

### Major Purposes of Management Accounting Systems

- ❖ Internal routine reporting and decisions
- ❖ Internal non-routine reporting and decisions
- ❖ External reporting

### Internal Routine Reporting

- ❖ Formulating overall strategies and plans.
- ❖ Budgeting
- ❖ Opportunity Costs
- ❖ Special decisions - discounts, scheduling
- ❖ Financial Accounting in reverse - pro forma statements
- ❖ Information provided for decisions that occur with some regularity: Daily reports, weekly reports

### Internal Non- routine Reporting

#### Resource allocation decisions - inputs

- Replacement of machines
- Outsourcing of personnel, maintenance, IS, benefits

#### Decisions - Outputs

- Product pricing
- Mix, Product emphasis, Customer emphasis

Decisions that occur irregularly or even without precedent: Design of a special cost control tracking system

### External Reporting

Information provided to investors, government authorities, and other outside parties.

<b>Financial Accounting</b>	}	Inventory valuation
<b>Tax Accounting</b>		Cost of goods sold
<b>Reimbursement</b>		Defense, hospitals, research contracts
<b>Trade</b>		Transfer prices
<b>Regulation</b>		Drug prices

### Control

Cost and revenue planning and evaluation.  
 Control of operations  
 Performance evaluation of people and activities.  
 Incentive and compensation systems.

Management Accounting  
 measures and reports financial and nonfinancial information that helps managers make decisions to fulfill the goals of an organization.

### What is Planning? Control?

Planning is

- deciding on organization goals,
- predicting results under various alternative ways of achieving those goals, and then
- deciding how to attain the designated goals.

Control is

- deciding and taking actions that implement the planning decisions, and
- deciding on performance evaluation and the related feedback that will help future decision making.

	Financial Accounting	Management Accounting
<b>Users of information</b>		
<b>Scope</b>	Outsiders	Insiders
<b>Format</b>	Whole firm	Particular decision
	Standards FASB, SEC	None

### Financial Accounting...

- ❖ focuses on reporting to external parties.
- ❖ measures and records business transactions.
- ❖ provides financial statements based on GAAP.

### Cost Accounting...

- ⌘ provides information for both management accounting and financial accounting.
- ⌘ measures and reports financial and nonfinancial data that relates to the cost of acquiring or consuming resources by an organization.

### Cost Management...

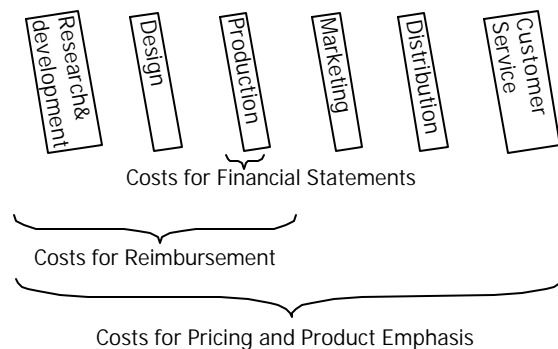
- ❖ describes the activities of managers in short-run and long-run planning and control of costs.
- ❖ includes the continuous reduction of costs.
- ❖ is a key part of general management strategies and their implementation.

### Value Chain

⌘ refers to the sequence of business functions in which usefulness is added to the products or services of an organization.

The term "value" is used because as the usefulness of the product or service is increased, so is its value to the customer.

### Different costs



**Value Chain**

Research and development (R&D) - the process that is conducted to generate and experiment with ideas related to new products, services, or processes.

Design - the detailed planning and engineering of products, services, or processes.

Production - the acquisition, coordination, and assembly of resources to produce a product or deliver a service.

**Value Chain**

Marketing - the manner by which companies promote and sell their products or services to customers or prospective customers.

Distribution - the delivery of products or services to the customer.

Customer service - the after-sale support activities provided to customers.

**Customer Focus**

The challenge facing managers is to continue investing sufficient (but not excessive) resources in customer satisfaction such that *profitable* customers and products are attracted and retained.

**Key Success Factors...**

⚡ are operational factors that directly affect the economic viability of the organization.

- ❖ Cost - organizations are under continuous pressure to reduce costs.
- ❖ Quality - customers are expecting higher levels of quality.

**Key Success Factors**

Time - organizations are under pressure to complete activities faster and to meet promised delivery dates more reliably.

Innovation - there is now heightened recognition that a continuing flow of innovative products or services is a prerequisite to the ongoing success of most organizations.

**Value-Chain and Supply-Chain Analysis**

- ❖ Treat each of the business functions in the value chain as an essential and valued contributor.
- ❖ Integrate and coordinate the efforts of all business functions
- ❖ Supply chain - describes the flow of goods, services and information from cradle to grave, regardless of whether those activities occur in the same organization or other organizations.

**Key Guidelines: Different Costs for Different Purposes**

A cost concept used for the external reporting purpose need not be the appropriate concept for the purpose of internal routine reporting to managers.

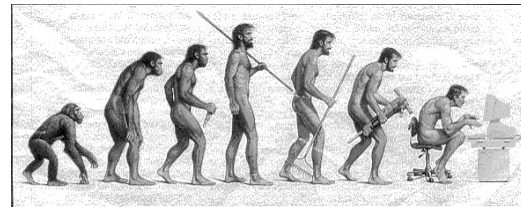
**Ethical Guidelines**

The CMA certificate indicates that the holder has passed the admission criteria and demonstrated the competency of technical knowledge required by IMA.

The IMA has issued a Standards of Ethical Conduct for Management Accountants.



- ❖ The Institute of Management Accountants (IMA) is the largest association of management accountants in the United States.
- ❖ It provides a program leading to the Certified Management Accountant (CMA) certificate.



**Somewhere, something went terribly wrong**