

# Bring on

In “The Case for Management Accounting” (October 2003), I issued a clear call for action. Financial accounting priorities are dominating business measurement and management to the detriment of good management accounting practices. Management accountants help drive effective and efficient business performance, while regulators, financial analysts, and auditors are like checkers who check the checkers who check the scorekeepers at a bridge game. So intricate is the scoring process that some players become distracted and concentrate on keeping score rather than playing the game (Enron, WorldCom). In those instances, the analysts (unintentionally perhaps) create business performance criteria based on scorekeeping intricacies rather than actual playing ability. As one CFO commented after reading the article: “You are right! It is time to push the pendulum back.”

I also noted that sincere efforts by operational and financial managers to improve organization measurement and management over the past 15 years have often missed the mark. Unsatisfactory applications of activity-based costing (ABC), performance measurement, and other strategic cost and management initiatives have left CFOs dissatisfied. Disappointed executives are reluctant to

make potentially more unfulfilled promises to their fellow executives about how great new measurement and management methods will revolutionize the way they plan and control operations.

This isn’t the time to be folding our tents and capitulating to the overwhelming power of financial reporting requirements. It’s time for management accountants to drive meaningful, dynamic, and disciplined changes in their role of providing information to managers to facilitate responsible, excellent business performance. This will involve learning from U.S. management accounting experiences and combining the successful aspects with positive practices from elsewhere in the world.

Of particular interest is German cost accounting, which satisfies the need to measure and manage organization performance. These successful systems represent a thoughtful and long-term evolution of management concepts that originated in both Europe and North America. In some cases, companies have been using these methods for more than 30 years.

## GERMAN COST ACCOUNTING

German cost accounting was designed with the explicit

# German Cost Accounting

U.S. COMPANIES SHOULD TAKE A LOOK AT THE WAYS THEIR INTERNATIONAL COUNTERPARTS SUCCESSFULLY MEASURE AND MANAGE ORGANIZATION PERFORMANCE IN ORDER TO RESOLVE LIMITATIONS IN NORTH AMERICAN PRACTICES.

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objective of supporting management decision making about which products or services to offer, how to price them, and how to plan and control operations. In fact, in many organizations in Germany and German-speaking countries, there's a clear organizational distinction between the department responsible for financial accounting and the one responsible for "controlling."

German cost accounting systems developed in response to a financial accounting system that was highly defined by government reporting requirements but wasn't especially helpful to managers in supplying information needed to manage the business. Shortly after World War II, H.G. Plaut developed a new form of cost accounting called Grenzplankostenrechnung (GPK in English), which may be translated as Flexible Analytic Cost Planning and Accounting, sometimes referred to as flexible standard costing. Plaut and his consulting company deployed the technique to many manufacturing companies in Germany and German-speaking countries as well as to a number of significant service organizations including banks and the postal system. Prof. Dr. Wolfgang Kilger was influential in developing the theory of GPK, and Prof. Dr. Paul Riebel created a highly sophisticated con-

tribution margin accounting method called Einzelkosten und Deckungsbeitragsrechnung as a competing model.

Both models are integrated in modern German cost accounting systems. Indeed, the resulting GPK methodology has become the standard for cost accounting in Germany. The primary German cost accounting textbook, which features GPK, was published by Gabler in 1961. Titled *Flexible Plankostenrechnung und Deckungsbeitragsrechnung*, it was written by Wolfgang Kilger. It is now in its 11th edition, which was edited by Jochen Pampel and Kurt Vikas. Other initiatives in Germany apart from GPK have also influenced management accounting practices. Activity-based costing has recently been incorporated as an extension or sophistication of GPK. In Germany, ABC is called Prozesskostenrechnung (PK). Later I'll describe how GPK and PK work together.

GPK has major defining characteristics that make it substantially different from U.S. standard costing. U.S. standard costing, as it applies to manufacturing, usually includes direct material and labor to which is added an allocation for manufacturing overhead consisting of plant facilities, production-related staff, and depreciation of machinery. Most organizations allocate overhead with the

intention of fully recovering all costs. This isn't the case with GPK, which is more closely related to marginal costing but with characteristics of ABC as it relates to manufacturing and its support departments. GPK cost-center configuration closely resembles the level of detail found in activity centers in ABC but with the important distinction that the resulting cost pools have a resource-centric view.

GPK is most effective in manufacturing and service organizations that are highly routinized and repetitive. A key aspect is the way in which cost centers are defined. Companies using GPK tend to have a relatively larger number of cost centers than most companies in the U.S. do in order to establish a robust cause-and-effect relationship between the resources consumed and an appropriate cost driver.

## ABOUT COST CENTERS

For a cost center to be defined:

1. Costs must be separable—they must be specific to the output being produced in the cost center.
2. The output produced must be repetitive.
3. The output must be the responsibility of an individual manager. A cost center may have only one manager, but one manager may manage more than one cost center.
4. Cost center size should be manageable.
5. Costs/technology/resource type/work performed must be similar.
6. Cost assignment drivers must be quantifiable and able to be planned.
7. The center must be either primary or support. Support for a primary cost center is one that performs work directly contributing to the manufacture of the product or performance of the service for a customer (e.g., packing items for shipment).

In GPK, cost centers have tended to be designed so that each center revolves around a single "activity" where each department has only one cost driver, such as number of tests performed by the quality-test cost center. In essence, activity-specific cost centers accomplish the same thing as ABC attempts to do in organizations where cost centers are defined by organizational/responsibility grouping. In GPK a single manager may have multiple cost centers reporting to them, but in ABC a manager will manage a

Table 1: Annual Budget for Quality-Testing Cost Center

Cost Type	Unit of Measure	Fixed \$	Variable \$	Total \$
Salaries	# Tests Performed	85,000	415,000	500,000
Benefits		25,500	124,500	150,000
Tooling			50,000	50,000
Equipment Depreciation		50,000		50,000
Floor Space		25,000		25,000
Electricity			15,000	15,000
<b>Total</b>		<b>185,500</b>	<b>604,500</b>	<b>790,000</b>
Quantity/Cost per Unit	52,500		11.514	

cost center that produces multiple activities. In ABC the cost-center expenses have to be distributed to activities. What this accomplishes in GPK but not ABC is to create activity/cost-center entities within the cost accounting/management system and therefore the budgeting and reporting systems.

Advances in German cost accounting software make it feasible to leave cost centers consolidated and to have multiple subordinate cost pools, each with an individual assignment driver. When subordinate cost pools and drivers are used, it's necessary to analyze costs by resource output/driver type within the cost center, almost as if there were a number of separate cost centers within the cost center. Here the architecture begins to resemble a typical ABC system, although the premise for arriving at the solution is one that starts from a resource-centric approach.

Another key aspect of the cost-center concept is the intent to use the device to influence human behavior. Cost is a function of the resources consumed to produce output where cost per unit of output (driver) and total volume requirements are critical considerations in developing an annual budget. Each year cost-center managers use previous-period actual costs modified for any anticipated changes in cost components—e.g., increase in prices or introduction of new equipment—as the basis for calculating the budget.

Also important is the way in which costs are examined and determined to be either fixed or variable depending on the output quantity of the chosen cost driver. Variable cost is defined as being variable to the units of output of the cost-center activity, not the total quantity of final products produced as in most organizations' traditional cost allocation systems (see Table 1).

Variable costs are reassigned to primary departments

**Table 2: Distribution of Support Department Budget Expenses**

Primary Cost Center	Annual Quality Test Requirements	% of Total Number of Tests (for distribution of fixed costs)
Machine Center # 1	14,500	27.6%
Machine Center # 2	23,000	43.8%
Assembly Center # 3	15,000	28.6%
<b>Total</b>	<b>52,500</b>	<b>100.0%</b>

**Table 3: Transferred-in Budget from Support Department**

Primary Cost Center	Fixed Cost Assigned \$	Variable Costs Assigned \$	Total \$
Machine Center # 1	51,198	166,957	218,155
Machine Center # 2	81,249	264,829	346,078
Assembly Center # 3	53,053	172,714	225,767
<b>Total</b>	<b>185,500</b>	<b>604,500</b>	<b>790,000</b>

from support departments based on the units consumed at the budgeted rate of \$11.514 per test for each quality test performed. Fixed costs are distributed as a distinct and separate component based on the proportion of planned/budgeted total tests (see Table 2). Care is taken to base assignments on the principle of causality.

Annual budgets for each cost center include costs of support department budgets. For example, costs for the quality-test department are distributed according to the quantities planned (see Table 3).

Each primary cost center will add the assigned-in costs from support cost centers to their own costs while maintaining the distinction of fixed and variable. In the example in Table 4, the consumption of quality test by the machine center of 14,500 is assumed to be 100% variable (relative to number of machine hours), or the nature of cost would change when consumed; i.e., it would become fixed.

Each month, budgeted variable costs are flexed to reflect actual quantities of units produced (Table 4). The adjusted variable cost becomes what is known as authorized or target costs (not to be confused with Japanese target costing for new product introduction). Cost-center managers are expected to manage costs to ensure spending is equal to the sum of target costs plus budgeted fixed costs. In this way GPK encourages spending performance to be as realistic as possible. Variances are analyzed and

actions taken to correct whatever problem caused the overspending or to adjust assumptions in budget calculations.

Interestingly, because volume-variable cost components are flexed to give consideration to actual quantity produced, analysis of volume variances becomes more refined in order to address actual operating rates of consumption. Price and resource quantity variances are also highly influential and are reported individually although the cost center manager may not personally be responsible for purchase price variance. GPK, therefore, makes sure that there's a constant balancing of cost to units of output. Managers are expected to monitor spending and volume of output during each month and reduce or increase resource availability and spending accordingly.

## PRODUCTION AND WORK ORDERS

The same methodologies used in cost centers are also applied to production-order or work-order costing. Each order absorbs direct costs—such as materials—plus costs from cost centers—such as machine hours consumed. The variance calculations performed on the cost center are also performed on the order, and differences are passed into the contribution margins for the product. Variance analysis is oriented more toward operations than traditional U.S. cost-allocation systems are, but it's this mechanism that creates accountability and drives human behavior to be as efficient as possible.

GPK employs a different practice from the traditional cost allocation of equipment cost to products. Total cost of equipment includes depreciation and support costs such as maintenance, energy, and floor space. In tradi-

**Table 4: Primary Cost Center "Machine Center #1": Budget**

Cost Type	Unit of Measure	Fixed \$	Variable \$	Total \$
Salaries	#Machine hours	139,000	325,000	464,000
Benefits		41,700	97,500	139,200
Tooling			70,000	70,000
Equipment Depreciation		200,000		200,000
Floor Space		50,000		50,000
Electricity			55,000	55,000
Assigned Costs from Quality Test		51,198	166,957	218,155
<b>Total</b>		<b>481,898</b>	<b>714,457</b>	<b>996,355</b>
Quantity/Cost per Unit	25,000		28.58	

**Table 5: Primary Cost Center “Machine Center #1” Actual Month 5**

Cost Type	Unit of Measure	Fixed \$	Target \$	Total \$	Actual Spending \$	Spending Variance \$
Salaries	# Machine Hours	11,582	19,500	31,083	32,505	1,422
Benefits		3,475	5,850	9,325	9,103	-202
Tooling			4,200	4,200	4,331	131
Equipment Depreciation		16,667		16,667	16,667	0
Floor Space		4,167		4,167	4,167	0
Electricity			3,300	3,300	3,400	100
Assigned Costs from Quality Test		4,267	10,017	14,284	14,221	-63
<b>Total</b>		<b>40,158</b>	<b>42,867</b>	<b>83,026</b>	<b>84,394</b>	<b>1,368</b>
Quantity/Cost per Unit	1,500		28.58			

tional cost allocation, most U.S. organizations divide total equipment cost by a volume-variable denominator, such as number of labor hours or number of machine hours budgeted. Budgeted hours are relative to planned output for the period and are used to assign the entire cost “fairly” to products whether the full capacity of the equipment was utilized or not.

Under traditional cost allocation, cost per denominator hour fluctuates from one year to the next depending on the change in production volume. GPK principles for equipment cost assignment are based on normalized capacity where the denominator is the same in all years. Normalized production is premised on the lesser of either the manufacturer’s rated capacity (usually adjusted to 85%) or the market level assumed when justifying acquisition of the equipment. If production volume demand is less than full capacity utilization in any year, then there’s an unabsorbed or unapplied cost in the profit-and-loss calculation that isn’t allocated to products.

GPK represents a good example of cost-pull assignment (vs. typical cost-push applications of ABC). In a cost-pull system, cost assignment begins with output quantity, and costs are assigned on the basis of predetermined unit quantities of demand. Each cost center passes back its requirements until the support department’s output requirements are determined and resource requirement and costs calculated. Actual quantities required from primary cost centers are used to calculate demand on support cost centers to impact their variable costs in order to determine how much cost should be authorized (target cost). In a cost-push system, cost allocations are a function of historical levels of spending, and costs are simply passed from support departments to primary departments without giving consideration to whether

resources were actually consumed by the receiving department. In other words, the cost is forced down to products.

Note that target spending by cost component, represented by the variable rate of \$28.58 (Table 5), remains the same in target cost in exactly the same proportions as in the budget. Fixed cost in Table 5 is equal to 1/12 of the annual budget. Target cost is equal to budget variable cost rate multiplied by the actual quantity of the unit of measure (# of Machine Hours) in the period. All spending variances are the responsibility of the originating department, so each cost-center manager is responsible for managing only the expenses that he/she controls.

To calculate the cost of products, each product is assigned the cost of direct materials and labor consumed plus cost-center costs based on the number of units of “variable” costs consumed. These costs represent a marginal costing view, the purpose of which is to satisfy the information needs of managers to support strategic decision making about what products or services to offer and at what price to sell them. Typically, you wouldn’t apply other cost centers such as Administrative, Human Resources, and Sales and Marketing to primary outputs when calculating product or service costs. These costs are addressed in aggregate in the P&L below operating margin.

### ANALYSIS IS CRUCIAL

Analysis is a critical aspect of GPK. It promotes good management accounting practices and cost transparency, which help managers make informed decisions. Profitability analysis is accomplished by developing “layered” and grouped profit-and-loss statements for each product, product group, and the entire organization (see Table 6). The layers represent different levels of information. For

**Table 6: GPK Profit and Loss**

Layer Description	PRODUCT GROUP 1					PRODUCT GROUP 2					Total
	Product 1	Product 2	Product 3	Group 1 Other Costs	Group 1 Total	Product 4	Product 5	Product 6	Group 2 Other Costs	Group 2 Total	
Revenue	100	200	300		600	400	500	600		1,500	2,100
Direct Material	20	47	55		122	75	100	130		305	427
Direct Labor	10	22	40		72	35	51	67		153	225
Variable Indirect Cost	8	15	25		48	43	60	80		183	231
<b>1a Marginal Contribution</b>	<b>62</b>	<b>116</b>	<b>180</b>		<b>358</b>	<b>247</b>	<b>289</b>	<b>323</b>		<b>859</b>	<b>1,217</b>
Cost of Equipment	5	11	14	20	50	22	27	33	112	194	244
Imputed Interest on Capital		1	1	5	7	2	3	3	10	18	25
<b>1b Product Contribution</b>	<b>57</b>	<b>104</b>	<b>165</b>	<b>-25</b>	<b>301</b>	<b>223</b>	<b>259</b>	<b>287</b>	<b>-122</b>	<b>647</b>	<b>948</b>
Distribution/Logistics				60	60				125	125	185
Selling Expenses				75	75				125	125	200
<b>2 Customer Contribution</b>				<b>-135</b>	<b>166</b>				<b>-250</b>	<b>397</b>	<b>563</b>
Fixed Costs				40	40				60	60	100
Marketing Expense				10	10				37	37	47
Research & Development				100	100				50	50	150
<b>3 Operating Contribution</b>				<b>-150</b>	<b>16</b>				<b>-147</b>	<b>250</b>	<b>266</b>
Other Costs				10	10				15	15	25
<b>4 Net Contribution</b>				<b>-160</b>	<b>6</b>				<b>-162</b>	<b>235</b>	<b>241</b>

example, the first layer includes revenue from which direct and variable costs are deducted. The resulting contribution margin is referred to as “Contribution Margin Level 1.” Consequent layers can be defined by each organization using GPK, but it’s common to have cost of capital equipment consumed deducted from Contribution Margin Level 1 in order to develop some idea of primary resources consumed by an individual product/service and in aggregate. This calculation would yield Contribution Margin 1b. Contribution level 1a/b is the only point at which cost information can be or is assigned to individual products and services. Contribution Margin Level 3 would represent manufacturing/operations margin by deducting fixed costs related to primary and support cost centers as a total. Fixed costs aren’t allocated to products.

In addition to being layered, GPK P&Ls are segmented into product groups. Product groups are assigned the cost of dedicated resources so that managers can see the marginal cost for each product and then total financial performance for each group.

As the primary objective of GPK is to present decision makers with an understanding of the effective cost of

operations rather than simply satisfy financial reporting ideology, a number of adjustments are made to cost data. For example, it’s quite common in GPK to include cost of depreciation in calculating Contribution Margin Level 1b based on the replacement value of assets rather than the book value of depreciation. Also, Contribution Margin Level 3 might represent profitability after deducting the cost of any amortized research and development or imputed cost of interest on assets employed. These adjustments plus a backflush adjustment for overhead allocation represent the major reconciling items for financial reporting.

### ARE CHANGES ON THE WAY?

Although many companies in Germany and German-speaking countries have used GPK for as long as 30 years, they have considered some changes. As ABC was developing in other parts of the world, German specialists, Prof. Dr. Peter Horvath, in particular, were considering what the implications would be on GPK. After much debate, they agreed that the two methods—GPK and ABC—were complementary. The result was the application of ABC to

# Objectives of Management Accounting

If **managers** are primarily responsible for making decisions, planning, and controlling operations, then management accountants are there to support them. According to the International Federation of Accountants (IFAC), management accounting is the part of the management process that is focused on organizational resource use—managerial processes and technologies that are designed to add value to organizations by attaining the effective use of resources in dynamic and competitive contexts. Management accounting is an integral part of the management process and distinctly adds value by continuously probing whether resources are used effectively by organizations in creating value for shareholders, customers, or other stakeholders.

Contrast this with the purpose of financial accounting, which involves compliance with common and standard rules and regulations established by external bodies, maintaining official records, preparing reports/responding to questions defined by external bodies, and coordinating and responding to audits. Financial accounting also deals with managing financial transactions and valuations such as balance sheet valuation as well as processing cash interactions with suppliers, customers, tax, and other authorities.

For some reason we have confused financial accounting and management accounting. Imagine if we applied the same logic to a car. The external interfaces are addressed by the vehicle driver with respect to operating performance and cost, by police officers monitoring the speed of the vehicle, and by government agencies monitoring safety performance. If we allowed drivers, police officers, and government agencies to run the car manufacturing processes, there would be chaos. While all these external factors are critical to defining design, construction, and operating criteria for the vehicle, they don't actually create the design nor operate the machines that make the parts, monitor tolerances, or assemble the vehicles nor concern themselves with the effectiveness and efficiency of the manufacturing process.

A key aspect of any business is to manage its

resources and to make a profit in the long run. Accordingly, managers must have information with which to make strategic decisions about what products and services to offer as well as to plan and control operations and long-term financial performance. Management accounting satisfies that need. Financial accounting does not.

What about the dilemma regarding inadequate management accounting information? At the core is a seemingly simple—but massively misleading—rule in generally accepted accounting principles (GAAP) that leads organizations to allocate cost fairly to products. This rationale was developed for manufacturing companies at a time when indirect costs represented a relatively small portion of total costs. This practice still dominates accounting even though manufacturing now represents less than 20% of U.S. GDP and indirect cost represents a significant proportion of total cost in all organizations. Indeed, knowledge and intellectual capital have a much greater influence on corporate costs, profits, and cash flow than production processes.

A recent survey by Bain & Company found that 80% of responding companies continue to use GAAP-based cost allocation to obtain “fully loaded costs of product.” This includes service companies like banks that try to define their services as products and then allocate costs to them in order to create a mental model that appears to conform to GAAP. This logic has prevailed to the degree that there is huge regulatory pressure on banks to allocate cost in the form of transfer pricing. This practice is causing banks to consume massive amounts of time and resources in order to apply a potentially questionable principle.

Actually, financial accounting masks the real economics of a business. GAAP-based cost allocations systematically subsidize low-volume and specialty products in manufacturing companies and distract managers in service companies from the more meaningful dimension of customer profitability where high-volume customers subsidize low-volume and difficult-to-serve customers.

**Table 7: Customer Profitability**

Layer/Description	Customer A	Customer B	Customer C	Customer D	Customer E	Customer F	Other Group Costs	Total
Revenue	500	180	350	400	530	140		2,100
Direct Material	102	37	71	81	108	28		427
Direct Labor	54	19	38	43	57	15		225
Variable Indirect Cost	55	20	39	44	58	15		231
<b>1a Marginal Contribution</b>	<b>290</b>	<b>104</b>	<b>203</b>	<b>232</b>	<b>307</b>	<b>81</b>		<b>1,217</b>
Cost of Equipment	27	10	19	21	28	7	132	244
Imputed Interest on Capital	2	1	2	2	3	1	15	25
<b>1b Product Contribution</b>	<b>261</b>	<b>94</b>	<b>183</b>	<b>209</b>	<b>276</b>	<b>73</b>	<b>-147</b>	<b>948</b>
Distribution/Logistics	44	16	31	35	47	12		185
Selling Expenses	48	17	33	38	50	13		200
<b>2 Customer Contribution</b>	<b>169</b>	<b>61</b>	<b>118</b>	<b>135</b>	<b>179</b>	<b>47</b>		<b>563</b>
Fixed Costs							100	100
Marketing Expense							47	47
Research & Development							150	150
<b>3 Operating Contribution</b>							<b>-297</b>	<b>266</b>
Other Costs							25	25
<b>4 Net Contribution</b>							<b>-322</b>	<b>241</b>

analyze indirect costs, including fixed costs in operations and support departments, in order to improve product and service cost/profitability analysis. This has become known as Prozesskostenrechnung. PK is used in the example in Table 7 to analyze customer-serving cost-center performance including sales, order processing, distribution, and customer service. Applying PK in this fashion lets managers calculate customer profitability in detail.

Applying PK in the context of GPK is a different proposition than has been considered practical for ABC elsewhere. GPK and PK are an integrated decision-support, budgeting, planning, and control system. In contrast, ABC has been implemented as a top-down cost allocation system using modelling-type software to develop information about historic periods. Budget applications of ABC are hard to find for a couple of reasons: (1) The cost-push logic doesn't require an understanding of quantitative factorial relationships between output and input, and (2) budgeting, variance analysis, and behavioral methodology hasn't been developed to accompany ABC implementation.

When GPK was introduced, all calculations were labor

intensive. Though computing support was limited, the planning and control attributes and contribution to measuring and managing the business were valuable enough to justify the cost. Over the last 10 years, enterprise resource planning (ERP) systems and online analytical processing (OLAP) tools have helped the application of GPK.

## SUSTAINABILITY

It's evident that GPK has achieved what ABC largely has not, meaning German cost accounting systems have been sustained for a significant number of years. Perhaps the reasons for their long-term success are rooted in German culture and practices, yet there are other key aspects that play a part:

1. Disciplined design and methodology. GPK was developed by Plaut shortly after World War II, and a number of specialists in his employ developed standardized theory and implementation practice. Later, Kilger developed the theory to a high level of understanding. Many academics and practitioners have dedicated significant amounts of time to examining and refining a disciplined methodology.

2. There's a clear distinction between management accounting and financial accounting. Each company I visited (see sidebar) employed as many or more staff in management accounting as in financial accounting. Furthermore, management accounting is understood to be a distinctly different "science," which means that each has its own career-development path. Management accountants are considered to be most important to decision support, planning, and operations control.

## Who Is Using German Cost Accounting Systems?

I recently had the opportunity to visit Germany and Austria and had the pleasure of visiting the heads of "controlling" departments (the controller's department) in six corporations: Porsche (cars); Stihl (chain saws); DaimlerChrysler AG (cars); Rasselstein Hoesch (steel); Magna Steyr (cars), in the company of now-retired CFO Horst Gruber; and Brau Union (beer). All of these well-established corporations have been using GPK for longer than the staffs could remember, but, in all cases, it was more than 20 years. I asked if operations managers were happy with the system and trust it, and the answer was an overwhelming "yes" in all cases. I also asked if changes to cost management methods were being considered, and the answer was "no." Contrast this to the results of the recent IMA/E&Y survey in which 98% of respondents said that cost information was distorted and that the single biggest concern was allocation of overhead.

I also had the opportunity to meet Dr. Kurt Vikas, the author of the current edition of the Kilger textbook on cost accounting. He and Prof. Dr. Alfred Wagenhofer, head of management accounting at Graz University, confirmed that GPK is the standard for cost accounting in manufacturing companies in Germany. They also identified a number of large, well-known service organizations that use GPK, including banks. The organizations employ cost centers that satisfy the criteria noted in this article.

3. Integration into measurement and management systems for planning and controlling the business is accomplished by cost planning at the cost-center level, beginning with budgets. Consequently, performance reporting is deeply ingrained and based on flexed budget assumptions. An important aspect of planning and control is the proactive use of pull logic in the design of cost-center and output relationships. These systems are highly ingrained in the psychology of the organization.

4. IT systems have evolved to support the application of these management accounting systems, even to the degree of incorporating ABC/PK. None of the companies I visited uses a stand-alone modelling approach to implement ABC, and there was a consistent opinion among the professionals I met that U.S.-style ABC implementation isn't common in Germany or German-speaking companies.

### IMPLICATIONS FOR U.S. MANAGEMENT ACCOUNTING

It's evident that German cost accounting methods have accomplished what U.S. methods have not. There's a strong commitment to GPK in all the companies I visited. It's clear that there's a strong understanding of cost and how to control it as a result of the deployment of GPK. It's also recognized that ABC complements GPK in administrative and "nondirect" cost centers. In fact, it can be argued that the discipline required to establish a cost center is identical to that required to establish an activity center in ABC. The important distinction—source of long-term sustainment—is the incorporation of a disciplined methodology into organization measurement and management, planning, and control systems. It's possible that incorporating the successful aspects of GPK with those of ABC, combined with disciplined methodology and competent software, will satisfy the needs of U.S. CFOs.

There are a number of potentially useful aspects of German cost accounting methods. Many U.S. organizations already have ERP software in place and are ready to implement better decision-support, planning, and control methods using GPK logic that incorporates ABC. If so, the investment should be relatively inexpensive. Perhaps some of the CFOs who are frustrated with their lack of cost management capability would care to explore how they can take advantage of what they already own! ■

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