



TITLE

DEFINITION OF MANAGEMENT ACCOUNTING

CREDITS

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PRACTICE OF MANAGEMENT ACCOUNTING

EXECUTIVE SUMMARY

This Statement on Management Accounting (SMA) presents a new definition of management accounting, together with an explanation of the background leading to the new definition, the process undertaken to prepare the definition, and the criteria and rationale used in developing the new definition. The new definition is:

Management accounting is a profession that involves partnering in management decision making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization's strategy.

BACKGROUND

The definition of a profession serves many purposes. It can serve as a basis for teaching the cognitive aspects of the subject and for evaluating the behaviors characteristic of the profession's members. The definition can also help define the place of the profession in society now and in the future, its boundaries, and its identity.

In recognition of this fact, the Institute of Management Accountants (then the National Association of Accountants) issued its first SMA in 1981. Titled *Definition of Management Accounting*, it defined management accounting as:

"...the process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of financial information used by management to plan, evaluate, and control an organization and to assure appropriate use of and accountability for its resources. Management accounting also comprises the preparation of finan-

cial reports for non-management groups such as shareholders, creditors, regulatory agencies, and tax authorities."

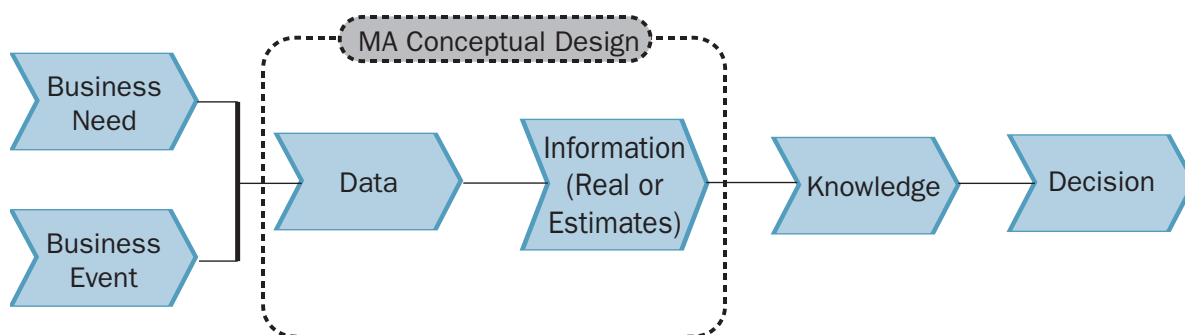
The field of management accounting has evolved considerably since the promulgation of that definition. For more than a decade, IMA has supported and participated in research (see *References*) that has included a call to action for management accountants to move from a transaction and compliance orientation (as reflected in the 1981 definition) to that of a strategic business partner—to be stewards of corporate performance management, planning, and budgeting; champions of the corporate governance process, providing risk management, internal control, and financial reporting at a time of great change; and experts in cost management methods that help the organization become more competitive and successful.

Many definitions and descriptions used in practice today regarding the role of the management accountant do not reflect the move to strategic business partner that is underway. Many definitions explain the role of the management accountant as an information provider, one who gathers, summarizes, analyzes, and reports information to management decision makers—a role that has largely been usurped by technology, e.g., highly integrated ERP systems.

Management accountants' primary influence on the information value chain has shifted to the conceptual design of the management accounting system embedded in an organization's technology backbone. The role of information provider can be presented in the context of an organization's information value chain, as shown in Figure 1.



EXHIBIT 1. . INFORMATION VALUE CHAIN



The traditional role of management accountants as information providers is often described and interpreted as being centered on the lower end of the value chain. The results of the research cited and the move to strategic partnership indicate that the role of the management accountant must be more diverse across this value chain, and it must include the very highest level—participating in key strategic decisions as part of management decision-making teams. The role for management accountants has therefore shifted in two respects with regard to the information value chain: Management accountants (1) provide the conceptual framework for converting data into information and (2) fulfill the role of enabler and strategic business partner along the entire information value chain.

The existing definitions and presentations of the management accountant’s role present an “identity crisis” for the profession because they are inconsistent with the views that practicing management accountants believe to be true today. For this reason, IMA developed the new definition to better represent and describe the role of the management accountant in today’s organizations.

THE PROCESS USED TO DEVELOP THE DEFINITION

The goal of developing a new definition of management accounting was initiated at the regular biannual meeting of IMA’s Foundation for Applied Research (FAR) in August 2007. The FAR committee developed the following plan:

1. Identify a subcommittee of FAR that would develop a proposed new definition.
2. Have the proposed definition reviewed by the full FAR committee.
3. Seek input from IMA members, members of the management accounting section of the American Accounting Association, and appropriate liaisons in other professional organizations.
4. Develop a revised definition based on this input for adoption by the full FAR committee.
5. Present the draft definition to the National Board of IMA at the annual meeting in June 2008 for approval of its dissemination.
6. Publish an exposure draft of the SMA online and in *Strategic Finance* for general comment.
7. Incorporate comments, as appropriate, into a final draft, and issue SMA.



PRACTICE OF MANAGEMENT ACCOUNTING

The subcommittee met for the first time at the August 2007 FAR meeting. The subcommittee determined that the new definition must be succinct, global, timeless, inclusive, and forward-looking. As an initial step in developing a new definition, the subcommittee identified existing definitions from a variety of sources: textbooks, professional management accounting associations, other professional associations, and academic literature. Through a series of conference calls between September 2007 and December 2007, the subcommittee developed a proposed definition and received feedback from the full FAR committee.

The subcommittee presented a technical session at the American Accounting Association's Management Accounting Section annual meeting on January 12, 2008, in Long Beach, Calif. The session provided useful feedback which was incorporated into a revision of the definition. The revised draft of the definition was presented to and adopted unanimously by the full FAR committee at its regular biannual meeting in Dallas on March 8, 2008. The definition was then presented to the IMA's National Board at its annual meeting in June 2008. The Board approved dissemination of the draft definition. Based on the extensive feedback received, the definition was revised to that which is contained in this SMA.

CRITERIA AND RATIONALE FOR THE DEFINITION

In developing the definition, the FAR committee focused on three important components of management accounting. In order of priority, they were:

- Management accounting's essential component is the formulation and implementation of strategy to help an organization succeed. This component states in broad terms the

role of the management accountant. In a more detailed sense, the component states that every management accountant, at whatever point on the information value chain he or she may be, contributes to the organization's success through the implementation of strategy.

- To accomplish the above, management accountants work within management teams. This component reflects research and practice that indicates management accountants work as part of management teams at all levels of the information value chain, which includes participation in strategic management decision making.
- The role of management accountants on the management team can be described by a brief list of global, inclusive competencies. This component is necessary to spell out how the management accountant can be differentiated from other professionals in the organization since the implementation of strategy by management teams can be associated with any management professional in the organization. The choice of which competencies to include in the definition in order to differentiate management accountants was guided by the predetermined criteria listed above: The definition should be succinct, global, timeless, inclusive, and forward-looking.

Some of the responses to the exposure draft expressed concern regarding the extent of the management accountant's involvement in the formulation and execution of strategy. The definition was somewhat modified to reflect these concerns, but it still reflects the committee's belief that the role of the management accountant—at whatever level in the organization and in whatever capacity—is to support



PRACTICE OF MANAGEMENT ACCOUNTING

implementation of the organization's strategy. The definition also reflects the market itself, using information from various studies regarding the role of the CFO organization, the results of which indicate that the role of the management accountant is transforming into that of a business partner.

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