

Contents

Preface	xiii
■ CHAPTER 1 Introduction to Management	
Accounting and Control	1
The Concepts of Management, Accounting, and Control.....	2
A Definition of Management	2
A Definition of Accounting.....	3
A Definition of Control.....	4
Bringing it Together: Management Accounting and Management Control.....	5
Management Accounting.....	5
Management Control.....	6
The Role of a Controller in an Organization.....	9
Skill Set of a Controller.....	10
The Management Control Function in a Corporation.....	12
Management Accounting vs. Financial Accounting	14
Financial Accounting	14
Contrasting Management Accounting and Financial Accounting.....	15
Performance Measurement and Performance Reporting	17
An Example of Performance Reporting	17
Performance Measurement beyond Financials.....	19
Trends in Management Accounting and Control.....	20
Ethical Aspects of Management Accounting and Control.....	23
■ CHAPTER 2 Management Reporting.....	
Information Needs in Business	30
What is “Information”?.....	31
Information Supply vs. Information Demand.....	32
Management Reporting as a Key Information Tool.....	34
Scope and Definition of Management Reporting	35
The Management Reporting Process.....	36
Management Reporting Dimensions	38
“What For?” – Management Reporting Purposes	40

“What?” – Content of Management Reports.....	42
Inductive Methods.....	42
Deductive Methods	43
Information Sources.....	44
“How?” – Preparing and Communicating Management Reports.....	46
Amount of Information	46
Order and Structure.....	47
Relationships between Pieces of Information	49
Presentation and Visualization.....	50
“When?” – Timing Issues in Management Reporting.....	50
Reporting Cycles	50
Duration of Report Preparation	51
Timeliness and Punctuality.....	52
“Who?” – Parties Involved in the Management Reporting Process.....	53
Emerging Trends in Management Reporting	54
Reporting Factories	54
Self-Reporting	55
Cooperative Reporting	56
 ■ CHAPTER 3 Managing Cost	61
Cost Management.....	62
Cost Accounting vs. Cost Management	62
The Focus of Cost Management.....	63
Cost Management Tools.....	65
An Overview.....	65
Problems of Volume-Based Cost Allocation.....	65
Activity-Based Costing and Process-Based Costing.....	67
How Activity-Based Costing Works.....	67
How Process-Based Costing Works.....	70
Activity-Based Costing and Process-Based Costing – a Comparison.....	71
Process- and Activity-Based Management Control.....	73
Cost Reduction and Process Efficiency Improvements.....	74
Pricing and Product Mix.....	74
Product and Service Design.....	74
Planning and Budgeting	75
Target Costing.....	75
Determining the Cost Gap in Target Costing	76
The Target Costing Process	77
Splitting Target Cost into its Sub-Values	79
Target Cost Index and Target Cost Diagram	81
A Critical Reflection: When is Target Costing Appropriate?	82

Life Cycle Costing.....	83
Cost and Revenue Elements Across the Product Life Cycle.....	85
Contribution Margin Method of Life Cycle Costing.....	86
Discounting Method of Life Cycle Costing.....	88
A Critical Reflection: What Life Cycle Costing Can and Cannot Do.....	91
■ CHAPTER 4 Budgeting.....	97
Planning in Management Control.....	98
The Budgeting Cycle	100
Uses of Budgets.....	101
The Master Budget	102
Preparing an Operating Budget.....	104
The Revenue Budget.....	105
The Production Budget.....	106
The Direct Materials Budget	107
The Direct Labor Budget	108
The Manufacturing Overhead Budget.....	108
The Manufacturing Costs Per Unit.....	109
The Cost of Goods Sold Budget.....	110
The Non-Manufacturing Costs Budgets.....	111
The Budgeted Income Statement.....	112
Discussing the Operating Budget.....	113
Preparing a Financial Budget.....	114
The Cash Budget	114
Preparation of the Cash Budget	115
The Budgeted Cash Flow Statement	118
Discussing the Cash Budget and the Budgeted Cash Flow Statement	119
Motivational Aspects of Budgeting.....	121
Motivation Versus Planning.....	122
Top-Down versus Bottom-Up Budgeting.....	123
Budget Manipulation	125
Strengths and Weaknesses of Traditional Budgeting.....	126
The Strengths of Budgets	126
The Weaknesses of Budgets.....	127
■ CHAPTER 5 Alternative Approaches to Budgeting.....	133
Budgeting – Necessary Evil or Valuable Management Tool?.....	134
Overview of Alternative Budgeting Approaches.....	134
Approaches Complementing Traditional Budgeting	135
Incremental Budgeting	135
Zero-Based Budgeting.....	137

Setting Up a Zero-Based Budget	138
Zero-Based Budgeting Example	139
Activity-Based Budgeting.....	141
Activity-Based Budgeting Example.....	142
Improvement Approaches to Budgeting.....	144
Better Budgeting.....	144
Continuous Improvement ("Kaizen") Budgeting.....	146
Abolishing Budgets – The Beyond Budgeting Approach.....	147
 ■ CHAPTER 6 Performance Measurement – Financial Statements 153	
The Importance of Performance Measurement	154
Measuring Financial Performance	156
Sources of Financial Information.....	156
The Balance Sheet.....	157
Five Major Elements of the Balance Sheet.....	158
Non-current Assets.....	159
Current Assets	162
Non-Current Liabilities.....	162
Current Liabilities.....	163
Owners' Equity.....	163
Market Values Versus Book Values.....	163
Important Balance Sheet Concepts.....	164
Total Assets	164
Financial Debt	165
Identifying Financial Debt	166
Net Debt	167
Net Working Capital	170
Capital Employed	172
The Income Statement	173
The Multi-Step Profit Cascade.....	176
Earnings Before Taxes (EBT).....	177
Earnings Before Interest and Taxes (EBIT).....	178
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	179
The Statement of Cash Flows.....	180
Preparing a Statement of Cash Flows.....	182
Sources and Uses of Cash	182
Determining Cash Flow with the Indirect Method	183
Cash Flows from Operating Activities	184
Cash Flows from Investing Activities	186
Cash Flows from Financing Activities	187

Analyzing the Statement of Cash Flows	189
Change in Net Working Capital.....	191
CHAPTER 7 Performance Measurement – Key Performance Indicators	199
Performance Indicators	200
A Note of Caution	202
Financial Ratios.....	203
Profitability Ratios.....	205
Profit Margin	205
EBIT Margin (Return on Sales).....	207
Gross Profit Margin.....	207
Return on Investment Ratios.....	208
Return on Equity (ROE).....	209
Return on Assets (ROA)	209
Return on Capital Employed (ROCE).....	210
A Note on the Time Dimension	211
Asset Management Ratios	213
Total Asset Turnover.....	213
Fixed Asset Turnover	214
Inventory Turnover.....	215
Days' Sales in Inventory (DSI)	215
Days Receivables Outstanding (DRO)	216
Days Payables Outstanding (DPO).....	217
Cash Conversion Cycle	217
Days Working Capital (DWC).....	218
A Comparison.....	220
Capital Structure and Financial Leverage Ratios	222
Total Debt Ratio	222
Debt-to-Equity Ratio.....	224
Equity Multiplier	224
Interest Coverage and EBITDA-to-interest Ratio.....	224
Net Debt-to-EBITDA.....	225
Financial Leverage	228
Calculating the Leverage Effect.....	230
Liquidity Ratios	231
Current Ratio.....	232
Quick Ratio.....	232
Cash Ratio.....	233
Systems of Performance Measures.....	233
The DuPont System.....	234

Non-Financial Performance Measures	237
Typical Performance Measures in Logistics	237
Delivery Reliability.....	237
Supply Chain Cycle Time.....	238
Replacement Time.....	238
Typical Performance Measures in Human Resource Management.....	238
Employee Satisfaction.....	239
Absenteeism Rate	239
Staff Fluctuation Rate	239
Typical Performance Measures in Manufacturing.....	240
Productivity.....	240
Capacity Utilization.....	240
Reject Rate	241
Throughput Time	241
Typical Performance Measures in Marketing.....	241
Customer Churn Rate	241
Click Through Rate (CTR)	242
Price Elasticity of Demand.....	242
Using Performance Measures in Business.....	243
Time Trend Analysis	243
Peer Group Analysis (Benchmarking)	244
A Benchmarking Example	245
Problems of Benchmarking.....	247
Major Criticism of Key Performance Indicators.....	247
 ■ CHAPTER 8 Value-Based Performance Measurement	257
The Goal of a Business Firm	258
Shareholder Value as the Overall Goal	260
A Justification of Shareholder Value	261
Shareholders vs. Stakeholders	263
Shortcomings of Traditional Performance Measures.....	264
Measuring the Creation of Shareholder Value	265
Residual Income	266
Economic Value Added (EVA)	267
The EVA Formulas.....	267
Net Operating Profit After Taxes (NOPAT)	269
Capital Employed (CE)	269
Return on Capital Employed (ROCE).....	271
Weighted Average Cost of Capital (WACC).....	271
Cost of Equity	272

A Numerical Example of Calculating EVA.....	274
EVA Adjustments.....	277
Using EVA as a Superior Performance Measure	278
Three Competing Metrics.....	278
The Underinvestment Problem of ROCE.....	279
Ways to Increase EVA – The Value Driver Tree.....	282
Portfolio Management Decisions with EVA.....	286
Criticism of EVA.....	289
Alternative Value Concepts.....	290
Economic Profit.....	290
Cash Value Added	291
Market Value Added	293
Value-Based Management Systems.....	294
■ CHAPTER 9 Strategic Management Accounting and the Balanced Scorecard	303
Strategic vs. Operating Management Accounting	304
Phases in the Strategic Management Process and the Role of the Controller	307
Finding and Formulating a Strategy.....	307
Implementing a Strategy.....	308
Corporate-Level Strategies vs. Business-Unit Level Strategies	309
Corporate-Level Strategies	310
Business-Unit Level Strategies	311
Selected Instruments of Strategic Management Accounting	312
External vs. Internal Factors.....	312
Environmental Analysis	313
Industry Analysis – Porter’s Five-Forces Model.....	315
Generic Strategies.....	317
Value Chain Analysis	318
Product Life Cycle Analysis.....	319
BCG’s Portfolio Matrix.....	321
SWOT Analysis.....	323
The Balanced Scorecard.....	326
Genesis of the Balanced Scorecard	327
Key Characteristics of the Balanced Scorecard.....	328
Structure of a Balanced Scorecard	329
Financial Perspective.....	331
Customer Perspective	332
Internal Business Process Perspective.....	332
Learning and Growth Perspective (Innovation and Learning)	334

Cause-and-Effect Links.....	335
The Strategy Map.....	335
Features of a Balanced Scorecard	337
Developing a Balanced Scorecard	339
Step 1: Formulate the Strategy and Clarify the Strategic Objectives Along the Perspectives.....	339
Step 2: Set up the Strategy Map.....	340
Step 3: Define Measures for the Strategic Objectives.....	341
Step 4: Define Initiatives and Responsibilities for Each Objective.....	341
Step 5: Feedback and Continuous Improvement.....	342
The Balanced Scorecard as a Strategic Management System	342
Application in Corporate Practice.....	345
Criticism of the Balanced Scorecard	347
 ■ CHAPTER 10 New Developments in Management	
Accounting and Control	355
Hot Issues and Future Challenges in Management Accounting.....	356
Management Accounting in Networks and Supply Chains	357
Management Accounting for Quality – Six Sigma.....	359
The Role of Management Control in Six Sigma	361
Six Sigma in Practice.....	362
Integrating Human Behavior into Management Accounting	363
Environmental Management Accounting.....	366
Integrated Reporting.....	368
Integrating Financial and Management Reporting.....	370
The Integrated Reporting (IR) Framework.....	371
Management Accounting and Control with Big Data	372
The Role of the Controller in Big Data.....	374
A Critical View on Big Data	375
 Bibliography.....	381
Index.....	387