Chapter 1

Introduction to Management Accounting
1. Introduction to management accounting

So, you’ve decided to take your CIMA exams...congratulations! You’ve made the right decision, but that was the easy part, now comes the hard work!

However, while the journey may be long and tough, just think about how good you’ll feel once you’ve completed your exams and become a qualified management accountant!

So where do we start? As this may be your first ever CIMA paper we’ll begin with a brief introduction to CIMA and what it means to be a management accountant, along with some key accounting concepts that will be prevalent throughout your studies.

How do CIMA define management accounting?

The Chartered Institute of Management Accounting have defined it as “the application of the principles of accounting and financial management to create, protect, preserve and increase value for the stakeholders of for-profit and not-for-profit enterprises in the public and private sectors.

So that’s a little hard to get your head around so we might alternatively say management accounting is about producing financial information that helps managers make decisions. Examples might include:

- understanding the costs of the business better so that decisions on spending can be better made
- finding the costs of each product to help decide a fair price
- finding out the profitability of products to decide what products to sell (and which not to)
- comparing actual spend with budgeted spend to help identify areas of over or under spending
- financial analysis to help make investment decisions e.g. buying a new machine or a setting up a new business unit.

2. About CIMA

CIMA have more than 200,000 members and students operating worldwide. With a focus on business it is no surprise that many CIMA students play leading roles in industry, commerce and not for profit organisations. They also have strong relationships with employers, and sponsor leading research.

History
Here’s what CIMA have to say about themselves and their history; ‘Founded in 1919 as “The Institute of Cost and Works Accountants” (ICWA). It specialised in the development of accounting techniques for use in the internal control of manufacturing, service and public sector operations. It developed a position as the leading professional body in the areas of product costing, budgeting, management accounting, investment appraisal and business decision making’

3. What is a management accountant?

So what does a management accountant do? Management accounting is concerned with the use of accounting information within organisations, to provide management with the basis to make informed business decisions to be better equipped in their management and control functions.

What do they do?

Management accounting is often described in contrast to financial accountancy, which is focused on the recording of financial transactions and ultimately producing a profit and loss account and balance sheet for presentation in the financial statements, so that shareholders and other interested parties can understand the financial performance of the business.

There are many key differences between the two. For example, management accounting is:

- primarily forward-looking, supporting future decisions, instead of historical (recording past transactions);
- looks at information with a degree of prediction and estimation about the future to support decision making, instead of being purely factual and based on past events;
- intended for use by managers within the organisation to make decisions in the business, instead of being intended for use by shareholders, creditors, and public regulators to review a company’s past performance.
- usually confidential and used by management, instead of being publicly reported;
- reports and information often assembled subjectively to the users/businesses needs rather than to general accounting standards.

In short, a management accountant is generally employed by a company to assess internal information and analyse how it can be used to improve performance in the future. This in contrast to a financial accountant or auditor who is often external and brought in to ensure the company is complying with financial and accountancy regulations.
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