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A conceptual framework for teaching management accounting

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ABSTRACT

This paper proposes a conceptual framework for teaching management accounting. The framework is rooted in distinguishing organizations from markets and draws on the fast-developing field of "organizational economics." Market clearing prices, infinitely divisible commodities, and regime of private property rights are three aspects that can theoretically characterize market transactions. This paper argues for conceptualizing the subject matter of management accounting as a response to the relative absence of these aspects of market transactions within organizations. Specifically, management accounting procedures can be classified as instruments that: coordinate the demand and supply of resources in the absence of prices; measure resource consumption given indivisibilities in the cost function; and control resource use when the ownership of assets is separated from its control. This conceptual framework not only lends intellectual coherence to the subject matter of management accounting but also permits its diverse topics to be arranged in a logically articulated manner.

1. Introduction

This paper proposes a conceptual framework for teaching management accounting. About twenty years ago, Vangermeersch (1997, p. 45) complained that "management accounting seems to be a free-standing phenomenon without a deep philosophical basis (that) would facilitate the teaching of cost/management accounting." Responding to his call, there have been many attempts over the intervening years to specify frameworks for and redefinitions of management accounting. This ongoing effort to think through the foundations of management accounting is also linked to renewed attempts to professionalize the field. Section 1 of this paper surveys the relevant scholarly and professional literature to show how the proposed conceptual framework offers a meaningful contribution to it.

Section 2 selectively examines the literature on "organizational economics" to draw out those aspects that can illuminate the field of management accounting. The analyses of organizations are a vibrant and growing area of economics (Gibbons & Roberts, 2013), and it is the distinction between markets and organizations that constitutes the bedrock of organizational economics. In particular, it will be argued in Section 3 that three theoretically assumed features of market exchanges—market clearing prices, infinitely divisible commodities, and private property rights—can serve to conceptually delineate markets from organizations as contrasting modes of organizing economic transactions.

In Section 4, the typical toolkit of management accounting is logically derived from the foregoing dimensional analysis of organizations. Within organizations, managerial decisions, rather than prices, fundamentally influence the allocation of resources. Moreover, unlike markets, organizations are not only marked by the separation of ownership and control but also by the presence of indivisible or lumpy resources. The toolkit of management accounting can be linked to, or even more strongly, logically derived from, these features of organizations. Specifically, whereas coordination tools, as exemplified by budgets, are needed to replace the missing

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price mechanism, control tools such as variances, and costing tools such as activity-based costing (ABC), are necessitated by the absence within organizations of private property and divisible resources, respectively. A coherent grouping of specific topics is presented in Section 5 of this paper. It is shown that most of the topics discussed in management accounting textbooks can be classified within the proposed tripartite toolkit and a case is made for a grouping of topics whose order unfolds in an articulated manner.

Section 6 takes up the topic of managerial decisions as discussed in management accounting textbooks. Such decisions as dropping a product line, pricing a special order, or evaluating segment profitability rely on the careful calibration of relevant costs and benefits, which in turn, often exploit the concept of contribution margin and its derivatives. These decisions implicitly invoke the strategic posture of the organization. Other decisions such as the "make-or-buy" and "sell-or-process further" explicitly invoke the boundary of the organization. Decisions that implicitly or explicitly put into question the boundary of the organization directly implicate an organization's strategy.

Strategic considerations are not independent of the theoretical reasons given for why organizations exist. Accordingly, a full consideration of such strategic decisions requires grappling with theories of the firm. Even if yet inconclusive, there is a rich literature in economics, organization theory, and sociology directed at explaining the existence of organizations. Concluding remarks reiterate the virtues of the proposed conceptual framework for organizing the content and teaching of management accounting.

2. Literature review

This section of the paper selectively reviews the scholarly and professional literature on "frameworks" and/or "redefinitions" of management accounting to make a case for the contribution of the proposed framework to this literature.[1] Briefly, the proposed framework offers a theoretically grounded explanation for the existence of management accounting practices. As such, it not only presents a coherent template to teach the subject but also addresses a possible gap in the recent project to professionalize management accounting. However, unlike some others, this conceptual framework for management accounting invokes no philosophical warrant though it is anchored in the field of organizational economics (cf. for example, Marple, 1964; Van der Merwe, 2007; Vangermeersch, 1997). Moreover, it is different in two ways from a notable prior effort to specify the conceptual foundations of management accounting (Belkaoui, 1980). The proposed conceptual framework is founded on the discriminating features of organizations and markets as distinct modes of economic governance. In contrast, Belkaoui (1980) argues that management accounting rests on four conceptual foundations, which are the accounting, organizational, behavioral and decisional foundations. Second, Belkaoui (1980) leaves underspecified the relation between the suggested multi-disciplinary foundations and management accounting procedures and practices.[2] In contrast, the overwhelming majority of managerial accounting topics usually presented in textbooks either derives from or is logically linked to the conceptual framework proposed here.

There seems to be general acknowledgement that management accounting as taught to and perceived by students can benefit from an organizing logic. Greenberg and Wilner (2015) undoubtedly generalize anecdotal impressions in noting that a common complaint they have heard repeatedly over a combined fifty plus years of teaching is the lack of a framework in managerial and cost courses. An organizing framework for management accounting has been thought important, particularly as the role of the management accountant changes from compliance with financial accounting rules and regulations to partnering with decision-makers at the highest levels of the organization (Cooper, 2006; Kittredge, 2009). Unsurprisingly therefore, there have been frameworks proposed for management accounting to meet the increasingly complex and changing context of the practice.

Some have proposed frameworks limited to the issue of product costing. For example, Greenberg and Wilner (2015) suggest using concept maps as a tool to generate integrative frameworks for teaching managerial accounting. Yet, they knowingly limit the application of concept maps to the narrow topic of product costing thus leaving out other subject areas, such as budgeting, which are usually classified within the field of management accounting. In this respect, their integrative framework is similar to the *Conceptual Framework on Managerial Costing* proposed by the Institute of Management Accountants (IMA), which emphasizes costing models needed for managerial decisions (IMA, 2014; see also White et al., 2011).

Other frameworks for management accounting have a wider focus and include topics in management accounting beyond product costing. For instance, in Cokin's (2001) management accounting framework, cost measurement and cost uses are proposed as the two fundamental components of management accounting. Cost measurement includes the methods for collecting cost data and those of assigning costs to cost objects. On the other hand, cost uses cover the decision support function of management accounting techniques that are aimed at improving operational control, measuring performance, and planning for profits. Similarly, Berg (2015) recommends a directional framework for the subject of management accounting, which he conceives of broadly as an instrument for governing the enterprise. The planning and control functions of management accounting mirror the intent of looking ahead and back respectively, whereas the cost analysis and reporting functions reflect the intent of looking in and up respectively. Accordingly, these two frameworks recognize that the managerial functions served by management accounting include planning and controlling in

[1] To discover existing frameworks, I have consulted all papers on managerial accounting listed in the comprehensive reviews of accounting educational papers, as complied and reported in Apostolou, Hassell, Rebele, and Watson (2010), Apostolou, Dorminey, Hassell, and Watson (2013), Apostolou, Dorminey, Hassell, and Rebele (2015, 2016). In addition, as indicated by the citations in this section, further bibliographical searches were conducted on a wider dataset than used by Apostolou et al., which is limited to six scholarly journals.

[2] Belkaoui (1980, p.112) suggests that each "foundation" is composed of "determinants" which are, in turn, made up of "elements". For instance, the behavioral foundation is partly determined by motivation theories which include value/expectancy theory as an element. The possible combinations between all the elements and determinants are excessively large to permit any tight linkages between management accounting and its foundations.