


# part one

	
introduction to your companion	

This Sage Course Companion offers you a guide to making the most of your studies in Management Accounting. Ideally, you should buy this book at the beginning of your course and use it throughout your studies to help you to understand basic ideas and fit new ideas into an overall framework. Whichever way you use it, it will provide you with essential help with revising for your course exams, preparing and writing course assessment materials, and enhancing and progressing your knowledge and thinking skills in line with course requirements.

This book should be seen as a supplement to your textbook and lecture notes. It isn't intended to replace your textbooks or lectures – it is intended to save you time when you are revising for your exams or preparing coursework. Note that RE-vision implies that you looked at the subject the first time round!

Whichever textbook you are using, the basics are the basics: we have given some guidance on where topics are covered in specific books, but you should read the Companion in parallel with your textbook and identify where subjects are covered in more detail in both your text and in your course syllabus. It should be seen as a framework in which to organise the subject matter, and to extract the most important points from your textbooks, lecture notes, and other learning materials on your course.

The Companion will also help you learn more efficiently, to anticipate exam questions, and understand what your examiners will be looking

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for. Learning is best accomplished by seeing the information from several different angles – which is why you attend lectures and tutorials, read the textbook, and read around the subject in general. This book will help you to bring together these different sources.

### How to use this book

This book should be used as a supplement to your textbook and lecture notes. You may want to glance through it quickly, reading it in parallel with your course syllabus and textbook, and note where each topic is covered in both the syllabus and this Companion. Ideally, you will have already bought this book before your course starts, so that you can get a quick overview of each topic before you go into a lecture or read a textbook chapter – but if you didn't do this, all is not lost. The Companion will still be equally helpful as a revision guide.

The first section is about how to think like a management accountant: it will help you to get into the mindset of the subject and think about it critically. As a bonus this section will help you to understand why examination questions so often require a discussion or report to management, in which clear communication of ideas and options is important. Some running themes are also set out – these concern issues that arise often, and can often be brought into examination answers.

Part 2 goes into the curriculum in more detail, taking each topic and providing you with the key elements. Again, this does not substitute for the deeper coverage you will have had in your lectures and texts, but it does provide a quick revision guide, or a 'primer' to use before lectures.

You can use this book either to give yourself a head start before you start studying management accounting, in other words give yourself a preview course, or it can be used as a revision aid, or of course both. Each chapter in Part 2 contains the following features:

- **Tips** which are reminders of important points or help you to answer examination questions.
- **Numerical examples** which illustrate the main calculations you might be asked to perform in an examination. All examples are followed by worked answers, sometimes with commentary.
- **Taking it further** ideas. These often introduce some criticality, perhaps asking you to think about the complications of real-life practice or consider a topic from a broader perspective.
- **Textbook guides** will direct you to chapters from major textbooks that build on what has been covered in each of the Companion's chapters in Part 2

Part 3 of this Companion is a study guide which will help you with getting the most from your studies in general, with revising for the management accounting exam, and with approaching the exam itself.

Part 4 includes a glossary of the key terms that are used in the book.

### **Thinking like a management accountant**

Advice to someone starting a career in management accounting might go something like this:

You will often be the main numbers person in an organisation. Much of your work will be routine, though you may be able to improve presentation to make your output more intelligible.

You will have occasional requests for special reports or opportunities to research and report on a topic. You must obtain clear instructions and check with the person commissioning the work that you agree on the scope and purpose – if the person you are dealing with is not an accountant, you may in effect be speaking different languages.

It will be your responsibility to gather all the information you need – the sources you are directed to may be insufficient or incomplete and things people tell you may be out of date or wrong.

You will usually find that your numerical skills are adequate for the work you need to do, but when you are doing work of an unusual kind, or work you have not done before, your biggest challenge will be to think clearly and ensure, for example, that you consider only those costs that are relevant. It is worth spending whatever time is necessary to do this.

Clarity is vital in reporting: if the reader misunderstands your report, it is your fault. Use short words and avoid awkward constructions like double negatives ('It is reasonable to assume ...', may not convey exactly the same nuance as 'It is not unreasonable to assume ...', but it is easier to understand); use graphs to summarise numbers; explain the significance of numbers.

Oral presentations may be required. They are not opportunities to show how clever you are, nor to humiliate other managers. Even if someone asks what may appear to be a foolish question, you should answer in such a way as to make the question appear useful. Remember that you may have a tendency to focus on numbers and that, especially in an oral presentation, verbal explanations are vital.

Much of the time your reports will form a basis for others to make decisions; you will rarely be the decision-maker early in your career.

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This will not prevent people from attacking you. A typical complaint may be, 'I had this great idea which would have made the company a fortune, but the bean-counters couldn't understand it'. If you have done your work properly, it is more likely that the 'great idea' would have been catastrophic for the company and that is why it was rejected. Get used to it and react with restraint and humour if at all.

Sometimes you will independently come up with a good idea. The most effective way to have it adopted is to spread it quietly and persistently until someone in authority appropriates it and pushes it through.

How can these ideas illuminate our understanding of the study of Management Accounting? Some themes emerge:

- The management accountant is not normally the decision maker, but provides information on which line managers can base their decisions. It is important to recognise this, if only because 'bean-counters' tend to get blamed for decisions – often by the very people who made those decisions! If an examiner asks for a recommendation to management on a situation, avoid expressing your answer as a decision – ultimately it will be up to management to decide, once they have read your recommendation.
- Communication is of great importance. You might even say that if the message fails to get through to the people it is aimed at, it has failed completely. It is important to recognise that not everyone feels comfortable thinking through numbers. This means that the management accountant has to work hard at clarity of expression, perhaps using graphs and other visual aids to promote understanding. In an exam answer the exact question, and make a numerical answer complete – take care to show that you understand by including units and a little text where appropriate. A calculation on its own, however perfect, will not earn full marks if the ultimate response to the question ('Should the company proceed with this project?') is not there.
- The importance of data quality – no matter how sophisticated is the calculation, it can never be better than the data on which it is based. This point may be worth making if you are asked in an exam to comment on the results of your calculations. Some of the most significant calculations are based on forecast data and this forecast had to be made by someone. Its quality will depend on that person's ability, objectivity and experience.
- Clear thinking – it is too easy to follow on doing things the way they have always been done in the organisation. Can reports be improved? Should they be produced at all? Are only **relevant costs** considered? In an exam irrelevant data is occasionally introduced, to tempt you to use it inappropriately. Also, does your answer pass the common-sense test? Will a project really make **profits** many times the size of the initial investment, or have you made an error in your arithmetic? Does it make sense to produce an answer to several decimal places when the data units are in thousands?

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These concepts form the basis for running themes which underlie the work of management accountants.

First, *numeracy*: this is so fundamental that we will not refer to it again. You will rarely have to deal with anything more than simple arithmetic, and you will be able to use a calculator or spreadsheet if you wish, but you will need to have or acquire a facility for manipulating numbers and understanding the results. Numbers are the core of a management accountant's work.

Secondly, *clarity*: Much of the time you will be doing routine work, but your main value to the organisation rests on those occasions when it is necessary to produce something out of the ordinary. At such times you will need to recognise which factors are relevant to the problem and which techniques to use. It is worth spending a little time to make sure your thinking is straight.

Finally, *communication*: You will often be working with people who are not accountants, and you will have to make them understand you. If they do not, it is your fault, not theirs, and the consequences for the organisation could be serious.

