



"A Better Use of Information"

Alta Via Consulting, LLC



WHITE PAPER
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Resource Consumption Accounting (RCA)

THE ROLE OF MANAGEMENT ACCOUNTING IS TO PROVIDE THE TOOLS and information for planning, monitoring and controlling enterprise performance and effective decision support. Management's ability to achieve the companies' strategic objectives during the conversion of resources into saleable products and services directly depends on the quality of the data Management Accounting provides. Resource Consumption Accounting (RCA) is a superior management accounting approach that provides benefits not achievable through traditional U.S. Management accounting approaches.

HIGH LEVELS OF IMPORTANCE WITH HIGH LEVELS OF DISSATISFACTION

How effectively do you manage your organization with the information you have? In the 1980's publication *Relevance Lost*, Johnson & Kaplan pointed out that U.S. management accounting did not meet the requirements to operate a company. Not much has changed since according to a 2003 IMA and Ernst & Young Survey. Some 2,000 CFO's and controllers reported: 80% cost management is important to their organizations' strategic goals and yet confirmed that 98% [of their] cost information is distorted citing too many overhead allocations. The Consortium for Advanced Management International – RCA Interest Group survey confirmed 80% of U.S. companies still use traditional standard costing, which may account for only 23% being satisfied with their decision support information.

*Does your
Management
Accounting system
provide the right
information for
decision making?*

WHY RCA WAS DEVELOPED

The correct calculation and understanding of costs and cost flows are critical for any Management Accounting system. Resource Consumption Accounting (RCA) is a 'made in the U.S.' management accounting approach, based on GPK (Grenzplankostenrechnung), and Activity-based Costing (ABC) approaches. GPK has been used to great effect by manufacturers and service companies in Europe for several decades. ABC provides enhanced analytical capabilities and adds the process view of an enterprise's costs. As stated in the **International Good Practice Guidance** published by IFAC PAIB Committee in July 2009,

*"A sophisticated approach at the upper levels of the continuum of costing techniques provides the ability to derive costs directly from operational resource data, or to isolate and measure unused capacity costs. For example, in the **resource consumption accounting** approach, resources and their costs are considered as foundational to robust cost modeling and managerial decision support, because an organization's costs and revenues are all a function of the resources and the individual capacities that produce them."*

COMPREHENSIVE VIEW OF RESOURCES

Foundational to RCA is the view of resources. Resources such as equipment, material, and employees, enable the business activities/processes and other outputs in an enterprise. Resources serve as the primary source of costs and provide managers with insight into capacity, utilization and resource efficiency.

UNAMBIGUOUS VIEW OF COST BEHAVIOR

By correlating required inputs with outputs in the enterprise, RCA is able to provide a consistent view on consumption and cost behavior. RCA answers the endless debates about fixed and variable and their use in decision making. Apart from providing managers with accurate throughput, contribution and gross margins, RCA also recognizes the need for 'different costs for different purposes' and deploys various concepts to clearly delineate decision support information.



QUANTITY-BASED COST MODEL RCA expresses causal relationships in quantities versus dollar values. In an RCA cost model, values follow quantities. Valuation in the cost model occurs only when consumed quantities are multiplied with output (cost) rates. This quantity-based model of enterprise operations allows managers to simulate input price changes independently of internal improvements in efficiency. Therefore, managers can obtain predictive results that combine project consumption factors and expected input prices.

MULTI-LEVEL MARGINAL P/L VIEW RCA supports the separation of SG&A from direct and indirect (unit) costs to provide more transparent profitability reporting. Expenses representing direct (unit) costs for products and services sold flow into the P/L as Cost of Goods Sold (CoGS). Other indirect costs are assigned to the product P/L at causal and decision relevant levels, such as Product Line or Service Line Level, Customer Level or Regional Level. Managers now have the ability to consider multiple (contribution) margins based on the direct and the different group levels of indirect costs.

WHAT IF YOU ALREADY HAVE AN ERP SYSTEM?


Effective Management Accounting systems require consistent data for operational, tactical, and strategic information. ERP systems were designed with this aspect in mind. Moreover, ERP packages already provide RCA functionality, notably SAP. Users of these systems incur no incremental IT investment to obtain superior management information. A comprehensive RCA implementation can be accomplished in a number of ways:

- Big Bang approach – implement RCA across the enterprise
- Roll-out approach – implement RCA in one area first with subsequent roll-outs to the rest of the organization
- Parallel (shadow) approach – develop an RCA proof-of concept before implementing it on the operational system
- Phase-in approach – implement those RCA principles which provides the most benefit as a first iteration and improve level of detail and granularity over time

A key benefit for implementing RCA is it unleashes the power of the ERP system already in place. ERP systems have been very effective in providing more data, but not necessarily better data. What management needs is relevant information structured to enable them to achieve enterprise objectives.

RCA BENEFITS

<u>Management Aspect</u>	<u>Benefit</u>
Analysis	» A clear delineation of costs affected by decisions at different levels within management
Decision Support	» Maintaining the integrity of cost behavior through consumption relationships enhances analysis and decision support
Corrective Action	» Improved through accurate predictive results, more timely information, authorized/flexed budgets and extensive variance analysis
Organizational Control	» More effective through seamless integration of predictive and actual results
Performance Measurement	» Providing valid benchmarks of actual performance by associating required inputs with the actual outputs produced

Resource Consumption Accounting greatly enhances the ability to leverage technology using analytical approaches, and reporting mechanisms, to establish alternative perspectives on the same data. RCA is the means to this end... regaining the relevance lost. 

ALTA VIA IS A CERTIFIED RCA SERVICE VENDOR.

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