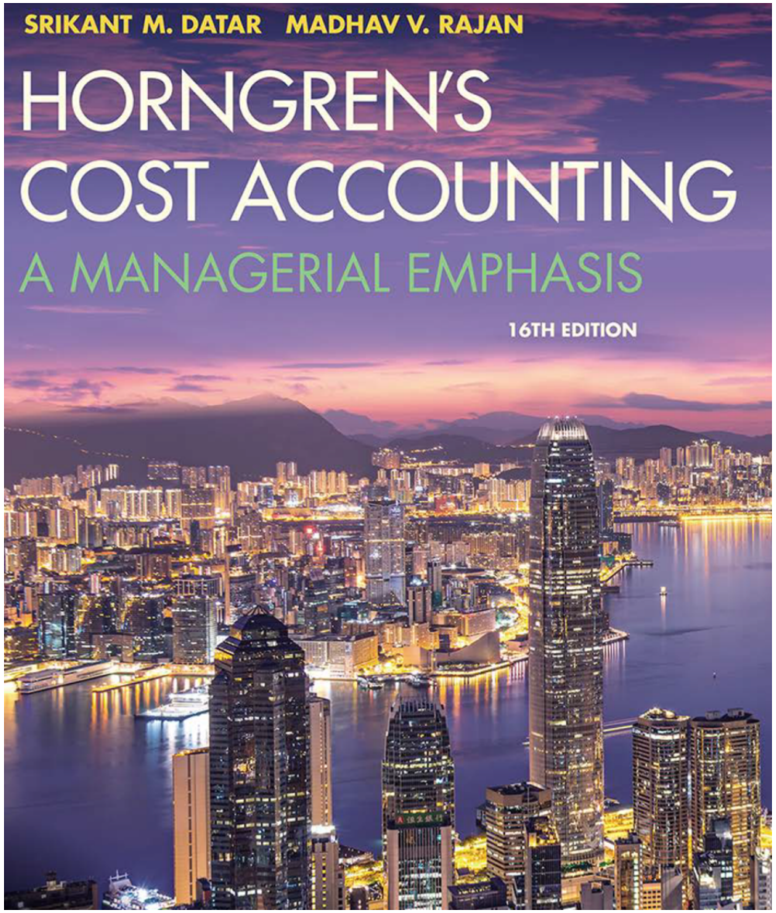
Cost Accounting

Sixteenth Edition



Chapter 1

The Manager and Management Accounting

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Accounting Discipline Overview
(1 of 3)

- **<u>Management accounting</u>** measures, analyzes, and reports financial and nonfinancial information that helps managers make decisions to fulfill organizational goals. Management accounting need not be GAAP compliant.
- **Managers use management accounting information to**:
  - Develop, communicate and implement strategies
  - Coordinate product design, production, and marketing decisions and evaluate a company's performance

Accounting Discipline Overview
(2 of 3)

- **Financial accounting** focuses on reporting financial information to external parties such as investors, governmental agencies, banks, and suppliers, based on GAAP.
- **Cost Accounting** measures, analyzes and reports financial and nonfinancial information related to the costs of acquiring or using resources in an organization.

Accounting Discipline Overview
(3 of 3)

- Today, most accounting professionals take the perspective that cost information is part of the information collected to make management decisions; therefore the distinction between the two is not clear-cut and in your book and these PowerPoint presentations, we often use the terms interchangeably.

Major Differences Between Management and Financial Accounting

EXHIBIT 1.1 Major Difference Between Management and Financial Accounting

	Management Accounting	Financial Accounting
Purpose of information	Help managers make decisions to fulfill an organization's goals	Communicate an 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 2017 prepared in 2016)	Past-oriented (reports on 2016 performance prepared in 2017)
Rules of measurement and reporting	Internal measures and reports do not have to follow GAAP but are based on cost-benefit analyses	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
Behavioral implications	Designed to influence the behavior of managers and other employees	Primarily reports economic events but also influences behavior because manager's compensation is often based on reported financial results

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Strategic Decisions and the Management Accountant- (1 of 2)

- Strategy specifies how an organization matches its own capabilities with the opportunities in the marketplace
- There are two broad strategies: cost leadership and product differentiation
- Strategic cost management describes cost management that specifically focuses on strategic issues.

Strategic Decisions and the Management Accountant- (2 of 2)

Management accounting information helps managers formulate strategy by answering questions such as the following:

- Who are our most important customers and what critical capability do we have to be competitive and deliver value to our customers?
- What is the bargaining power of our customers?
- What is the bargaining power of our suppliers?
- What substitute products exist in the marketplace and how do they differ from our product in terms of features, price, cost and quality?
- Will adequate cash be available to fund the strategy, or will additional funds need to be raised?

Value-chain and Supply-Chain Analysis and Key Success Factors- (1 of 2)

- **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. The entire customer experience determines the value a customer derives from a product.

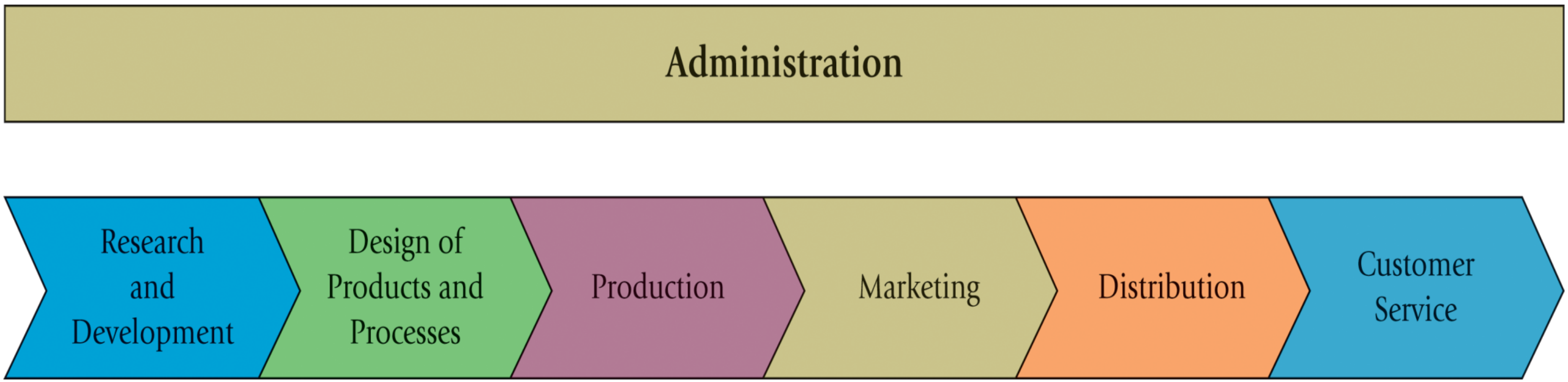
Value-chain and Supply-Chain Analysis and Key Success Factors – (2 of 2)

The value chain is the sequence of business functions by which a product is made progressively more useful to customers. The value chain consists of:

- Research & Development
- Design of Products and Processes
- Production
- Marketing (including Sales)
- Distribution
- Customer Service

The Value Chain Illustrated

EXHIBT 1.2 Different Parts of the Value Chain



Customer Relationship Management (CRM)

- CRM is a strategy that integrates people and technology in all business functions to deepen relationships with customers, partners and distributors.
- CRM initiatives use technology to coordinate all customer-facing activities and design and production activities necessary to et products to customers.

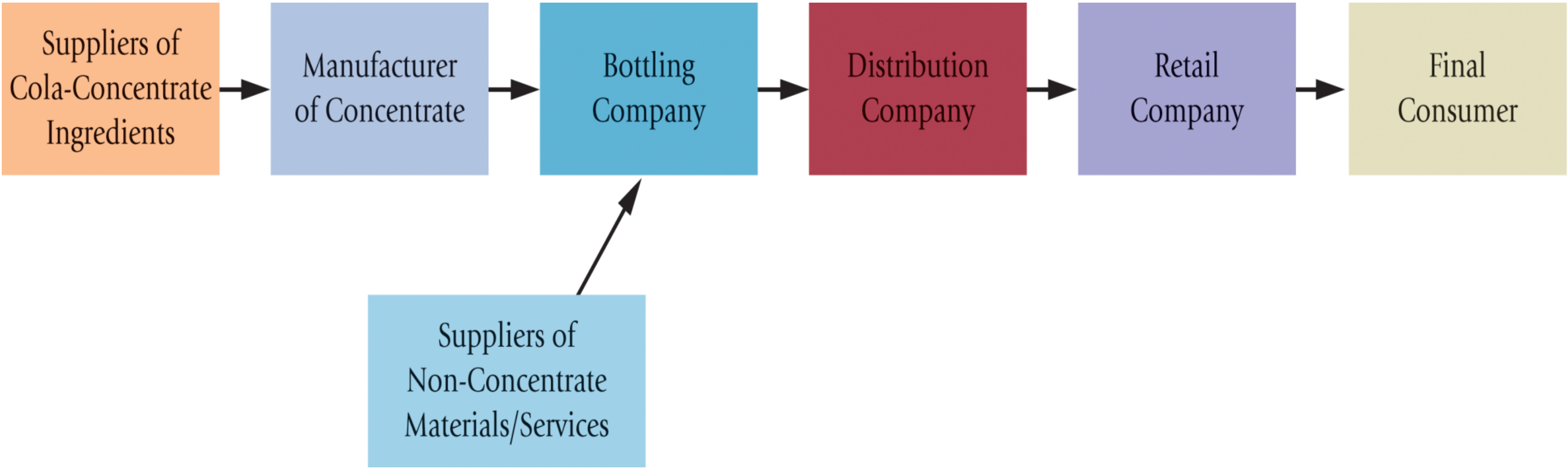
Supply-Chain Analysis

- Production and Distribution are the parts of the value chain associated with producing and delivering a product or service.
- These two functions together are known as the Supply Chain.
- 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

The Supply Chain describes the flow of goods, services and information from the initial sources of materials and services to the delivery of a product to consumers, regardless of whether those activities occur in one organization or in multiple organizations.

EXHIBT 1.3 Supply Chain for a Cola Bottling Company



Key Success Factors

Customers want companies to use the value chain and supply chain to deliver ever-improving levels of performance when it comes to several (or even all) of the following:

- Cost and efficiency
- Quality
- Time
- Innovation
- Sustainability

Key Success Factors-Sustainability

- The interest in sustainability appears to be intensifying among companies for several reasons. Some of them are:
- More and more investors care about sustainability
- Companies that emphasize sustainability find that sustainability goals attract and inspire employees
- Customers prefer the products of companies with good sustainability records and boycott companies with poor sustainability records
- Society and activist, nongovernmental organizations monitor the sustainability performance of firms and take legal action against those that violate environmental laws.

Decision-making, Planning and Control: The Five-step Decision-making Process

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

Planning and Control Systems
(1 of 2)

Planning consists of

1. selecting an organization's goals and strategies
2. predicting results under various alternative ways of achieving those goals
3. deciding how to attain the desired goals, and
4. communicating the goals and how to achieve them to the entire organization.

Management accountants serve as business partners in these planning activities because they understand the key success factors and what creates value.

Planning and Control Systems
(2 of 2)

<u>**Control**</u> comprises

taking actions that implement the planning decisions

evaluating past performance, and

providing feedback and learning to help future decision making.

The most important <u>**planning tool**</u> when implementing strategy is a budget. A budget is the quantitative expression of a proposed plan of action by management and is an aid to coordinating what needs to be done to execute that plan.

Management Accounting Guidelines

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

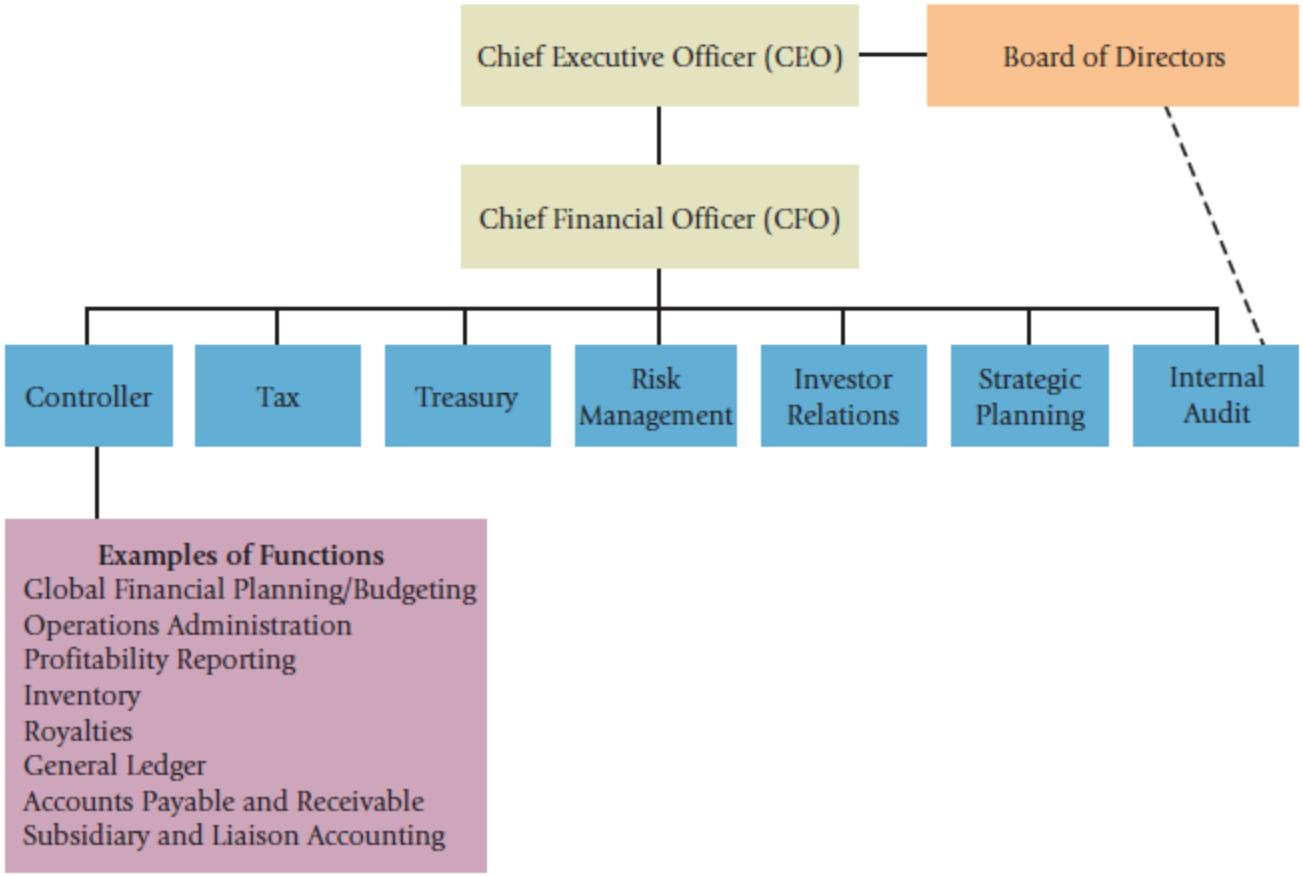
1. The Cost-benefit approach compares the benefits of an action/purchase to the costs. Generally, of course, the benefits should exceed the costs.
2. Behavioral and technical considerations recognize, among other things, that management is primarily a human activity that should focus on encouraging individuals to do their jobs better.
3. Managers use alternative ways to compare costs in different decision-making situations because there are different costs for different purposes.

Line and Staff Relationships

Organizations distinguish between line management and staff management.

- Line management is directly responsible for achieving the goals of the organization.
- Staff management provides advice, support and assistance to line management.

Organizational Structure and the Management Accountant



Management Accounting Beyond the Numbers

The successful management accountant possesses several skills and characteristics that reach well beyond basic analytical abilities. For example, management accountants must:

1. Work well in cross-functional teams and as a business partner
2. Promote fact-based analysis and make tough-minded, critical judgments without being adversarial
3. Lead and motivate people to change and be innovative
4. Communicate clearly, openly and candidly
5. Have high integrity.

Professional Ethics

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

- Competence
- Confidentiality
- Integrity
- Credibility