# Accounting for the Organisation's Internal Environment and Risk

## COSTING AND CONTROL


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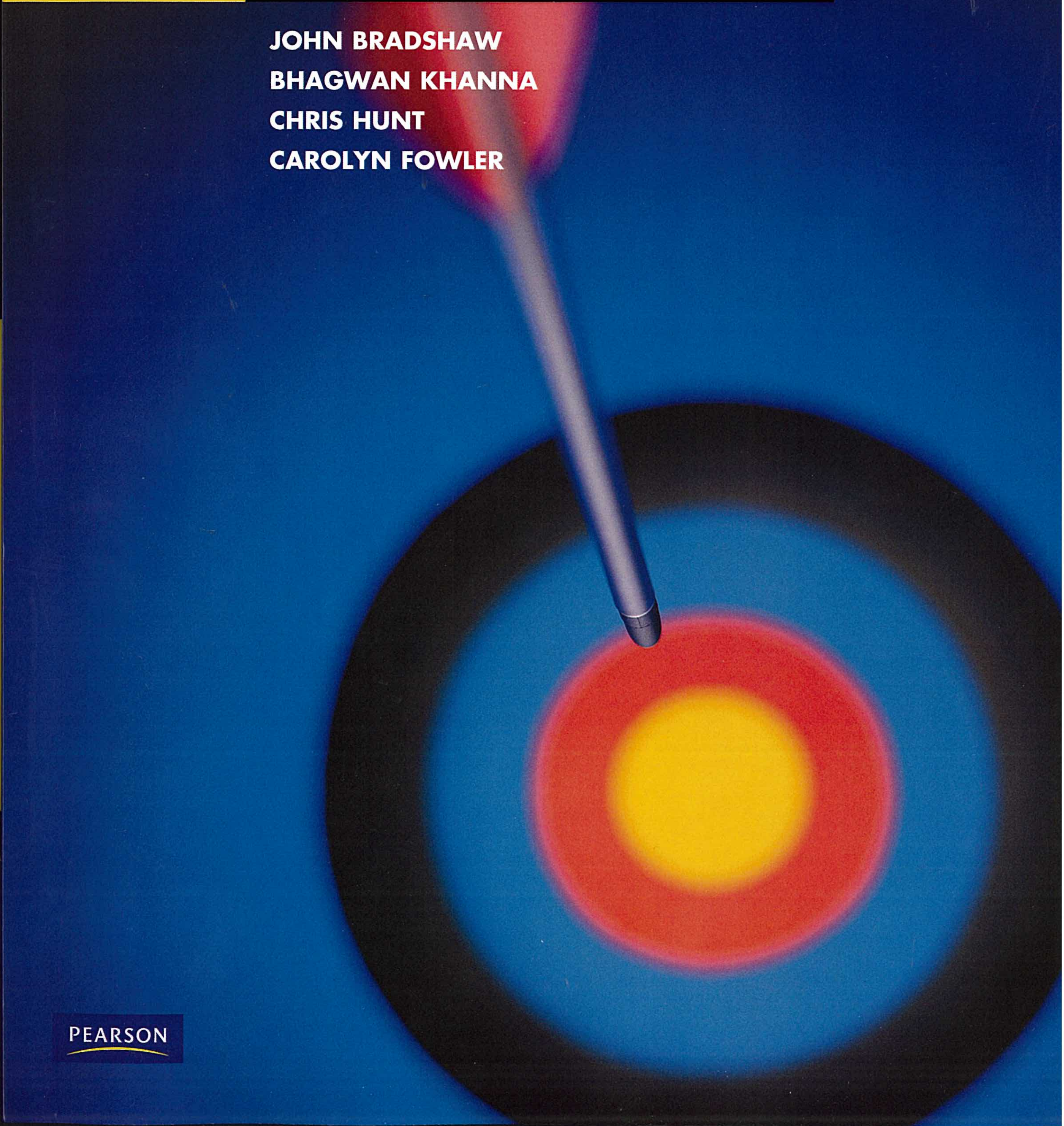


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Dedication

This book is dedicated to our families for their love, support and especially patience during the writing of this book and to our esteemed colleagues, Professor Keitha Dunstan and Professor Tony van Zijl for their ongoing encouragement.

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# Chapter 1

# Management accounting: its role in managing organisations' business risk and other environments

## 1. Introduction

In the last four decades, the role and focus of management accounting, and business organisations' internal operating and external business environments have undergone significant change. While the rapid improvement in a wide range of business technologies and infrastructure has aided this change, it has also been driven by significant increases in global and domestic competitiveness, deregulation of labour markets across all sectors, and international commercialisation of the public sector. This change has also been influenced by past economic events and, more recently, the significant and numerous global business organisation failures of the late 1990s and early 2000s (Clarke & Dean, 2007) and their resultant global impacts. Globalisation has contributed to the complexity of an organisation's operating environment through the exposure of all organisations to increased sources of business uncertainty. In doing so, it has increased the types and levels of business risk considerations that an organisation is exposed to. This increased exposure has resulted in a greater need for improved identification and measurement of internal and external organisational performance information.

The more recent global push to actively manage human *greenhouse* gas emissions (GHGs)[1], via financial mechanisms such as emissions trading schemes[2] (ETS) (IASB, 2008), shows the growing complexity and changing business risk environment for all organisations, both public and private. Through recent initiatives such as the ETS a wider range of once external organisational contingencies now have some degree of impact on an organisation's internal operating environment as well.

This is the first of two books that addresses the management accounting implications, which confront public and private organisations 'doing business' in this globally influenced competitive and volatile business environment. Using a business risk lens, this book focuses on internal operational activities and processes in relation to an

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[1] Human caused emissions of *greenhouse gases* refers to a layer of gases around the earth's atmosphere. This layer of GHGs prevents some of the earth's radiating heat from escaping into space, resulting in global warming and climate change. These human-induced changes in atmospheric composition are primarily from emissions associated with energy use. However, a change in land usage and urbanisation of country land also affects global warming.

[2] Emissions trading schemes are designed with the overall purpose of reducing emissions of GHGSs using tradable emission permits, the price of which is driven according to the law of demand.

organisation's internal operating environment. In doing so, external sources and types of business risk cannot be ignored.

The practical implications of focusing on an organisation's internal operating environment are dealt with through the consideration of the various types of costing and control systems, and performance information, which managers invariably require. Managers so enabled can control internally generated sources of business risk, make decisions, and develop positive organisational behaviour, all of which are conducive to optimising organisational performance. This is achieved by leveraging off traditional or production focused accounting and contemporary management accounting, which have an activity and process focus. The companion book, ***'Accounting for the Organisation's External Environments and Risk: Strategic Decision Making and Performance Management'***, adopts a strategy-based management accounting focus in examining how an organisation might identify and control for external sources and types of business risk. Motivating this categorisation of the two books' focus is the relative control an organisation might exercise over the management of internally and externally generated sources of business risk. Ignoring the possibility of organisation resource constraints, internally generated business risk is more directly controllable and arguably less volatile than externally caused business risk. In other words, internal business relationships formed to operationalise business strategies are more controllable than those formed with external business parties. This is due to relationship power and control relativities, which automatically differ between an organisation's internal environment and its external environments. While an organisation must consider business risks that originate both inside and outside the organisation, both sources of business risk have the capacity to cause difficulties and hardships, and, if not sorted, then business failure. It was primarily based on the above assumptions that the authors decided upon the focus of each of the two books.

## 2. An overview of the changing management accounting environment

Arguably, management accounting grew out of financial accounting. Pacioli, in his 1494 book ***'Summa de arithmetica, Geometria, Proportioni et Proportonalita'***[3] codified accounting as a means of recording the financial flows associated with doing business. His book presented a description of how Venetian merchants kept accounts and recorded costs (Edwards, 1994; Mills, 1994). If you like, Pacioli is often credited with making public a framework for facilitating the beginnings of a financial performance monitoring and reporting system. However, such systems were used in Italy and other countries such as India many centuries before Pacioli's time (Khanna, 2007).

During the industrial revolution of the 19th century, engineers and production managers applied this financial framework to develop ways of capturing the costs associated with producing goods for sale. Although some management accountants argue that the demand for management accounting information began with the industrial revolution (Johnson & Kaplan, 1991), there is evidence that management accounting-type information was used from at least the 1500s. Edler's (1937) examination of the journals

[3] This translates as 'everything about arithmetic, geometry and proportion'.

and ledgers of a 16th century Dutch printer, Plantin, found that by that point book-keeping was at a very advanced stage. The examination also showed that Plantin was aware of the problems associated with the determination of an item's cost. Other practices such as the concept of standard costs[4] can be traced back to medieval times, while those relating to cost estimates, profit and incremental cost ideas for planning and decision making had been detected in 16th century business organisations (Edwards & Newell, 1991). McKendrick's (1970) historical analysis of cost accounting at the Wedgwood Potteries during the 1770s found that management used costing information to aid its decision making and cost-policy formulation. Other late 18th century developments included return on investment[5] ideas, the recognition of differences in cost behaviour[6], basic transfer pricing[7], performance assessment and cost control systems (Edwards & Newell 1991). These budgeting, control and performance management-type practices were transferred to the Australian and New Zealand colonies in the late 18th and 19th centuries (Fowler, 2006 & 2008).

Unfortunately, or fortunately for the accounting professions, economic crashes such as the 'South Sea Bubble' (1720), the 'Long Depression' (1873–1896), the 'Great Depression' (1929–1933), the 1970s international recession, 'Black Monday' and subsequent stock market crashes (1987), the 'Asian crisis' (1997), and the more recent collapses by the likes of Enron, WorldCom and HIH (Health International Holdings) insurance group, (Sinclair, 2000; King, 2003; Clarke & Dean, 2007), have allowed management accounting to grow in importance if not stature. Over this time, there has been growing pressure for private and public sector transparency of, and for, accountability. In addition, the push by owners and key external stakeholders, such as banks, securities markets and governments, have resulted in a need for managers to build a greater information base upon which to report to these bodies and also better manage the organisations they control. The managers' need has also been intensified by the impact of deregulation, technological and global competitive pressures that have national, regional and local implications.

The unique nature of the financial recording and reporting system in capturing information from all areas within the organisation has provided a framework upon which management can react to economic crises and changing owner and key stakeholder's demands. Over time, the basic accounting system has been extended into a management information system (MIS) and more recently a management control system (MCS). A contemporary MCS incorporates the financial recording and reporting system, the

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[4] Standard costs (prices) refer to the standard (benchmark or 'norm') that should be paid by the organisation for each element/item of its products' input. This is discussed in ***Chapter* 5**.

[5] Return on investment (ROI) in a project or business venture can be defined as net operating income divided by average operating assets. ROI is discussed in detail in the companion book.

[6] Cost behaviour refers to how a cost would react to changes in an organisation's level of activity. Some costs will remain constant while others may increase or decrease. This is discussed in detail in ***Chapter* 3**.

[7] Transfer pricing is a technique utilised to arrive at a suitable price that an organisation would use for the transfer of goods or services to another division of the same organisation. Transfer pricing is discussed in detail in the companion book.

performance management system, the human resources management system, the production management system, and so on. Due to environmental pressures, the MCS has become a system that captures not only information about financial and non-financial resource transactions, but also gathers information associated with the total resource investments of the organisation, that is, both its human and non-human resource investments.

## 2.1 External business environment pressures and approaches for managing uncertainty and business risk

To manage uncertainty and business risk changes caused by external business environmental pressures (as above), both traditional and contemporary management accounting need to adapt their process driven costing, performance monitoring and reporting, and control activities. Management accounting's initial change from its previous operationally focused role was influenced in the 1960s by the identified need for business organisations to establish a focus through a clear mission statement[8] and stated goals necessary to achieve that mission (Perrow, 1961 & 1967). Pressure for change was increased through the emergence of a contingent view[9] of the business-operating environment in the 1970s (Galbraith, 1973). The need for a strategic management control focus was recognised in the 1980s (Otley, 1980) and there arose a greater awareness of human business behavioural implications of accounting numbers and ratios and performance measures (RAPM) (Brownell, 1982 & 1987; Brownell & Hirst, 1986). Additionally, during the 1980s an awareness of the application of static and dynamic controls by organisations in managing the uncertainty associated within and across differing strategy choices was developing (Simons, 1990 & 1991).

The 1990s saw a re-emphasis of the importance of strategic performance planning (Kaufman, 1992) and performance management (Langfield-Smith, 1997; Otley, 1999; Kaplan & Norton, 2001), initially recognised in the 1980s. Operational strategies were developed to internally recognise and manage external sources of risk and include new approaches such as: just-in-time (JIT) production planning; total quality management (TQM); value chain management; target costing; capital budgeting; balanced scorecard performance planning and management; and environmental cost management[10]. These new approaches, along with the more traditional internally focused management accounting techniques and frameworks, have been incorporated into organisations' operations and control systems.

The coming of the 21st century has brought with it not only reminders of what we need to do better, through the corporate collapses, but also new challenges giving rise to different

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[8] Developing the mission statement is discussed in detail in ***Sub-section*** 5.2.

[9] A contingent view of the business operating environment refers to a view of the business operating environment that is dependent upon, or determined by, something else, or something incidental to something else. In other words, a contingent view encapsulates uncertainty and business risk in the form of an event or possible occurrence that may occur but which is not likely or intended to occur.

[10] The approaches referred to in this paragraph are discussed in the companion book.

sources and types of business risk that need to be managed and incorporated into an organisation's MCS. With the recent international recognition of the need to manage emissions of human-caused GHGs and carbon emissions[11] in particular, there is now a need for organisations to determine their own carbon footprint[12]. Organisations should develop strategies and MCSs to manage the financial and environmental resource implications of that footprint. The use of financial mechanisms such as ETS can be viewed as one possible strategy.

Employing the concept of business risk as a means of control and determining the degree of uncertainty that different sources and types of uncertainty pose for an organisation is not new. Since the late 1980s, auditors have developed an audit risk model (Gay & Simnet, 2005) to assist them in assessing the number, level and types of audit activities (i.e., the amount of audit procedures) they need to undertake. This helps achieve an acceptable level of audit risk for the auditors associated with conducting a client specific (auditee) external audit. The audit risk model considers both the external and internal inherent risks the auditee organisation faces, e.g., organisation resource constraints, industry risk, country risk, management quality, competition, level of existence of internal controls, etc. (Gay & Simnet, 2005); and control risk, e.g., quality of existing internal controls, effectiveness and efficiency of internal control operations, existence of appropriate strategies for dealing with inherent risks, etc. (Leung et al., 2004). The critical component of the audit risk model for an auditor in assessing an appropriate opinion is detection risk (Leung, et al., 2004). Detection risk is about identifying the number, level and types of audit activities, dependent on assessed auditee's inherent risks and control risk, necessary to meet the auditors predetermined level of acceptable audit risk (Leung, et al., 2004) in issuing an incorrect audit opinion.

The relevance of the audit risk model to management accounting is heightened by its focus on examining the very MCS that management accountants are responsible for. The importance of the audit risk model's use of business risk as a proxy for degrees of uncertainty is reinforced by the joint AS/NZS 4360:2004 'Risk Management' standard released in 2004 by the Australian standards and New Zealand standards setting bodies (AS/NZS 4360:2004). However, the determination of an organisation's business risk is a function of strategy outcome performance that would require strategy based accounting to determine and assess. Strategy based accounting is discussed and examined further in the companion book. The focus of this book is the internal operational activities and processes performed by an organisation within its internal operating environment (i.e., an organisation's internal environment). This focus considers the types of costing and control systems, and performance information that managers need for controlling internally generated sources of business risk, making decisions and generating organisational behaviour that is conducive to optimising organisation's performance. However, this focus does not preclude consideration of the external business environment

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[11] Carbon emissions refer specifically to carbon dioxide emissions (calculated in tonnes of carbon dioxide equivalent or $tCO_2e$).

[12] An organisation's carbon footprint is the total amount of carbon dioxide attributable to the organisation's actions, mainly through its energy use, over a period of one year. However, the term 'carbon footprint' can also be used to mean the total amount of carbon dioxide emitted over the full life cycle of a product.

and its management towards which some of the internal operational processes and activities will invariably contribute.

## 2.2 Internal business environment pressures and approaches for managing uncertainty and business risk

The preceding discussion has been on the growing coverage of the MCS and the work of the management accountant, that has been motivated by greater risk awareness and understanding of the external operating environment. However, significant developments have also occurred in the techniques and tools available to management accountants in respect of costing and controls and performance measurement and monitoring systems, which are in part a response to external business risk influences but which are more about improving and managing the internal organisational risk environment.

***Chapter*** 2 of this book examines ***internal risk management, strategy, costing and control*** in an internal operating environment setting in greater detail. Cost allocation systems have evolved over the last 250 years to provide a basis for dividing costs into fixed and variable components based on the behaviour of costs. Fixed and variable costs and expenses are discussed in ***Chapter 3***. This has provided a way of separating out information about fixed costs normally associated with expenditure on the likes of plant and equipment. These costs have potential long-term benefits for the organisation as opposed to those providing more immediate benefits to the organisation, which are directly variable with variations in activity levels. Both direct material and direct labour costs associated with manufacturing an item or goods for sale are excellent examples of variable costs. Additionally, through being able to identify differing cost behaviours a basis is provided for cost-volume-profit (C-V-P) analysis to determine optimal gross and net margins, selling prices and volumes, and to reduce decision complexity and uncertainty about product sale performance. C-V-P analysis is discussed in ***Chapter 4***. In turn, a means is also provided for assessing the impact of differing cost allocation choices on decision making, employee behaviour and performance measurement and monitoring.

In more recent times, because of both technological change and growth in service industries, management accounting has developed techniques for dealing with increasing organisational overhead costs, which have traditionally been treated as fixed costs and/or allocated on a single organisation or plant-wide basis. In order to provide more informative performance management, pricing and product maintenance choices, techniques for the allocation of common and service department costs to production department costs has been developed. Costing for common and service department activates are discussed in ***Chapter 5***. These approaches attempt to ensure that product costs better represent all costs that contribute to their manufacture or service provision. Through identifying the contribution of service department costs to the production process in addition to those associated with the production departments, the pricing decision not only requires consideration of fewer fixed costs (and hence has greater accuracy), but also is richer when considering product substitution and other competitive challenges and threats. Again, service department cost allocation improves internal management control risk through an improved understanding of the cost contributions in manufacturing a product and/or providing a service. This provides a mechanism for allocating administrative overheads more directly to product costs. In doing so, it provides a more informed basis upon which to assess the market competitiveness of a product and/or service and, therefore, a more informed decision as to whether or not to continue, revise or discontinue the product and/or service.

More recently, the development of a means to deal with burgeoning common and service department costs, as well as changes in technology, increasing competition and the need to make additional decisions such as outsourcing, meant the way overhead costs were traced and allocated needed to change. Consequently, activity-based costing and control was developed. Activity-based-costing is discussed in ***Chapter 6***. This approach argues that departments undertake a number of activities that can and do contribute to activities in other departments in producing organisational outputs. Instead of allocating department costs to other departments, departmental costs are attributed to the different processes and activities performed by the department. A basis is then provided for accumulating the costs of each department on an organisational activity basis. This provides not only a way of identifying the costs associated with the output of that activity but also the relative input into each activity from each department and the relative inter-dependencies between each department in respect of different activities. In doing so, improved information about the performance of the activity is provided as well as the means for identifying component activity risk factors in terms of internal control implications. Furthermore, the overall business risk management impact of the activity can be assessed at an internal business risk assessment level.

The costing behaviour and control advancements discussed above, also provide an appropriate way for businesses to better allocate costs to each job, such as 'car-accident/crash' repairers, 'to-order kitchen cabinet' manufacturers or even building a bridge, where a large proportion of the jobs are significantly different from one another. This provides not only a basis for tracking and monitoring the cost and performance of inputs, but also for competitive and profitable pricing of these short-term or long-term jobs. Specific-order costing is discussed in ***Chapter 7***. Additionally, an understanding of cost behaviour provides an improved basis for costing and performance monitoring and reporting about production processes such as the manufacture of soft drinks where batches, or multiple amounts, of the one product are produced in a single process. Integral to these advances in costing is the recognition of the need to manage the business risk associated with spoilage and wastage in the manufacturing or service providing processes. Process costing is discussed in ***Chapter 8***. Implicitly, process costing also recognises the existence of joint- and by-products, which leads to an identified need for improved decision making through recognition of relevant costs and the implication of cost allocation decisions. This innovation is assisted by the need to consider only relevant information when identifying and managing constraints within the organisation (Goldratt, 1990). Joint- and by-products are discussed in ***Chapter 9***. All of the considerations discussed above bring together factors that may be associated with managing the internal risk of the organisation so as to achieve a level of risk diversification or its alleviation/mitigation, through the organisation having more than one product or service in the market place.

Supporting the preceding internal control and risk management tools and activities developed for management accountants, are the advances made in cash budgeting and the implications that that advancement had for planning, as well as the variance analysis used for performance reporting and behavioural management budgeting (all of which are discussed in ***Chapters 10–12***). Cash budgeting supplies a framework that provides a means of controlling the liquidity and going-concern risks that all organisations have to confront. It also ensures that a business tests its assumptions about the market potential for the goods and/or services that it provides in terms of revenue expectations. In doing so, it requires the organisation to make assumptions about: the timing of the collection of those revenues; the costs in getting the goods/services ready for market; future needs; the investment necessary to sustain the market and product quality; minimum cash levels to sustain and help grow the business; and any borrowing or financing to fund any liquidity shortfalls. The budget assumptions need to be regularly reviewed in terms of actual performance in each of the budget component areas and assumptions modified where required if internal control and management of internal business risk is to be proactively managed to an organisationally acceptable level. This is discussed in more detail in ***Chapter 10.***

Failure to manage internal business risk utilising the budget does have potential implications for external business risks associated with loss of customers through such factors as poor product quality through use of lower quality materials, poor maintenance, and/or lack of investment in plant, equipment and personnel, potential impact on customer base due to poor quality, etc. In order to control for these business risks and facilitate the review of the underlying budget assumptions and the performance of different activities within the organisation, a method for 'flexing' the master budget to reflect actual activity and costs has been developed, known as flexible budgeting. This provides a means for assessing actual activity against budgeted activity in terms of the price and efficiency of different activity inputs such as labour and materials and their impact on projected/planned/budgeted overall performance of the organisation. This is discussed in more detail in ***Chapters 11 & 12***. In addition, by separating cost information (as described above) a basis for control over these input expenditures is provided, as a way of monitoring the performance of their application in achieving organisational outputs and outcomes; that is variance analysis, which is discussed in more detail in ***Chapter 12***.

However, within the budget setting and review mechanism are implicit and explicit standards to be applied and performance targets to be met. Coupled with these factors is a history of management's negative use of budget performance as a penalising instrument rather than a business learning and business assumption review tool. In more recent times the latter approach has been encouraged, but game playing' through initiatives such as the creation of budgetary slack (Bradshaw et al., 2007) have contributed to unintended behavioural outcomes of managers. Furthermore, management game playing also can influence the cost allocation choices made. These behavioural issues and the preceding issues relating to the sources and types of internal business risk and the frameworks, mechanisms, treatments, tools and/or techniques that management accountants have developed and adapted are the focus of this book.

## 3. A risk management approach to management accounting

Management accounting primarily involves the use of accounting information to assist with business decisions and in the management and control of the organisation. In management accounting we are, therefore, concerned with business decisions and the management of the business organisation, all of which involves differing degrees of uncertainty and levels of 'total organisational business risk'. Every business decision has consequences, both good and bad. Every decision affects the profits and cash flow of the business organisation.

Management accountants see the bigger picture of how an organisation operates in doing business and the need to help managers see the bigger picture as well, not simply the financial numbers. Accounting information is not restricted to dollars and cents, but includes various physical numbers and narrative information. For example, information about: volumes; sales delivery times; product volumes and quality; service and/or production times; inventory volumes and quality; inventory ordering; labour hours; hours of service; kilowatt hours (KWHrs) of electricity; reliability of suppliers; etc., is neither adequately informative without a definition of what the numbers mean/represent, nor is it useful information without providing the assumptions about volume levels and times. As a management oriented accountant you need to be able to communicate with other accountants and financial managers, understand the information they prepare, question what they provide, and communicate with non-financial managers and other personnel in facilitating their understanding and use of the accounting information so as to assist them in managing and controlling their business units and associated risks.

Risk management is the latest development to influence and change the role that management accounting has in organisations. Sources and types of business risk can be both positive and negative. People with a 'cup half empty view' of the world perceive risk in a negative way. They would probably prefer the status quo to remain. People with a 'cup half full view' of the world would probably perceive risk as being relative to the achievability of the rewards associated with change and with the potential for a positive outcome. An important part of what a management accountant does is to ensure that relevant and decision useful information is available to facilitate both possible points of view. The management accountant's primary audience is an organisation's management team. In that team, there will be a range of risk appetites covering the whole spectrum from risk averse (probably the Chief Financial Officer (CFO)) to risk seeking (probably the Head of Sales). The identification of an acceptable level of organisational business risk will need to be responsive to this diversity of management risk perception. In facilitating this, the management accountant recognises that all things change and with it so does social expectations and norms. Sometimes in the past, management accountants have forgotten to reflect on what they have taken for granted in terms of change, this text attempts to remedy this omission.

This omission is addressed in terms of managing the internal sources and types of business risk that the organisation needs to control for. In doing so, it demonstrates some of the ways that an organisation can proactively manage the performance of those controlling activities in optimising organisational outcomes. This risk management approach and its implications on costing and control are explained in greater detail in ***Chapter*** 2. However, prior to this we need to understand how business organisations operate, their strategic management process and how they identify their objectives, strategies and operational activities.

## 4. How a business operates

Generally, the objective of most business organisations is to make a profit. Other organisations may have other objectives, e.g., provision of a stated service such as education. Nonetheless, these organisations need to at least break-even in the long-term otherwise their financiers or funders may consider them inefficient.

The process of business for an organisation is, in most cases, quite simple. Making a profit, or surplus, is not. People who work in, or interact with, a business organisation need to have an understanding of what happens in that organisation and whether it has a financial objective of making a profit, breaking even or incurring a loss, and whether it will continue to do so.

To understand whether a business organisation is meeting its financial objective(s) an understanding of costing, accounting, financial management and how money is used in organisations is needed. Many of these concepts you would have been introduced to in your introductory accounting course. However, to set the context for this text it is worth revising how a typical business operates.

Figure 1.1 on the next page demonstrates how a typical profit-orientated business operates. It explains what happens in an organisation with a profit making objective and other strategies. In this type of organisation, money comes into the business from three sources: the owner(s), revenue(s) and loan(s). Money from the owner(s) is referred to as capital or equity. People invest their money in businesses because they hope to obtain a greater return from the profits (revenue residual after covering operating costs) of the organisation than if they were to have invested the money elsewhere. Before making the investment they evaluate the return they hope/expect to get from their investment in the business organisation against other investments, as well as the degree of uncertainty and level of 'total organisational business risk' of the business failing and their losing their money.

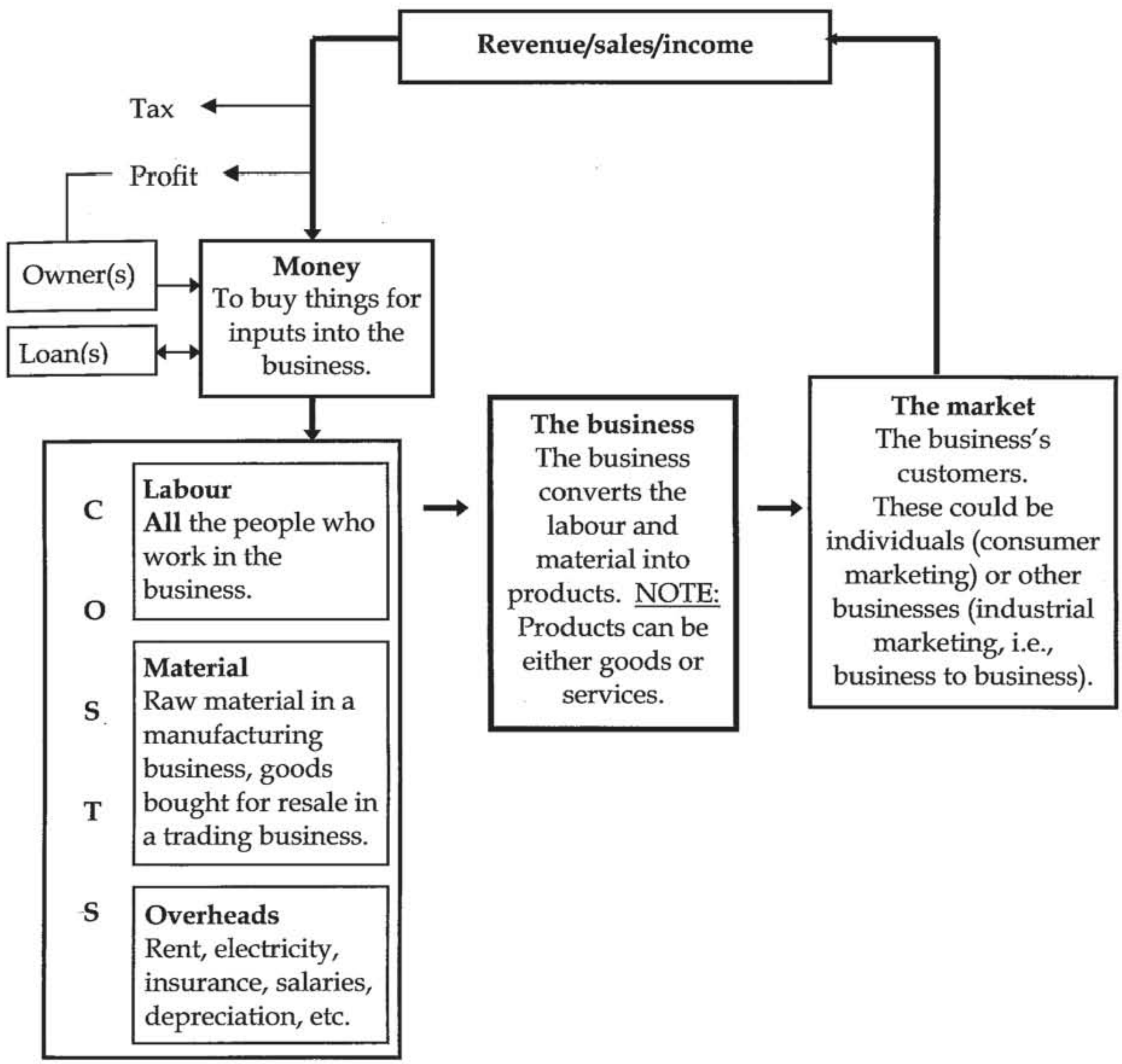
Money can also be in the form of finance (leases etc.) or short-term and/or long-term[13] loans to the business such as mortgages, other secured long-term loans, bank overdrafts and supplier credit. A general financing guideline is that the period for which a loan is obtained should be matched by the life of the thing (asset) bought with the money borrowed. Some of this 'borrowed' money comes from what is refereed to as current liabilities, which are the short-term commitments (i.e., those due for payment in less than 12 months) of the business and represent forthcoming or future economic outflows from the organisation. Examples include trade or supplier creditors, sundry creditors (e.g., payment of telephone, fuel and stationery accounts), accruals such as wages earned but not paid, the bank overdraft and other taxes owing or not paid over to the taxing authorities.

The money is used to buy things that are used in the organisation to obtain future economic benefits or inflows. These things can either be for use on an ongoing basis, or employed to produce the product of the organisation and are referred to as current and fixed assets. Fixed assets are what the organisation intends keeping and using for as long as they will last, or are useful for earning revenue for the organisation. Examples include land and buildings, equipment, vehicles, furniture and computers. In contrast, current assets are the things that are acquired and used up in the organisation on a revolving basis. Examples include inventory, accounts receivable (debtors) and cash (including that in the form of 'borrowed' money). Current assets are usually financed in part by current liabilities.

[13] Any period greater than 12 months.

**Figure 1.1**

**Typical business operation**
(Source: adapted from Brooks, 2007, p.2)




The assets, liabilities and equity are all components of the ***Balance Sheet*** or ***Statement of Financial Position***. Note that it is usual to deduct the total of the current liabilities from the total of the current assets and refer to the difference as net current assets or net working capital. Working capital is a term that refers to the money available for the organisation to continue business as a going concern, which is money to purchase inventories and other things of immediate need in the conduct of business.

The things the organisation purchases, such as labour, material, machines, electric power, etc., are combined to produce the product. **The *product* can be either goods or services.** In this book, the term 'product' will be used to refer to both. Goods are physical things like furniture or clothes. Services are things that are done for customers like cleaning, security, advice, etc., – what is being sold is either service time or expertise. The ***product*** is then sold and in return, income or revenue is earned. In order to make a profit. the revenue needs to be greater than the total cost of producing the goods or providing the services. The business is then able to pay taxes to the government for the services/infrastructure it provides, pay the owners for the money they have invested in the business, and buy more things to be used up in the business process. Other types of organisations such as not-for-profits and those in the public sector have slightly different practices due to differing objectives, strategies and funding arrangements.

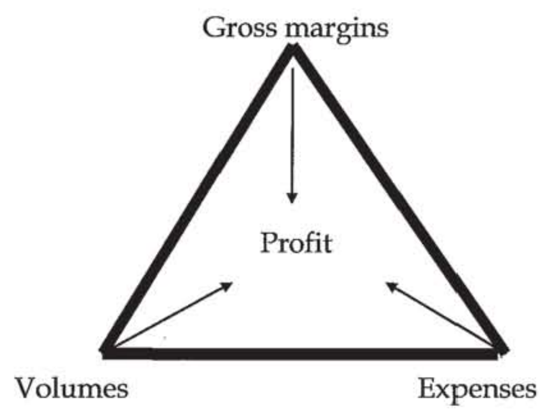
In addition to understanding where the money comes from and what it is used for, discussed previously, it is equally important to understand how to measure whether or not a business organisation is making a profit, and the strategic management processes utilised in an organisation. How a profit is made is discussed next.

## 4.1 The profit triangle

The easiest way in which to gain an understanding of how ***profit*** relates to the three concepts of ***gross margins***, ***volumes*** and ***expenses*** is using the profit triangle as shown in Figure 1.2.

**Figure 1.2**

**The profit triangle**
(Source: adapted from Brooks, 2007, p.11)




Before proceeding, it is helpful to describe what is meant by the terms gross margins, volumes, expenses and profit. Note we are using these terms somewhat imprecisely so you, at this stage, can gain a basic understanding of how profit is made. These terms are discussed in detail in ***Chapter 3***.

- *Gross margins* – the difference between the selling price and the cost price of the goods or services being sold. The selling price is determined by what the market is prepared to pay and, in part, the rate of return desired by the owners for the goods or services, not by their cost price. The larger the gross margin, the larger the net profit can be, hence the importance of accurate costing and the need for cost control.

- *Volumes* – the quantities of the things that are sold, measured in number of units. The units can have any number of descriptions depending on the type of business and goods or services being sold. Examples are kilograms, tons, metres, litres, hours, days and so on.

- *Expenses* – the expenses incurred in running the business. Examples are rent, salaries and insurance.
- *Profit* – is calculated by multiplying gross margins by volumes and then deducting expenses. For example, if we sell tyres for $100 and these tyres cost us $60, then our gross margin is $40. If our volumes in a certain period are 500 (i.e., tyres sold), then our gross margin (also called gross profit) is $20,000 ($40 x 500 tyres). If the expenses for the same period are $15,000, then we have made a net profit of $5,000 ($20,000 – $15,000).

The above information would be presented in one of the financial statements of a business called an ***Income Statement*** or ***Statement of Financial Performance***. This statement records the income (sales revenue) received and then deducts the cost of sales to determine the gross margin or profit, from which expenses are deducted to get your net profit. This statement may also be referred to as a profit and loss statement. The important thing to understand is that gross margins, volumes and expenses can have an effect on each other and on the net profit/surplus of the organisation. By changing the components of the profit triangle, we can increase, or decrease, the organisation's profit/surplus. However, our changes can also affect the degree of uncertainty and the level of business risk, which also influence the profit an organisation can make. This impact on profit is discussed in ***Chapter*** 2 on internal risk management and ***Chapter*** 4 on cost-volume-profit (CVP) analysis.

However, organisations can make significant increases to profits by moving beyond adjusting the profit triangle. They look at the entire business process from a strategic management process perspective and seek to find what can be done entirely differently so as to make significant profit increases.

## 5. The strategic management process

All managers agree on the need for planning: what is to be accomplished in their organisations and how this can be achieved. Furthermore, it is not possible to control anything without a plan against which actual phenomena (occurrences and/or results) can be compared. Nonetheless, in many organisations very little time is set aside for planning. The vast majority of many managers' time appears to be spent on 'putting out fires', that is, solving problems as they occur (reactive action) rather than taking proactive action by devising procedures for the early detection of problems and taking preventive action. Early detection of a problem requires a proactive approach towards business that is results-orientated. The highest level of this results-orientated approach is known as strategic management, which involves the development of strategic plans as well as the setting up of 'control systems' to monitor the factors essential to the realisation of various subsidiary plans.

The development of strategic plans involves looking at the organisation as a whole, and once this whole is understood, looking at the business organisation in the context of its broader environment. External opportunities that the organisation can exploit are taken into consideration and plans are prepared to deal with external threats that exist at present or may present themselves in the future.

## 5.1 Identifying the business we are in

Defining what business an organisation is in is not always easy, but creating a mission statement is the first step in developing a strategic plan. Are computer manufacturers in the computer business (a product-orientated definition), in the information and data processing business (a computer-needs type of definition) or in the electronics business (a technology-orientated definition)? Is a coastal resort hotel in the accommodation industry, the tourism industry or the entertainment industry? (Brooks, 2007)

The definition of what business an organisation really is in can be addressed by answering these questions:

1. What customer needs is being satisfied?
2. Who are the customer groups that are being satisfied?
3. How customers' needs are being satisfied?
   i.e., what technologies are used and what functions are performed?

Defining an organisation's business in terms of what to satisfy, who to satisfy and how the organisation will go about producing the satisfaction, forces managers to look at their customers as well as establishing exactly what the organisation is about. The answers to these three questions constitute the three components of an organisation's mission statement. In addition, business definitions must be narrow enough to define the real area of business interest in order to serve as boundaries within which managers can focus their planning efforts. For example: alcoholic beverages is a broad definition, while beer would be a narrow one; restaurants is a broad definition, while fast food outlets would be a narrow one; and travel and tourism is a broad definition, while scenic tours would be a narrow definition.

## 5.2 Developing the mission statement

As mentioned, the mission statement has three components:

1. The specific needs served by the organisation's products.
2. The targeted customer groups.
3. The technologies and functions the organisation employs in providing its products.

In the past decade, organisation mission statements have, to a certain extent, fallen into disrepute because, firstly, they seem to be filled with platitudes and nice-sounding phrases rather than presenting challenges to management and other employees of the organisation. Secondly, the commitment of management to the mission statement is often transient, and they soon return to the pursuit of short-term objectives and 'putting out fires'.

Notwithstanding these issues, if done properly, a mission statement will specify what activities the business organisation intends to pursue and what course management has chartered for the future. It also gives recognition to the needs of its internal and external stakeholders, its product strategy and its market strategy. The product strategy relates to the range of products offered by an organisation, and whether these products satisfy the needs of the organisation's target market with respect to product choice, quality, technology and price. The market strategy relates to the organisation's target market and its capacity to service and grow that market, and should be mutually complementary with the product strategy.

A well-conceived mission statement has real managerial value in that it:

- Crystallises top management's view about the business's long-term direction and development.
- Helps keep the functional orientation of lower-level managers on the right path.
- Communicates an organisational purpose and identity that can motivate employees and provide challenges with which they can identify.
- Helps managers avoid visionless or aimless management.
- Helps a business organisation prepare for the future.

As such, a mission statement should include short-range strategies, in addition to its long-range strategies, in respect of its objectives so as not to become too abstract to employees at lower levels in the organisation. These organisational objectives need to be clearly identified.

# 6. Identification of the organisation's objectives, strategies and stakeholders

It would be taking too simplistic a view to consider a business organisation's priorities merely in terms of profitability. Business organisations are now recognised as having a broader role to play in society and their managers must recognise the responsibilities that the organisation has to the communities with which it interacts, the interests of customers, and any impact its operations may have on the natural environment. Even so, a business organisation's management cannot decide upon the means of accomplishing anything (the strategies and operational activities) before knowing the objectives that are to be accomplished. Consequently, a proactive approach towards business that is results-orientated is essential in deciding organisational objectives, strategies and operational activities.

## 6.1 Identifying the organisation's objectives, strategies[14] and operational activities

There are three results-orientated levels that management need to distinguish between during the identification process: societal outcomes or objectives; organisational outputs or strategies; and internal operational activities or inputs. All of these have associated business related risks.

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[14] Due to the focus of this book on understanding business organisations and how management accounting fits within and works with the organisation's environment, which has 'varying degrees of uncertainty' and levels of 'total organisational business risk', no attempt is made to classify strategies or strategy in terms of strategic positioning strategies, strategic typologies and strategic missions (e.g., Langfield-Smith, 1997).

### 6.1.1 An organisation's objectives

Management need to take a ***wide-angled societal view*** (hereafter ***mega-view***) of business opportunities and problems in determining the organisation's objectives. In addition, they should extend the organisation's current objectives into the future and seek new organisational purposes. This mega-view takes factors from outside the organisation such as clients, other external stakeholders, and society into account in determining the 'total organisational external business risk'. In this mega-view, the primary beneficiary is society and results are outcomes orientated. That is, management is concerned with the usefulness and impact of what the organisation delivers to external clients (Kaufman, 1992).

### 6.1.2 An organisation's strategies

Once the organisation's objectives are known, it is possible for management to concentrate on determining the strategies for achieving its objectives. Here management need to determine whether society is satisfied with the organisation and then use the feedback to make the organisation more successful by concentrating on a ***reality-based holistic view*** (hereafter ***macro-view***) of the organisation itself. This macro-view takes internal factors such as its 'total organisational (human and non-human) resource capacity' and the 'total organisational internal business risk' into account. In this macro-view, the primary beneficiary is the organisation itself and results are outputs orientated. That is, management is concerned with the quality of what the organisation delivers to its external clients (Kaufman, 1992). Let us consider how managers review an organisation's product strategy and its marketing strategy.

In order to review an organisation's ***product strategy***, managers will need to review their existing range of goods and/or services and ask questions such as:

- Does the company offer a wide or narrow range of products?
- Is the range of products consistent with satisfying the needs of the market on which it intends focusing?
- Is the quality of products being offered appropriate to the needs of the target market?
- Is the level of technology being offered appropriate to customers?
- Are the prices that the business needs to charge in order to meet its profit objectives consistent with what the target market is willing to pay for those products?

The ***marketing strategy*** should complement the product (goods and/or services) strategy and managers will need to ask questions such as the following in order to review the marketing strategy:

- Is the defined target market consistent with the range, quality and price of the products that the business has to offer?
- Does the business have the 'total firm (human and non-human) resource capacity' to render the service levels necessary to augment the products being offered?

- Does the market being targeted provide the potential to allow for the growth plans that the business may have?

Once the organisation's strategies, which formulate how the organisation will achieve its objectives, are reviewed and finalised, they need to be operationalised via the organisation's operational activities.

### 6.1.3 An organisation's operational activities

Operational activities, which embrace and implement strategies, require management to take a ***reality-based accomplishment view*** (hereafter ***micro-view***) of the organisation's divisions', small groups' and/or individual employee's performance. The time horizon within this micro-view is short-term, generally measurable in units of weeks or months. In this micro-view the primary beneficiary are the people within the organisation who perform the various operational activities that are orientated towards providing products (services and/or goods). Thus, results are enabling and accomplishment orientated. That is, management is concerned with the quality[15] of the product (service and/or good) that an individual or small group within the organisation are able to deliver. Furthermore, management is concerned with both economy and productive efficiency[16] of the methods and procedures used by an individual or small group within the organisation. Thus, the micro-view is not outputs and outcomes orientated, although it contributes to their effective and efficient eventual accomplishment via the development and enablement of the organisation's human resources (and if appropriate, also non-human resources) (Kaufman, 1992).

The proactive and results-orientated approach to identifying objectives, strategies and operational activities outlined above helps identify what should be and what could be. In doing so, it ensures the organisation's strategies are focused and the organisation's operational activities are properly designed to be effective and efficient in ultimately accomplishing the organisation's objectives (Kaufman, 1992). A top-down approach designed to align the organisation's operational activities with its mission/goal(s), objectives and strategies is presented in Figure 1.3 on the next page.

The development of an organisation's objectives is driven by the organisation's mission statement and goal(s). The strategies evolve as means of operationalising the organisation's objectives to enable achievement of the mission and goal(s). Through development of the organisational strategies, the operational activities necessary to achieve the strategies are defined. Hence, the top-down approach to organisational structuring provides the basis for linking operational activities, through strategies to objectives and the organisational mission achievement. The triangular shape of Figure 1.3 also reflects the progressive growth in strategy planning and operational activity

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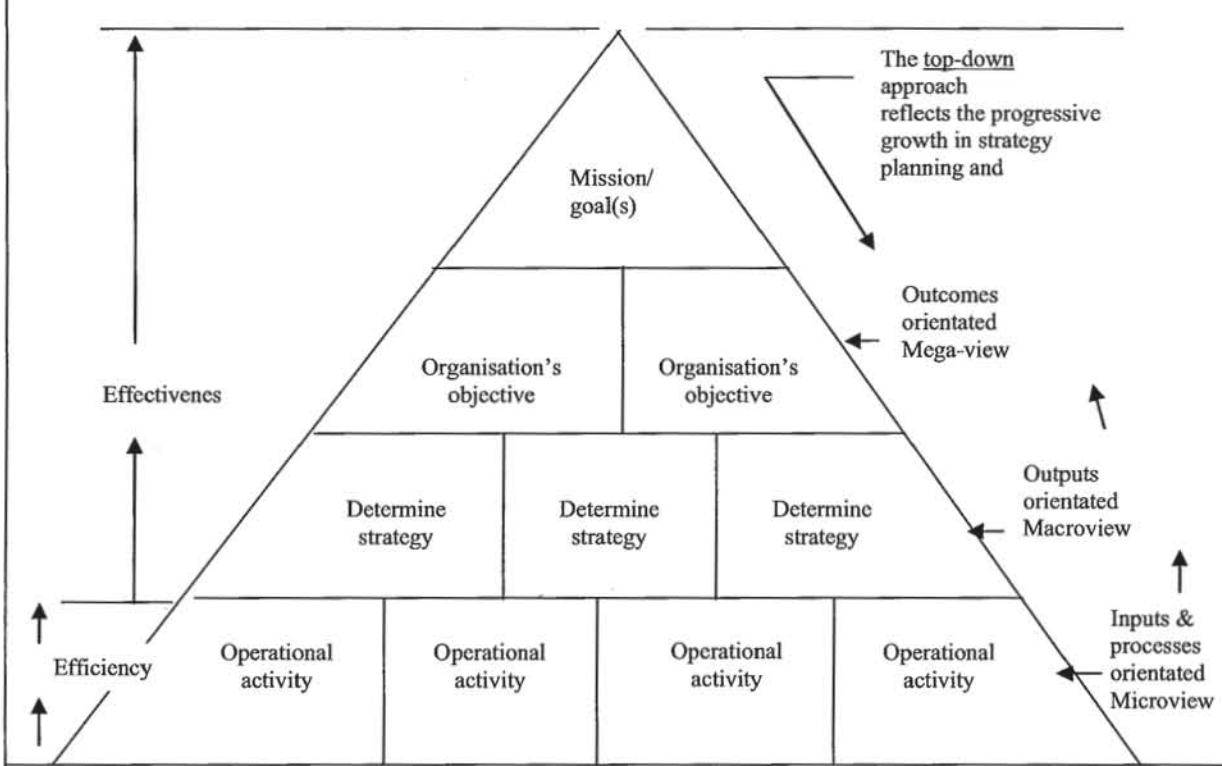
[15] Quality is about effectiveness and is internally managed and controlled for. However, the quality of the product is externally assessed against actual outcomes and thus externally determined.

[16] Efficiency concerns the economic relationship between planned inputs and actual inputs, and the productive relationship between actual inputs and actual outputs. It is internally managed and controlled for and must be assessed against actual outcomes in achieving organisational effectiveness.

complexity. The performance measures should also be developed on a top-down basis because the identified outcomes (objectives) should define what is to be achieved (measured) and they (performance measures) will also grow in number as they are developed down through the organisation.

**Figure 1.3**

**An organisation's performance measurement development and implementation environment**

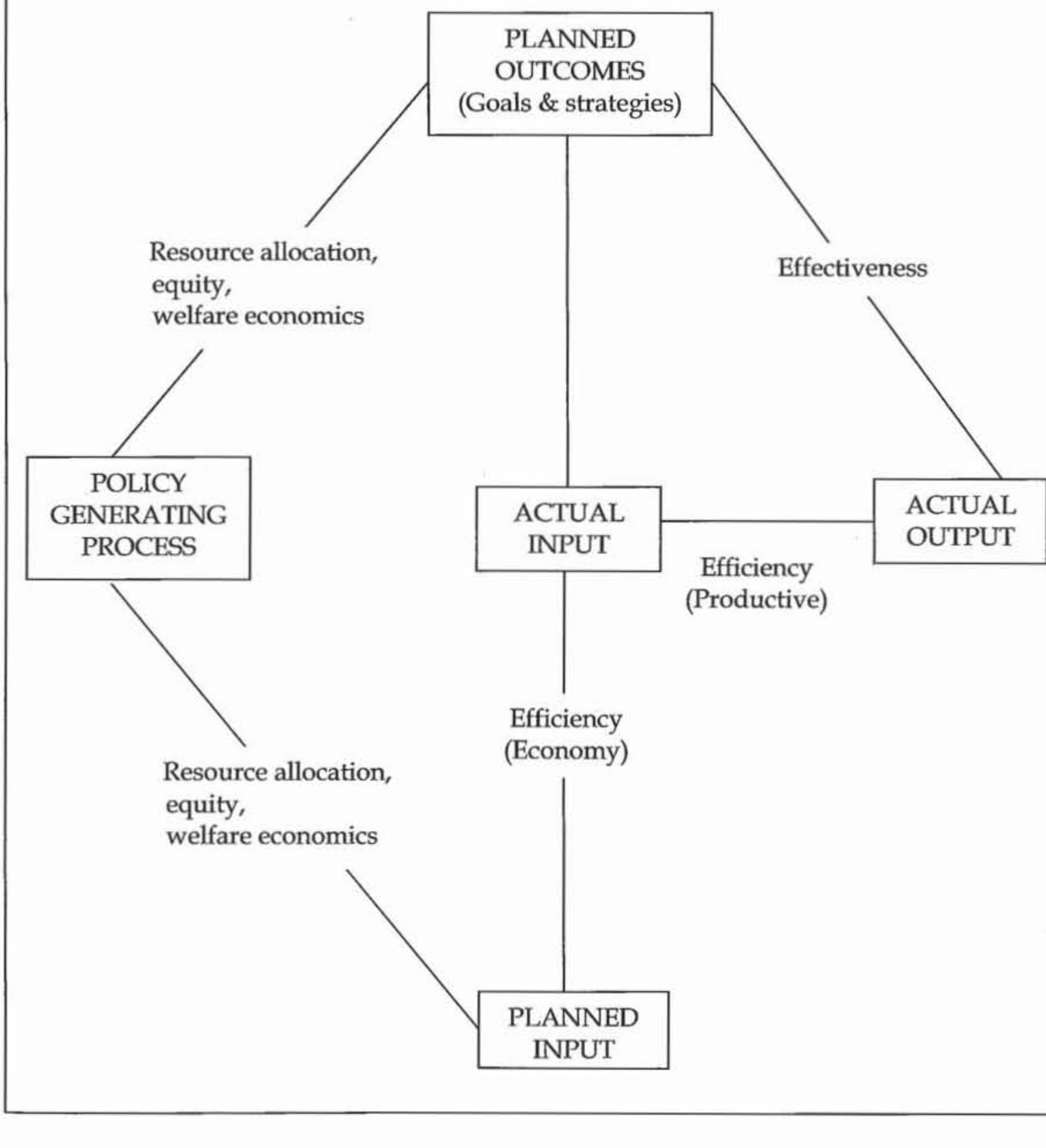



In the past, a majority of management and management accounting focus was on efficiency and, to some degree, economy as indicated by the operational activity-level performance measures. The focus on efficiency and economy did not necessarily include effectiveness and very rarely considered equity issues outside of the owner's interests. It is great to be efficient at delivering your product to market but if no one desires that product then your efforts are not effective. ***Effectiveness*** (of business strategy), ***efficiency*** (of operational activities – that is ***economy*** in acquisition of inputs and ***productive*** in processes and throughputs to outputs) and ***equity*** (in societal behaviour and resource allocation) should never be used in isolation as performance indicators as they are all inter-related (Chambers, 1976). Figure 1.4 on the next page provides a simple representation of these performance measurement inter-relationships within organisational planning.

Having decided upon the means of accomplishing the organisation's objectives it is now feasible that management concentrate on the organisation's initial 'control systems' design and implementation (discussed in more detail in ***Chapter 2***). This control system will meet the decision information needs of the organisation in terms of past, current and future decisions, as influenced by the 'objectives, strategies and operational activities' of the organisation. Control systems need to provide the organisation with the capacity and ability to manage the consequences of those past, current and future decisions in achieving and maintaining an ***'acceptable level of organisational business risk'***. In addition, within each of the three views (mega-, macro- and micro-) the stakeholders and their needs have to be identified. This identification is discussed next.

**Figure 1.4**

**A performance measurement/organisational planning inter-relationship framework**
(Source: adapted from Staunton 2003, p. 402)




## 6.2 Identifying the organisation's stakeholders and their needs

The word 'stakeholders' refers to those who have a claim, investment, share or involvement in or with the business organisation. In other words, anyone that will be affected by the organisation either directly or indirectly may be considered a stakeholder. The range of stakeholders will vary from organisation to organisation, but the following are generally considered stakeholder groups: investors, employees, customers, suppliers, financiers and the community.

***Investors,*** who risk their capital by investing in a business, seek to obtain a better return than alternative investments offer, together with a potential for growth in those returns. Sophisticated investors do not seek to maximise their returns at the expense of other stakeholders as they realise that by sharing returns from an organisation, the organisation will grow in the longer-term, giving them a growth in earnings.

The well-being of ***employees*** is connected to the well-being of the organisation. In most developed countries, there has existed an adversarial relationship between employees and employers. This generally arises because of a lack of understanding of the nature of an organisation on the part of employees and the treatment of employees as a commodity (i.e., units of labour) by the employers. In a successful organisation, employees are able to identify with the organisation's goal(s)/mission and objectives. Employees clearly understand their role in achieving the organisational objectives, and are given a direct link between their personal goals and those of the organisation.

An organisation cannot exist without ***customers or clients***. Apart from the obvious factors such as appropriate quality products at reasonable prices (value-for-money), being a reliable supplier, providing finance and good backup service, an organisation needs to identify with the longer-term goals of its customer. This it does through appropriate business strategies, such as taking into account the changes in technology with which the customer is faced.

***Suppliers*** need to be kept abreast of the objectives and intentions of the business organisation in order to be able to adapt their goods/service packages to suit the needs of the organisation. In the longer-term, an honest approach to dealing with suppliers will be beneficial. This means not playing off one supplier against another for short-term input cost benefits. Making a supplier a 'partner' in a mutually beneficial relationship should be part of an organisation's strategies.

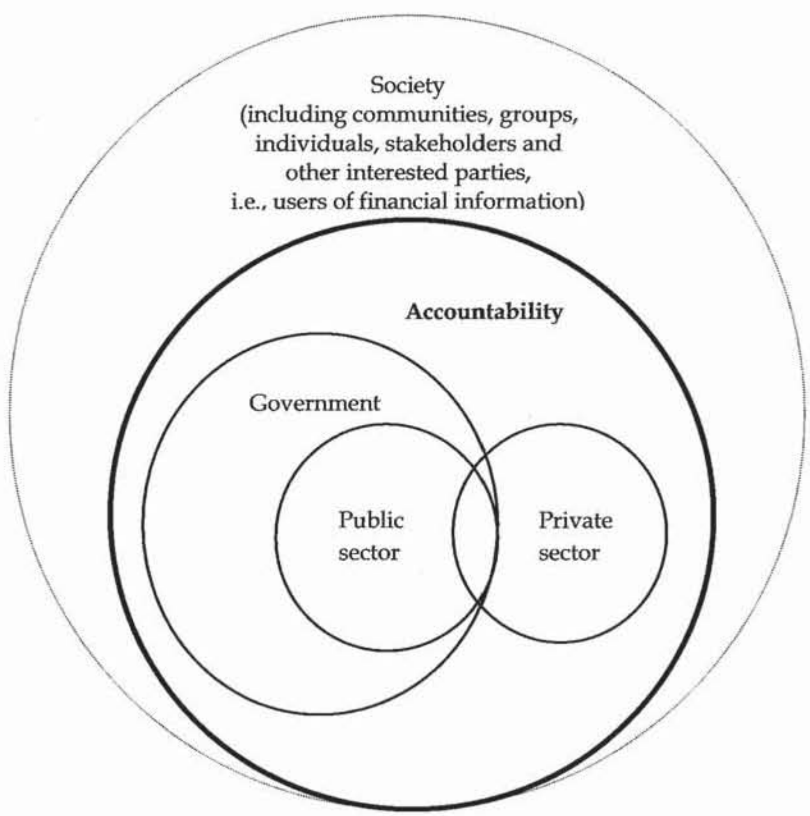
In cases where organisation owners do not have all of the capital necessary to start a business, or when additional capital is required to finance expansion or continue operating, there is a need to obtain finance or funds externally. Organisations need to cultivate the same type of relationship with these ***financiers*** as suggested above for suppliers of other resources (Bradshaw a Brooks, 1996). It is no different for public sector organisations. There, the funds are allocated via the parliamentary process in consideration of a public sector organisation's other revenue streams (if they exist). The network for these organisations is the public they serve and the politicians who represent them. A complexity that public sector organisations are confronted with, which private sector organisations are not, is that the customers of public sector organisation are also the owners. For private sector organisations, it is more likely that the owners will be a very small proportion of the customer group or stakeholders.

The ***community*** includes those individuals or groups of individuals who, while they do not have direct links with the business organisations, are affected by the objectives and intentions of those organisations. The impact of the closure of a manufacturing plant on a community where there are no alternate sources of supply (or employment) is an example of a factor that needs to be considered in the strategic management process. Other factors to be considered are the impact of waste disposal on the natural environment, or on the health of people living in the area. Social responsibility is now a necessity rather than a choice. Organisations need to develop social responsibility as this can have a significant impact not only on environmental and community health, but also on the market place and market place perceptions. Figure 1.5 provides one view of this relationship in terms of organisational accountability.

These stakeholder groups have a diverse range of needs. The key to successful business organisation strategies is to recognise the different needs of stakeholders, build on the areas of common interest, and seek ways of minimising areas of conflict. The most common cause of conflict between an organisation and its stakeholders is a focus by managers on short-term results. Managers themselves are not entirely to blame for this. Their performance is often measured only on short-term performance of the organisation by investors. Employees in turn may seek immediate relief from the pressure placed on them by rising commodity and other prices. They see organisations as either money-making or service-providing machines that can pay them higher wages or provide services on demand. In contrast, financiers tend to seek high returns at low risk in order to maximise their profits, rather than adopting a long-term partnership approach. These potential conflicts require a proactive and results-orientated approach towards the business organisation's strategic management process. Such an approach should identify areas of potential conflict, and address them in a manner that will produce mutually rewarding outcomes for the stakeholders, who are part of the organisation's environments.

**Figure 1.5**

**The accountability operating environment and broad operational relationships**



# 7. Assessing the organisation's environment

The SWOT analysis provides a useful framework for assessing the business organisation's internal and external environment. A SWOT analysis considers the following factors in a matrix (AS/NZS 4360:2004; Gay & Simnet, 2005):

| | | |
|---|---|---|
| S | Strengths | based on its internal environmental factors (+ve risk) |
| W | Weaknesses | based on its internal environmental factors (–ve risks) |
| O | Opportunities | based on its external environmental factors (+ve risks) |
| T | Threats | based on its external environmental factors (–ve risks) |

The strengths and weaknesses refer to the internal aspects of the organisation as compared to both the competition and the expectations of the market place and/or regulation and government requirements, i.e., what the organisation is relatively good at or bad at doing. This analysis of the organisation has to be done realistically and honestly. It must also be done in the context of the organisation's 'objectives, strategies and operational activities', as these will indicate which areas of strength or weakness are likely to prove important in the future. A SWOT analysis will also highlight the differences between the long-term, unchanging 'mission statement' of the organisation and the more definitive and practically achievable organisational objectives. Accordingly, some objectives will need to be modified in light of the SWOT analysis and also over time.

The need to modify objectives is particularly true as a consequence of the analysis of the external environment, which aims to highlight external opportunities and external threats (potential constraints) for the organisation. Previously established organisational objectives may clearly be seen as unachievable in the light of this analysis, or the identification of new future opportunities may reveal that existing objectives are set at too low a level. It is important that the identification of these opportunities and threats take into account all of the relevant external environmental factors and the inter-relationships that may exist between them. This is particularly so in terms of strategy constructs and the underlying activities, which operationalise strategies in achieving objectives/outcomes.

Due to the broad range of both external and internal factors, there is the danger that the SWOT analysis becomes an unmanageably long list of unweighted factors, all of which can appear to be of equal significance. The SWOT analysis technique should be seen as an aid to the strategic management process and not as an end in itself. This is true of all the concepts and techniques we discuss in this book, and they need to be used/applied correctly with good managerial judgement. Accordingly, if the SWOT analysis, i.e., situation review, is to be of assistance in the strategic management process, then the technique needs to be correctly and intelligently applied. That is, the various factors should be ranked in order of importance and priority so that only the main issues are included in the SWOT matrix. It is also vital that a balanced matrix is developed, including strengths as well as weaknesses, and opportunities as well as threats. Note, however, when an organisation carries out SWOT analysis for the first time, it is not unusual for the initial draft of the matrix to be very unbalanced.

The strategies selected as a result of the SWOT analysis processes should build on and develop the business's internal strengths. They should eliminate or minimise the impact of potential external threats, and the identified external opportunities should be used to reduce the significance of the internal weaknesses. If looked at in this way, the situation review should highlight those areas of the business and its internal and external environment which are critical to the achievement of its mission/goal(s) and objectives. Assessing organisations' internal and external environments by employing a SWOT analysis, conducted on a regular basis, should avoid major restructures and re-engineering of organisations such as those that occurred during the 1980s and early 1990s. In these cases, organisations had lost their way either through losing sight of their core business, or through realising that their core business had changed.

The activities an organisation undertakes are created as a result of the mission/goal(s) and objectives identified by the owners and creators of the organisation and are defined in terms of what these actors perceive to be a business opportunity for which the return risk is reasonable or acceptable. However, the activities are also central to managing and controlling the external business environment exposure and the uncertainty and risk associated with that exposure as well as the internal operating environment risk exposure. The determinants of what activities an organisation undertakes are externally driven by the organisation's business strategy choices in combination with its internal operating strategies, which have been designed to control the internal operating environment risks as well as maintain and/or minimise external business risks. While operational activities are identified and defined from a top-down perspective (mission/goal(s), objectives, strategies and operational activities as illustrated in Figure 1.3), their focus tends to be bottom-up (inputs, processes, outputs and then outcomes). In an effective and efficient organisation that focuses on outcome optimising there will be minimal process duplication and hence individual operational processes and activities contribute to more than one strategy and to multiple objective outcomes or achievements. The smaller the organisation, the more likely this is the case.

How operational activities are managed and controlled is central to optimising organisational performance. The focus of this book is on the design, function, operation and application of some of the frameworks, costing and control techniques, and tools that organisations can employ to minimise their degree of risk and uncertainty exposure. Risk exposure for an organisation is usually generated as a result of the relationships it enters into in operationalising its business strategies. These relationships are the primary sources of the types of risk that an organisation will be exposed to in conducting business.

## 8. Chapter summary

Organisations exist because of identified customer or client needs. Past, present and future customer and client requirements shape organisational goal(s)/mission, objectives, strategies and operational activities. By attempting to provide a sustained basis to being a preferred product supplier of an identified customer or client group, an organisation must recognise the needs of this group in its goal(s)/mission formulation. In order for the organisation to achieve its goal(s)/mission it must develop objectives that cover a meaningful and manageable period of time. For most organisations, a meaningful and manageable period of time might translate to an annually rolling three to five year time horizon. For organisations such as water utilities, the time horizon might extend to 25 years due to water infrastructure having up to a 140-year useful life (Hunt, 2000). Through a combination of the objectives constructed and the management period focus, the organisation is then able to develop a range of short-, mid- and longer-term strategies to operationalise the objectives. It is the operational activities identified through the organisation's strategies that are the focus of this book. More specifically, the focus is on the techniques, tools and frameworks that organisations' employ to monitor, control and manage these operational activities so as to optimise organisations' performance and manage organisations' business and operating risk exposure. A bird's eye-view of the structure of this book to achieve this end is provided in Figure 1.6 on the next page.

**Figure 1.6**

**Book Overview**

COMMUNICATE AND LEARN

THE CONTEXT

- The organisation's internal operating environment
- Management accounting techniques/tools and frameworks for optimising organisation performance and managing business risk

CHAPTER FOCUS

1. Management accounting: its role in managing organisations' business risk and other environments
2. Internal risk management, strategy, costing and control
3. Cost and expense classification, behaviour, and risk within the internal environment
4. Cost-volume-profit relationships, analysis and risk management
5. Risk and control in variable and absorption costing and for service department activities
6. Activity-based costing, control and risk management
7. Specific-order management: costing, control and risk management
8. Operations management, costing, control and the risk environment
9. Joint- and by-product management, costing, control and risk
10. Budgeting, control and risk management
11. Flexible budgeting and activity-based budgeting in the internal environment
12. Variance analysis for performance reporting, risk management and control

BOOK OBJECTIVES

1. Introduce the internal and external organisational risk management environments. Establish the setting for examining management accounting in the context of the organisation's internal operating environment.
2. Introduce costing and control as tools for performance and management
3. Understand cost behaviour implications within the organisation's internal operating environment
4. Understand C-V-P analysis & application as management decision making tool and risk assessment technique for all organizations
5. Understand the decision value and risk management implications of costing choices
6. Understand and apply management accounting tools and frameworks for managing and controlling common and service activities and their implications for risk management
7. Understand and apply an activity-based-costing approach to managing overhead costs and their pricing implications for risk management
8. Understand and apply costing and control tools and frameworks in managing performance and risk in a specific-order environment
9. Understand & apply costing & control tools & frameworks in managing performance and risk in a process production environment
10. Understand and apply costing tools and frameworks in a joint- and by-product management and risk environment
11. Understand budgets, their creation, and application to planning and management decision making for performance and business risk management
12. Build your understanding of the budget as an internal performance monitoring and risk management tool
13. Understand and apply tools for segmenting budget and actual information in employing variance analysis as a performance monitoring, planning review, and risk management tool
14. Understand and be able to engage in debate over the behavioural consequences of different management accounting, costing, and control practices, and their organisation performance and risk management implications

ASSESS AND REVIEW

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