

Management Accounts

What They Measure

Company accounts fall into two categories: financial and management. While financial accounts are regulated and audited reports of financial transactions and processes, the management accounts are designed to help key business executives understand the overall performance of the business. Most companies produce these reports monthly or quarterly.

Why They Are Important

Rather than focusing on financial metrics, management accounting focuses on operations and the value chain, as opposed to the historical activities of external financial reporting and auditing. They tend to be forward-looking and focused on identifying new revenue, cash flow, profit forecasts, and growth opportunities. Management accounts help executives carry out planning, control, and administration duties effectively. They mean you can see whether profitable parts of the business are subsidizing less successful activities, you can compare performance with forecasts, can identify trends, and manage resources better.

How They Work in Practice

At their most basic, management accounts are reports that provide analysis of business performance and strategy broken down into different business activities or products. Each section of the report should provide an overview of cash flow, profit margins, liabilities, and forecasts for key business metrics.

In practice, management accounts are usually more complex than this. Management accountants may follow any of a number of management accounting methodologies, which will dictate what information is collected, and how it might be presented. Popular approaches to management accounting include:

Lifecycle costing: A form of management accounting that analyses the cost of manufacturing an individual product or service, and looks for how this might be improved.

Activity-based costing: Considers the costs involved in key manufacturing and business processes, such as running a single payroll, or a single product manufacturing cycle.

GPK: A German methodology for management accounting, sometimes known as marginal planned cost accounting. This system was created to provide a consistent, accurate view of how managerial costs are calculated and assigned to a company's products and services.

Lean accounting: A management accounting methodology that was designed in the 1990s for use in just-in-time manufacturing environments and service businesses.

Resource consumption accounting: Focuses on identifying areas with potential for business optimization. Governed by the RCA Institute, this approach to accounting promotes consistency and professionalism in management accounts.

Throughput accounting: Recognizes the relationships between the various elements of the modern manufacturing process, and uses calculations to measure the contribution each part makes per unit of resource.

Management accounting can be applied to virtually any business, and each methodology can be tailored to meet the needs of different industries and sizes of company. However, any management accounting program should incorporate most of the following elements:

- variance analysis;
- rate and volume analysis;
- price modeling and profit margin analysis;
- cost analysis;
- cost/benefit analysis;

- lifecycle cost analysis;
- capital budgeting;
- strategic analysis;
- annual budgeting;
- sales and financial forecasting;
- cost allocation.

Tricks of the Trade

- Management accounting is easier if you build in regular systems to capture key information on a daily or weekly basis. Day to day, business managers should record information into a management accounts spreadsheet or application, including details of transactions made, results of financial changes, and projections of future trade.
- There are many off-the-shelf software packages that can be used for this purpose. The key is to select something easy to use—it's not an effective use of resources to spend weeks learning the intricacies of a financial reporting tool if your job is not financial.
- There is no pre-determined format for management accounts, nor any legal requirement to prepare them—but few businesses can survive without them.

More Info

Website:

- Arts Council England management accounts templates: tinyurl.com/ovf7egl

See Also

Finance Library

- [Management Accounts: How to Use Them to Control Your Business](#)

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