CHAPTER 1

The Manager and Management Accounting

MANAGERIAL ACCOUNTING

- Welcome
- Course Prerequisite
- Lectures
- Assessments
- Course Objectives

ACCOUNTING DISCIPLINE OVERVIEW

- Financial accounting-focuses on reporting to external users including investors, creditors, banks, suppliers, and governmental agencies. Financial statements must be based on GAAP.

- Management accounting- measures, analyzes, and reports financial and nonfinancial information to help managers make decisions to fulfill organizational goals. Management accounting need not be GAAP compliant.

ACCOUNTING DISCIPLINE OVERVIEW, CONCLUDED

- Cost accounting –
  - measures, analyzes and reports financial and nonfinancial information related to the costs of acquiring or using resources in an organization.
  - Supports both financial accounting and management accounting. Examples:
    - Financial Accounting: Cost per unit is used to calculate C.G.S (I/S) and ending inventory (B/S).
    - Management Accounting: Cost per unit is used in pricing decisions.

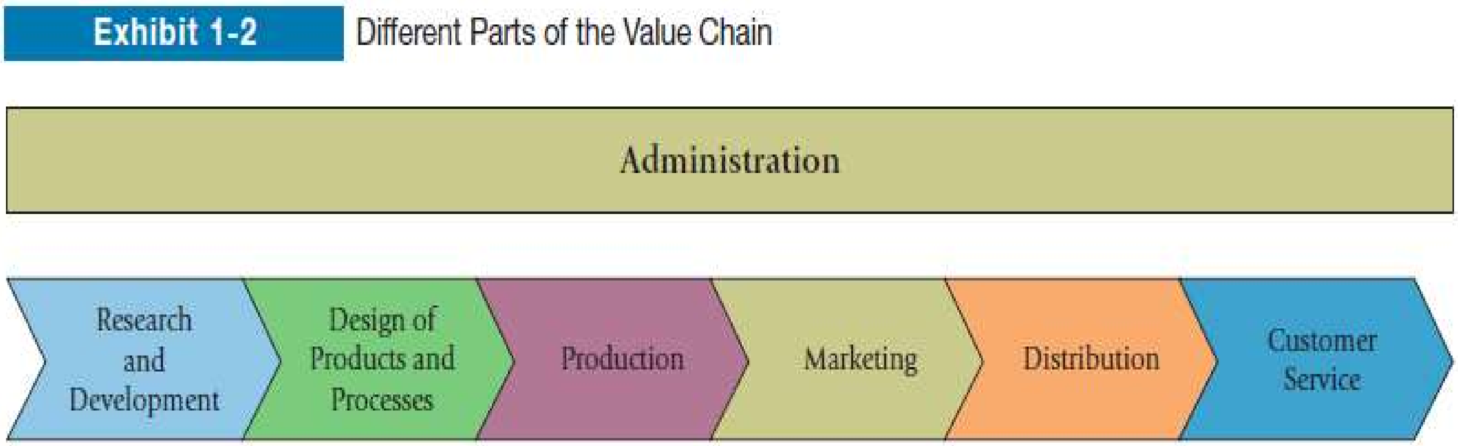
MAJOR DIFFERENCES BETWEEN MANAGEMENT AND FINANCIAL ACCOUNTING

	Management Accounting	Financial Accounting
Purpose of information	Help managers make decisions to fulfill an organization's goals	Communicate organization's financial position to investors, banks, regulators, and other outside parties
Primary users	Managers of the organization	External users such as investors, banks, regulators, and suppliers
Focus and emphasis	Future-oriented (budget for 2014 prepared in 2013)	Past-oriented (reports on 2013 performance prepared in 2014)
Rules of measurement and reporting	Internal measures and reports do not have to follow GAAP but are based on cost-benefit analysis	Financial statements must be prepared in accordance with GAAP and be certified by external, independent auditors
Time span and type of reports	Varies from hourly information to 15 to 20 years, with financial and nonfinancial reports on products, departments, territories, and strategies	Annual and quarterly financial reports, primarily on the company as a whole

MANAGEMENT ACCOUNTING AND VALUE

- The Value chain is the sequence of business functions in which a product is made progressively more useful to customers.
- The Value chain consists of:
  1. Research & development
  2. Design of Products and Processes
  3. Production
  4. Marketing
  5. Distribution
  6. Customer service

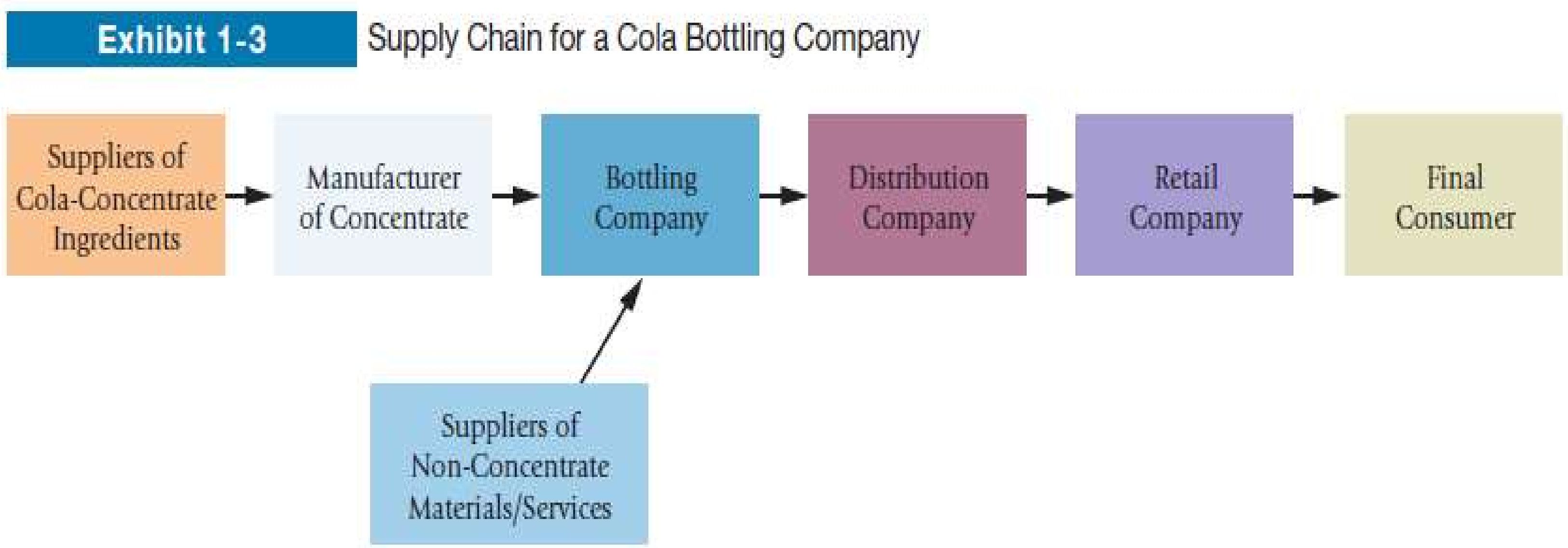
THE VALUE CHAIN ILLUSTRATED



SUPPLY-CHAIN ANALYSIS

- The supply chain describes the flow of goods, services and information from the initial sources of materials, services, and information to their delivery regardless of whether the activities occur in one organization or in multiple organizations.

SUPPLY CHAIN ILLUSTRATED



A FIVE-STEP DECISION MAKING PROCESS IN PLANNING AND CONTROL

1. Identify the problem and uncertainties.
2. Obtain information.
3. Make predictions about the future.
4. Make decisions by choosing between alternatives.
5. Implement the decision, evaluate performance, and learn.

Planning

Control

PLANNING AND CONTROL SYSTEMS

- Planning selects goals and strategies, predicts results, decides how to attain goals, and communicates this to the organization.
  - Budget—the most important planning tool-is the quantitative expression of a plan of activity by management and is an aid to coordinating what needs to be done to execute that plan.
- Control takes actions that implement the planning decision, evaluates performance, and provides feedback and learning to the organization.

MANAGEMENT ACCOUNTING GUIDELINES

Three guidelines help management accountants provide the most value to the strategic and operational decision- making of their companies:

- Cost–benefit approach: benefits of an action/purchase generally must exceed costs as a basic decision rule.
- Behavioral and technical considerations: people are involved in decisions, not just dollars and cents.
- Different Costs for Different Purposes: Managers use alternative ways to compute costs in different decision-making situations.

PROFESSIONAL ETHICS

- IMA: Institute of Management Accountants
- IMA Statement of Ethical Professional Practice:

  4 Principles and 4 Standards

- The four Principles are: Honesty/Fairness/ Objectivity/ Responsibility

- The four standards are:
  - Competence
  - Confidentiality
  - Integrity
  - Credibility

CMA

- CMA: Certified Management Accountant
- 2 parts exam:
  - Part 1: Financial Planning, Performance, and Analytics
  - Part 2: Strategic Financial Management