



ADVANCE MANAGEMENT ACCOUNTING

RELEVANCE LOST

- 1987 H. THOMAS JOHNSON AND ROBERT S. KAPLAN WROTE A PHENOMENAL BOOK “RELEVANCE LOST: THE RISE AND FALL OF MANAGEMENT ACCOUNTING”.
- JOHNSON & KAPLAN CRITICIZE THAT MANAGEMENT ACCOUNTING HAS LOST ITS RELEVANCE IN FACING ADVANCED MANUFACTURING ENVIRONMENT.

THE BACKGROUND

Thousand years ago	Ancient civilization	Engraved stone tablets
800 years ago	Venetian Monk, Fra Facioli	Double entry bookkeeping
Early 19 th	Owner Entrepreneur	Management Accounting Information → production (raw material, supplier, labor) → Customer > raw and labor in market place

Industry Revolution
(commitment:
significant capital to the
production process)

Hierarchical organization
(textile mills, railroads, steel company)

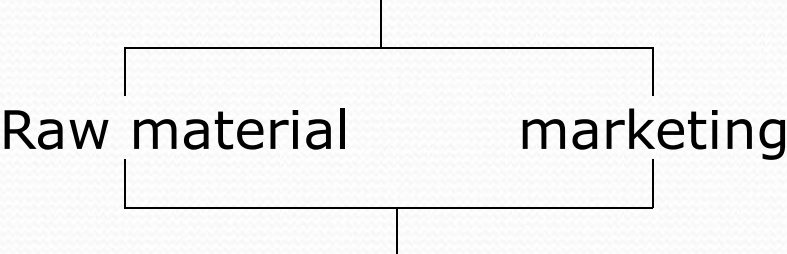
↓ Conversion process
Determine the price of output from internal
operation

↓
MAS → to support the
profit seeking activities

Objective :

- Identify different cost for intermediate & final product
- Measure the efficiency of conversion cost
- Incentive to production worker

THE BACKGROUND

<p>Middle 19th</p>	<p>Invention of railroad and telegraph</p>	<p>Gain to large of hierarchical organization → increase in scale of operations</p> <p>Need the coordination</p>  <p>Raw material marketing</p> <p>Need effective MAS for:</p> <ul style="list-style-type: none">• Logistic• Conversion• Distribution• Performance
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THE BACKGROUND

Invention of MAS

- To control cash receipt and disbursement
- Cost per ton-mile
- Operating ratio

Ratio revenues to operating cost

Measurement of performance

THE BACKGROUND

	<p>Improved transportation & communication</p> <p>Large distribution enterprise (retail store chain)</p>	<p>Develop measurement of performance effectiveness & efficiency of:</p> <ul style="list-style-type: none">• Purchasing, pricing, retailing activity• Gross margin• Inventory turn-over <div data-bbox="1039 863 1901 1198" style="border: 1px solid black; padding: 5px;"><p>MAS → to measure & motivate the efficiency in the key operation activity</p><ul style="list-style-type: none">• Not to be measure the overall profit of the enterprise• Not to record receipt & disbursement of cash• Not to provide financial system</div>
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THE BACKGROUND

1820	Scientific Management Movement (Frederick Taylor)	Standard costing, replacement cost (not historical cost)
Early 20 th	Multi activity diversified corporation (Dupont 1903)	Responsibility accounting
1920	Multidivisional organization (decentralization)	<ul style="list-style-type: none">• Operating (budgeting activities)• ROI measurement for top management• Decomposed ROI (Donald Brown)

Lost Relevance

(to the organization's operations and strategy)

1925	Complex and Diversed Organization	<p>Cost account for:</p> <ul style="list-style-type: none">• Labor• Material• Overhead• Cash, income, capital, budget• Sales forecast, standard cost, variance analysis, transfer price, divisional performance income <p>└─┬─┘ MODEL USED BY OTHER COMPANIES</p>
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AFTER 1925

STOP OF MAS INNOVATION

Lost Relevance

(to the organization's operations and strategy)

NO INNOVATION OF MAS

Increasing complex, diversity of products, and capability of manufacturing processes

- Distorted product cost
- Delayed & overlay process control & information
- Short term performance do not reflect organization economic position

NO INNOVATION OF MAS → DOMINANCE OF FINANCIAL ACCOUNTING STATEMENT

- Widespread of public companies
- Capital market crisis

External purposes

External auditors

Regulators

Conservative accounting practices:

- Objective
- Verifiable
- realized

MAS separated from Financial Accounting Statements

Preferred Historical cost

1930

- ❑ Product line expanded
- ❑ Production technology changed
- ❑ Product life cycle shortened
- ❑ Global competitive condition shifted
- ❑ Advance in IT occurred

Need relevant & timely MAS

“but there’s no changes in MAS”

1960

Digital Computer

Automated cost system

1960

Academic
Researcher

- Cost allocation
- Separating cost into fixed and variable (product decision & controlling cost) “for single product”



MAS
Less relevant

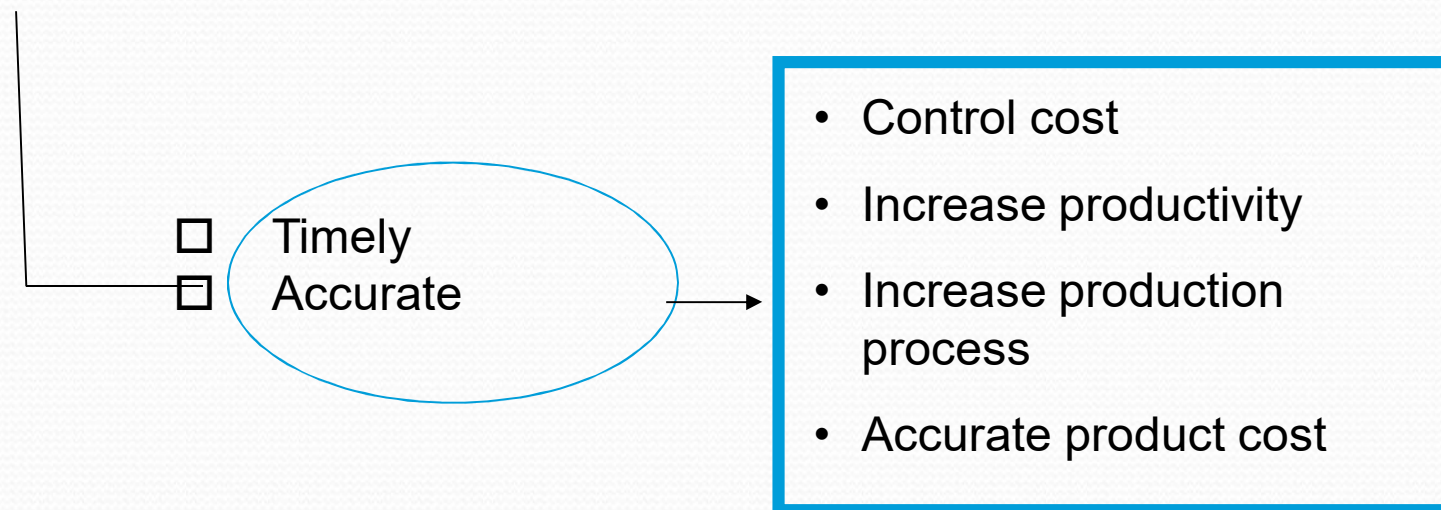
As condition had changed:

Organization environment
Thousand of products
Complex, multistage production process

THE CHALLENGE

Contemporary economics environment

- Vigorous global competition
- Rapid progress in product
- Rapid progress in technology
- Wide fluctuations in currency exchange rate & raw material price



THE ROLES OF MANAGEMENT ACCOUNTING INFORMATION (MAS)

Planning & Control Motivate Evaluation

Management Accounting System

Competitive Success

- Customer need-based product
- Efficient production & distribution system
- Effective marketing effort

THE OPPORTUNITY

- MAS occur in IT environment → real time information
product cost → accurate

- Sophisticated IT Developed Software

Reporting & Control System

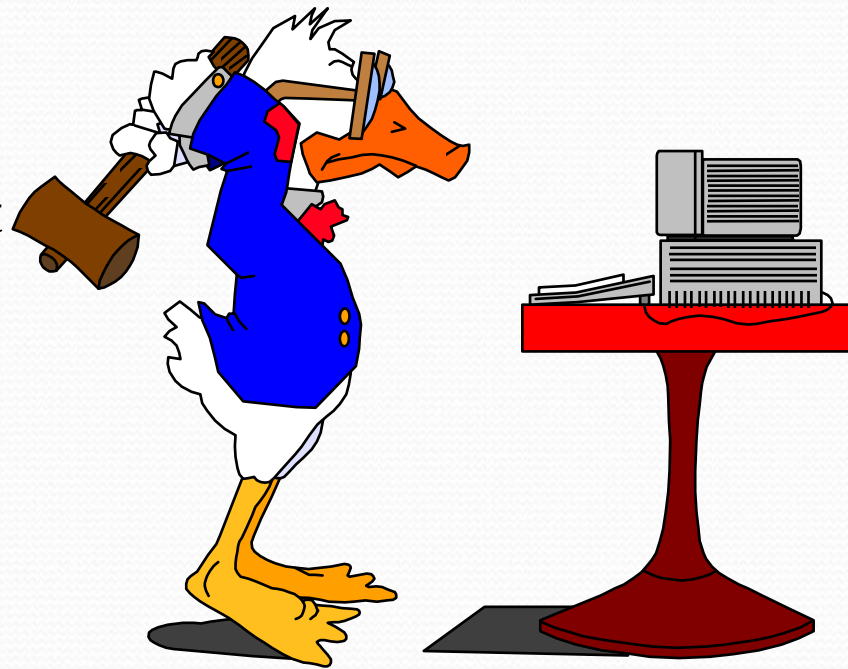
Accurately

Timely

Effectively

ADVANCED MANUFACTURING ENVIRONMENT

- Global competition
- High-technology
- Automation/Computerized
- High Overhead - Low Direct labor costs
- Product diversity
- Complexity in production process



THE INVENTION OF JUST-IN-TIME -1984

- JIT- PHILOSOPHY
- JIT -TECHNIQUES first known as THE TOYOTA TECHNIQUE:
 - JIT - PURCHASING
 - JIT - PRODUCTION
 - JIT - DISTRIBUTION

JIT Purchasing

- Requires suppliers to deliver parts and materials just in time to be used in production.
- Supply of parts must be linked to production which is linked to demand.
- Suppliers linked by long-term contracts.
- Few chosen suppliers located as close to the production facility as possible.

JIT Production/Manufacturing

- JIT Manufacturing is a demand-pull system.
- The objective is to eliminate waste by producing a product only when it is needed and only in the quantities demanded by customers.
- Plant layout is managed as a cellular system, that means, machines are grouped in semicircle. They are arranged to perform a variety of operations in sequence.

JIT's Limitations

- Time is required to build sound relationships with suppliers.
- Sharp reductions in inventory buffers may cause a regimented workflow and high levels of stress among production workers.
- The absence of inventory to buffer production interruptions.
- Current sales are placed at risk to achieve assurance of future sales.

CURRENT FOCUS OF MANAGERIAL ACCOUNTING

- The business environment in which companies operate has changed dramatically over the past several decades.
 - As a result, effective managerial accounting systems also have changed in order to provide information that helps improve companies' planning, control, and decision-making activities.

CURRENT FOCUS OF MANAGERIAL ACCOUNTING

- Several important uses of managerial accounting resulting from these advances include: (1) new methods of estimating product and service cost and profitability, (2) understanding customer orientation, (3) evaluating the business from a cross-functional perspective, and (4) providing information useful in improving total quality.

THE INVENTION OF ACTIVITY-BASED COSTING (KAPLAN & COOPERS, 1988)

- Companies need focused, accurate information on the cost of the products and services they produce.
 - **ACTIVITY-BASED COSTING (ABC)** is a more detailed approach to determining the cost of goods and services. ABC improves costing accuracy by emphasizing the cost of the many activities or tasks that must be done to produce a product or offer a service.
 - Process-value analysis focuses on the way in which companies create value for customers. The objective is to find ways to perform necessary activities more efficiently and to eliminate those that do not create customer value.

CUSTOMER ORIENTATION

- Customer value is a key focus because firms can establish a competitive advantage **by creating better customer value for the same or lower cost than competitors or creating equivalent value for lower cost than that of competitors.**



STRATEGIC POSITIONING

- Effective cost information can help the company identify strategies that increase customer value. This is typically done through a couple of general strategies:
 - **Cost Leadership:** The objective of the cost leadership strategy is to provide the same or better value to customers at a *lower* cost than competitors.
 - **Superior products through differentiation:** A differentiation strategy strives to increase customer value by providing something to customers not provided by competitors.

VALUE CHAIN

- Successful pursuit of cost leadership and/or differentiation strategies requires an understanding of a firm's value chain.
- The **value chain** is the set of activities required to design, develop, produce, market, and deliver products and services, as well as provide support services to customers.

The Value Chain



CROSS-FUNCTIONAL PERSPECTIVE

- In managing the value chain, a managerial accountant must understand and measure many functions of the business.
- Contemporary approaches to costing may include initial design and engineering costs, as well as manufacturing costs, and the costs of distribution, sales, and service.



TOTAL QUALITY MANAGEMENT

- **Continuous improvement** is the continual search for ways to increase the overall efficiency and productivity of activities by reducing waste, increasing quality, and managing costs.
 - Continuous improvement is fundamental for establishing excellence.
- A philosophy of **total quality management**, in which manufacturers strive to create an environment that will enable workers to manufacture perfect (zero-defect) products, has created a demand for a managerial accounting system that provides information about quality.

TOTAL QUALITY MANAGEMENT (CONTINUED)

- This has led to a change in accounting, referred to as **lean accounting**, which organizes costs according to the value chain and collects both financial and nonfinancial information.
- A more recent charge of managerial accountants is to help carry out the company's **enterprise risk management** (ERM) approach.
- ERM is a formal way for managerial accountants to identify and respond to the most important threats and business opportunities facing the organization.

TIME AS A COMPETITIVE ELEMENT

- Time is a crucial element in all phases of the value chain. World-class firms reduce time to market by compressing design, implementation, and production cycles.
- These firms deliver products or services quickly by eliminating non value-added time, which is time of no value to the customer (e.g., the time a product spends on the loading dock).
- Interestingly, decreasing non value-added time appears to go hand in hand with increasing quality.

EFFICIENCY

- Improving efficiency is also a vital concern.
- Both financial and nonfinancial measures of efficiency are needed.
- Cost is a critical measure of efficiency.
- For these efficiency measures to be of value, costs must be properly defined, measured, and assigned; furthermore, production of output must be related to the inputs required, and the overall financial effect of productivity changes should be calculated.

AN INTRODUCTION TO STRATEGIC COST MANAGEMENT

Development of Management Accounting



New Wine or Just a New Bottle ?

STRATEGIC COST MANAGEMENT

- *Strategic cost management* is the use of cost data to develop and identify superior strategies that will produce a sustainable competitive advantage.
- THREE KEY THEMES:
 - VALUE CHAIN ANALYSIS
 - STRATEGIC POSITIONING ANALYSIS
 - COST DRIVER ANALYSIS
 - (JOHN SHANK & VIJAY GOVINDARAJAN, 1989)

Strategic Cost Management: Basic Concepts (1)

***STRATEGIC DECISION MAKING* IS CHOOSING AMONG ALTERNATIVE STRATEGIES WITH THE GOAL OF SELECTING A STRATEGY, OR STRATEGIES, THAT PROVIDES A COMPANY WITH REASONABLE ASSURANCE OF LONG-TERM GROWTH AND SURVIVAL.**

THE KEY TO ACHIEVING THIS GOAL IS TO GAIN A *COMPETITIVE ADVANTAGE*.

Strategic Cost Management: Basic Concepts (2)

COMPETITIVE ADVANTAGE IS THE PROCESS OF CREATING BETTER CUSTOMER VALUE FOR THE SAME OR LOWER COST THAN THAT OF COMPETITORS OR CREATING EQUIVALENT VALUE FOR LOWER COST THAN THAT OF COMPETITORS.

CUSTOMER VALUE IS THE DIFFERENCE BETWEEN WHAT A CUSTOMER RECEIVES (CUSTOMER REALIZATION) AND WHAT THE CUSTOMER GIVES UP (CUSTOMER SACRIFICE).

KAPLAN AND NORTON'S SERIES

- BALANCED SCORECARD (1996)
- STRATEGY FOCUSED ORGANIZATION (2001)
- STRATEGY MAPS (2004)
- ALIGNMENT (2006)
- EXECUTION PREMIUM (2008)

TIME-DRIVEN ACTIVITY-BASED COSTING

- PADA 2007 KAPLAN DAN ANDERSON MEREVISI KONSEP ABC YANG DIKENALKAN 2 DEKADE SEBELUMNYA DENGAN TIME-DRIVEN ACTIVITY-BASED COSTING (TDABC).
- TDABC MENJADI JAUH LEBIH SEDERHANA DIBANDING ABC YANG RELATIF RUMIT DITATARAN DESAIN DAN IMPLEMENTASI.