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The Dilemma of Measurement in Financial Reporting

by Professor Theodore T. Y. Chen

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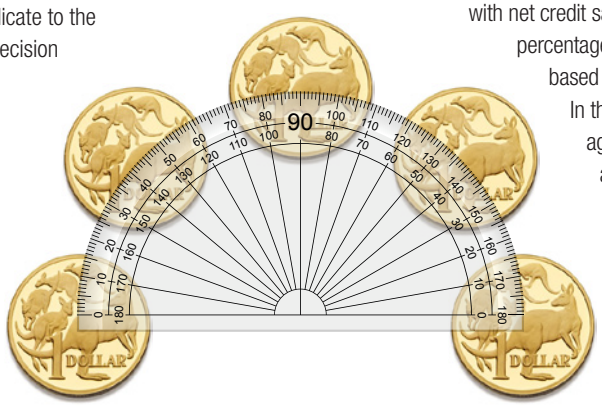
The Measurement Problem

Those of us working in accounting realize that the numbers reported in financial statements may not be precise as a result of estimates. But readers of financial statements could be laymen to the accounting profession and would likely construe that these numbers are accurate to the last dollar. The fact that it is not uncommon to see amounts reported in thousands of dollars instead of to the last dollar in financial statements is an indication that to do otherwise could indicate to the readers a degree of precision which is not there.



Examples of estimates include allowance for uncollectible accounts, allowance for depreciation, allowance for warranty, disclosure of contingent liabilities, etc. Contingent liabilities may or may not have to be disclosed depending on the level of probability that the contingency would materialize. If the probability is remote no disclosure is required and if it is probable disclosure would then take place by means of a footnote, the estimate of which would be based on legal advice. Only when the probability is most likely would journal entries be required hence affecting both the balance sheet and income statement.

The primary culprit of the measurement problem comes from estimated allowances as a result of observing the matching principle under generally accepted accounting principles (GAAP) whereby estimated expenses not necessarily incurred must be matched with revenues in the same accounting period as these expenses have helped to generate the reported revenues. This paper provides a closer, but brief, discussion of two of such allowances, namely allowance for uncollectible accounts and allowance for depreciation.

The Case of Uncollectible Accounts

The allowance for uncollectible accounts is estimated in one of two ways, the percentage of net credit sales and the ageing method. Because of its simplicity, the former is used by more companies than the latter. Each method is based on a different philosophy. In the case of the percentage of net credit sales, it is assumed that the uncollectible portion of receivables varies with net credit sales and that this percentage can be estimated based on past experience. In the case of the ageing method, it is assumed that the longer one waits the probability of the account being a bad debt gets higher and that such probabilities can be estimated for the various ranges of days outstanding. The method then bears no direct relation to the amount of credit sales although it is conceivable that receivables vary in direct proportion to credit sales.

A superficial comparison of the two methods shows that the ageing method is superior as it is based on past experience pertaining to uncollectible accounts under the assumption that if an account remains unpaid for a longer period of time it is more likely that it will be delinquent. On the other hand, both methods generate inaccurate results as the estimates are based on past experience and past performance is no indication of future performance. We see that in 2008

continued page 2

Quit Forward >

> estimates made on a **subjective** basis create ***measurement*** problems in the financial *statements*

the global financial tsunami caused financial institutions to under-estimate uncollectible allowance causing phenomenal losses in that year. We see also that in the purchase of investment funds there is always a disclaimer indicating that past performance is no indication of future performance. In addition to the aforementioned, the estimation process for both methods is highly subjective resulting in even more measurement problems. As in each year the actual percentage of net credit sales for bad debt is different and the same applies to the percentages used for each category of collection period, there is no consistent method used by companies world-wide as to how the estimated percentages are arrived at.

Another drawback relates to the use of the ageing method when applied to small and medium size enterprises (SMEs) where the customer base is relatively small and is concentrated in a small number of large accounts as in the case of Hong Kong. These customers tend not to pay up when the receivable is due and could drag out payment for another one or two months. However, they always pay their bills. Hence this pattern of payment defeats the assumption underlying the ageing method.

The Case of Depreciation

Depreciation is like the allowance for uncollectible accounts in two ways in that the economic life of the long term asset and its residual value must be estimated, hence its subjectivity and that it is done in observance of the matching principle. However, unlike the allowance for uncollectible accounts, depreciation serves yet another important function in that it is an allocation of the historical cost of a long term asset over its useful or economic life as the economic benefits of the asset to a company are long term. On the other hand, depreciation can be used as a tool for earnings management in that the accounting choice can be legitimately made to suit the aspirations and needs of the company. For stable revenue-generating assets, the use of the straight-line method tends to stabilize income, while accelerated methods such as the double-declining balance method (DDB) would be beneficial for early tax write-offs and for assets that generate more revenue in the earlier years. It too has an income stabilizing effect in that the repairs and maintenance expenses in the later years tend to offset the decline in depreciation expenses. The units-of-production method is based on the assumption that an asset depreciates in accordance with usage, considering only the physical wear and tear, but not the obsolescence factor. The expenses track the revenues closely and have a stabilizing effect as well.

The earnings management function of depreciation resembles that of inventory methods based on cost flow assumptions. As inflation takes place more frequently than deflation, the use of the first-in first-out method impresses the Board of Directors and aggressive investors seeking significant capital gains in their investments. The use of the last-in first-out method reports less earnings and is a tax-savings device. The use of the weighted average method stabilizes earnings and appeals to investors who wish to see stable earnings growth and to avoid significant fluctuations.

Concluding Remarks

The above discussion shows that estimates made on a subjective basis to satisfy the matching principle create a measurement problem in the financial statements. On the other hand, independent auditors of financial statements never guarantee the accuracy and precision of the numbers presented in these statements. They only vouch for the fairness of the presentation and the consistency of the approach to preparing these numbers. As such, readers should not rely solely on the numbers reported in the financial statements of only one year or one accounting period, but compare the operating results of the company over several years or accounting periods to detect a trend, if any. It is advisable to seek expert advice on computed financial ratios for liquidity, solvency, etc., and to detect a trend as well from these ratios.

< Contents Quit Forward >

First Semester Strategic Business Analysis Program

University of South Australia

The Business School of University of South Australia in Adelaide has just completed an intensive Strategic Business Analysis Program attended by 22 students. In order to successfully complete the program students were required to make a class presentation, submit a 2000 word assignment and sit an examination. Pictured is a photo of the class taken on a Sunday afternoon just before the end of the day. After more than 40 hours over two Friday evenings, two Saturdays and two Sundays, no wonder the group is smiling so broadly!!

ICMA 2011 Year Book

The Institute year book is with the printers and will be sent to members before the end of June. This initiative is a first for the ICMA, and we would appreciate some feedback from members in the form of constructive criticism directed to the editor.

< Contents Quit Forward >

Four Sees and One Eye

Whilst one part of the global economy wrestles with economic uncertainty, social upheaval and painful restructure, a revolution in how products are made is about to unfold as the potential for digital manufacturing technology is realised.

The computerisation of manufacturing could once more provide the United States, the world's largest economy, with the capability to become the global centre of manufacturing excellence. This shift to the USA may also be supported by rising production costs in China, forcing that country to fight for its markets in the face of a third industrial revolution, the digitalisation of manufacturing, radically redefining the competitive landscape.

And what about Japan? Many commentators are now suggesting that the outcome from the devastation caused by the Tsunami and resulting nuclear catastrophe will be a period of soul searching that will see a rebirth of those conditions giving rise to the Japanese economic miracle of the 1980s and 1990s.

What is the role of management accounting in a world both buffeted by economic turmoil and uncertainty but excited and challenged by the potential benefits to humanity that could develop from the creativity of a new age?

I recently read an article about the evolution of global military capability in a digital world and was fascinated by an acronym reflecting its current philosophy CCCCI, *Command, Control, Communication, Computer* and *Intelligence*. This philosophy, developed by the military strategists, perfectly expresses the mission, objectives and role of the management accounting profession. We need to borrow this acronym and convert it into our own mantra.

Management accountants today are full participants in the leadership and strategy development roles which are the key functions of top management teams. This clearly equates to the *Command* function which is the first C of current military philosophy.

Management accountants design the systems providing management with the capacity to *Control* the organisation and its capability - the second C of the military philosophy.

One of the critical value-adding functions of the management accounting role is embodied in the third C, *Communication*. The management accountant sits at the hub of the organisation's management information system, receiving, sorting and distributing command and control information across every level and function of its value chain.

As for the fourth C, *Computer*, we harness computing power to capture, sort and refine data in order to produce useful, time critical, relevant information that will support both leadership and control functions in the organisation.

Finally, the I for *Intelligence* gathering and communication. Our information brief extends beyond the borders of the internal management information systems. Management accountants today monitor and communicate strategic information about the external economic, political and competitive environments. It is the intelligence required by top management teams as they formulate

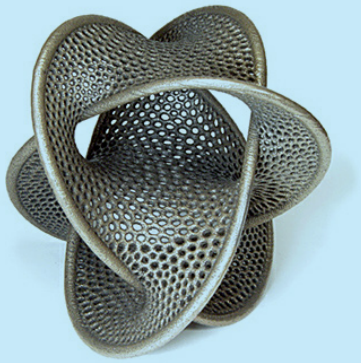
< Contents Quit Forward >

responses to the constant shifts within a dynamic, complex and highly competitive external environment. The I in the acronym is possibly the icing on the cake for the management accounting profession, the touch of glamour, the role of the spy when compared with its military counterpart!!

And so, if you are ever asked what does a management accountant do, simply reply Fours Sees and one Eye, we command, control, harness computing power, communicate relevant time critical information and conduct external intelligence programs. We are truly a profession for all times and all seasons.

Leon Duval

CEO, ICMA



Management Accounting for the Third Industrial Revolution

by Leon Duval

> the rapidly **evolving** digital manufacturing *phenomenon* will '***change*** not just business but much else besides'

Welcome to The Third Industrial Revolution, which according to the *Economist* of 21 April 2012, suggests that the rapidly evolving digital manufacturing phenomenon will 'change not just business but much else besides.'

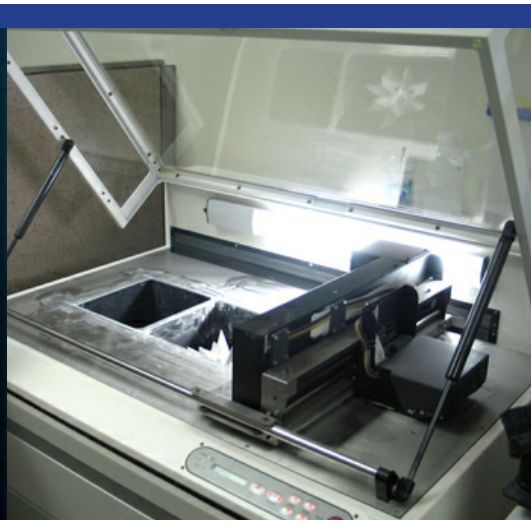
The first industrial revolution commenced in the 18th century with the mechanisation of the textile industry, the second early in the 20th century when Henry Ford's moving assembly line initiated the age of mass production. The third industrial revolution, argues the *Economist*, will be the outcome of manufacturing going digital and derives from the convergence of computer technology, the development of new materials, dextrous robots, new processes like three dimensional printing, and access to a range of web- based services.

The social, political, economic, strategic and structural implications arising out of this fundamental change to the way goods are produced have the potential to radically alter the world we live in and impact on the management accounting profession as we know it. By introducing some initial thoughts in this short article I hope to stimulate a debate that will culminate in the formation of the technical tools necessary to make our profession as valuable to the third industrial revolution as it was to the first and second.

Some imagination is required for developing a vision of the product producing facilities that will operate in this third industrial revolution. Robot driven customised mass production facilities characterised by a shop floor devoid of any human intervention will churn out product for a global market. Maintenance in these smart factories will be performed away from the production area as smart robots programmed to check-in for their periodic health assessments take themselves off the floor and are soundlessly replaced by others just serviced by the engineering function. Production lines will be truly flexible with instantaneous changes to tooling and processes made by technicians driving software applications controlling the robotic environments. These smart factories will have the capability to produce product either in large quantities or as individual items.

Competing with these totally automated production environments will be a mass of micro manufacturing units supplying a diverse range of products direct to the consumer and using the internet as its distribution channel. It will be a return to cottage industries where home- based entrepreneurs produce proprietary customised products using clever software driving three dimensional printers. These micro environments, using an additive manufacturing process, will be capable of producing a diverse range of product from homewares to electronic equipment. Never actually meeting their customers in the flesh, transaction

continued page 7



between manufacturers and consumers will be driven through distribution channels developed by the internet. Management accountants will need to confront two diametrically contrasting environments, one devoid of any traditional direct labour and one characterised by manually driven manufacturing processes, albeit utilising 21st century tools.

At the outset, both environments will face the one common cost management issue of huge initial expenditures applied towards developing the initial software and engineering capability. The assessment of project viability and its ultimate cash contribution will need to incorporate a process allowing for development costs to be capitalised and amortised over the estimated life of the product. This fact, together with the potential for short product lifecycles, will mandate the application of a lifecycle approach for cost allocation and control.

Ignoring the financial accounting implications for accounting standards and disclosure, the widespread application of a lifecycle costing approach could create a potential source of competitive advantage between large robotically driven smart factories and small cottage-based industries. The combined cost of initial development together with that of a large scale robotic production facility could make certain projects non- viable for the smart factory but perfectly suited to a low cost cottage-based environment. Analysing this critical strategic question during a project's early development phase would be the management accountant's role.

Smart factories driven by robots will contain a zero product direct labour component, however, the facility will be managed using knowledge workers to develop, control and maintain the facility. These workers become a different category of direct labour, and cost systems will need to acknowledge this and accommodate the new dimension to a cost element recognised back in the days of the first industrial revolution. Activity based approaches will also come into their own as management seeks to understand and control the cost of the support activities driving their sophisticated, complex high cost manufacturing facilities and how these costs relate to its outputs.

Paradoxically, cottage industries characterised by a small number of individuals using sophisticated software applications driving three dimensional printers will need to blend the traditional simple cost model with the complexity of a lifecycle costing approach. This means that in addition to calculating the cost of direct materials - represented by the various resins feeding the printers, direct labour represented by the time behind a screen formatting instructions driving the software applications and, the direct and indirect overheads - a factor will need to be added for the significant initial cost incurred to acquire both intellectual property and production capability.

The backbone of both organisational types will be the systems used for data capture, storage, retrieval, sorting and communication .This process will have two distinctive capabilities, the management information system and, spreading over it, the data mining system. Data mining is evolving into a science with its own body of knowledge driven by complex algorithms that interrogate data bases to draw out the intelligence which management requires for planning, control and both task and strategic-oriented decision making.

And so to the final conclusion for this attempt at forecasting the future.

As a profession we will need to evolve and morph into a hybrid version of what we currently are. Management accounting will need to evolve into a body of knowledge combining accounting, finance, and data management with in-depth understanding of computer capability and risk management. Above all, its practitioners will need to not only accommodate change but to harness this as a competitive weapon both in the application of their own science and in the management of the organisations they service.

< Contents Quit Forward >

Cost Behaviour, Part Two

Estimating and predicting costs

by John Donald, Lecturer, School of Accounting, Economics and Finance, Deakin University, Australia

> To be able to predict future costs **accurately** there should be a strong *correlation* between a cost and the chosen ***cost*** driver

In the last instalment of Student Notes we looked at the various behaviour patterns that costs can exhibit. These patterns are important because knowledge of them can enable predictions of future cost amounts and also the use of decision-making techniques like cost-volume-profit analysis and flexible budgeting. When there are semi-variable (or mixed) costs we need to be able to determine how much of each one is fixed and how much is variable. We also need to know how the variable component of such a cost will change in response to changes in the principal cost driver. This set of Student Notes describes the methods which can be used to analyse (or estimate) cost behaviour patterns and thus enable the prediction of future costs. We will also consider the problems associated with the different cost estimation methods that can be used.

Cost estimation

This is the process of determining how a cost changes in relation to variations in a particular cost driver or, in some cases, with variations in multiple cost drivers. The aim of this process is to establish a numerical relationship between a cost and the main factor which causes the cost to be incurred. Such a factor is called the *root cause cost driver*. This may be an activity which is carried out as part of the production process, or it may be some input which is needed for a particular production activity. For example, an assembly labour cost for a given time period may vary with the number of units assembled during that period. Likewise, for a bakery the cost of electricity consumed may vary with the number of batches of bread baked. The number of units assembled and the number of batches baked are cost drivers which are *output measures*. However, if batches of different breads take different times to bake in an electric oven, the cost of electricity will vary, not with the total number of batches baked, but with the total number of kilowatt-hours of electricity consumed. This type of cost driver is an *input measure*. To be able to predict future costs accurately there should be a strong correlation between a cost and the chosen cost driver, but we also need to be able to predict future changes in the cost driver easily.

Non-quantitative methods of cost estimation

Cost estimation methods can be either non-quantitative (based on skilled judgement) or quantitative (based on a mathematical analysis of past cost data). Non-quantitative methods include:

(i) *The industrial engineering* method (sometimes called the *work measurement method*). This method can be used by both manufacturing and service organisations for estimating costs and it involves studying the processes that cause costs to be incurred. The aim is to identify the relationships which should exist between inputs and outputs. Industrial engineers could conduct time and motion studies (or task analyses) which involve observing employees as they undertake work tasks and establish a normal time for each type of task. These times are then costed using the wage rates for the various types of worker. By analysing the sequence of tasks or activities needed to make a particular product or to provide a certain type of service, a normal or standard labour cost can be estimated. The engineers can then determine from design specifications the types and quantities of material required for each unit of the product or service and how much these materials should cost. An estimated amount of overhead cost will be added to the material and labour costs and this

continued page 9

gives a standard unit cost which can then be used to predict future costs based on planned levels of activity.

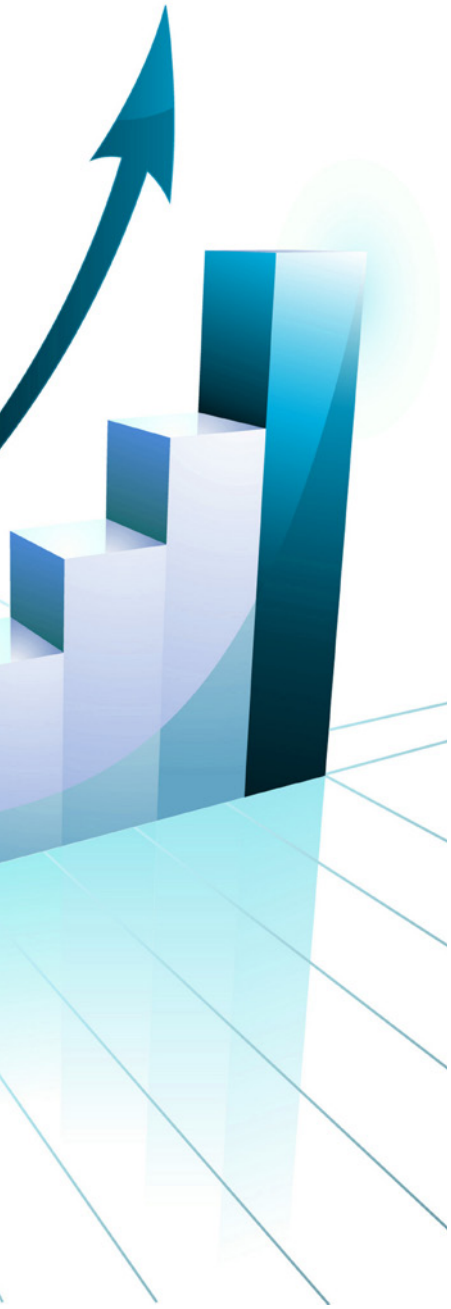
The industrial engineering method relies for its accuracy on the skills and experience of trained engineers. It is time-consuming and expensive, but it has to be used when estimating costs for a completely new product because there is no historical data to rely upon. This method is most useful for estimating the costs of repetitive processes where input-output relationships for material and labour are clearly defined.

(ii) *The account classification* (or account analysis) method. Using this method requires the management accountant to review past cost behaviour patterns as shown in the organisation's ledger accounts and other accounting records. He or she will then use judgement and knowledge of operations to classify each cost as either fixed, variable or semi-variable. For example, it may be clear from an analysis of the ledger accounts that direct-material cost is variable, equipment depreciation is fixed and utility costs are semi-variable. This examination of historical records is combined with an assessment of the factors which may affect the different costs in the future. For those costs which have been identified as semi-variable, the management accountant will need to use one of several more systematic methods to estimate the fixed and variable components. These methods (the high-low method and regression analysis) are discussed later when we look at quantitative methods of cost estimation.

(iii) *The visual-fit method.* With this method, a simple diagram called a scattergraph is used to create what is called a 'line of best fit'. A number of data points, with each one representing the past amount of a particular cost and the corresponding level of activity, are plotted on a pair of axes with the independent variable (a cost driver such as the number of units produced) on the horizontal or X-axis and the dependent variable (total cost amount) on the vertical or Y-axis. The pattern of the plotted points helps the analyst to visualise the nature of the relationship between the cost amounts and the levels of the factor which is assumed to have caused the cost amounts i.e. the cost driver. It also enables the analyst to assess the strength of the relationship between the cost and the level of the assumed cost driver. If the relationship is fairly strong, the data points will fall in a linear pattern i.e. they will resemble something close to a straight line. If, however, there is little or no relationship, the data points will be more widely scattered with no obvious pattern . In this case, the wrong cost driver may have been chosen.

If there does appear to be a relationship between a cost and the chosen cost driver, the analyst can, by using judgement, draw a line of best fit through the data points so that approximately the same number of points lie above and below it. This line represents the cost function $Y = a + bX$. If the cost is semi-variable, the point where the cost line cuts the vertical or Y-axis (known as the 'vertical intercept') represents the estimated value of 'a' i.e. the fixed component of the cost. The slope of the line represents the variable cost per unit of the cost driver i.e. the value of 'b'in the cost function. Diagram (1) below shows a typical scattergraph.

continued page 10



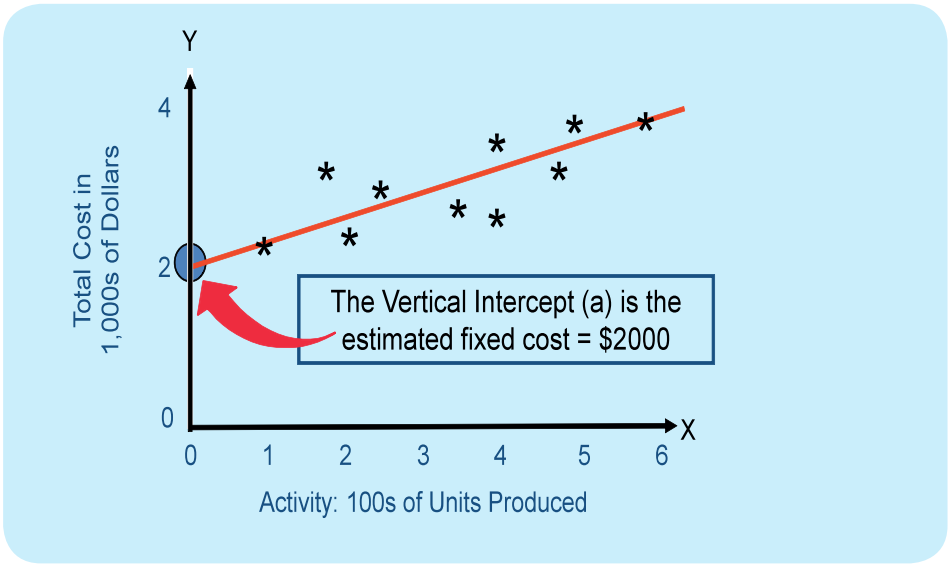


Diagram 1. A Scattergraph

Scattergraphs are useful because they enable the analyst to identify quickly any outliers or abnormal data points. These are data points which do not conform to the same general pattern as the rest of the plotted points i.e. they represent cost or activity amounts which are unusually high or low. The analyst may decide to disregard these points when drawing a line of best fit and to omit them from any further analysis. Scattergraphs do provide an estimate of the fixed component of a semi-variable cost but, as with the account-classification method discussed above, a quantitative method must be used to estimate the slope of the cost line (i.e. the value of 'b').

Quantitative methods of cost estimation

(i) *The high-low method.* This method produces a cost function by using the highest and lowest activity (X) data points (hence the name 'high-low'). It takes the change in cost between the highest activity level and the lowest activity level and divides this dollar amount by the corresponding change in activity to give an estimate of the slope of the cost line i.e. the variable cost per unit of activity (the value of 'b' in the cost function). Diagram (2) illustrates this process.

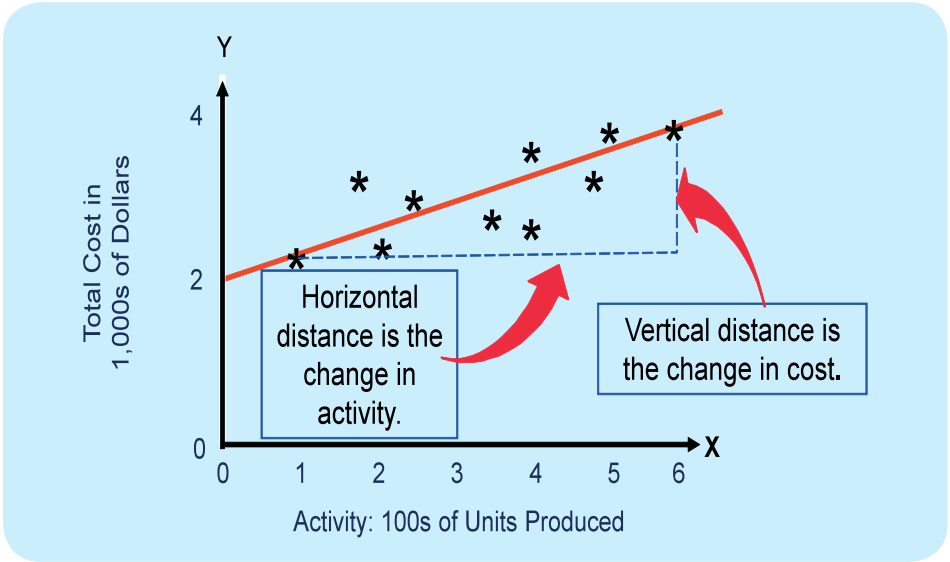


Diagram 2. An illustration of the high-low method

continued page 11

It is important to note that the high and low points are identified by looking at the activity levels and not the cost amounts. The period which had the highest cost may not be the period which had the highest level of activity.

As an example of how this method works, assume that we are trying to determine how the cost of electricity for a month changes with the number of machine hours worked during the month. The cost of electricity is usually semi-variable because the total dollar amount for a month will include a fixed supply charge plus a variable amount based on the number of kilowatt hours of electricity consumed. Assume also that data for the past calendar year is available, and that the highest number of machine hours were worked in January (6 000 MH) while the lowest number of machine hours were worked in June (3 500 MH). Electricity costs for these two months were as follows:

Month	*Electricity Cost*	*Machine Hours*
January	$4 100	6 000
June	2 575	3 500

Step 1.

Calculate the variable cost per machine hour:

VC / MH = (High cost – Low cost) /
(High machine hours – Low machine hours)
= ($4 100 – $2 575) / (6 000 – 3500)
= $1 525 / 2 500
= $0.61

Step 2.

Calculate the fixed cost:

Fixed cost = Total cost – (VC / MH x Machine hours)

Using the data for the high point (January):
Fixed cost = $4 100 – ($0.61 x 6 000)
= $4 100 – $3 660
= $440
(We would have got the same answer if data for the low point had been used instead)

Step 3.

Express the estimated cost values as a cost function in the form Y = a + bX:

Total electricity cost = $440 + ($0.61 x Machine hours)

We can now use the cost function to predict the total cost of electricity for a month during which 4 000 machine hours are expected to be used:

Total cost = $440 + ($0.61 x 4 000)
= $2 880

The high-low method is simple to apply but it suffers from a major (and sometimes critical) defect. It uses only the two most extreme activity data points, and if either of these two points is an outlier the cost function will be distorted. Therefore, this method should always be used in conjunction with a scattergraph so that that the analyst can see that the high and low activity data points are really representative of all the other data points.

(ii) The least-squares regression method. Least-squares regression is a statistical technique that uses all of the available data to find the best fitting line for a set of data points. This regression line, shown in Diagram (3), minimises the deviations of the actual Y values (the observed values of the cost) from the corresponding estimated Y values (the cost estimates) which lie along the regression line. These deviations are called the 'estimation errors'. Some of these errors will be positive (where the estimated value of Y is greater than the observed value) while others will be negative (where the estimated value of Y is less than the observed value). Squaring all the negative errors produces a set of positive values which can then be added to the squared positive errors.

The regression line is the true line of best fit because the sum of all the squared errors is smaller for the regression line than for any other line that could be fitted to the data points. Hence this method is more accurate than all the other estimation methods, and we can utilise computer programs such as Excel to carry out the necessary calculations. Multiple regression analysis can be used when two or more independent variables (cost drivers) are assumed to influence a single dependent variable (a particular cost). In this case, there will be a separate regression coefficient (value of 'b') for each independent variable. Regression analysis also provides information about how well the regression line fits the data points. The coefficient of determination (or R squared value) indicates the proportion of the change in the Y (cost) values that is due to changes in the X (activity) values. An R squared value close to 1.0 shows that the regression model fits the data well, and we can be confident that cost predictions made using it will be fairly accurate.

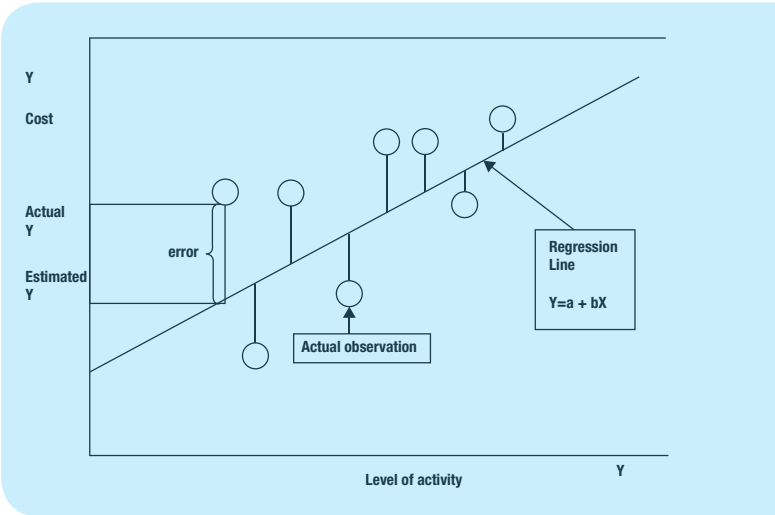


Diagram 3. A least-squares regression line

Regular contributor Basil Tucker lectures in the School of Commerce at the University of South Australia. Before entering academia in 2003 he worked as a management accountant consultant and has had much to say in these pages about the differences between theory and practice.

[*Management* accounting has the tools, techniques, but more ***importantly***, the vision to enable and drive that *adaptation*]

Q. As a practising management accountant what were the roles you filled and challenges you faced?

A. Much of my management accounting experience came from management consulting. I was fortunate to conduct assignments – mainly in the areas of performance improvement, cost reduction, management control, costing and profit improvement – in Australia, the UK and the USA. Common challenges faced in most of these assignments were the need for organizations to ensure their staff were `singing from the same song sheet', in other words, working together harmoniously, and towards a common goal. Working out where to go is easy. Getting there is another matter!

Q. What prompted your career change?

A. The intellectual challenge and opportunity to help people learn was the main attraction. It's something I always wanted to do from a career perspective. The job satisfaction is outstanding.

Q. What has been the trajectory of your academic career?

A. I teach and have taught in undergraduate and postgraduate programs in Australia, China, Malaysia, Hong Kong and Singapore. I've also been lucky enough to present my academic research papers in the UK, US, and Europe, and to visit some very prestigious and well-known universities.

Q. You have written for us on the gulf between academics and practitioners. What if anything are you doing to breach it?

A. Engaging with practitioner publications (such as *OnTarget Online*), presenting and attending industry conferences, and regularly meeting with management accounting and senior management operatives. Of course, I try to become as involved as I can in professional associations such as the ICMA.

Q. Are you hopeful that it can be breached ?

A. I think it depends on how we view research and its role in informing practice. Both sides of the divide have much to contribute to the other. The top performers (academics and practitioners) in my experience are open to the views of the other. It's disappointing to hear of academics who criticise practioners, and practitioners who think academics live in their ivory towers and are divorced from the real world – we're all part of the same profession.

Q. If the gulf cannot be breached what is the value of research if not enacted or considered by the profession?

A. The contribution of research may not be realized until some time into the future. Also, there is a role for both pure and applied research. Our job as academics is not to be pseudo consultants. We make a difference by challenging and questioning practice. For me at least, it is better to teach practitioners how to fish rather than to give them a fish – and vice versa.

Q. What changes are occurring in the teaching of management accounting? Are there any trends or specific areas of developing interest?

A. Obviously, the opportunities provided by technology have revolutionised teaching. Having said this, the job of students is still to master the fundamental coursework. The job of academics is to help them in this regard and inspire in them the recognition of the wide scope of management accounting. One area that is developing I think, is the recognition that management accounting includes not only the technical skills (of costing, analysis, and the use of techniques), but also the soft skills – communication, working in teams, marketing and strategising. Of all subjects offered in a business or commerce course, management accounting would have to be one of the most inter-disciplinary. We are involved with not only the traditional, control, budgeting and performance concerns, but also draw on economics, finance, sociology, psychology, industrial relations, marketing and strategy. This is one of the things that makes management accounting so interesting.

continued page 13

continued from page 12

Q. What will be the relevance of management accounting in the evolving economic future and what should practitioners focus on?

A. I think management accounting will become more involved with the strategic directions that organizations adopt because of the interdisciplinary nature I've just talked about. Our focus as management accountants is far more than counting the beans. We need to work out what beans need to be counted, how we count them and what value this exercise can contribute in a competitive environment. Like biology, organizational entities that can best adapt to their changing environment are the ones that will survive. Management accounting has the tools, techniques, but more importantly, the vision to enable and drive that adaptation. I predict our role will be increasingly tied to strategic management at the very highest levels of organizations.

Q. When did you become an ICMA member and why?

A. I've been a member of ICMA for 2 years. As a professional association exclusively for management accountants it made a lot of sense to become involved.

Q. What for you are the benefits of membership?

A. To remain connected with what is happening `out there', and to network and learn from practicing management accountants in the field. It's also a reality check for me in ensuring my research interests have relevance and can contribute in some way to practice.

In each issue *On Target Online* turns the spotlight on someone of interest and achievement in our ranks. All branches are invited to nominate members they consider to be outstanding management accountants who have contributed both to their profession and the wider community. Nominations should be accompanied by a brief outline of why the nomination is significant and contact details for the nominee. Please address contributions to the editor ontarget@cmawebline.org

Branch News

Dubai

The first meeting of newly elected members of the ICMA Australia, United Arab Emirates was held on May 12, as pictured.

The agenda was to review and sign-off the constitution and to finalize the road map for various activities for the benefit of members residing in UAE including arrangement of a CPD program, which will be compulsory to retain ICMA Australia membership.

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< Contents Quit