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# YAHOO TAKES A NEW DIRECTION

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talks about growth, strategies  
and battling Google



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# Management accountants'



## day in the sun



# New trends and the recent development of proposed global principles have pushed management accounting into the spotlight.

George W. Russell looks at the evolution in the field and its practice in Hong Kong and China

Illustrations by Harry Harrison

**G**ary Biddle, Professor and Chair of Accounting at the University of Hong Kong and a co-opted Council member of the Hong Kong Institute of CPAs, likens the relationship of management accounting and financial accounting to the solar system. “Management accounting is like the sun,” says Biddle. “It is the thing generating the energy, the results of companies. Financial accounting is more like the moon – it simply reflects them.”

While much meaningful data can be read by moonlight, it is vital to capture the heat of the sun, says Biddle, a fellow of the Institute. He believes that management accounting is on the ascendancy, and for good reasons. “Management accounting has grown a whole lot more important,” he says. “Companies have to concentrate more on value creation than valuation.”

The rising importance of management accounting has been an evolving process for some years, but some CPAs say the field has been handicapped by its lack of a coherent structure, compared with the rigorous stan-

dards applied more or less globally to auditing and financial reporting.

That might change with the release in February of proposed Global Management Accounting Principles designed to create a comprehensive framework to bring consistency to management accounting practices around the world.

The principles (See *Three major principles* on page 31) jointly issued by the American Institute of CPAs and the London-based Chartered Institute of Management Accountants and subjected to a 90-day consultation period that ended last month, have helped thrust management accounting into the international spotlight.

“From this global consultation, we will deliver a blueprint for rigorous forecasting that meets the needs of businesses,” Barry Melancon, President and Chief Executive Officer of the AICPA, said at the launch of the consultation. “Our goal is to help management accounting professionals build higher-performing organizations.”

In Hong Kong, the growing popularity of management accounting has led the Institute to include it as a module in its Financial Controllership Programme now under development, says Jonathan Ng, the Insti-

tute’s Executive Director, Qualification and Education.

“We are aware that management accounting is a growing trend,” says Ng. “More management accountants are out there and they need to have that level of knowledge. We are trying to do this Financial Controllership Programme as a way to address the need for more education on the management accounting side,” he says. (See *Current ideas, looking ahead*, on page 28.)

Ng adds that he hopes the proposed management accounting principles become “a golden benchmark for accountants to adopt and also be used for training purposes.”

Management accounting experts are keen to emphasize that shoring up CPA skills in the field should not be at the expense of financial accounting, the bread-and-butter accounting of auditors and financial controllers. “The answer is not to do less financial accounting but more management accounting,” says Biddle at HKU.

## Frontline accountants

Professional accountants in business working on the frontline of companies say their priorities have evolved. “Most PAIBs working in management accounting perceive

that their roles are changing,” says Sandy Wong, Senior Management Accountant at Nestlé Hong Kong and an Institute member. “They have a stronger need for management skills than accounting skills.”

Wong says that in addition to forecasting and analysis, at her company management accountants are assigned to each business unit as individual controllers. “We control spending and improve spending efficiency,” she explains.

Ricky Wong, Manager, Group Management Accounting and Planning at Hutchison Whampoa and an Institute member, says that management accountants are expected to “focus on treasury and cash flow management, free cash flow as a measure of financial performance, and earnings before interest, taxes, depreciation and amortization.”

Wong welcomes the Institute’s moves

to provide more management-accounting training. While technical skills associated with financial accounting are important, it is also necessary to possess the analytical skills to understand the underlying business principles associated with accounting standards and data, Wong adds.

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Eric Fok, Director of Fortune Chart Financial Consultants and a member of the Institute’s Professional Accountants in Business Leadership Panel, says that the main difference in management accounting is that it

looks forward. “It is more management than accounting, using statistics, iteration, optimization within constraints, and finance, marketing and organizational theories,” he says. “It is about making a judgment.”

Fok points out that while management accounting might not have as delineated and stringent standards as financial accounting, it does already have certain regulations and practices. “There are rules on risk management, cost apportionment such as activity-based costing and capital investment,” he explains.

### Drilling data

Much of management accounting focuses on the analysis of data, experts say, and how that data is acquired and analysed differentiates the management accountant from the auditor. As K.M. Wong, Group Manager, Finance and Accounting, at Power Assets

## CURRENT IDEAS, LOOKING AHEAD

The primary mission of the Hong Kong Institute of CPAs’ Qualification Programme is to train professional accountants. As Jonathan Ng, Executive Director, Qualification and Education, observes, the main focus of the programme thus far has been on financial accounting.

“Financial accountants produce financial statements in accordance with accounting standards,” he says. “We also train auditors, who will perform an audit of these financial statements and then give an opinion on whether they represent a true and fair view.”

This is external reporting: investors make a judgment on whether or not to invest in companies based on financial statements. “Conversely management accountants do internal reporting and produce a set of management accounts for internal decision-making,” says Ng.

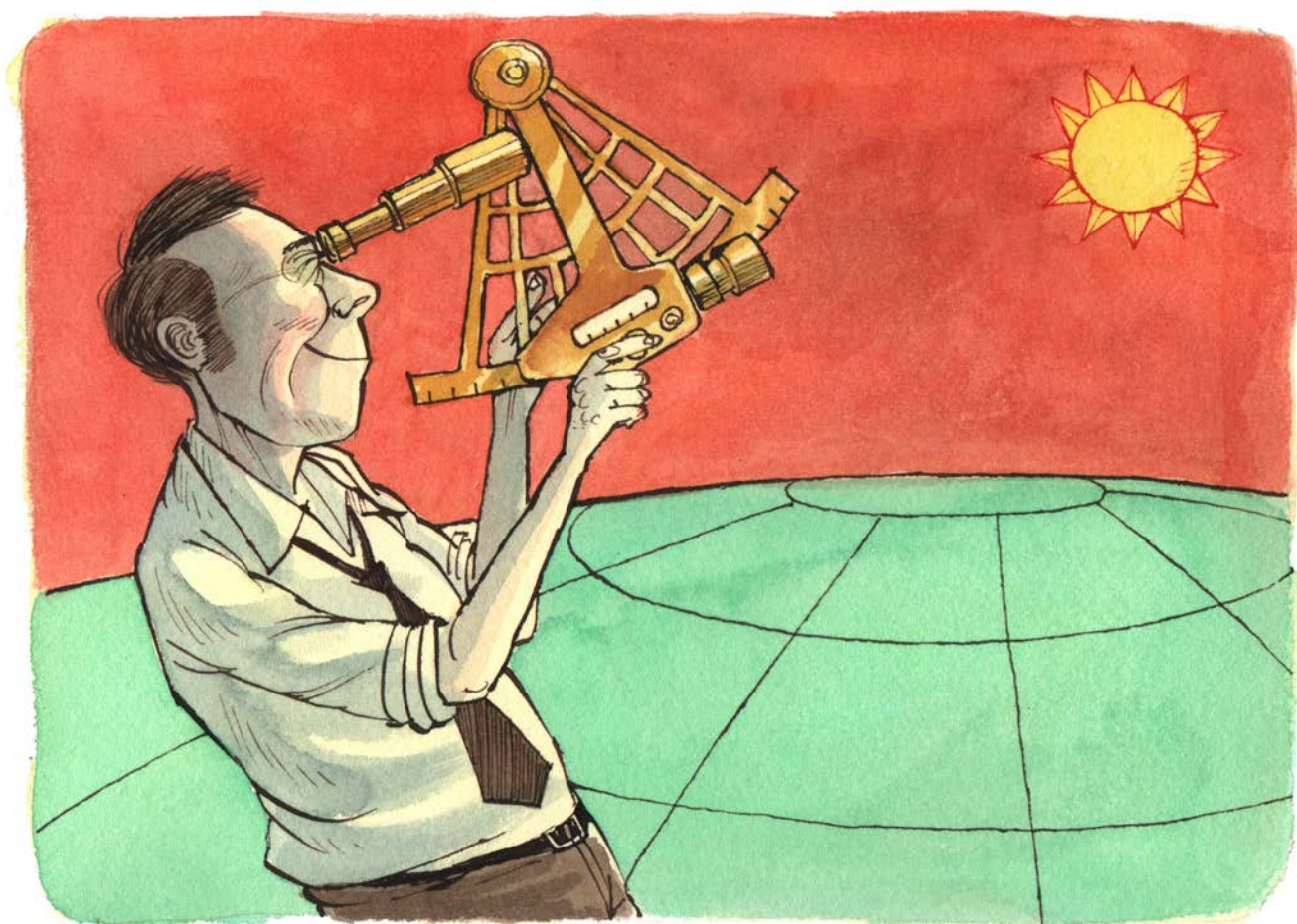
Of the Institute’s 37,000 members, about 80 percent are professional accountants in business and that proportion is set to grow. Most of them, says Ng, started as an auditor and after three to five years’ experience, transitioned into a PAIB.

The Institute, Ng adds, has debated how training can be more in line with the requirements of a PAIB. “Either we could train them as they are obtaining their CPA qualification, or we can do this after they qualify as a CPA,” he says. “In the end, we decided we should do more after they qualify.”

For QP students, elements of management accounting are now taught as part of the Corporate Finance syllabus of Module B. In the future, Ng says, the syllabus could be split into Corporate Finance and Management Accounting, putting greater emphasis on the latter than is presently in the curriculum.

The goal is to enable graduates to perform several tasks necessary for modern management accountants, according to K.M. Wong, Group Manager, Finance and Accounting, at Power Assets Holdings and an Institute Council member. They include, he says, being able to:

- Understand key cost drivers and profit contributors and be able to tell the board and management which product, service, business model or organization structure that made sense before, no longer does now or won’t in the future;
- Provide the board and management with forecasts and updates so that they can keep up with rapid changes in business;
- Understand investment opportunities by being up-to-date with tools and evaluation methodologies;
- Review available talent pools, given that different stages of business require different skills; and
- Keep an eye on tomorrow and understand that a lead-time is required to implement the effects of change.



Holdings and an Institute Council member, points out, “one of an accountant’s essential functions is providing useful information to company management.”

Globally, management accountants believe themselves to be in an age of predictive analytics, with an emphasis on forecasting strategy and operations. “This is reflected in the fact that more management accountants are working under the titles of financial planner or analyst,” says Wong.

For management accountants to be effective, he adds, they need to keep constantly up to date with the latest processes and information. “The management accountant must review what is useful to the organization from time to time and improve and strengthen accountability processes.”

As technology increases the amount of data available, the management accountant’s job will become even more analytical. “The management accountant of the future

will spend less time preparing information and more time reviewing information,” forecasts Dickson Leung, Senior Partner of the LehmanBrown accounting firm in Beijing and a Chinese Institute of CPAs member.

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**“The management accountant of the future will spend less time preparing information and more time reviewing information.”**

Leung adds that management accountants have to be able to drill down into data about an organization’s individual units and market segments. “They are now breaking down the analysis into smaller components,” he says.

To deal with this new deluge of data,

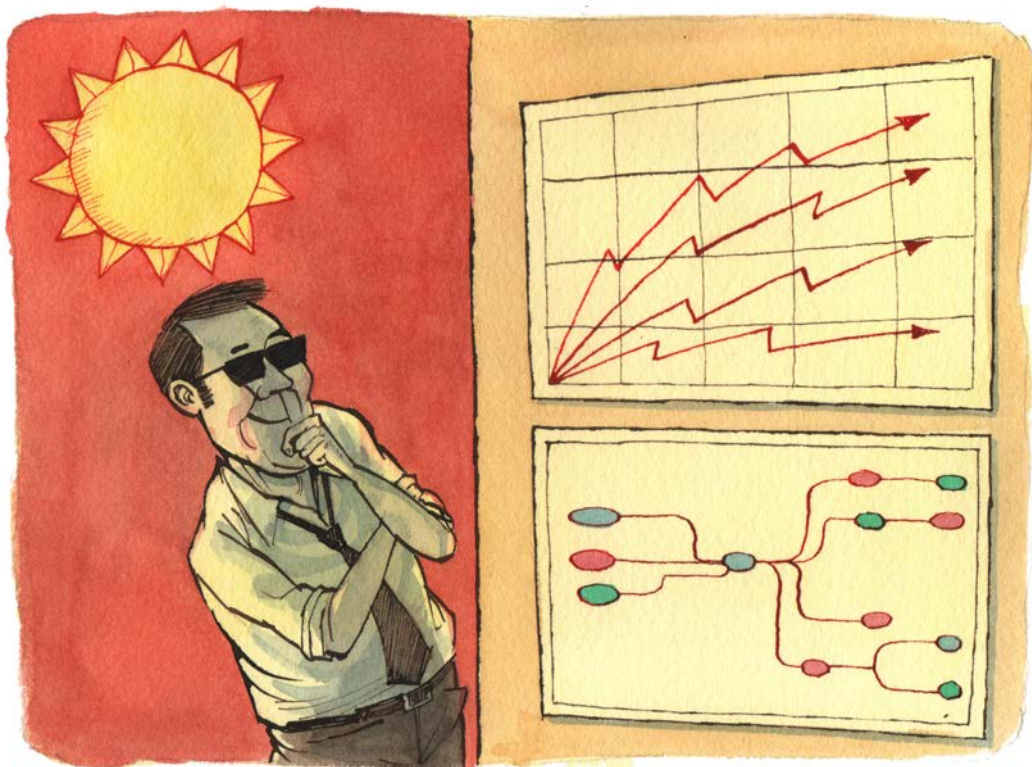
management accountants are increasingly turning to more complex tools for analysis. Wong of Nestlé says that management accountants increasingly use simulations as a tool for forecasting. “This role has become more important in companies.”

“The current major trend in management accounting is the moving away from verifiable data and towards modelling, so [giving] a range of answers rather than one single answer,” Fok at Fortune Chart Financial Consultants adds.

### **Softly skilled**

Accounting scholars say that management accounting is essential in an increasingly complex business environment. “Intellectual capital, human capital and technological innovation, drive the growth and development of business,” says Artie Ng, Principal Lecturer at Hong Kong Polytechnic University and an Institute fellow.





## FIELD OF OPPORTUNITIES IN MORE COMPLEX CHINA

Management accounting in China is poised for rapid growth, according to CPAs in the Mainland.

A more complex economy and changing management trends are fuelling demand for management accountants, who are scarce in China. "The profession in China is still mainly focused on cost accounting," says Dickson Leung, Senior Partner of the LehmanBrown accounting firm in Beijing and a Chinese Institute of CPAs member. "The Chinese accounting qualification is a financial accounting qualification geared towards regulations and compliance."

The rebalancing of China from an export-oriented economy to a more consumer-focused economy will require productivity gains, according to experts, prompting the introduction of management accounting principles. "The development in China of management accounting is still at the start-up stage, but the growth will be rapid," Leung forecasts.

Interest in management accounting has been spurred by a Ministry of Finance regulation issued in January aimed at upgrading the nation's accounting system, *China Daily* reported in April. A research institution covering the field opened earlier this year at the University of International Business and Economics in Shanghai, while academics report increased interest in management accounting.

"Management accounting has just become more important, and especially around here," says Gary Biddle, Professor and Chair of Accounting at the University of Hong Kong and a

co-opted Council member of the Hong Kong Institute of CPAs, referring to the Mainland.

Biddle, who lectures executive master's of business administration students at universities in the Mainland, attributes the need for management accounting to the narrowing gap between gross domestic product and the cost of capital. "The easy times are over," Biddle told 200 executives at the Shanghai National Accounting Institute last month.

One handicap for budding Mainland management accountants is a lack of transparency of information at many companies. "Especially in manufacturing, management is centralized at the top," says Leung. "Top management sometimes would not want to provide information to management accountants for analysis."

However, Leung says that mindset is gradually changing: as Chinese companies become more complex they are actively seeking management accounting talent. "Top management has no choice but to delegate the management accounting function."

Eric Fok, Director of Fortune Chart Financial Consultants and a member of the Institute's Professional Accountants in Business Leadership Panel, believes the Institute could play a role in developing management accounting in the Mainland. "The Institute has a better chance to push management accounting than an international management accounting body," he says.

## THREE MAJOR PRINCIPLES

There are three major Global Management Accounting Principles, although they are divided into various sub-principles and cover basic areas of practice.

**1. Preparing relevant information**, to ensure that organizations 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**, 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**, 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.

The 12 main practice areas in which the principles are applied within the business model are:

1. Budgeting
2. Cost transformation and management
3. External reporting
4. Financial controls
5. Investment appraisal
6. Price and product decisions
7. Project management
8. Regulatory adherence and compliance
9. Resource allocation
10. Risk management
11. Strategic tax management
12. Treasury and cash management

The principles are scheduled for launch in September.

Sources: CIMA, AICPA

“Accountants should be well-versed in enterprise risk management and internal control techniques as well as strategic corporate planning.”

K.M. Wong, the Institute Council member, says that to face these challenges management accountants must exhibit flexibility and willingness to learn about the future.

Other professional accountants in business stress the importance of soft skills, such as communication, analytical powers and creativity in managing changes and dealing with risks. “I think one important soft skill [necessary for] a management accountant is to be able to present accounting information to anyone with no knowledge of accounting,” says Ricky Wong at Hutchison Whampoa.

“You don’t need to be a great negotiator, but you need to be a good presenter,” he adds, “because it is usually the management accountant’s role to present to senior

**“I think one important soft skill necessary for a management accountant is to be able to present accounting information to anyone with no knowledge of accounting.”**

management the accounting impact of business transactions.”

For Biddle, the shift to management accounting as a core discipline begins with education. “If you look at the backgrounds of most CFOs, what you’ll find is their financial accounting background, training and expertise is very strong,” he says. “If you ask them about management accounting, they may not have received much training and

I’m concerned about this.”

Management accountants in the field say their expertise is picked up on the job. “We become a kind of coordinator for projects, and gather input from different departments such as sales, marketing and logistics,” says Sandy Wong at Nestlé. “We synchronize everything.”

Wong says she would welcome efforts by the Institute to help promote and encourage the pursuit of management accounting. “There are a few things that I believe make management accounting attractive,” she says, such as developing business models and taking a broad view of a company’s market position.

“The work of management accountants helps the decision-making process of management as they count on our forecasts to make critical decisions,” Wong adds. “As a job, it’s challenging, it’s interesting and it’s important.” **A**