



# MDIA – Multi Dimension Impact Accounting

## Some Basic Concepts from Accountancy

*An initiative for radical reform of the prevailing metrics*

Peter Burgess  
peterbnyc@gmail.com

# Some Basic Concepts from Accountancy

## Accounting is Basically Simple

- Every money transaction in the organization is recorded
- The transactions are organized into accounts and added up
- The totals are organized into periodic reports
- From time to time an auditor checks the process
- There are very many transactions, but the process is simple

# Some Basic Concepts from Accountancy

## Balance Sheet and P&L Accounts

- There are two sorts of accounts
  - Balance sheet accounts
  - Profit and loss accounts
- Balance sheet accounts
  - Assets
  - Liabilities
  - Owner's equity
- Profit and Loss accounts
  - Revenues
  - Costs
  - Profit

# Some Basic Concepts from Accountancy

## Accounting is Immensely Powerful I

- Financial reports are short
  - for a huge organization like GE, summary is three pages
- There is a Balance Sheet ... a summary of:
  - Assets
  - Liabilities
  - Owner's equity
- There is a Profit and Loss statement
  - This summarizes the revenues and costs
- There is a Cash Flow statement
  - This summarized the flows of money
- There is selective detail and explanations
  - Some is required by law and regulation
  - Some is used to explain items in the summary information

# Some Basic Concepts from Accountancy

## **Accounting is Immensely Powerful II**

- Same process to report every time
- This makes comparison easy and meaningful
- With comparison it is easy to ask questions
- Good questions results in good answers

# Some Basic Concepts from Accountancy

## Two Ways to Calculate Profit

- From the Profit and Loss Account
  - Add up all the revenues for the period
  - Add up all the costs for the period
  - The difference is the profit or loss for the period
- From the Balance Sheet
  - Get the owner's equity from the beginning of the period
  - Get the owner's equity from the end of the period
  - The difference is the profit or loss for the period
- In MDIA progress is similar to profit
- In MDIA state is similar to the balance sheet
  - State has both money and value combined
- In MDIA change in state is progress

# Some Basic Concepts from Accountancy

## Example: Metrics for the Place

- State of the place
  - Its natural resources
  - Its human resources
  - Its economic activities
  - Its public infrastructure
  - Its organizational infrastructure
- Progress ... change in state over time
  - Quality of life for people
  - Impact on planet
  - Impact on place
  - Profit for business
- Performance
  - How big the progress
  - How much net consumption of non-renewable resources

# Some Basic Concepts from Accountancy

## Example: Metrics for the Organization

- State of the organization
  - The money based balance sheet
  - The human capital
  - The value of net social valuadd
  - Provision for net resource depletion
  - Provision for environmental degradation
- Profit and impact
  - The money profit
  - Direct valuadd for people
  - Indirect valuadd for family
  - Indirect valuadd for community
  - Resource depletion
  - Environmental degradation

# Some Basic Concepts from Accountancy

## State, Progress and Performance

- State
  - Is like a balance sheet
- Progress
  - Change in balance sheet over time
- Performance I
  - Amount of progress in relation to net change in resources
  - How much quality of life improved
  - How much stress on planet reduced
- Performance II
  - How much progress versus how much progress possible

# Some Basic Concepts from Accountancy

## Mark to Market

- This allows a balance sheet value change to determine profit
  - Has been used aggressively in the financial sector
  - It has been allowed by rule makers in accountancy
- Mark to market conflicts with other accountancy rules
  - Balance sheet value is 'lower of cost or market value'
- In MDIA the mark to market idea is used as follows:
  - An economic activity like education improves a person's skills
  - Improved skills increase a person's opportunities
  - This will translate into a better job and more income
  - The present value of more income is an increase State value

# Some Basic Concepts from Accountancy

## Standard costs

- A standard cost is the expected cost of an item
  - It is the theoretical engineering cost; and
  - A provision for operating inefficiencies
- Standard cost accounting simplifies analysis
  - But does not detract from the utility of analysis
- Variance analysis
  - Actual costs versus standard costs produces a variance
  - This can be done at a higher level than the individual item
  - When there is a material difference it is time for inquiry
  - Otherwise no need for inquiry
- In MDIA a similar approach is used for standard values

# Some Basic Concepts from Accountancy

## Invitation

- MDIA is a big idea
- It facilitates radical reform of the prevailing metrics
- The next steps are mainly associated with technology
  - How to build the standard value database
  - How to build a database of 'state of place'
  - How to build a database of 'impact of product'
- Old fashioned easy information also has value
  - Getting this organized and into a database
- Please get in touch. Please help

Peter Burgess – TrueValueMetrics  
[peterbnyc@gmail.com](mailto:peterbnyc@gmail.com)  
<http://www.truevaluemetrics.org>