Accounting & Management controlling system

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INTRODUCTION

Planning is important for managing a company. It involves making decisions, such as savings decisions. Most management decisions are based on the future plans of the business. Of course, managers cannot perfectly foresee the future. When managers make decisions they rely on forecasts which involve considerable uncertainty. Nonetheless, planning and forecasting prepares the organization for different potential situations in the future. Businesses typically have a defined structure. Managers must arrange the resources of a business, meaning they display the different elements of an organization into a decided and resourceful order or structure. Such elements or resources involve assets, funds, human possessions and information. Typically, managers choose a hierarchical structure for managing the resources of a company.

A Definition of Management

Imagine you are in the role of Pekka Virtanen, the Finn XL manager in our short story above. What day-to-day activities do you perform as a manager? What functions will you assume in a business to keep operations running? What are your goals? This leads to the general question as to what the term "management" stands for.

A Definition of Accounting

That we have adapted ourselves with the term management, let's move on to the next central concept: Accounting.

Accounting denotes the system that records, analyzes, and reports all business transactions of a company in a regular and inclusive manner in order to provide useful in sequence to users. Accounting is a "system" because it comprises various elements that are logically connected with each other: individuals (accountants) use various tools (for instance computers and accounting software) and follow certain procedures in order to produce its main output: information. Accounting systems typically record only quantitative information. What is the job of an accounting system? It records business transactions. A transaction is any event that affects the stocks and flows of goods and resources such as inventories and machines. An accounting system records these flows and stores the stocks of goods and resources. The information is continuously gathered, processed, and finally reported to the users of accounting information.

A Definition of Control

Control is a device, a system, or an activity which helps you to influence an object. A controlled object does what you want it to do. Think of a remote control of your TV that you use for zapping through the boring Saturday evening program, or a radio-controlled toy car that you steer through a course. These devices are your controls that you need to reach a defined aim. Dive a bit deeper into the management control function. What exactly does it mean to assist managers in implementing a strategy? What system or procedures do companies have in place to reach a certain goal? In modern business organizations, management control is implanted literally in all parts of the company.

1. Operational planning Management control translates a strategic plan into an operating plan. A strategy is by nature rather general, top-down, and includes few concrete instructions. An operational plan is more detailed and guides what has to be done, when, and by whom. While a strategic plan is for the longer term (5–10 years) an operational plan typically is for the current and the next few accounting cycles (1–5 years). While strategies define the overall framework a business operates in, the operational plan tries to make best use of resources within this framework.

2. Budget preparation A budget is the financial expression of an operational plan. Budgeting is a process that is carried out at regular intervals with the aim of having a formal document outlining the financial targets for the next period. 3. Resource allocation (capital budgeting) Doing business means dealing with scarce resources. Assets like cash, machines, or intellectual property rights are limited. Allocating resources means moving the limited funds to those

activities and projects of a company that create the highest value. Thus, resource allocation is actually the genuine investment decision.

3. Performance measurement Planning without ex post control would be useless and a waste of resources. Successful businesses ensure that set targets are achieved and budgets are met. Measuring the performance of the company's operations is essential. It allows a business to monitor its success. Performance measurement includes collecting feedback by comparing own performance with historical figures or with competitors (external benchmarks).

4. Evaluation and employee compensation Management control systems have to ensure that an organization's strategies are executed. An organization consists of people working together across different functions and hierarchies. There might be a defined goal for the entire organization (such as profit maximization), but the individual human beings will have additional personal goals (like maximizing personal wealth or more free time). Therefore, management control must align company goals with the personal goals of managers and employees. A commonly used concept is to install monetary incentives. Personal performance targets are defined and mutually agreed. When a target is achieved, the employee receives a monetary compensation such as an annual bonus. Most companies have management and employee compensation schemes in place. Thereby, management control involves influencing members of the organization to implement a company's strategy

The Management Control Function

A Corporation Where do we find controllers in an organization? Simply speaking, controllers are found where managers are. While there are different management hierarchies in a business, there are also different hierarchies in management control. Management control departments employ accountants and controllers with different skill sets. They are typically headed by a chief controller who often directly reports to the Chief Financial Officer (CFO) of the company. Management control departments are often incorporated in an overall accounting department. Within such an accounting department, further subdivisions for bookkeeping, tax accounting, and financial reporting may exist. A typical organizational chart of larger corporation Specialized departments for different accounting and management control functions are typical for larger companies. Large corporations, for example, may have a separate unit which only deals with managing payables and receivables. The smaller a company is, however, the less likely are such subdivisions. In fact, in small firms, the accounting department itself might even be integrated with the corporate finance function and performed by only one financial manager. But controllers are not only found at a company's headquarters. Since controllers support managers in strategy implementation and decision making, they are found at all levels and in all divisions of an organization. Controllers work in central headquarters as well as in decentralized operating divisions. Look at the example of Bayer AG, the life science company, well-known for its pharmaceutical products such as Aspirin. Bayer has grouped different management functions in its corporate center. Among marketing communication, legal services, and finance functions, you find the management control. At Bayer, however, controllers are not only found in the corporate center. Also in the business areas of pharmaceuticals, consumer health, and crop sciences, controllers do their job. They support operating managers in the day-to-day business activities of manufacturing and selling products and services. Supervisory Board Chief Operations Officer (COO) Chief Finance Officer (CFO) Corporate Finance Cash Management Credit Management Mergers & Acquisitions Accounting Tax Accounting Management Control Financial Accounting Management and Cost Accounting Marketing Production Chief Executive Officer Exemplary organizational chart of a corporation.

The Role of a Controller in an Organization

In the past, the "comptroller" in its original sense was a function specializing in supervising and inspecting budgets or public accounts. Private enterprises in the US frequently have assigned the title of "controller" to the top financial accountant who is in charge of supervising accounting staff and preparing accounting information for both internal and external decision makers. In this book, we follow a broader perspective on the role of a controller. Today's controllers have a much more comprehensive set of tasks to accomplish. A controller is no longer confined to supervising his master's treasury or keeping public accounts. The modern controller is more of a business partner to management. We treat the terms "management accountant" and "controller" as synonyms, even though we continue to mainly use the term "controller" in this book. Controllers occupy themselves with a wide range of tasks that are all focused on providing support to company management. Controllers perform the following activities:

1. Reporting and documenting information about company activities

2. Leading and coordinating planning and budgeting activities

3. Measuring and analyzing the performance of the organization, including variance analyses

4. Consulting managers in decision making and other project work

5. Cost management

6. Performing investment analyses (capital budgeting)

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