CHAPTER 1

The Manager and Management Accounting

ACCOUNTING DISCIPLINE OVERVIEW

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

Financial accounting—focus on reporting to external users including investors, creditors, and governmental agencies. Financial statements must be based on GAAP.

MAJOR DIFFERENCES BETWEEN FINANCIAL AND MANAGERIAL ACCOUNTING

	Managerial Accounting	Financial Accounting
Purpose	Decision making	Communicate financial position to outsiders
Primary Users	Internal managers	External users
Focus/Emphasis	Future-oriented	Past-oriented
Rules	Do not have to follow GAAP; cost vs. benefit	GAAP compliant; CPA audited
Time Span	Ultra current to very long time horizons	Historical monthly, quarterly reports
Behavioral Issues	Designed to influence employee behavior	Indirect effects on employee behavior

STRATEGY AND MANAGEMENT ACCOUNTING

Strategy—specifies how an organization matches its own capabilities with the opportunities in the marketplace to accomplish its objectives

Strategic cost management—focuses specifically on the cost dimension within a firm's overall strategy

STRATEGY AND MANAGEMENT ACCOUNTING

Management accounting helps answer important questions such as:

- Who are our most important customers, and how do we deliver value to them?
- What substitute products exist in the marketplace, and how do they differ from our own?
- What is our critical capability?
- Will we have enough cash to support our strategy or will we need to seek additional sources?

MANAGEMENT ACCOUNTING AND VALUE

Creating value is an important part of planning and implementing strategy.

Value is the usefulness a customer gains from a company's product or service.

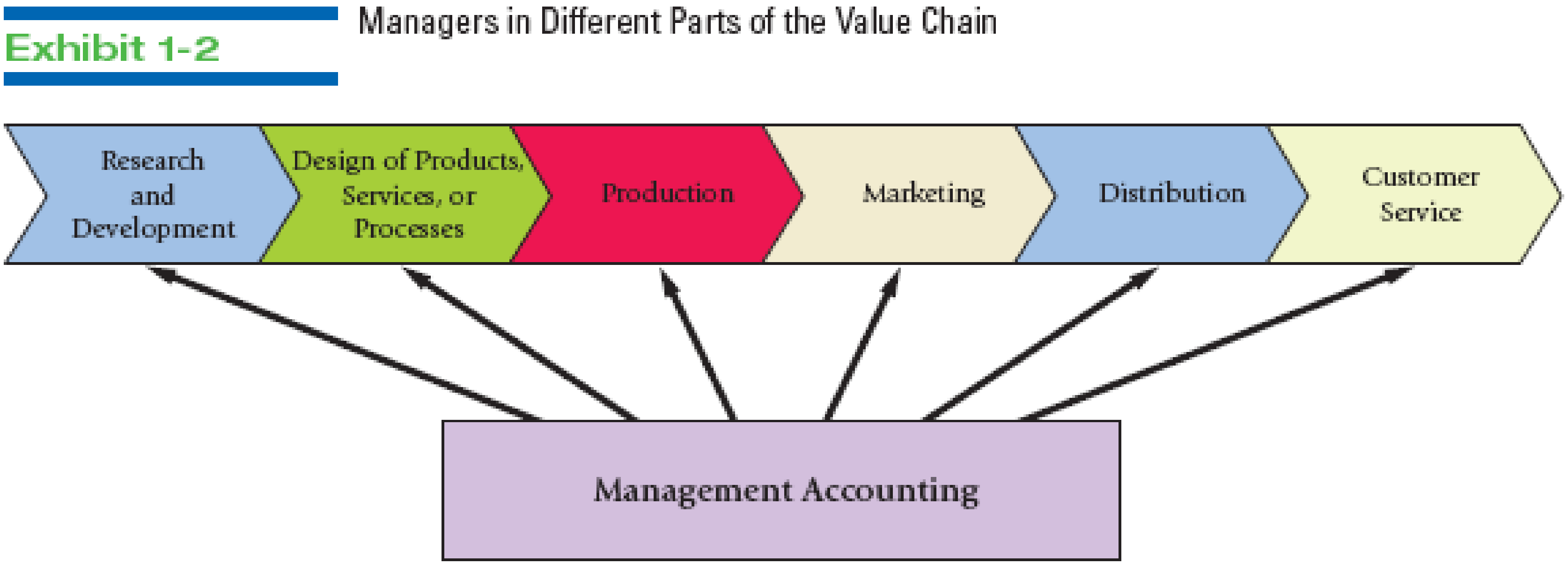
MANAGEMENT ACCOUNTING AND VALUE

Value chain is the sequence of business functions in which customer usefulness is added to products or services.

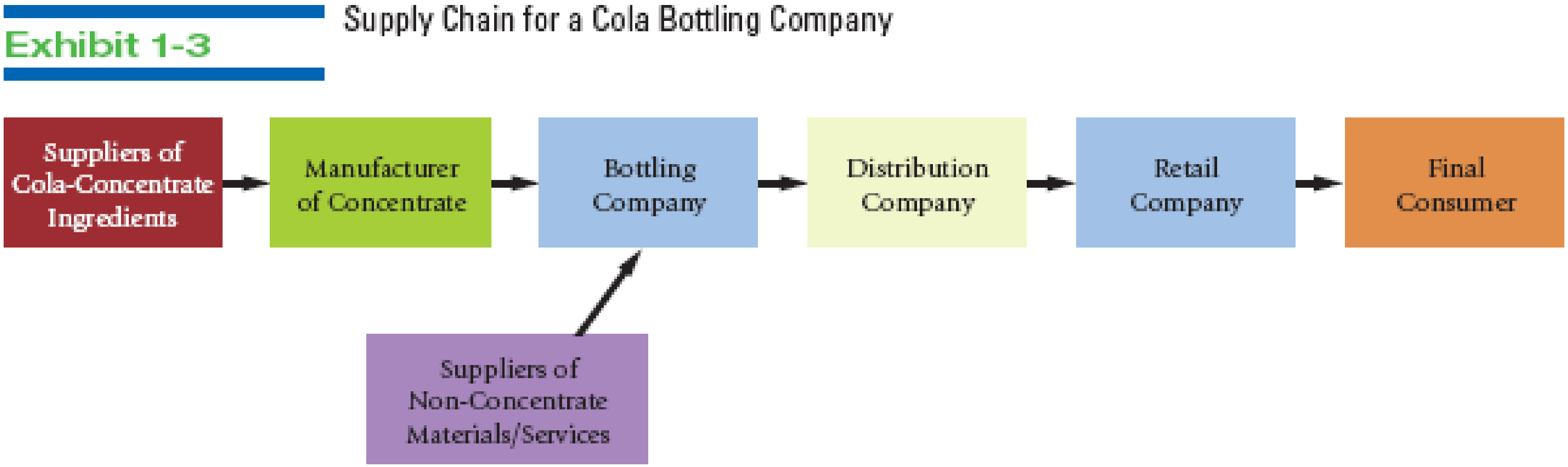
The Value chain consists of:

1. Research & development
2. Design
3. Production
4. Marketing
5. Distribution
6. Customer service

THE VALUE CHAIN ILLUSTRATED



A VALUE CHAIN IMPLEMENTATION



KEY SUCCESS FACTORS

The dimensions of performance that customers expect, and that are key to the success of a company include:

- Cost and efficiency
- Quality
- Time
- Innovation

PLANNING AND CONTROL SYSTEMS

Planning selects goals, predicts results, decides how to attain goals, and communicates this to the organization.

- Budget—the most important planning tool

Control takes actions that implement the planning decision, decides how to evaluate performance, and provides feedback to the organization.

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.

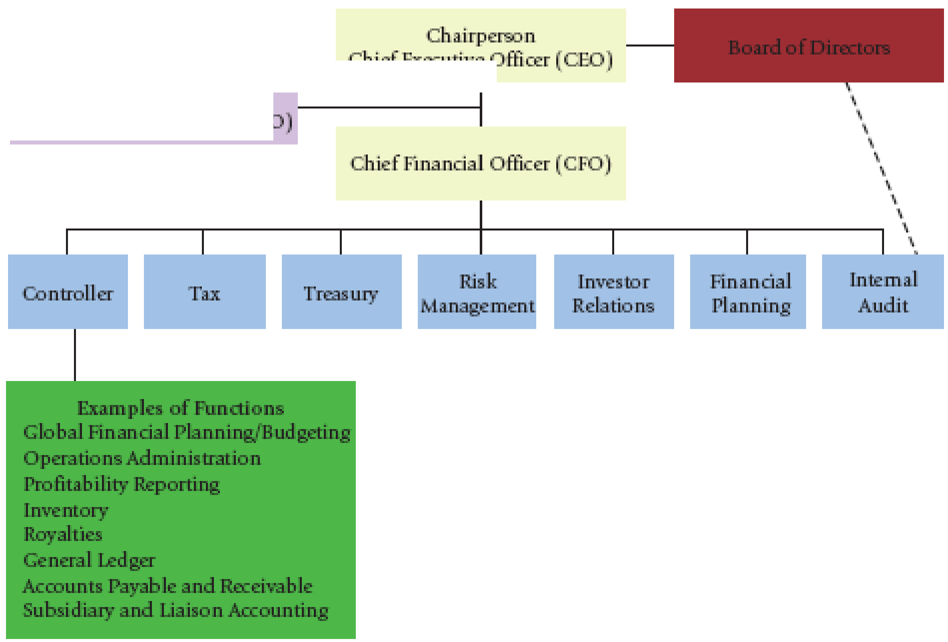
MANAGEMENT ACCOUNTING GUIDELINES

Cost–benefit approach is commonly used: benefits generally must exceed costs as a basic decision rule.

Behavioral and technical considerations—people are involved in decisions, not just dollars and cents.

Managers use alternative ways to compute costs in different decision-making situations.

A TYPICAL ORGANIZATIONAL STRUCTURE AND THE MANAGEMENT ACCOUNTANT



PROFESSIONAL ETHICS

The four standards of ethical conduct for management accountants as advanced by the Institute of Management Accountants:

- Competence
- Confidentiality
- Integrity
- Objectivity