

INTEGRATED MANAGEMENT ACCOUNTING (IMA) Robert S. Block

August 29, 2011

For the past few years the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have been working to modify the U.S. Generally Accepted Accounting Principles (U.S. GAAP) and the International Financial Reporting Standards (IFRS) to merge these standards to a single standard.

The FASB and IASB are expected to issue new revenue recognition standards in Q-4, 2011. The complete transition to a single standard is planned for 2014.

The purpose of merging GAAP and IFRS is to facilitate global business activities and to standardize the information available to investors and to other interested third parties such as banks, suppliers, taxing authorities, etc. The new reporting standards will significantly affect all business.

It is important to note that government regulated financial standards, which all U.S. public companies and most public and private companies around the world must adhere to, continue to be designed for the benefit of outsiders looking into the company. That is a worthy purpose; however, while the information gathered and provided to outsiders is important, it is not sufficient for insiders to manage their companies effectively and efficiently. That is why most businesses do not use their accounting results to make business decisions. Instead, they rely on a myriad of unconnected spreadsheets and reports.

There are many other reasons that financial accounting is insufficient or unusable for management purposes. Here are some of the reasons.

1. Financial accounting does not capture, report or analyze the non-financial aspects of transactions. Non-financial information is often the driver of financial transactions and is critical information for virtually every aspect of management.
2. Financial accounting reports only facts, things that have already happened. Since there are no facts in the future, there are only assumptions; financial accounting is focused on the past. Management, on the other hand, is focused on the present and the future (no one can manage the past, but we can learn from it).
3. To standardize financial accounting, several non-real constructs are required. Depreciation is a good example. Assets are shown on the books of the company at depreciated cost or fair market value, whichever is less. Therefore, some assets that have actually increased in value are shown at cost while the real value is greater than the cost. Certainly, management must deal with the real value, not a fictitious one.
4. Intangible Assets are often expensed, overlooked or undervalued.
 - a. When intangible assets are expensed, usually for tax purposes, they disappear from the books. A well-known business axiom says, "If you can't measure it, you can't manage it." Good examples include training and research and development. For management purposes, they should be treated as assets, which are amortized over their useful life, just as is done for property, plant and equipment.

INTEGRATED MANAGEMENT ACCOUNTING (IMA) Robert S. Block

August 29, 2011

- b. When intangible assets are overlooked, usually because of the accounting rules, they don't appear on the books of the company at all. The going business value of the company is not reported because of the financial accounting rules. For example, when a company is sold, the difference between the book value of the company and the selling price (market value) is called "good will." It goes into the buyer's accounting and is amortized over a period of time. However, there is no such account on the books of the selling company. Obviously, the value of good will was there before the company was sold; if not, the price would have been different. For example, Microsoft's market value is hundreds of times its book value.
- c. When intangible assets are undervalued, the total assets of the company are understated. For example, if the cost of filing for a patent, trademark or copyright is shown on the books of the company at its cost (instead of expensing the cost) the real value may be many times the cost of the patent, trademark or copyright. The value of the Coca-Cola brand is more than \$69 billion but is not shown on the books of the company at all.

3D Business Tools (3DBT) (www.3dbt.com) has developed an Enterprise Management System (EMS) that includes a sorely needed Integrated Management Accounting (IMA) module that links the standardized information gathered for financial accounting purposes, with the unique financial and non-financial information insiders need to run their businesses successfully.

Until now, all accounting systems have been built on tree structures. In these systems, an account's location in the tree hierarchy defines its meaning. Account numbers are used to further define the account. Because of this fundamental accounting system characteristic, accounts have a single meaning, and the organization of the accounts is fixed. Creating the architecture to serve both insiders and outsiders required a far more intelligent approach to integrating, organizing, defining and expanding the information collected. To solve these complex problems while maintaining a rigorous, auditable system was a major challenge. 3DBT developed its Enterprise Management System based on its patented attribute architecture.

EMS is based on two types of attributes: System Attributes, which define the basic system and User Defined Attributes, which are used to organize and access any information in the database or data warehouse. 3DBT Attribute Groups can be used to describe any characteristic useful to users. Users can add or remove Attributes from an Attribute Group without affecting the normal processing. Attributes can be added to or deleted from any transaction, account, employee, vendor, customer or screen in the system at any time.

INTEGRATED MANAGEMENT ACCOUNTING (IMA) Robert S. Block

August 29, 2011

For example, Attributes can be used to:

1. Identify account characteristics, such as fixed and variable expenses, operating, investing or financing cash flow, transactions that appear on the 3D FINANCIAL STATEMENT MATRIX, data used for publishing standard financial statements, balance sheet transfers and adjustments statement, etc.
2. Give single accounts different characteristics, depending on the filter applied (such as GAAP, IFRS, Tax, Management Accounting, etc). For example:
 - a. Training can be treated as an expense for GAAP, IFRS and tax accounting while it is treated as an amortizable asset for management accounting.
 - b. Different depreciation schedules can be applied for financial purposes, tax purposes and management purposes.
3. Link a particular account to a transaction or transaction type or series of transactions and/or to a product, customer, supplier, profit center, etc. For example, to test alternative advertising approaches in multiple markets, Attribute Groups can be used to link Promotion 1 with Market 1, Promotion 2 with Market 2, Promotion 3 with Market 3, etc. All revenues and expenses for each market during the test period would then be gathered automatically into Attribute Centers to provide a Profit and Loss statement for each market during the test giving the user the information needed to assess the relative effectiveness of each promotion tested.
4. Add Custom Fields to provide unique flexibility while avoiding any code modification. For example, Custom Fields for employee screens can be used to identify uniform sizes and date of last issue so that management can easily count uniform inventory, identify which employees use uniforms, plan for uniform replacement, etc.

Moving from financial accounting to Integrated Management Accounting is a giant step toward fully informed decision making. Companies that make the transition will be better managed and better able to take advantage of opportunities and to avoid, or at least minimize, the effects of unexpected barriers.

For more information about 3D Business Tools and EXECUTIVE MANAGEMENT, *How Whole Business Thinking Delivers Exceptional Performance*, please see (www.3dbt.com).