



Executive summary

Guide to the Global Management Accounting Principles®

Effective management accounting: Improving
decisions and building successful organisations

The British Standards Institution's PAS 1919

A PAS (Publicly Available Specification) is a document that standardises elements of a product, guide or process. CIMA commissioned the world's first specification for management accounting in 2016. Its production was facilitated by the British Standards Institution (BSI) with input from a panel of industry experts and it is registered as PAS 1919 – a tribute to the founding year of the Institute.

Frameworks that underpin the Generally Accepted Accounting Principles and International Financial Reporting Standards provide clarity about how to report the organisation's financial position and past performance. Until now, there has been no equivalent framework to guide management accountants in supporting decision-making, contributing to improved performance and achieving sustainable success. The management accounting principles set out in PAS 1919 fill this void by providing a basis on which organisations can set their own benchmarks for the management accounting function.

PAS 1919 gives guidance and provides a framework – the Global Management Accounting Principles – for organisations to assess the performance of their management accounting function. It is relevant for members of boards of directors, CEOs and their senior management teams, especially internal audit departments, as well as their CFOs and senior financial professionals who have strategic and financial oversight. External influencers such as investors would also benefit from PAS 1919.

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Introducing the Global Management Accounting Principles[©]

Quality decision-making has never been more important – or more difficult. Competition is relentless as new innovations daily disrupt the status quo. Torrents of information increase complexity and impulse takes over insight as organisations struggle to keep pace.

The Global Management Accounting Principles were created for this era of business. Management accounting is at the heart of quality decision-making, because it brings to the fore the most relevant information and analysis to generate and preserve value. The Principles guide best practice.

They were prepared by the Chartered Institute of Management Accountants (CIMA) and American Institute of CPAs (AICPA) – which together represent more than 650,000 members and students in 179 countries. The Principles were developed in conjunction with CEOs, CFOs, academics, regulators, government bodies and other professionals from 20 countries across five continents.

The Principles are intended to be universally applicable to help organisations large and small, public and private, extract value from the increasing volume of available information. They are aimed at chief executives, chief finance officers and members of boards of directors who have oversight of their organisations' performance. Investors and other stakeholders will also find them useful.

They can be used to support the development, execution and refinement of strategy through the performance management system, as well as to support the core activities of the management accounting function. The full document provides guidance on the application of each Principle to **14 different practice areas**, ranging from financial strategy to risk management.

Definition: Management accounting is the sourcing, analysis, communication and use of decision-relevant financial and non-financial information to generate and preserve value for organisations.

A survey commissioned by CIMA and the AICPA of 1,100 senior executives from 35 countries found that 89% believe a stronger partnership with finance in the decision process will help them better manage their organisations over the coming years.

The four Principles and outcomes

Principle: Communication provides insight that is influential

Outcome: Influence

Management accounting begins and ends with conversations. The Principles have been designed to help organisations cut through silos and encourage integrated thinking, leading to better decision-making.

Principle: Stewardship builds trust

Outcome: Trust

Accountability and scrutiny make the decision-making process more objective. Balancing short-term commercial interests against long run value for stakeholders enhances credibility and trust.

Principle: Information is relevant

Outcome: Relevance

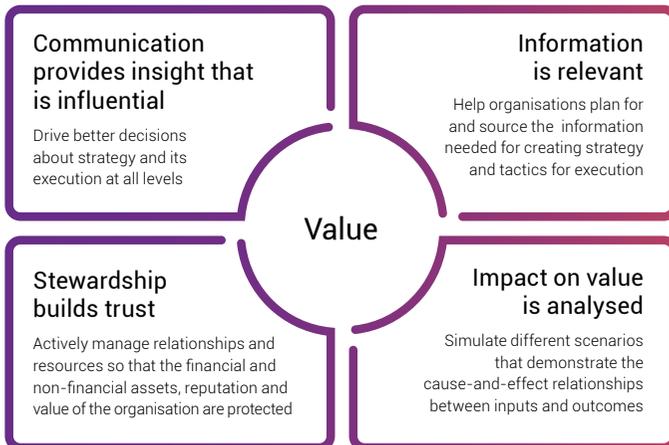
Management accounting makes relevant information available to decision makers when they need it. The Principles provide guidance on identifying past, present and future information, including financial and non-financial data from internal and external sources. This includes social, environmental and economic data.

Principle: Impact on value is analysed

Outcome: Analysis

Management accounting connects the organisation's strategy to its business model. This Principle helps organisations to simulate different scenarios to understand their impact on generating and preserving value.

The Global Management Accounting Principles



Effective management accounting

All organisations share an ambition to be successful and all successful organisations have an effective management accounting function. It is the combination of competent people, clear principles, well managed performance and robust practices that make a management accounting function effective.

Constituents of an effective management accounting function



People

The role of management accountants is changing. They are increasing their influence by achieving more impact on the organisation's performance.

By working across functions, management accountants understand the links between operational activity, financial resource generation and consumption, and value generation and preservation. They perform a vital role in supporting organisational performance through creating plans and monitoring execution.

A combination of accounting and financial expertise, business understanding and analytical skills and appropriate business experience means that management accountants are practical and grounded in operational reality. Management accounting professionals must pay due regard to the primacy of the organisation's customers and the range of relationships that enable a business to operate.

They need to understand the global macro-economic environment to assess information based on its relevance to their organisation.

The Principles are applied by **people** to the management of organisational **performance**. Value is generated by developing relationships that give access to resources and by converting those resources into outputs that are valuable to an organisation's customers. Success depends on the appropriate prioritisation of relationships, resources and the management of associated risks. Adherence to the Principles facilitates this prioritisation.

Performance

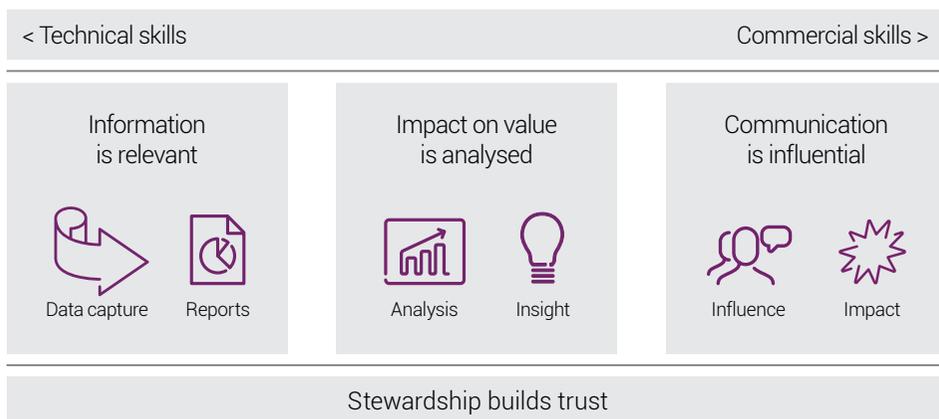
Performance management includes strategising, planning, executing and reviewing. The goal for those who lead organisations is to continue to generate value for stakeholders over time. An organisation's strategy sets out corporate objectives which are implemented through the business model. The business model explains how value is generated, delivered

and preserved. Management accounting links strategy to the business model through the performance management system.

Providing evidence in the form of financial reports, management information and analysis is the traditional role of accountants in decision making. By communicating insight and analysis in a compelling way, their role expands so that relevant information is considered before a decision is made.

The outcomes of decisions also need to be explained in a compelling way to allow decisions to be implemented. Management accountants then measure progress and manage performance through to the intended outcome. They contribute insight and exercise more influence. In doing this, their contribution to the organisation shifts from technical skills to commercial skills. There is a clear link to the Global Management Accounting Principles; technical information on the left hand side is analysed for impact on organisational aims and is communicated with influence on the right hand side.

The changing role of management accountants



Practice

In many organisations the remit of the CFO is expanding to include IT, human resources, and even operations. All CFOs however, have responsibility for the management accounting function.

Internal audit is not a practice area that sits within the management accounting

function, but it involves the testing of controls that are often designed and implemented by management accountants. The goal for those who lead organisations is to continue to generate value for stakeholders over time. The 14 practice areas below each make a unique contribution to generating or preserving organisational value.

Practice area	Value to the organisation
Cost transformation and management	Improved customer satisfaction through the provision of product and service value for money.
External reporting	Engagement with a wide stakeholder base to communicate the organisation's strategy, business model and performance.
Financial strategy	Balances the organisation's capital requirements with the expectations of stakeholders.
Internal control	Provides assurance that assets are safeguarded and that resources are correctly accounted for.
Investment appraisal	Prioritise opportunities for funding that generate value for stakeholders and avoids those which are likely to erode value.
Management and budgetary control	Evaluates performance against targets and enable improvement action to be taken.
Price, discount and product decisions	Enhances profitability and helps the organisation position products and services within their target market.
Project management	Provides controls over projects to increase the chance of benefits from projects being realised and risks minimised.
Regulatory adherence and compliance	Preserves value and mitigates losses through avoiding direct and indirect costs of enforcement activities.
Resource management	Manages transformational or continuous improvements to products and processes efficiently and effectively.
Risk management	Addresses uncertainty by increasing the probability of success and reducing the probability of failure in the execution of strategy.
Strategic tax management	Raises awareness and understanding of the implications of relevant tax legislation in its jurisdictions.
Treasury and cash management	Provides sufficient cash to meet obligations and to fund prioritised opportunities.
Internal audit	Provides assurance that all risks are being adequately controlled and that long term value is protected.

Help your organisation make better decisions

The Global Management Accounting Principles set out a blueprint for better business, equipping organisations with a framework to make better decisions. We urge every CEO, CFO and board around the world to use the Principles as the basis for benchmarking and improving their management accounting functions.

Visit cgma.org/principles for more information:



Download the Global Management Accounting Principles, visit: cgma.org/principles.



Watch our short animation about the Principles, visit: cgma.org/principles.



Use our diagnostic checklist to identify areas for improvement, visit: cgma.org/principles.



The Principles will be updated in line with evolving business practice. Remain part of the conversation by becoming a Pioneer. Register for free at: cgma.org/gmappioneer.

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