

October 1, 2012

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Professional Accountants in Business (PAIB) Committee Comments on the Proposed Conceptual Framework for Managerial Costing

Dear Larry,

On behalf of the IFAC PAIB Committee, I commend the Institute of Management Accountants (IMA) for its valuable and ambitious work in identifying the key elements of managerial costing. We strongly share the IMA's belief that the way costing and cost management is applied in organizations can greatly affect an organization's ability to be effective and efficient.

We see the Conceptual Framework work as, to a large extent, complementary to our own 2009 International Good Practice Guidance (IGPG) [Evaluating and Improving Costing in Organizations](#). That work was designed to be a set of international principles of good practice that clearly distinguish between the purposes and information needs of cost accounting to meet the demands of external reporting, cost measurement, and reporting for internal decision support.

As you may be aware, because there was an IMA representative on the PAIB Committee at the time, we made a conscious decision a few years ago not to attempt to develop standards of management accounting. Instead, we opted to capture the key elements of good practice in areas of importance to professional accountants in business by identifying guiding principles. As the global body for accountants, we find the diversity of management accounting practice is so greatly influenced by different contexts in terms of type of culture, organization, geography, and legal frameworks, among other factors, that a prescriptive approach to guiding management accounting practice would fail to command international recognition. Therefore, the PAIB Committee has not advocated standard setting for managerial accounting, which it views as the exercise of professional judgment and competence guided by principles.

Although we do not advocate international standards, the IMA task force may wish to note that auditable cost accounting standards have been developed in some individual jurisdictions, notably in South Asia. The attached observations from a PAIB Committee member from the Institute of Cost Accountants of India provide additional details.

Therefore, we agree with the IMA's approach to develop principles to guide practice. The PAIB Committee would be interested in discussions with the IMA on how this work could be leveraged internationally and, perhaps, used to reinforce the committee's 2009 IGPG. However, we think that the current emphasis of the Conceptual Framework is written mainly from a US perspective and fear it might have limited resonance internationally.



Below are some suggestions for improving the conceptual framework and its accessibility.

1. We think that the length and somewhat discursive style of the document inhibits its readability, making it a less compelling read for organizations that may otherwise adopt it. One way to deal with this editorial challenge might be to break the Framework down into separate documents or sections. For instance, you might consider issuing the principles underlying the Conceptual Framework separately from the practical guidance that will help IMA members and others to apply the principles. On the assumption that it is not your purpose to write an academic textbook, and that the principles and guidance will be the prime focus of interest for management accountants, the intellectual basis for the approach might be placed into a separate document. To build a compelling case for using the principles, it might be also useful to have a high-level summary briefing that quickly communicates the key issues, principles, and topics for consideration.
2. The Framework, as well as the examples, should appear relevant to all types of organizations. Much of the narrative and many of the examples have a manufacturing focus. Service-based companies can have unique challenges that could be usefully discussed. For example, in the discussion about capacity, there is no reference to labor capacity, which is of importance to organizations driven by mainly human capital resource. Similarly, the emphasis on cost, and its almost total de-coupling from revenue and outcomes, may show the Framework's bias to purely manufacturing applications.
3. Accuracy is defined on page 73 as, "The degree to which managerial costing information reflects the concepts you intended to model." Principle A refers to accuracy and the need to provide an "accurate, objective cost model of the organization and cost information that reflects the use of the organization's resources." We believe that the development of a cost model needs to be separated from the delivery of decision useful information to users. Although the cost model might need a high degree of accuracy in relation to what is being tracked and valued, not all managerial decisions require highly accurate information. Accuracy is also referred to in Principle C and again in E. In terms of Principle E, an accurate measurement of physical flows is necessary to support the model. However, professional accountants in business are often faced with deciding which information characteristics are the most important, given a specific context, and judging the tradeoffs between characteristics. The characteristics of good information include accuracy, relevance, reliability, consistency, completeness, and timeliness, but usually not all can be included in at the same time in support of decision making.
4. Finally, I draw your attention to the diagram on page 8, which is taken from the IFAC 2009 guidance. We are happy for you to reproduce it, but this diagram is currently misrepresented in your text: it was not intended to represent the whole sphere of management accounting but rather to place costing within the domain of financial management within an organization. We do not agree with the view that the term "management accounting" should be used synonymously with "cost accounting." We also support a much broader definition of management accounting covering the domain of professional accountants in business, as defined in our publication [*Competent and Versatile: How Professional Accountants in Business Drive Sustainable Success.*](#)



Please do not hesitate to contact me should you wish to discuss matters raised in this submission. We also would look forward to having an IMA representative join us at our next meeting, to be held in New York on March 18 and 19, 2013.

Sincerely,

A handwritten signature in black ink, appearing to read "Roger Tabor", with a stylized flourish underneath.

Roger Tabor
Chair, PAIB Committee