macroeconomic environment. It involves analysing information along the value-generation path, evaluating opportunities, and focussing on the risks, costs and value-generation potential of opportunities.

3.4.2 Simulations provide insight into options

Simulations brings rigour to the evaluation of organizational decisions. By running simulations (e.g. scenario models, pareto analysis, or Monte Carlo) to evaluate the impact of particular opportunities and risks, organizations make more informed decisions about exploiting or mitigating them.

These simulations enable organizations to quantify the likelihood of an opportunity succeeding or a risk occurring and the value that is to be generated or eroded.

Simulations should consider the external environment in which organizations operate – notably the competitive, regulatory and macroeconomic landscapes. The analysis should also incorporate behavioural issues, such as knowledge about the cost drivers, risks and value. When information is provided about the long-term availability of required resources, the business model can be assessed for its relevance to and resilience in the market.

3.4.3 Actions are prioritized by their impact on outcomes

Management accounting turns information into insight by analysing the impact on outcomes of decisions being considered. These options have different impacts on the organization's costs, risks and value (e.g. insight from simulations illustrates the trade-offs between one option and another, and allows opportunity costs to be factored in to decisions).

Management accounting prioritizes actions using logic from simulations, which is used to justify the recommended action to be taken. An understanding of the organization's strategic aims, stakeholder needs and agreed targets supports the prioritization of actions by value rather than cost.

***NOTE** Scenario simulation is just one example of a tool that may be used.*

3.5 Stewardship builds trust

3.5.1 Objective

The objective of this principle is to protect the financial and non-financial assets, reputation and value of the organization through the active management of relationships and resources. The responsible planning and management of resources provides continuity and availability for future generations.

Relationships give organizations access to resources. Trust is the bedrock of relationships, whether between colleagues or between organizations and customers, investors, suppliers and wider society.

NOTE 1 *Being mindful of conflicting interests improves stakeholder management, and is an important consideration when prioritizing stakeholder groups.*

This principle therefore requires being alert to potential conflicts of interest and not putting personal or short-term commercial considerations before the longer-term interests of the organization or its stakeholders. It requires management accountants to behave with (and to encourage colleagues to behave with) integrity, objectivity and to constructively challenge any decision that does not align to corporate values.

The letter and the spirit of legislation, codes and regulations should be followed. Behaviour that falls short should be immediately challenged and escalated to the relevant authority; whistle-blowing needs to be undertaken if required.

NOTE 2 *Deep-rooted or long-held assumptions may need to be challenged as a result of the critical thinking and data interrogation that management accounting involves.*

Management accountants should align their actions with the organization's strategy. The organization's values can provide a filter for decisions.

NOTE 3 *Work is undertaken scrupulously and commitments are kept. Every effort is made to avoid providing information that may be misleading or open to misinterpretation.*

3.5.2 Accountability and credibility

Management accountants are answerable for the decisions they are involved in making.

Being held accountable for decisions can reduce the risk of reckless or poor decisions being taken. Management accountants commit to objectively balancing the needs of different stakeholders involved in the decision-making process, and addressing questions from any individual or group that can affect, or who are affected, by the decision.

Proactively seeking feedback and being responsive to questions or complaints facilitates scrutiny by those with an interest in the organization's performance. This can help improve trust in, and credibility and legitimacy of the organization, and have a positive impact on improving processes and reputation.

3.5.3 Sustainable organization

Sustainable organizations achieve short-, medium- and long-term economic performance while generating value for society and minimizing their environmental impact.

Management accounting aligns sustainability activities with strategy by linking them to business drivers and the business model. It provides decision-makers with information about sustainability factors so that these are integrated into business planning and reporting. Economic, environmental and social risks are identified using a systematic methodology (e.g. PESTEL).

Long-term resilience requires an organization to adapt to the impending depletion of scarce resources. It is important for the organization to recognize and aim to minimize any negative impact that its activities have on society and the environment, e.g. reduce its carbon footprint and reliance on finite resources, and consider diversification of income streams to build relevant skills.

An organization's economic activity relies, and impacts, on external factors (e.g. natural capital scarcity, climate change and population growth). It is increasingly important for instance, for organizations to understand the true cost of choices and factor those into decisions.