CONSULTATION DRAFT
EXECUTIVE SUMMARY

GLOBAL MANAGEMENT ACCOUNTING PRINCIPLES©

Driving better business through improved performance

The Global Management Accounting Principles have been developed to support chief executives, boards of directors and chief finance officers to benchmark and improve their management accounting practices and processes to meet the needs of their organisation, both effectively and efficiently. The consultation closes on 10 May 2014. Responses should be sent to principles@cimaglobal.com

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EXECUTIVE SUMMARY

Global Management Accounting Principles: driving better business through improved performance

Introduction

Globalisation and technological progress are making change harder to predict and organisations more vulnerable. Large and small, public and private, must compete in an increasingly inter-connected and international market. Innovation is delivered faster, and the very concept of long-term competitive advantage is being undermined as both the volume and velocity of information flows increase, and intellectual property becomes further commoditised.

Organisations must do more to respond appropriately to risks and protect the value they create, at a time when available information has never been more abundant, more complex or more difficult to interpret.

Against this backdrop, management accounting is more relevant than ever. Forward and outward-looking, it brings structured solutions to unstructured problems, ensuring organisations have the quality of data, the analysis and the judgement to ensure the best decisions are made and communicated effectively.

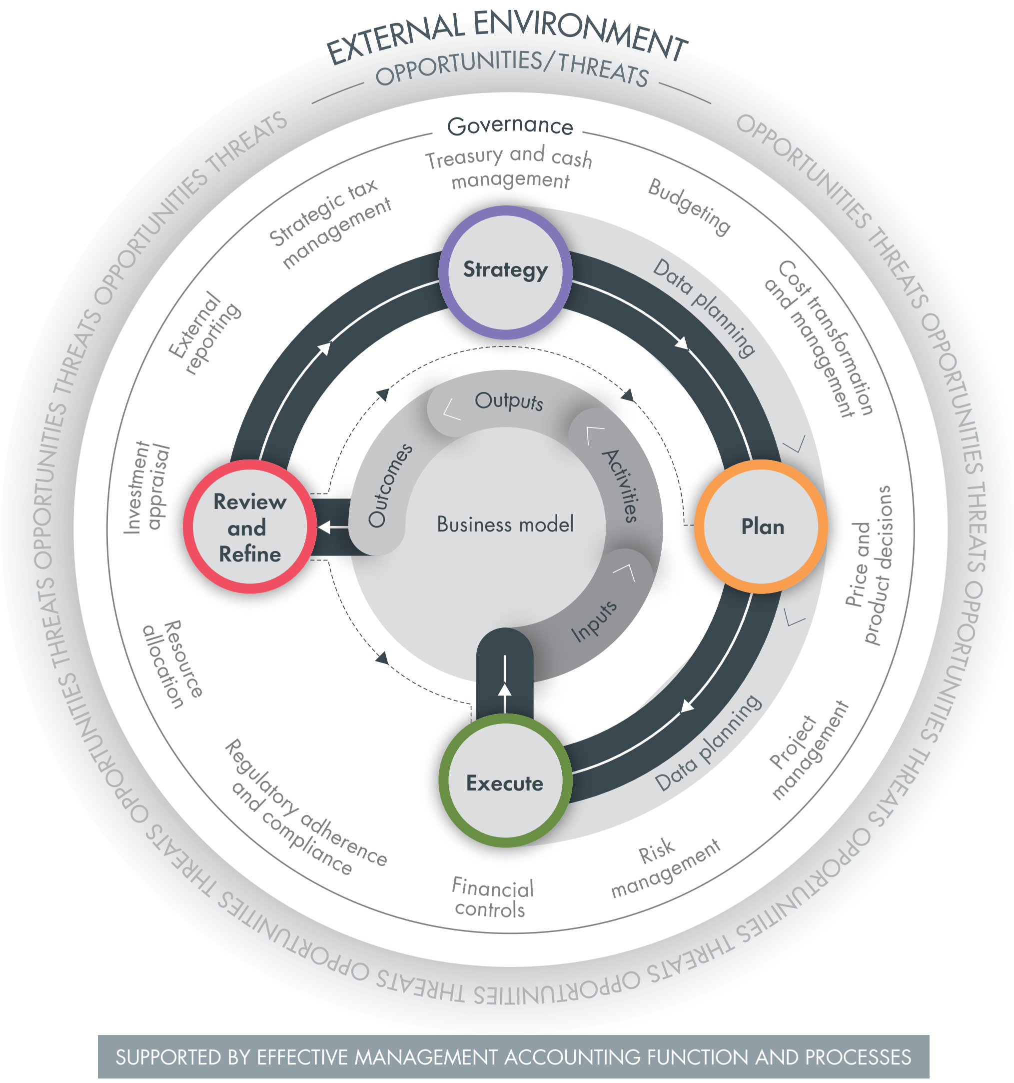
But the practice of management accounting across different organisations is varied. That is why the Chartered Institute of Management Accountants (CIMA), alongside the American Institute of Certified Public Accountants (AICPA), are launching an authoritative set of Global Management Accounting Principles to help organisations across the world ensure that they have the very best management accounting systems.

These Principles outline the fundamental values and qualities that represent best practice management accounting. They provide a common framework and the ability to help those responsible make the most appropriate use of the information at their disposal.

Financial accounting, with its focus on past activity, is no longer sufficient. To be confident of a successful future, organisations must adopt a robust management accounting system that complements their financial accounting system. The Principles will provide the forward-looking focus and ability to link different functions in a way that many organisations still lack.

The Principles have been applied to the performance management cycle that is used to oversee the development and execution of the business model, linked to the core areas of responsibility of the CFO. The business model lies at the very heart of an organisation (see Figure 1) and the management accounting system should be at the core of any organisation's business model. The focus of the second principle, "Modelling value creation", is on this interaction between management accounting and the business model. Management accountants report on the business model to decision makers, but they also identify future activities that the organisation may want to pursue and the risks that require relevant responses.

FIGURE 1: The role of finance mapped to the performance management cycle and business model



Management Accounting

Definition: Management accounting creates value and ensures sustainable success by contributing to sound decision making through the comprehensive analysis and provision of information that enables and supports organisations to plan, implement and control the execution of their strategy.

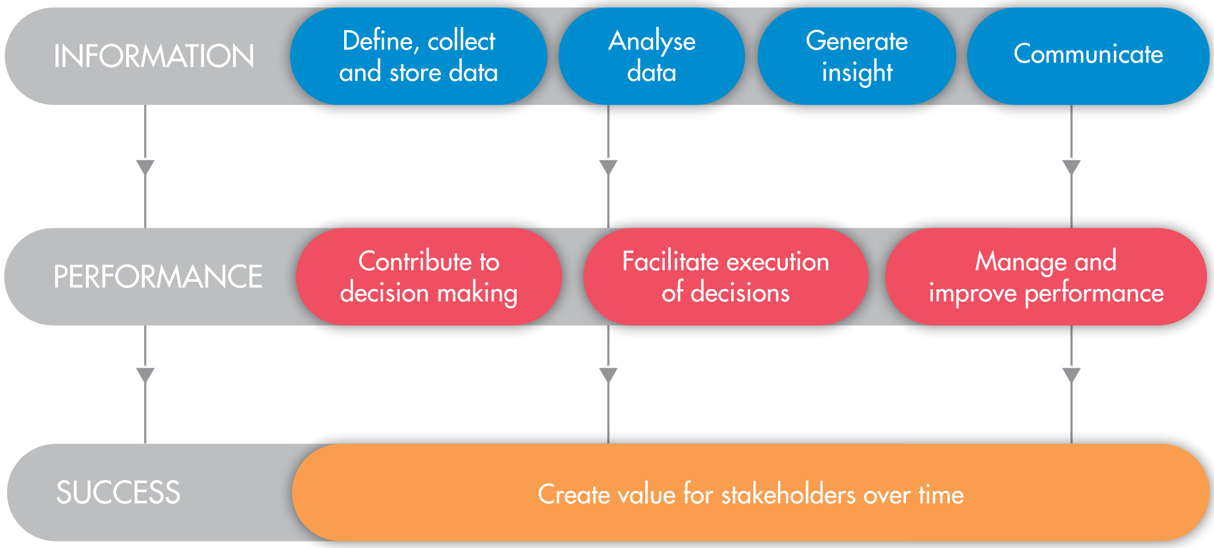
Management accountants use relevant and accurate information to improve the organisation's performance through better decision taking.

This helps to ensure that long-run value is created for stakeholders. This flow is illustrated in Figure 2.

The business model is the means by which the organisation creates value, and because management accountants have a thorough understanding of the organisation, they are uniquely placed to contribute to sustainable success.

They provide evidenced-based solutions to the problems of managing cost, risk and value within an organisation, using both financial and non-financial information for justification. Management accountants provide analysis and insight within the context of macro-environmental factors to benefit the organisation commercially.

FIGURE 2: What management accountants do



The Global Management Accounting Principles

The Global Management Accounting Principles are derived from this definition of the discipline. They are a set of statements that describe the fundamental values, qualities, norms and features to which management accounting professionals should aspire and that represent best practice.

There are three major Principles, underpinned by the professional values of management accountants, as shown in Figure 3.

1. Preparing relevant information

Objective – To ensure that organisations plan for their information needs when creating tactics for execution.

This involves the identification, collection, validation, preparation and storage of information. It requires achieving an appropriate balance between:

- past, present and future-related information
- internal and external information
- financial and non-financial information.

2. Modelling value creation

Objective – To simulate different scenarios that demonstrate the cause-and-effect relationships between inputs and outcomes.

This requires a thorough understanding of the business model and wider macro-economic environment. It involves the analysis of information along the value creation path, the evaluation of opportunities within this context, and a focus on the risks, costs and value of opportunities.

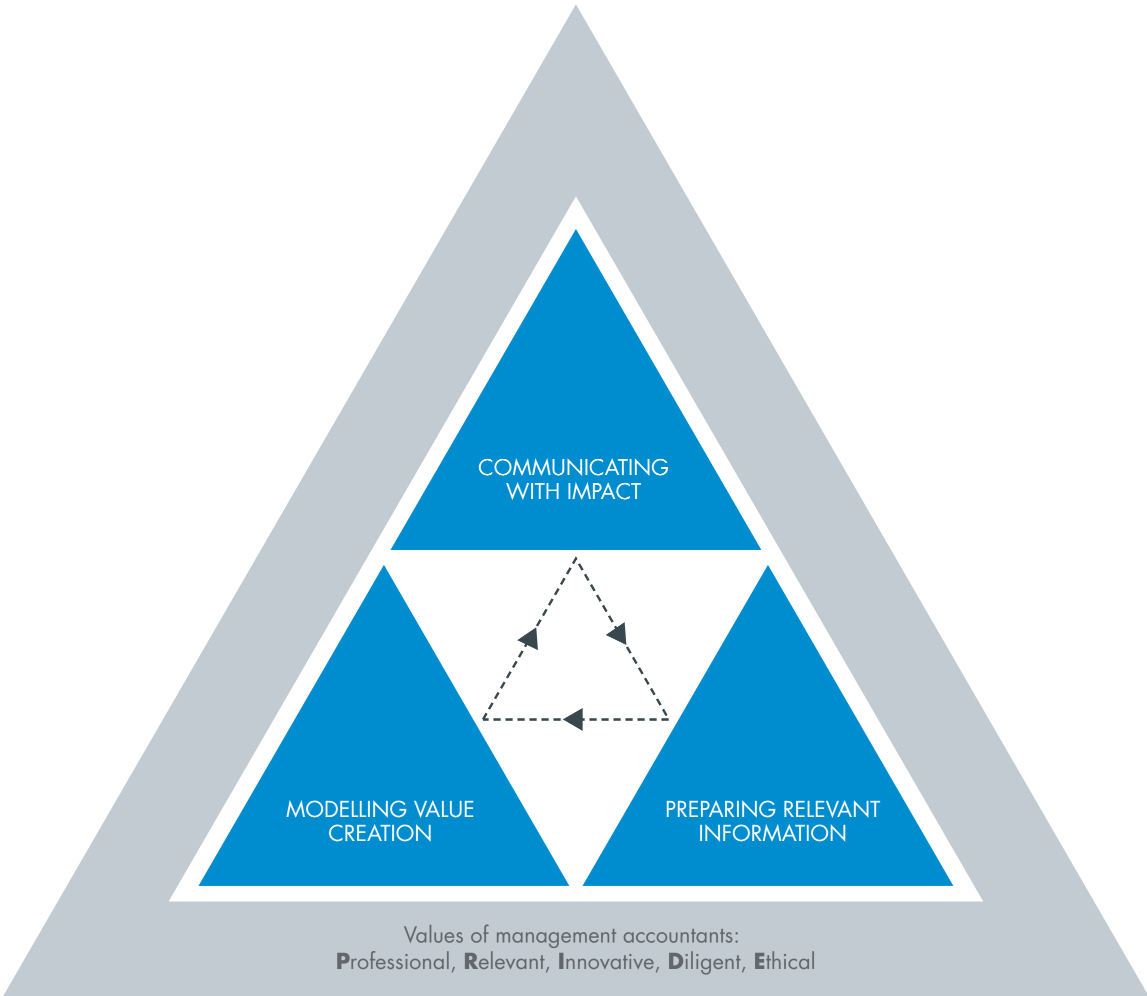
3. Communicating with impact

Objective – To drive better decisions about strategy execution at all levels.

This involves communicating the results of scenario analysis in a manner that is tailored to the decision being considered as well as to the decision-makers (or other audiences). It requires breaking down complexity and transparency about how conclusions have been reached.

Each principle is broken down into three further sub-principles, as discussed in detail in the main consultation draft document which is available at **www.cimaglobal.com/principles**

FIGURE 3: The Global Management Accounting Principles



How are the Global Management Accounting Principles applied?

In successful organisations the role of management accounting is clearly linked to current and future corporate goals. The Global Management Accounting Principles connect the dots, ensuring a direct line of sight between the organisation's objectives and the practices and processes of management accounting. They are applied to what management accountants (are expected to) do at work and so affect management accounting:

- professionalism
- process
- practice.

Underpinning everything that management accountants do are the values of the profession. These are professionalism, relevance, innovation, diligence and ethics.

The Principles are applied to *processes* and *practices* through the business model, see Figure 1. The performance management cycle is the *process* to which principles are applied. The performance management process includes strategy, planning, execution and review.

The activities around the business model are the *practices* to which the Principles are applied. Twelve main practice areas are discussed.

In alphabetical order they are:

1. Budgeting – the quantification of a strategically-aligned plan, for a defined period of time, which may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cashflows as well as other non-financial metrics.

2. Cost transformation and management – the exercise of cutting waste while maintaining or enhancing value creation. It involves the sustained identification and reduction of waste across the organisation while freeing up resource to invest in innovation that will drive future value for stakeholders.

3. External reporting – provides users of external reports with an integrated and comprehensive view of the organisation's financial and non-financial past performance, business model, risks and strategy.

4. Financial controls – the policies, processes and procedures put in place by organisations to manage, document and report their financial activities as compared to plan. They ensure that resources are correctly and effectively used and that activities are correctly and accurately reported.

5. Investment appraisal – the assessment of whether or not to pursue a particular investment based on alignment with strategy, prioritisation of options, affordability and acceptable returns versus unacceptable risks.

6. Price and product decisions – deciding what to produce or what service to provide and determining the selling price for products and services.

7. Project management – integration of all aspects of a project, ensuring that the proper knowledge and resources are available when and where needed and, above all, to ensure that the expected outcome is produced in a timely, cost-effective and quality-controlled manner.

8. Regulatory adherence and compliance – the fulfilment of statutory and regulatory obligations in relation to accounting, statutory reporting and tax and other regulatory compliance. The objective is to prevent penalties and other enforcement activity and promote the reputation of the organisation for good corporate citizenship.

9. Resource allocation – the funding of strategic execution through the optimal distribution of scarce resources across the organisation. It aims to ensure business decisions are made with due consideration to the priority of scarce resource availability.

10. Risk management – the process of understanding, managing and controlling the risks that the organisation is exposed to while attempting to achieve its corporate objectives. Awareness and management of these risks can help the organisation to deal better with uncertainty and reduce the probability of not fully executing its strategy and/or failing to meet stakeholder expectations.

11. Strategic tax management – the role of tax in financial analysis and decision making while ensuring proactive management of the organisation's tax position to ensure legal requirements are met.

12. Treasury and cash management – the corporate handling of all financial matters, the generation of external and internal funds for business and incorporating the management of currency and interest rate risk, bank facilities, funding and cash management.

Consultation process

The main consultation document is open for public consultation from 10 February to 10 May 2014 and we would very much welcome your feedback. Please email your responses to **principles@cimaglobal.com**. Once the consultation period closes we will refine the document, before launching it in Q3 2014. An online diagnostic tool will follow.

For more information please visit **www.cimaglobal.com/principles**

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