Chapter.1

Managerial accounting-A Perspective

Concepts and principles

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Managerial accounting

- Management accounting measures, analyzes, and reports financial and nonfinancial information that helps managers make decisions to fulfill the goals of an organization.
- Management accounting defined by the National Association of Accountants (NAA) as:
  - The process of identification, measurement, accumulation, analysis, preparation, interpretation, and communicant-financial information, which is used by management to plan, evaluate, and control within an organization. It ensures the appropriate use of and accountability for an organization's resources.
  - Management accounting also comprises the responsibility for the preparation of financial reports for non-management groups such as regulatory agencies and tax authorities.
- Simply stated: Management accounting is the accounting for the planning, control, and decision-making activities of an organization.

Management Accounting Roles:

Management accounting information serves several major roles in organizations:

1. Enhance decision making.
2. Guides strategy development.
3. Evaluates existing strategies.
4. Focuses efforts related to improving organizational performance.
5. Evaluating the contribution and performance of organizational units and members

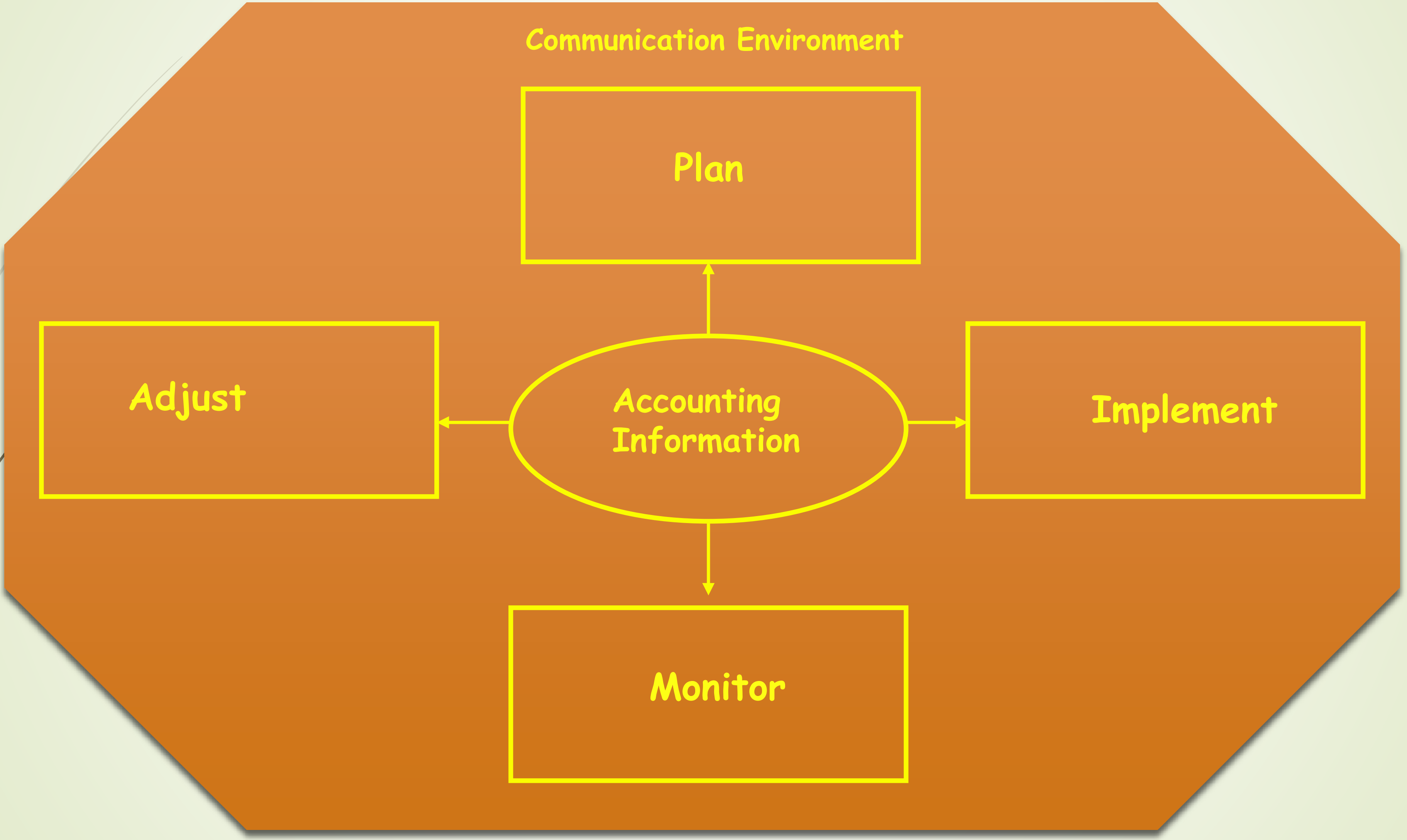
The Work Of Management

In general, the work that management performs can be classified as

1. *Planning.* The planning function of management involves the selection of long-range and short-term objectives and the drawing up of strategic plans to achieve those objectives.
2. *Coordinating.* In performing the coordination function, management must decide how best to put together the firm's resources in order to carry out established plans.
3. *Controlling.* Controlling entails the implementation of a decision method and the use of feedback so that the firm's goals and specific strategic plans are optimally obtained.
4. *Decision making*. Decision making is the purposeful selection from among a set of alternatives in light of a given objective.

Management accounting information is important in performing all of the aforementioned functions.

Managerial Accounting Model



Factors Influencing Today's Business Environment

- **Global competition**
- **Manufacturing and IT advances**
- **Customer focus**
- **Revised organizational structures**
- **Social, political and cultural changes**

Strategy and Management Accounting

A strategy is a course of action that will assist in achieving one or more goals. For example, if an organization's goal is to improve product quality, possible strategies for achieving this goal include "investing in new equipment, implementing additional quality inspections, prescreening suppliers, reducing batch size, redesigning products, training employees, and rearranging the shop floor."

Managerial accounting information will assist in determining which of the many alternative strategies for achieving the goal of quality improvement are cost effective. It helps answer questions such as:

1. Who are our most important customers?
2. What substitute products exist?
3. What is our critical resource?
4. Will we have enough cash to support our strategy?

Strategic cost management:
describes cost management that specifically focuses on strategic issues.

Most businesses are under constant pressure to reduce costs to remain competitive. A 2007study reported that more than 80% of survey participants viewed an efficient cost structure as a source of long-term competitive advantage.

Strategic cost management is a blending of three themes:

1. Strategic position analysis: an examination of an organization's basic way of competing to sell products or services., Michael Porter, has identified three possible strategic positions that lead to business success:
   A. Cost leadership
   B. Product or service differentiation
   C. Market niche
2. Cost driver analysis: the study of factors that cause or influence costs.
3. Value chain analysis: the study of value-producing activities, stretching from basic raw materials to the final consumer of a product or service.

Thus we define strategic cost management as making decisions concerning specific cost drivers within the context of an organization's business strategy, internal value chain, and position in a larger value chain stretching from the development and use of resources to final consumers.

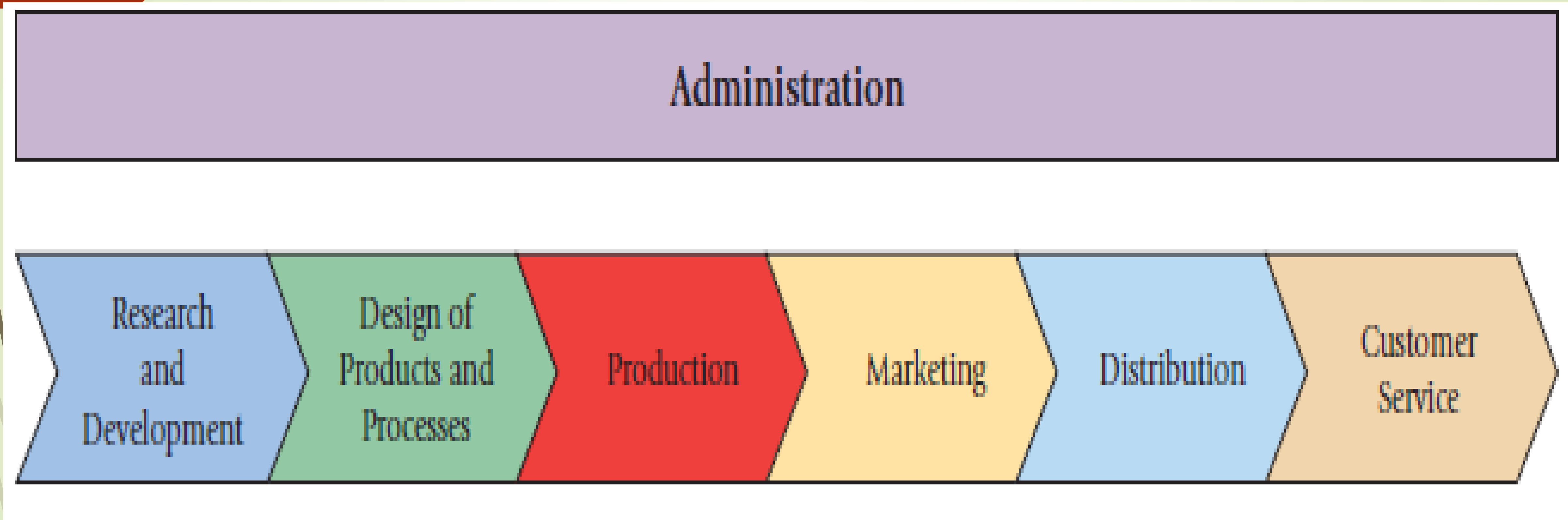
Financial Accounting Vs. Management Accounting

		financial Accounting	Management Accounting
1.	Users	provides data for ***external*** users	Provides data for ***internal*** users
2.	Purpose of information	Assist external users in making investments, credit, and other decision	Assist managers in making planning and controlling decision
3.	Mandatory	Is required by the law	Is not mandatory by law
4.	flexibility	Is subject to GAAP	Is not subject to GAAP
5.	Data	Must generate accurate and timely data	Emphasizes relevance and flexibility of data
6.	Time Dimension	Emphasizes the past	Has more emphasis on the future
7.	Focus of information	Looks at the business as a whole	Focuses on parts as well as on the whole of a business
8.	Stands	Primarily stands by itself	Draws heavily from other disciplines such as finance, economics, and operations research
9.	Mean	Is an end in itself	Is a means to an end
10	Nature of information	Monitory information	Most monetary; but also nonmonetary information

Management Accounting and Value:

Value chain is: the sequence of business functions in which customer usefulness is added to products. six primary business functions:

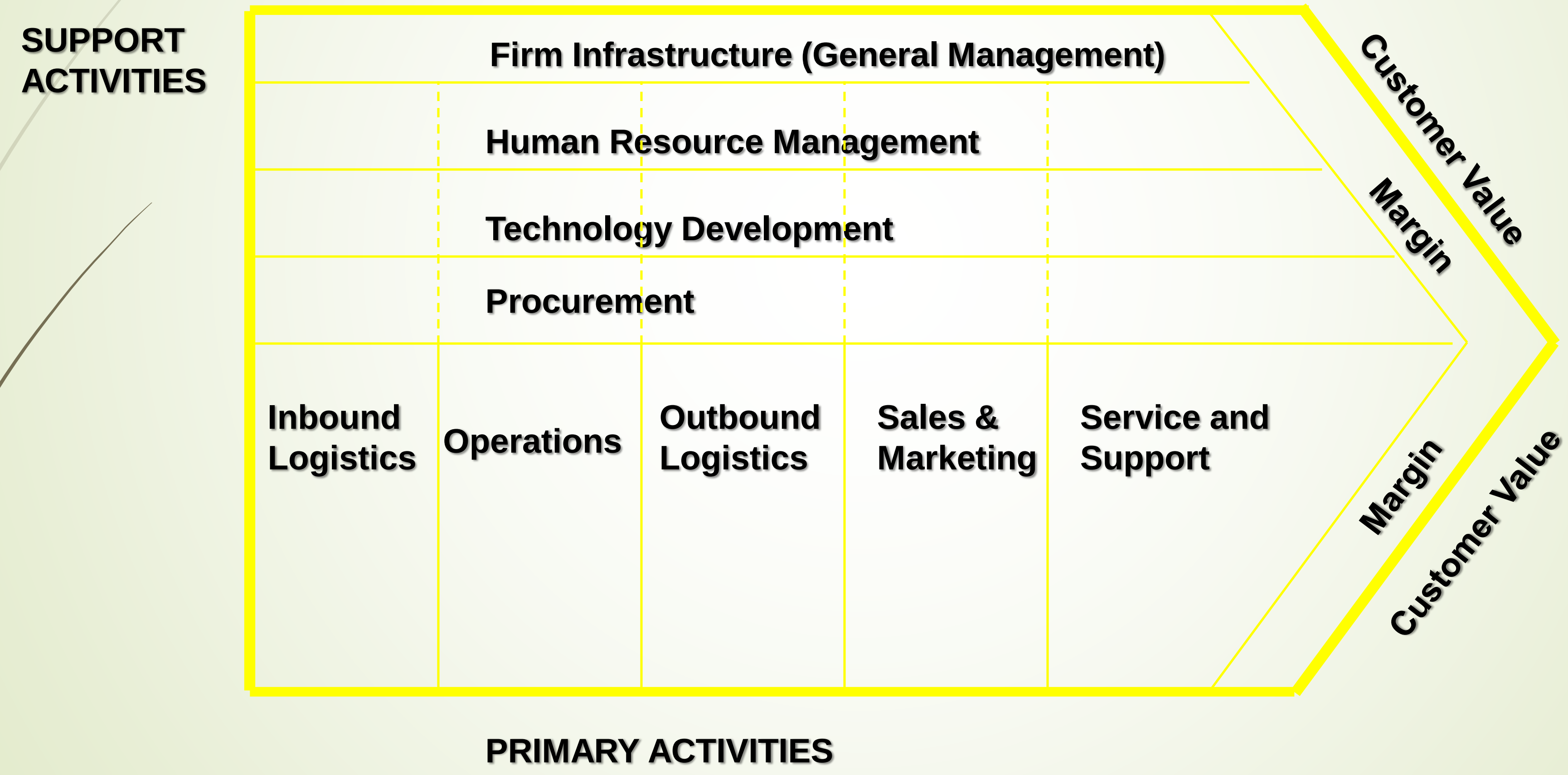
1. Research and development (R&D): Generating and experimenting with ideas related to new products, services, or processes
2. Design of products and processes: Detailed planning, engineering, and testing of products and processes.
3. Production: Procuring, transporting and storing (also called inbound logistics), coordinating, and assembling (also called operations) resources to produce a product or deliver a service.
4. Marketing (including sales): Promoting and selling products or services to customers or prospective customers.
5. Distribution: Processing orders and shipping products or services to customers (also called outbound logistics).
6. Customer service: Providing after-sales service to customers



Management accounting can provide information in each of these areas, analysis can also include the supply chain

Value Chain Model

from Michael E. Porter's <u>Competitive Advantage</u>



Key Success Factors

Customers want companies to use the value chain and supply chain to deliver ever improving levels of performance, customers expect, several (or even all) of the following:

1. Cost and efficiency: Companies face continuous pressure to reduce the cost of the products they sell.
2. Quality: Customers expect high levels of quality. Total quality management(TQM) aims to improve operations throughout the value chain and to deliver products and services that exceed customer expectations.
3. Time: Time has many dimensions. New-product development time is the time it takes for new products to be created and brought to market.
4. Innovation: A constant flow of innovative products or services is the basis for ongoing company success.

Decision-making process :

The five-step decision-making process:

1. **Identify the problem and uncertainties.**
2. **Obtain information.** Gathering information before making a decision helps managers gain a better understanding of the uncertainties
3. **Make predictions about the future.** On the basis of this information predictions about the future.
4. **Make decisions by choosing among alternatives.** When making decisions, strategy is a vital guidepost; many individuals in different parts of the organization at different times make decisions.
5. **Implement the decision, evaluate performance, and learn.** Management accountants collect information to follow through on how actual performance compares to planned or budgeted performance (also referred to as scorekeeping).

Management Accounting Guidelines:

1. Cost – benefit approach: Resources should be spent if the expected benefits to the company exceed the expected costs
2. Behavioral and Technical Considerations : The behavioral considerations encourage managers and other employees to strive for achieving the goals of the organization
3. Different definitions of cost may be used for different applications: managers use alternative ways to compute costs in different decision-making situations, because there are different costs for different purposes.

Contemporary ***Management Accounting*** Techniques

1. Benchmarking
2. Total Quality Management (TQM)
3. Continuous Improvement
4. Activity-Based Costing (ABC) and Activity-Based Management(ABM)
5. Reengineering
6. Theory of Constraints (TOC)
7. Mass Customization
8. Target Costing
9. Life-cycle Costing
10. The Balanced Scorecard