“If management accountants are to remain useful to the organisations within they work, they need to keep current with changes in management practices” (Horngern, 2002)

Management accounting was evolved from financial accounting in the 19th century, due to the escalated need for more detailed and timelier information for stock control, product costing and decisions affecting the future. The main aim of it was to “provide timely and accurate information which can help create value” (Atkinson et al). I am going to investigate how management accounting has developed over time and whether it still provides a useful tool to managers. Accounting is now facing new challenges, “business people must increasingly recognise that the challenge now is to help to deliver simultaneously economic prosperity, environmental quality and social equity” (Elkington, 1998), which is causing mangers to re-evaluate the practises that are currently conducted.

Traditionally management accounting systems were concerned with providing financial information. However in respond to the changing environment an immense emphasis is now on gathering and reporting non-financial quantitative and qualitative information. This resulted in a movement; treating financial figures as part of a broader set of measures instead of foundations of the practise.

In the 1950’s efforts were made to calculate the total costs involved in producing one unit of X. This emphasised the importance of absorption costing and the accurate apportionment of costs betweens overheads, labour etc.

Then in the 1960s the main issues related to planning and control. No method existed that could be applied to every situation. This paved the way for a user orientated approach. A distinction was made between actual and opportunity costs. The main problem with this was the cost of obtaining information wasn’t taken into consideration. This was eventually recognised and integrated into the accounting procedures.

The main reasons why changes in practices have occurred are due to computer software allowing data to be used more effectively e.g. projecting future performance from past performance. External factors are now being considered to aid budgets, forecasts, share holders now focus heavily on future predictions instead of past performance. Information systems have evolved to an extent where they meet the criteria required by management accountants.

In the 1980's changes in the business environment led to a 'rethink' about the existing management accounting practices.

In some cases measuring a company performance with the use of traditional methods can be limiting.

1. The performance measurements approve by traditional management accounting may be of limited usefulness in certain circumstances.
2. Management account will use limited information for decision make and accounts will not be able to think 'outside of the box' however if wider information is provided then a bigger picture can be built up instead of the company just mapping out the short term plans
3. Traditional costing methods applied to some items may not be right, like the standard costing method.

Before the 1980s organisations operated in protected domestic environment, the lack of communication development and geographical distance limited the amount of overseas competition. An increase in cost of products were passed on to customers, organisations had diminutive incentive to maximise efficiency and improve management practises or minimise cost.

However during 1980s competitors from overseas gained access to domestic markets. This caused organisations to manufacture new products of a higher quality at a lower cost and be able to provide excellent customer service in order to compete effectively. In addition organisations need to be flexible enough to handle shorter life cycles, demand of a larger range of products and international competitors. Organisations respond by substituting traditional production system with the just-in-time system which attempts to get rid of unnecessary stockholdings thereby reducing the associated cost and investing in future manufacturing technologies AMT. This significant change in the environment has lead to the development of 'world-class manufacturing' Schonberger (1986).

Before the 1980s many service organisations were either government owned, monopolies or operated in a highly regulated and protected environment. These organisations had no pressure to develop quality, efficiency and profitability of their operations. Cost increases were dealt by increasing the price of the services; therefore little resources were given to produce cost systems that precisely measured the cost and profitability.

Privatisation of government controlled organisation and deregulation in the 1980s lead to developing cost management and management accounting information systems, in order for organisations to have a competitive advantage.

This lead to the development of the ABC system which uses many cost drivers unlike the traditional method that only use one or two, as a result the ABC method increase product-costing accuracy.

In the eighteenth century the industrial revolution displayed a challenge for producing accounting as a tool for industrial management. The practise of using accounting information to help mangers was not successful; however Josiah Wedgwood constructed costing techniques as guide to management decisions. This new role of management accounting was implemented in the twentieth century

Management accounting has been considered to develop slowly since the 1980's. It has been difficult for managers to use the information given by their company effectively due to management systems being at a primitive stage. Johnson and Kaplan came to conclusion that systems are not supply right information to managers.

The product life cycle has been shortened as a consequence of intensive global competition, new technology and customer demand. For organisations to be successful they now need to introduce products first and speed up the rate of manufacturing. This produced the need for management accounting; in order for organisation to be able manage their costs effectively at the design stage and have the ability to adapt to new, different and changing customer requirements.

The introduction of computers have changed the way organisations operate in today's market, it provides a great advantage to management accounting. Complex techniques such as simulation which is very difficult if done manually can be performed easily with software. The respond time has been shortened as computers can process large volumes of data quickly and accurately. This results in job 'enrichment' for employees.

Modern accounting practices are customer-driven, making customer satisfaction the main concern, using value-chain analysis as a method. Organisations need to concentrate on cost efficiency, quality, time and innovation. To achieve this organisation need to implement new methods of continuous improvement, employee empowerment and total value chain analysis
Customers will buy products with lowest price, therefore organisations need to be cost efficient to be successful. Therefore making the need of cost system producing more accurate cost information to highlight losses and analyse profit.

Customers now want low cost products as well as high quality products and service. Therefore most organisations are adopting total quality management (TQM). TQM has widened from early focusing on the statistical observation of manufacturing processes, to customer-focussed process of continuous improvement that aims to deliver products at constantly high quality and on time.

Before 1980s manufacturing organisations thought of quality as extra costs however at the end of 1980s they began realising that quality saved money. Before production volume was priority over quality. Now TQM is important to design and build quality, requiring management accounting operation to increase in measuring and evaluating the quality of products, services and activities that produce them; as well as time-based measures such as cycle time. Organisations must submit a quality management system to external assessments, International organisation for standard (IOS) and British standard institute (BS 5750). It does not guarantee quality of output it just approves the quality system.

Organisations have started to include performance measures that concentrate on flexibility connecting to the awareness of meeting customer requirements, to meet continuous improvement. To achieve this benchmarking and employee empowerment is now used. However procedures before used to compare previous standards, so that organisations are achieving same targets rather then continuous improving. This agrees with (Simon, 1959) that people are not rational decision-makers, and are 'bounded by rationality'.

Management accounting therefore shifting away from traditional emphasis on providing information to mangers to monitor activities, to providing employees instead.

It is moving towards a more strategic framework, unlike traditional management accounting, the strategist is outward-looking and concerned with competitive market force. This is agreed by Porter (1985), who identifies that organisations should not only look at they own products and markets but at the whole industrial competitive situation.

Customer satisfaction is also associated with social responsibility and corporate ethics, including awareness for ecology known as 'green accounting' Customers prefer management to take on a social role as well as comply with legal requirements these days. To help them Chartered Institute of Management Accounting of the UK (CIMA) have constructed standard for it member to follow.

The development of Management accounting has evolved as the business environments have dramatically changed. The change in social perspectives and development information and manufacturing technology and international competition has affected the accounting profession dramatically hence policies need to be reconsidered. Management accounting has contributed to the success in expanding the size of production and increasing standards of living. Now organisations are looking from a strategic perspective, considering external factors in its decision making.

Social importance has taken an important role. Accounting is slowly moving away from a traditional approach towards a social and 'green accounting'.

In the late 1980 and early 1990's experienced changing cost mechanisms, as it was hard to trace accurately to products and services. Companies now are competing in a global market in the sense of quality, after-sales and customer satisfaction. Until recently management accounts have not taken these points into account and have focused more towards reporting the financial aspects. Management accounting needs to identify opportunities and threats in the near future so that carefull planning can account for this and prevent any unexpected events arising. It has been criticised for concentrating too narrow and inwards. It should widen its scope and take information on the environment in which it operates and on it competitors into account.

The changing practices extend the limits of accounting but at the same time problems are created in defining the scope of the subject.

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