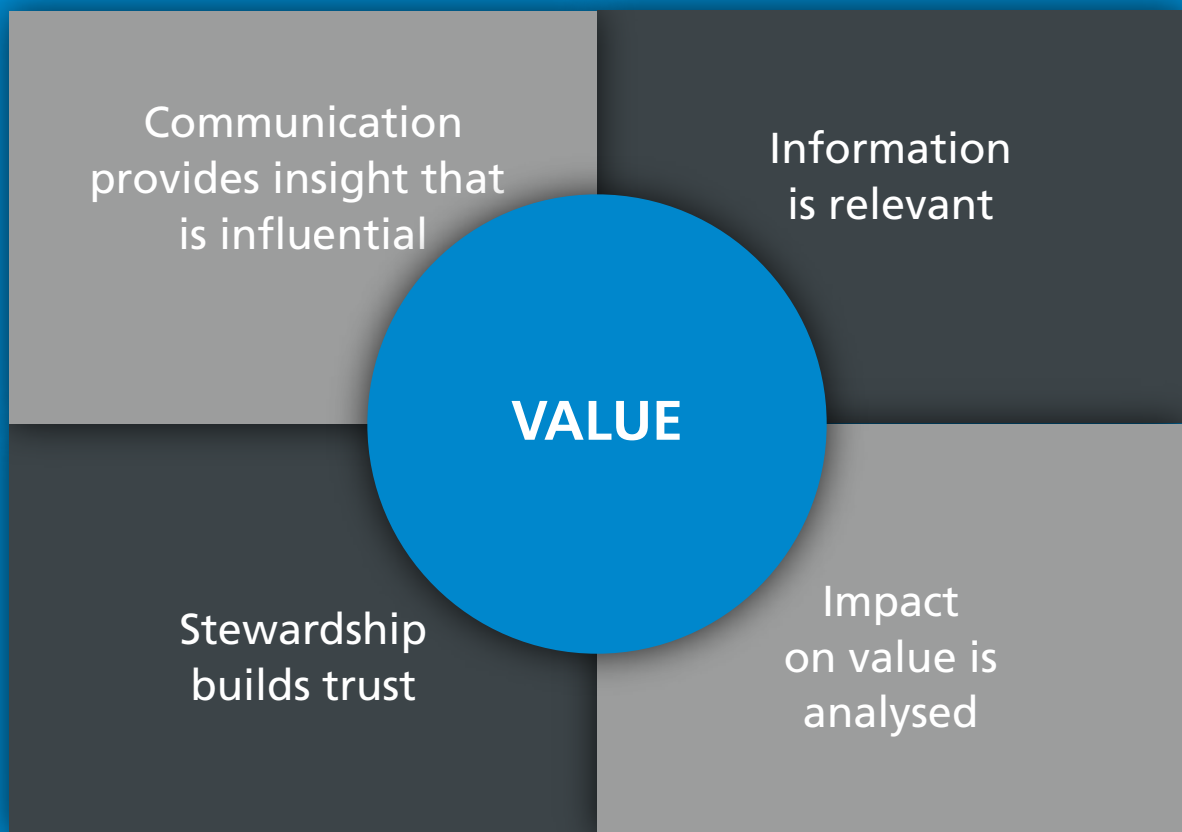


PAS 1919:2016

# Guide to management accounting principles



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# Foreword

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Acknowledgement is given to the following organizations that were involved in the development of this PAS as members of the steering group:

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## Relationship with other publications

The recommendations described in this PAS were developed from the *Global Management Accounting Principles* [1].

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## Use of this document

As a guide, this PAS takes the form of guidance and recommendations. It should not be quoted as if it were a specification or a code of practice and claims of compliance cannot be made to it.

It has been assumed in the preparation of this PAS that the execution of its provisions will be entrusted to appropriately qualified and experienced people, for whose use it has been produced.

## Presentational conventions

The guidance in this standard is presented in roman (i.e. upright) type. Any recommendations are expressed in sentences in which the principal auxiliary verb is “should”.

*Explanation and general informative material is presented in italic type, and does not constitute a normative element.*

Where words have alternative spellings, the preferred spelling of the Shorter Oxford English Dictionary is used (e.g. “organization” rather than “organisation”).

## Contractual and legal considerations

This publication does not purport to include all the necessary provisions of a contract. Users are responsible for its correct application.

# Introduction

Management accounting lies at the heart of an organization, at the crossroads between finance and management. It provides structured solutions to unstructured problems, by translating the complex into the understandable and compelling. Bringing together both financial and non-financial considerations, it is a discipline that could be used to run the organization, to control and improve performance.

The business model is the means by which an organization generates value, because management accounting requires a thorough understanding of the business model, as well as the organization's market and macroeconomic environment. It contributes to sustainable success, through the achievement of long-term economic performance while minimizing environmental impacts and generating positive value for society.

Management accounting helps organizations make better decisions by extracting value from information. Rooting decisions in evidence, or basing them on informed judgement rather than conjecture, makes sustainable success more achievable. All the management accounting principles (see Clause 3) flow from this ambition.

As a profession, management accounting requires a thorough understanding of the business and its operating environment so that organizational risks and opportunities are known. By managing and responding to risks, organizations can exploit opportunities and generate value for stakeholders over time.

The role of Chief Finance Officers (CFOs) is changing; in many organizations that remit is expanding to include IT, human resources, and even operations. However, a core part of the CFO's responsibility is the management accounting function. To ensure breadth of relevance to organizations globally, this PAS therefore limits the application of the principles to the key activities (see Clause 6) that the management accounting function, under the leadership of the CFO or equivalent, does in order to assure stakeholders of sustainable performance.

Frameworks that underpin the Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards, provide clarity about how to report the organization'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 this PAS fill this void by providing a basis on which organizations can set their own benchmarks for the management accounting function.

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# 1 Scope

This PAS gives guidance for organizations on assessing the performance of the management accounting function.

It covers the four management accounting principles that:

- communication provides insight that is influential – encouraging insightful communication that drives better decisions across an organization;
- information is relevant – reviewing past, present and forward looking performance management information;
- impact on value is analysed – understanding an organization's strategy and business model; and
- stewardship builds trust – balancing short-term commercial interests against long-term value for stakeholders.

This PAS is for use by all organizations, including but not limited to; large, small, public, private, local and international and their investors and stakeholders.

**NOTE** *It is aimed at those responsible for providing and delivering management accounting functions, including chief executives, chief financial officers and other board members.*

# 2 Terms and definitions

For the purposes of this PAS, the following terms and definitions apply.

## 2.1 business model

organization's chosen system of inputs, business activities, outputs and outcomes that aim to create value over the short, medium and long term

{SOURCE: International Integrated Reporting Council, *Business model background paper for IR* [2]}

## 2.2 business partnership

any external body along the value chain with which the organization has a relationship

**NOTE** *For example, customers and suppliers.*

## 2.3 cost driver

factor that causes a change in the cost of an activity

**NOTE** *For example, the number of client calls answered, hours spent on servicing an account or the number of sales personnel in a department.*

## 2.4 cost transformation and management

sustained identification and reduction of waste across the organization while freeing up resource to invest in innovation that drives future value for stakeholders

## 2.5 data plan

sourcing, assembling, refining and presenting of all the data that is needed to evaluate and prioritize, set targets, predict outcomes and measure the execution of plans

**NOTE** *See also 5.2.2.2 for further information on data plans.*