

Management Accountancy

Unit 16

Behavioral Considerations of Management Accounting and Control System (MACS)

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Contents

- Concept of Behavioral Considerations of Management Accounting and Control System (MACS)
- Concept and Objectives of Social Accounting, Balanced Scorecard, Forensic Accounting, Environment Accounting/Green Accounting

Learning Objectives

- Explain the Concept of Behavioral Considerations of Management Accounting and Control System
- Describe Concept and Objectives of Social Accounting, Balanced Scorecard, Forensic Accounting, Environment Accounting/Green Accounting

Behavioral Considerations of MACS

- Embedding the organization's ethical code of conduct into MACS design.
- Using a mix of short- and long-term qualitative and quantitative performance measures (or the Balanced Scorecard Approach).
- Empowering employees to be involved in decision making and MACS design.
- Developing an appropriate incentive system to reward performance.

Social Accounting

- In our society, we have different groups with different interest.
- Social accounting focuses the social and environment effects of the organizations' economic actions to the different stakeholders or interest groups.
- So, social accounting is the process of communicating the social and environmental effects to specific stakeholder in society due to organizations' activities.
- In another way, it is the process to quantify the organization's performance in terms of social and environmental effects.

Need and Benefits of Social Accounting

- A company fulfills its social commitments and informs its employees, the government and the general public so that everyone can form a right view.
- It counters the adverse publicity or criticism leveled by hostile media and voluntary social organizations.
- It assists management in formulating appropriate policies and programs.
- Through social accounting the company demonstrates that in perspective of moral societies and environmental degradation it is not socially unethical.
- It functions as proof of social engagement.

Need and Benefits of Social Accounting (Contd.)

- It improves employee motivation.
- Social accounting is necessary from the view point of public interest groups, social organizations investors and government.
- It improves the image of the firm.
- Through social accounting, the management receives feedback on its policies directed at society's welfare.
- It enables with marketing through higher customer support.
- It increases the trust of the firm's shareholders.

Objectives of Social Accounting

- Effective utilization of natural resources
- Help to employees
- Help the society
- Help to customers
- Help to investors

Balance Scorecard



Source: <https://www.latestquality.com/advantages-of-balanced-scorecard>

Objectives of Balance Scorecard

- Increase revenue through extended sales to existing customers (economic perspective)
- Become service orientated (customer perspective)
- Achieve excellence in order fulfillment through continuous process improvements (internal business processes)
- Align staff incentives and strategic benefits (learning and growth perspective)

Forensic Accounting

Forensic accounting is the investigation of fraud or financial manipulation by conducting highly thorough studies and analysis of financial information.

Forensic accounting integrates an understanding of accounting principles with investigative techniques to determine whether the actions behind financial records and statements are suspicious.

Forensic accountants often quantify damage in cases of fraud and maltreatment as well as in issues concerning insurance, personal injury, business conflicts, business disruption, construction, environmental damage, cyber-crime, product liability, business valuation and more.

Forensic Accounting (Contd.)

Forensic accounting is focused upon the identification, interpretation, and communication of the evidence of economic transactions and reporting events.

For example, forensic accounting reports

- certain funds were not properly accounted for (theft of cash) and
- possible additional work suggested (internal control is weak)
- accounting methods not compliant,
- inadequate accounting systems
- unqualified staffs

Above statements are few examples under required review under forensic accounting service.

Forensic Accounting (Contd.)

- Forensic Accounting Service uses accounting and auditing abilities to provide an assessment of financial records in combination with dispute resolution, as well as fraud and theft inquiry.
- Experts can determine the extent of financial loss and illegal accounting practices. Forensic accounting is sometimes called forensic auditing.
- The significant forensic accounting applications include fraud investigations, instances of negligence and insurance claims.

Objectives of Forensic Accounting

- Reconstruct transactions from records, and tie to supporting documents
- Identify anomalies and inconsistencies among sources
- Determine what has happened and who is responsible
- Quantify economic losses

Environment and Green Accounting

- Environmental accounting (also known as green accounting) is dealt with the environment costs.
- Calculate the costs that business decisions will have on the environment.
- Business activities may destroy natural environment. For example, manufacturing industry, hydropower and other industry destroy the existing natural environment.
- Assess the environment effect before establishment of the industries.
- After establishment of the industries, they need to assess the environment continuously to determine the short- and long-term effects of the decision, such as environment friendly factory, waste management, and greenery in the plant's region.

Environment and Green Accounting (Contd.)

- Environment accounting focuses on gathering, estimating and analyzing costs associated with the use of energy and physical materials like timber, metal or coal.
- The decision makers should think positive and negative effect of the use of these natural resources and try to reduce the wasted materials at the program or enterprise level.
- Firstly, direct investment, for minimization of losses to environment.
 - For example, organization's investment into the equipment that helps in reducing potential losses to the environment.
- Secondly, indirect losses happen due to business operation.
 - For example, air and water pollution, degradation and destruction such as loss of biodiversity, hazardous waste including bio medical waste, and pollution etc.
- So, business organization should be conscious about deforestation during land use and use of non-renewable natural resources may deteriorate the environment.

Objectives of Environment Accounting

- to recognize opportunities for the reduction of environmental costs or to support environmental initiatives that create revenue streams
- to establish energy efficiency goals by doing research on historical data and recent trends about the raw materials used to produce company goods or services
- to determine if appropriate raw material substitutes can produce lower lifecycle costs as well as reduce environmental impacts that are associated with their companies' current practices
- to conduct cost benefit analyses for replacing traditional energy systems with alternative ones like wind turbines and the new solar energy

Need of Environment Accounting

- Business organizations always seek to achieve the business goal with sustainable development.
- Environment accounting at the corporate level helps to know about discharging responsibilities towards the society or not.
- It also helps to check meeting regulatory requirement by the organization, factory operates without environment damage, and provide safe working environment to workers.
- Similarly, management should disclose to their shareholders the amount and nature of the preventative measures as well as action toward the safe handling and disposal of hazardous waste.

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