



Management Accounting:

A Road of Discovery

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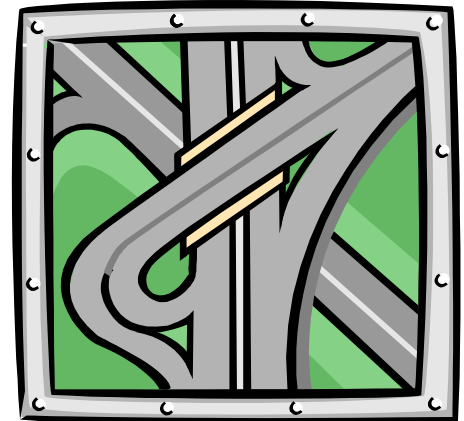
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Chapter 1



What is Management Accounting?

**Accounting for Planning,
Control, and Evaluation**



Key Learning Objectives

- Explain stewardship and why the dominant goal of accounting systems historically has been financial reporting.

- Describe eight modern management trends changing the role of accounting in organizations.

- Define the four types of accounting systems and relate them to their four organizational roles.

- Discuss the differences between financial and management accounting information.

- Contrast the four accounting certifications and discuss the role of ethics in management accounting.



Why Do We Have Accounting Systems?

- Accounting systems are artifacts. They are created by men to help accomplish tasks. Audited statements reduce investors risk.
 - Audited statements allow a company to borrow capital from someone else.
 - Records and internal financial controls safeguard the company's assets
 - Balance Sheets allow the comparison of Assets, Liabilities and Owner's Equity.
 - Income Statements describe the change in Owners' Equity from operations.



Needs Determine the Form of Accounting Data

- Managers need changing information to meet changing needs!
 - Types of Accounting Systems
 - Financial Accounting
 - Rules and procedures
 - Accounting information systems and internal controls
 - Auditing
 - Cost Accounting
 - Product costing
 - Activity-based costing



- Management Accounting

- Decision support
- Organizational control
- Cost management
- Profit management
- Investment management

- Tax Accounting

- Individuals
- Partnerships and corporations
- Estate and trusts
- International taxation
- Special tax issues and topics



■ Regulated Accounting Systems

- Financial Accounting or Generally Accepted Accounting Principles (GAAP). Provide the basis for traditional accounting information systems and internal controls.
- Tax Accounting. This is the collection of data to meet rules set by Congress and enforced by the Internal Revenue Service (IRS).
- Fund Accounting. An accounting system designed to provide governance information for government agencies and not-for-profit organizations.
- Cost Accounting. This aspect of cost accounting is to comply with rules set by the Federal government for government contractors. Rules set by the Cost Accounting Standards Board (CASB).

The Goal of Good Management is to Create Value



- Cost Management is applying the value criteria to every decision we make, every activity we perform, and every process we complete.
- Modern accounting systems do not just evaluate good stewardship but must provide managers with the information managers need to improve value.
- Management accounting systems are used to enhance both decision making and management control.
- Management accounting systems do not need to be perfect, only 'good enough' to increase value.



The Three Management Functions

- Questions asked:
 - What do I want to do?
 - How can I do it?
 - Am I getting it done?
 - How well did I do it?
- Management functions:
 - Planning for the future (Strategic)
 - Planning for the future (Operational)
 - Monitoring and controlling the present
 - Evaluating the past

Data Characteristics of Financial vs. Managerial Accounting



- Financial Accounting rules are set by users who agree among themselves on the regulations for (GAAP). This is **hard** data, objectively verifiable, that must meet audit criteria to be acceptable. It is therefore considered **reliable**.
- Managerial Accounting rules are set within the company to accomplish management objectives related to adding value to the company. This is data that could be **soft**, or estimates, that must only improve the value of decisions more than the cost of information. Managerial accounting data must only be **relevant** for management decisions.



Another Issue

- 'The Invisible Hand of the market place' assumes market prices can promote efficiency. A perfect market reveals all the information needed for purchasers to find the 'best prices' for goods or services. But what are the prices managers use to run a company? An example follows.



An Example

- The Sudbury Redi Mix company purchased a new ready mix truck last year. The following information pertains to this truck:

- a. On the Balance Sheet:

Trucks and Equipment	\$200,000
less: Accumulated Depreciation*	<u>40,000</u>
Net Book Value	<u>\$160,000</u>

*This depreciation schedule is acceptable by the IRS for tax purposes.

- b. Blue Book Value: \$150,000
- c. Net cash flows expected from the additional truck over its service life is \$300,000.



Questions

- Which financial numbers obey GAAP?
- Why can these numbers be used by the IRS?
- Why doesn't the IRS use \$300, 000 or \$150,000 for tax purposes?
- For what kind of decisions would the \$150,000 be relevant?
- For what kind of decisions would the \$300,000 be relevant?
- Why do we call the Net Book Value data hard?
- Why do we call the Blue Book Value data soft?
- If you own shares in Sudbury Company, which information do you want to use to estimate the value of your stock?

Different financial data is needed for different purposes or decisions!!



New Management Trends to Create Value

- Encourage Management Accounting Systems Redesign, for example.
 - Customer focus
 - Quality focus
 - Delivery focus
 - Outsourcing and the virtual company
 - Communications
 - Shortening product life cycles
 - Team development
 - Deregulation in the service sector

Managerial Accounting Systems: Unregulated



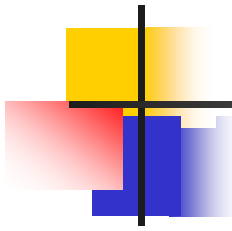
- Decision Support — Management accounting data has value if it improves management decisions.
- Control Support — Management accounting data reports the results of management actions, thus it is useful for control if management behavior is influenced by the accounting reports.

WHAT GETS MEASURED GETS DONE!

SUITABLE CONTROL MOTIVATES GOOD JUDGEMENT

GOOD JUDGMENT REQUIRES GOOD INFORMATION!

Characteristics of Management Accounting Systems



- Key Ideas:

- The costs and benefits of better decisions
- One set of books for many different uses
- Enhanced information quality for better decisions



The Professional Management Accountant

- Professional Certifications
 - Certified Public Accountant (CPA)
 - Certified Management Accountant (CMA)
 - Certified Internal Auditor (CIA)
 - Certified Information Systems Auditor (CISA)
 - Certified in Financial Management (CFM)
 - Chartered Accountant (CA)



Ethical Responsibilities of the CMA

- Competence
 - Maintain professional knowledge and skills
 - Follow laws and regulations
 - Analyze all relevant data and provide complete information

- Objectivity
 - Communicate all information fairly
 - Fully disclose all relevant information

- Integrity
 - Communicate favorable as well as unfavorable information including limitations of the information
 - Avoid apparent or actual conflicts of interest
 - Support attaining the legitimate goals of the organization
 - Avoid activities that will discredit the profession

- Confidentiality
 - Do not disclose confidential information unless legally obligated to do so
 - Do not allow subordinates to disclose confidential information

Professional Characteristics of The Management Accountant



■ Most Important

- Work ethic
- Analytical and problem solving skills
- Interpersonal skills
- Listening
- Spreadsheet abilities
- Understanding the business
- Understanding bottom line implications of management decisions
- Writing
- Familiarity with business processes

■ Least Important

- Interpreting financial statements
- Measuring and reporting revenues and expenses
- Accruals, deferrals, and adjusting journal entries