

## DRAFT STATEMENT ON MANAGEMENT ACCOUNTING

# *Definition of* **Management Accounting** *and* **Management Accountants**

This Statement on Management Accounting (SMA) presents a proposed 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 it. The proposed new definition is:

**Management accounting** is a professional discipline that has an integral role in formulating and implementing the organization's strategy. **Management accountants** are part of the management team, working within the organization at many levels: from top-level management to support-level accounting and finance professionals. Management accountants apply their knowledge and experience in accounting and financial reporting, budgeting, decision support, risk and performance management, internal control, and cost management.

### BACKGROUND

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

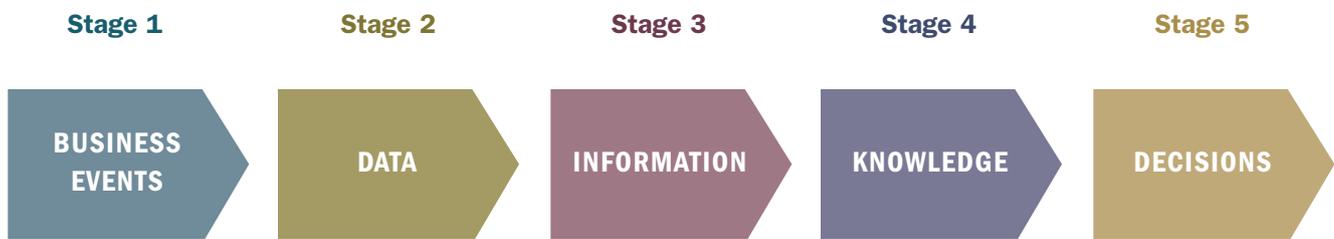
In recognition of this fact, in 1981 the Institute of Management Accountants (IMA®) (then the National Association of Accountants) issued its first Statement on Management Accounting, titled *Definition of Management Accounting*. That SMA defined management accounting as follows:

*Management accounting is 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 financial reports for non-management groups such as shareholders, creditors, regulatory agencies, and tax authorities.*

Since the promulgation of that definition, the field of management accounting has evolved considerably. For more than a decade, IMA has supported and participated in research (see References) that has been a call to action for management accountants to move from a transaction and compliance orientation (as reflected in the 1981 defi-

**Figure 1**



dition) to become strategic business partners—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 used in practice today and many discussions about the role of the management accountant are not consistent with the move to strategic business partner that is now under way. Many of these definitions explain the role of the management accountant as an information provider—one who gathers, summarizes, analyzes, and reports information to management decision makers. The information-provider role can be presented in the context of the information “value chain” in an organization, as shown in Figure 1.

The information-provider role for management accountants is often described and interpreted as taking place at the lower end of the value chain. The results of the research cited above and the move to strategic partnership indicate that the role of the management accountant must be more diverse across this value chain and include the very highest level—participating in key strategic decisions as part of management decision-making teams.

The existing definitions and presentations of the role of the management accountant represent an “identity crisis” for the profession of management accounting because they are inconsistent with the views management accountants believe to be true in practice today. These views are identified in the research cited above (see References) and, broadly, they reflect the view that the management accountant has an integral role in formulating and implementing the organization’s strategy and that the management accountant works with management teams, applying their unique competencies as management accountants. For this reason, IMA has sought to develop a new definition that would be consistent with the role of the management accountant in today’s organizations.

## DEVELOPING THE DEFINITION

The work toward developing a new definition of management accounting was started at the regular biannual meeting of IMA’s Foundation for Applied Research (FAR) in August 2007. The FAR Standing Committee members developed the following plan at this meeting:

1. Identify a subcommittee of FAR that would develop a proposed new definition.
2. Have the proposed definition reviewed by the full FAR Standing Committee.
3. After review within FAR, seek input from IMA members, members of the Management Accounting Section of the American Accounting Association (AAA), and appropriate liaisons in other professional organizations.
4. Based on this input, develop a revised definition for adoption by the full FAR Standing Committee.
5. Present the draft definition to the IMA National Board at its meeting in conjunction with the IMA Annual Conference 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.

The subcommittee was formed and met for the first time at the August 2007 FAR meeting. Next, it held a series of conference calls between September and December 2007 to develop the definition.

The subcommittee determined that the definition should 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 the academic literature. Through the series of conference calls, the subcommittee developed a proposed definition, shared it with the FAR members, and received feedback from the full FAR Standing Committee.

The subcommittee then presented a technical session

at the annual meeting of the AAA's Management Accounting Section on January 12, 2008, in Long Beach, Calif. They received useful feedback, which they incorporated into a revision of the definition. The revised draft was presented to and adopted unanimously by the full FAR Committee at its regular biannual meeting March 8, 2008, in Dallas, Texas. The FAR chair then presented the definition to the IMA National Board at the IMA Annual Conference in June. The Board approved the dissemination of the new definition for comment.

## RATIONALE FOR THE DEFINITION

In developing the definition, the FAR Standing Committee focused on a predetermined set of criteria (noted above) and on three important components of management accounting, which follow in order of priority:

- ◆ Management accounting's essential component is the formulation and implementation of strategy to help an organization succeed. This component states the role of the management accountant in broad terms. In a more detailed sense, the component states that every management accountant, at whatever point on the information value chain they may be, contributes to the organization's success through the implementation of strategy.

- ◆ To accomplish the above, management accountants work with management teams. This component reflects the research and practice that tell us that management accountants work as part of management teams, at all levels of the information value chain, including participation in strategic management decision making.

- ◆ The management accountant's role on the management team can be explained by a brief list of global, inclusive competencies. This component is necessary to spell out how the management accountant is different from other professionals in the organization since the implementation of strategy by management teams can be associated with any management professional in the organization. What differentiates the management accountant? The choice of competencies to include in the definition was guided by these criteria: succinct, global, timeless, inclusive, and forward-looking.

These three components are incorporated in the definition's first, second, and third sentences, respectively.

## WE WANT YOUR INPUT

Now that you have read the proposed new definition of management accounting and management accountants, we want your input. Does it resonate with you? Would you leave it as is? Would you make changes? If so, please

give us your suggestions. We want to make sure that those inside and outside the profession understand what management accounting is and what management accountants do. Please send your comments and suggestions to Raef Lawson, IMA research director and professor-in-residence, at [rlawson@imanet.org](mailto:rlawson@imanet.org) by September 10, 2008. ■

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