



**CROWN AGENTS**  
ACCELERATING SELF-SUFFICIENCY & PROSPERITY

Financial Management of Development Projects  
20 May 2019

# MANAGEMENT ACCOUNTING



# Session Introduction

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## Session Aim

- Define key elements of management accounting and in-year reporting

**Session Learning Objectives** – by the end of this course, you will be able to understand:

- Identify the key elements of management accounting
- Describe and discuss the objectives of management accounting



# Session Agenda

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**Our Learning Journey** – how we will achieve our objectives:

1. Provide a definition and discuss the objectives of management accounting
2. Discuss the role and responsibilities of the management accountant
3. Identify the uses of management information
4. Examine the information systems needed to deliver sound management accounting
5. Discuss the differences between management accounting and financial accounting



# Management Accounting

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CIMA (Chartered Institute of Management Accountants) defines Management accounting as

*“Management Accounting is the process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of information that used by management to plan, evaluate, and control within an entity and to assure appropriate use of an accountability for its resources”*



# Role of Management Accountants

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- Record information for organisational decision-making
- Develop budgets
- Manage assets
- Undertake cost management
- Generate important reports for development of effective business strategies by top management



# Uses of Management Accounting Information

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## Forecasting and Planning

- Which aligns the organisation's objectives with its available resources.

## Budgets

- Transforming plans into budgets expressed in financial terms

## Allocation of resources

- Provide basis for allocation to more needy / efficient departments

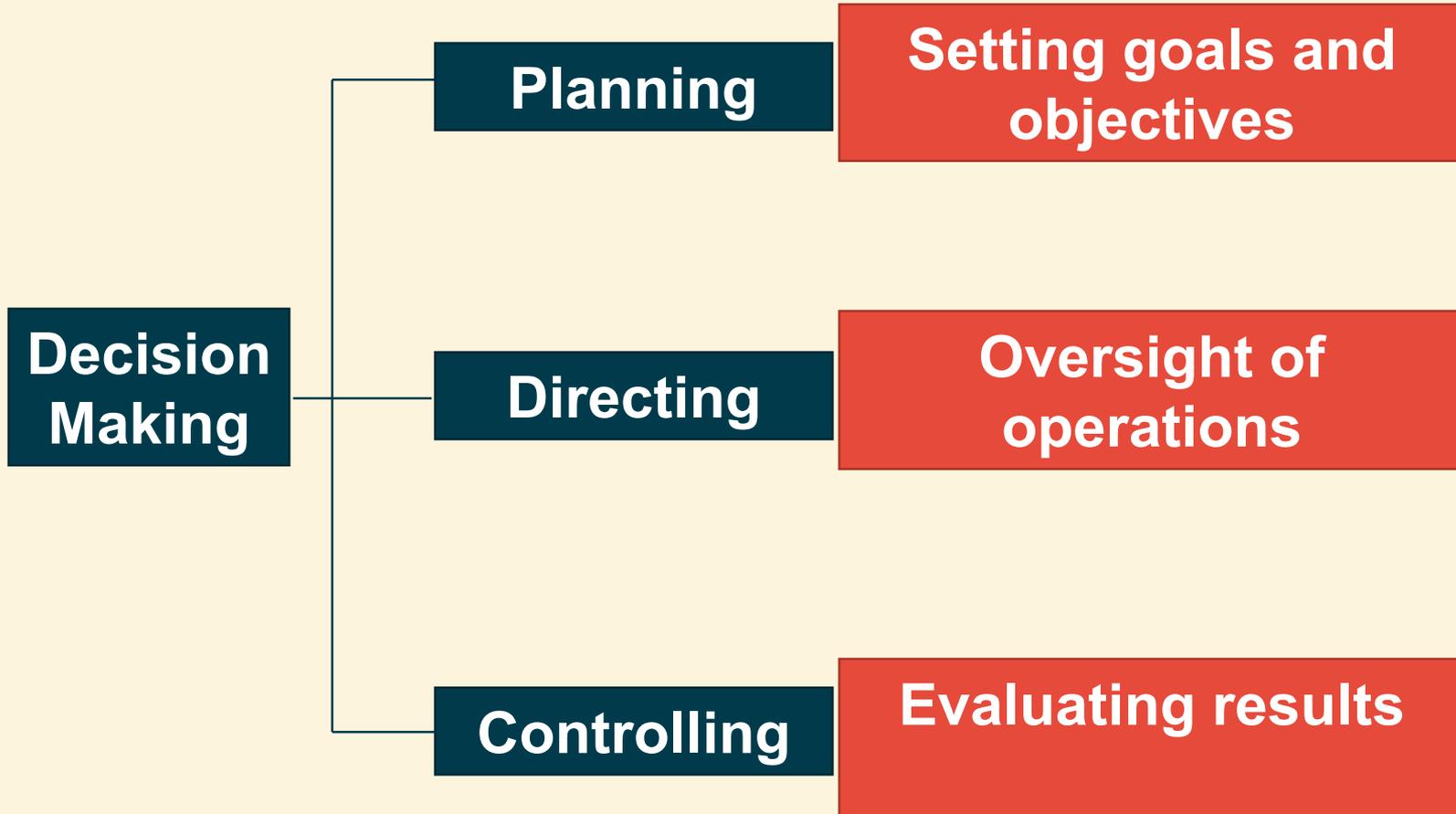
## Produce management accounting reports

- Cost management
- Reward deserving employees
- Investment decision
- Identity most profitable business options



# Management Responsibilities

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# Management vs Financial Accounting

Item	Management accounting	Financial accounting
Primary users	Internal	External
Purpose of Information	Planning Directing, Control Decision-making	Investment decisions Lending decisions



# Management vs financial accounting

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Item	Management accounting	Financial accounting
Primary accounting information	Internal reports useful for day-to-day management	General Purpose Financial Statements
Scope	Determined by management	Determined by Accounting Standards



# Management vs financial accounting

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Item	Management accounting	Financial accounting
Underlying basis of information	Internal and external transactions, focus on future	Based on historical transactions with external parties
Emphasis	Data must be relevant	Data must be reliable and objective



# Management vs Financial Accounting

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Item	Management accounting	Financial accounting
Business unit	Segments of the business	Company as a whole
Preparation	Depends on management needs	Annually and quarterly
Verification	Internal audit	External audit



# Management vs Financial Accounting

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Item	Management accounting	Financial accounting
Information requirements	No requirement	Regulatory and legal requirements requires publicly (e.g. requirement for audited financial statements)



# Traditional Management Reporting





# Role of Management Accountants

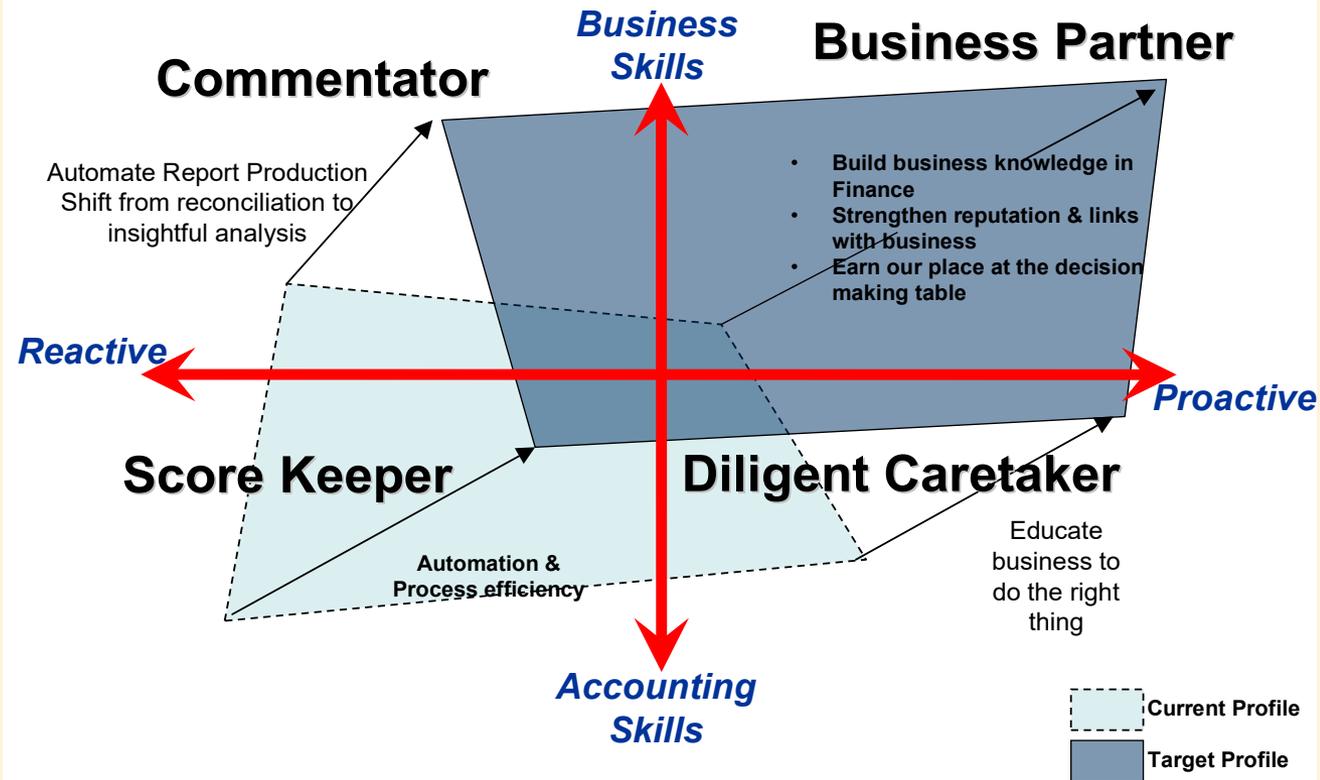
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- Ensuring accurate financial records
- Assisting in the design information systems
- Recording non-routine transactions
- Making adjustments to financial records
- Planning, analysing, and interpreting accounting data
- Providing decision support
- Technology has changed the roles of management accountants
  - computers have taken over the task of performing routine mechanical accounting tasks
  - leaves management accountants to spend more time in planning, analysis and interpretation of accounting data for decision support

# A View of Finance



## Finance as a Business Partner





# Accruals and Management Accounts

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- Management accounting should be on the same basis as the financial accounts
- Controlling budgets using cash works less well in an accrual environment
- Means the budgetary control information should include:
  - Expenditure and income on an accrual basis
  - Consideration of how to deal with
    - Depreciation/amortisation
    - Provisions
- Consideration of commitment accounting
- The systems assist but people manage!
- Getting this right is key to successful financial management





# Required Skills

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- Knowledge of financial and managerial accounting
- Analytical skills
- Knowledge of business rules
- Ability to work on a team
- Oral and written communications skills



# Information Systems

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- Both management and financial accounting are dependent on the use of information systems
- Information systems are
  - A set of interrelated processes for the collection, processing, storage, retrieval and dissemination of information within / without organisations



# Information Systems

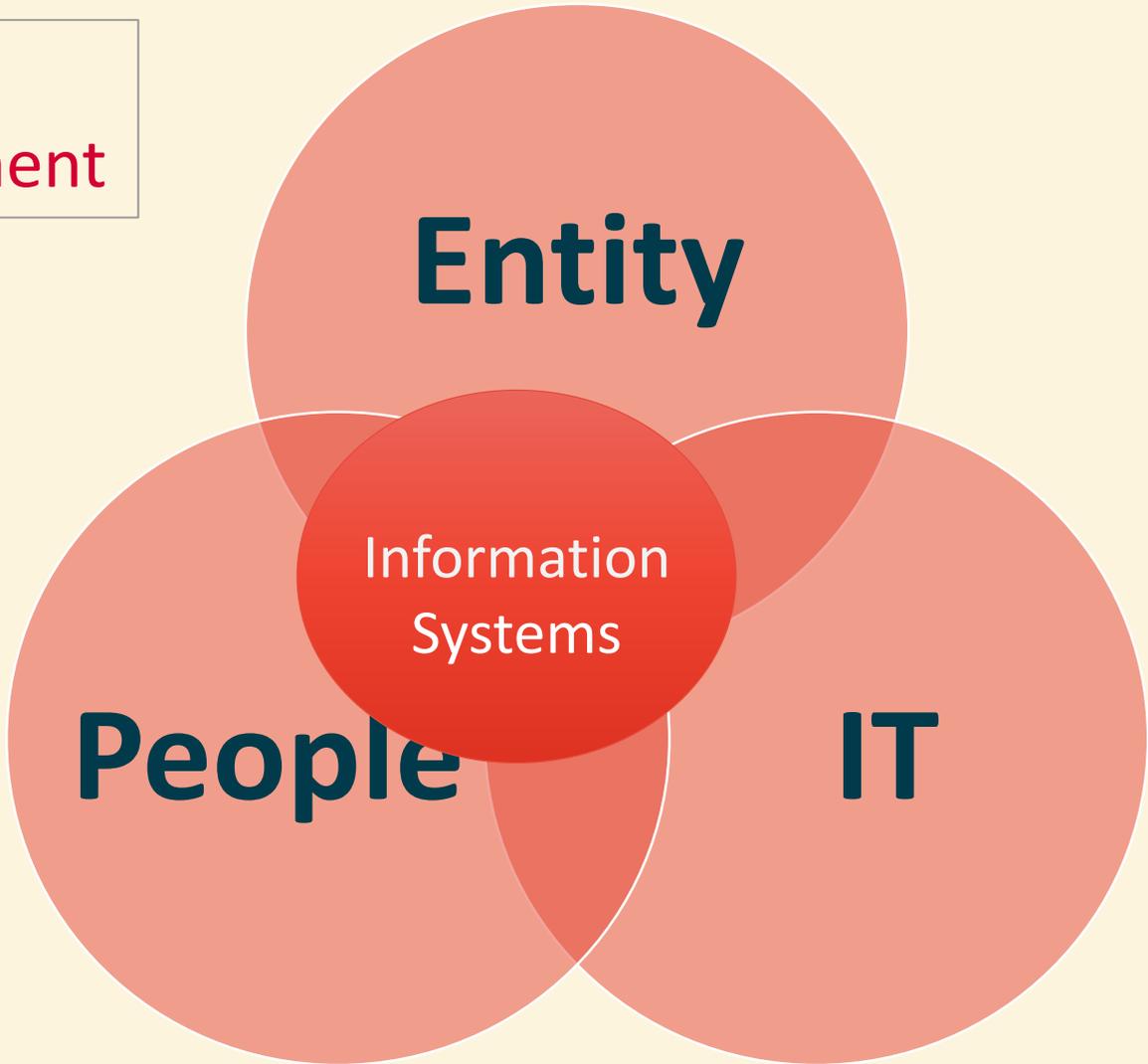
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- More than just computers and software
- Incorporate both manual and IT processes
- Involve
  - *people,*
  - *data and*
  - *activities (IT based and manual)*
- Targeted at achieving the entity's objectives
- Modern information processes are dominated by IT (hardware, software, networks)



# Information Systems - Components

External  
Environment





# Information Systems – What is Involved ?

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- Hardware
- Software products
- Other IT system operations
  - *Networks*
  - *Databases*
  - *Mobile systems*
  - *Collaborative technologies*
- Management processes
- Human resources and skills



# Information Systems: Typical Elements

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- Manual systems
- Computerised systems
- Standalone (project) systems
- Integration systems
  - *Profit / cost centres*
  - *Chart of accounts*



# Information Systems: Typical Elements

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- Reporting and monitoring
- Periodic returns to head-office
- Design and reporting on project-specific indicators
- System focus
  - *Government-wide vs. Project-specific*
  - *Standard vs. Bespoke software*
  - *Manual vs. Computerised*



# Information Systems: Computerised

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- Manual systems still in use on several projects
- Global trend towards using computerised integrated financial management systems (IFMIS)
- Planning and budgeting systems
- Procurement software
- Accounting software
- Monitoring and evaluation (M&E) software



# Information Systems & Internal Controls

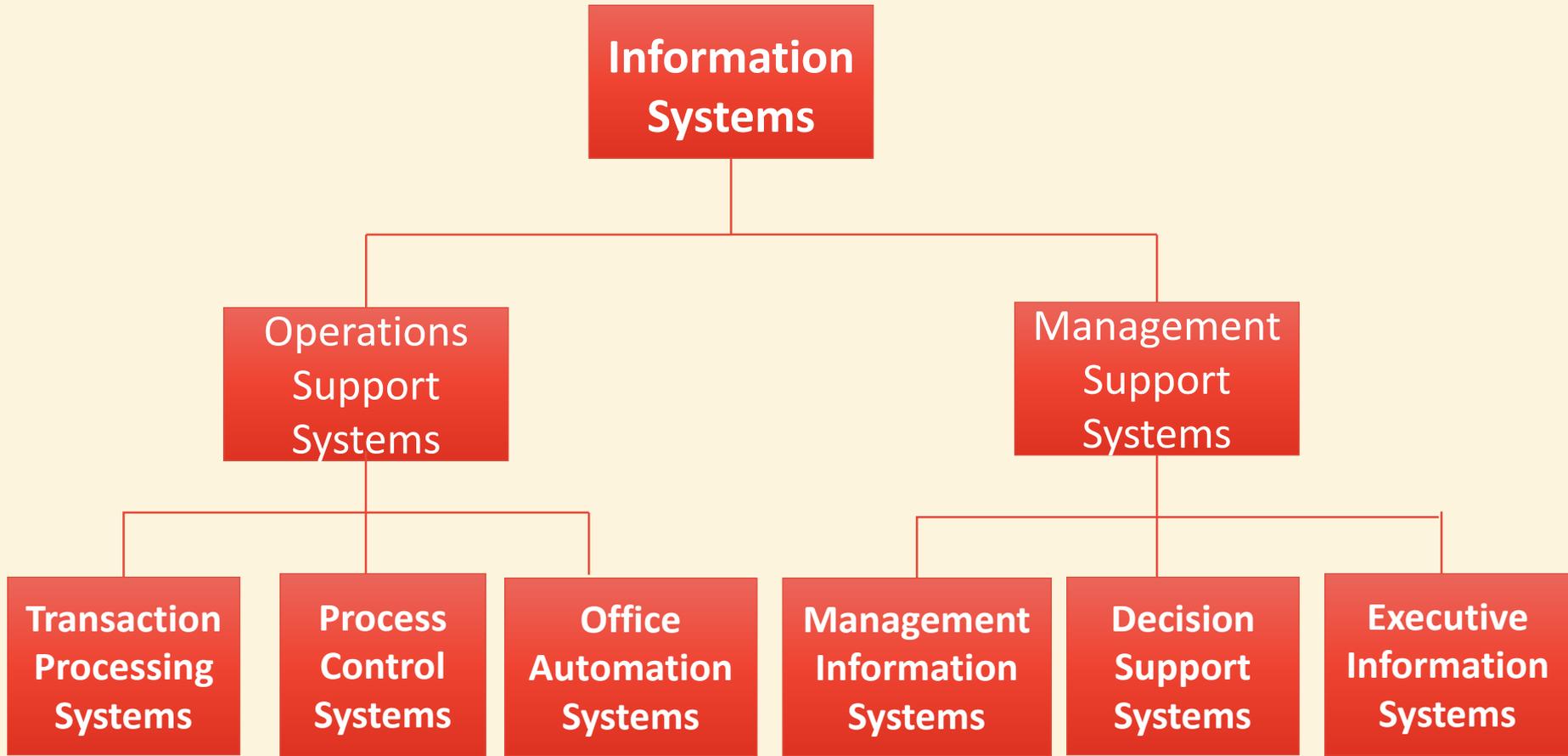
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- Information systems play a key role in internal controls
- Responsible for reports (including operational, financial and compliance-related information) that make it possible to run and control the business
- Provide communication to ensure information flows down, across and up the organisation
- Effective communication should also be ensured with external parties and other stakeholders



# Information Systems - Types

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# Information Systems – Latest Trends

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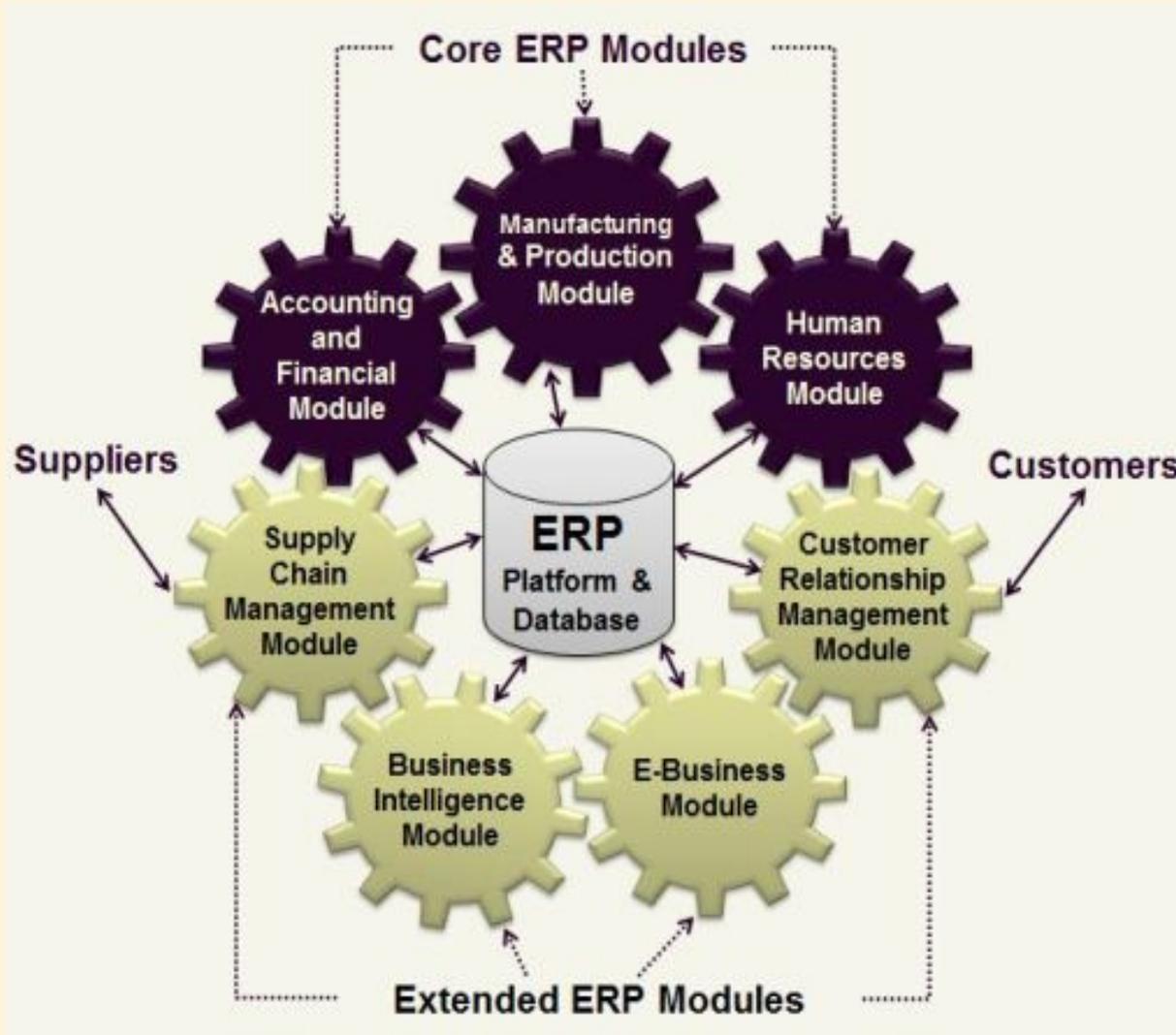
- Enterprise Resource Planning (ERP)
  - *ERP integrates other operational systems with the traditional accounting systems so that all departments use the same set of entity-wide data for their own individual purposes*
  - *ERP systems have gained popularity as they move away from traditional systems where data is stored in multiple systems leading to data redundancy and data discrepancies*
  - *ERP controls all the entity's major business processes using a single software architecture in real time*



# Information Systems – Latest Trends

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- Enterprise Resource Planning (ERP)
  - *ERP uses integrated approach to achieve several benefits including: reduction in stock reduction, improvements in productivity, order management, cash management*
  - *Other benefits include flexibility, better customer response and globalisation*
  - *ERP software is offered by SAP, Oracle, J D Edwards*





**THANK YOU /**



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