Managerial Accounting

2011
First semester
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Lecturer

We try to explain the contents from chapter 1 through 11 of this textbook written by James Jiambalvo (Managerial Accounting, Third Edt., John Wiley & Sons, Inc., 2007).

After such presentations by teacher and your assigned problems or exercises must be explained by yourself. I expect all of audiences to take part into this discussions.
Lecturing schedule

1) April 12, Chapter 1
   Introduction to Management and Cost Accounting in the Information Age
2) April 19, Chapter 2: Job-order costing for manufacturing and service companies
3) April 26, Chapter 3: Process Costing
4) May 10, Chapter 4: Cost-Volume-Profit Analysis
5) May 17, Chapter 5: Variable costing, Inventory evaluation
6) May 24, Chapter 6
   Activity based Costing, Cost allocation
7) June 7, Chapter 6-1
   Activity based management
8) June 14, Chapter 7: The use of cost information in Management 1
9) June 18(Saturday), Chapter 7-2
   The use of cost information in Management 1

10) June 21 ,Chapter 8
   Pricing decision: Analysing customer profitability and activity based pricing

11) June 28, Chapter 10-1
   Budgetary planning and Control 1

12) July 5, Chapter 10-2
   Budgetary Planning and Control 2

13) June 9(Saturday),Chapter 11

14) July 12,Chapter 12
   Decentralization and performance evaluation 1

15) July 19,Chapter 12-2
   Decentralization and performance evaluation 2
Works for You in this class

Evaluation of everyday performance in class: you must answer each assigned problems at the end of each chapter (all of questions and some exercises or a case) at each next week class and check the frequency of your attendance. (20%)

We do a written test at the end of semester. (80%)
Evaluations

1) Solution or results of each assigned questions and exercises (10%).

2) The number of your attendances into this class (20%).

3) The score of final examination (70%).
This chapter’s learning objectives

You will be able to:
1) State the primary goal of managerial accounting.
2) Describe how budgets are used in planning.
3) Describe how performance reports are used in the control process.
4) Distinguish between financial and managerial accounting.
5) Define cost terms used in planning, control, and decision making.
6) Explain the two key ideas in managerial accounting.
7) Discuss the impact of information technology on competition, business processes, and the interactions companies have with suppliers and customers.
8) Describe a framework for ethical decision making.
9) Discuss the duties of the controller, the treasurer, the chief information officer (CIO), and the chief financial officer (CFO).
Managerial Accounting in the Information Age

You will need information prepared specifically for firm managers, the internal users of accounting information. The type of information is referred to as managerial accounting information. This book is devoted into the subject of managerial accounting, and the first chapter provides an overview of the role of managerial accounting in planning, control, and decision making.
1 Goal of Managerila accounting

The needs of decision makers in the organization drive the scope and focus into planning and control, and decision making.
2. Planning

Planning is a key activity for all managers. A plan communicates a company’s goals to employees, aiding coordination of various functions such as sales and production. A plan also specifies the resources needed to achieve company goals.

The financial plans prepared by managerial accountants are referred to as budgets.
3. Control

Control of organizations is achieved by the performance of managers and the operations for which they are responsible. The distinction between (1) evaluating managers and (2) evaluating the operations they control is important.

(1) This part is concerned with motivation and incentive problems for managers.

(2) Operations are evaluated to provide information as to whether or not they should be changed.

Performance reports for control

Typically, performance reports only suggest areas that should be investigated; they do not provide definitive information on performance. However, it would still be useful. Typically, managers follow the principle of management by exception when using performance report.
Illustration 1-2 Planning and control process

Plan

- Decisions to change operations or revise plans
- Decisions to reward or punish managers

Action taken to implement plan

- Comparison of planned and actual results

Evaluation

Results
4 Decision making
As indicated in illustration 1-2, decision making is an integral part of planning and control process—decision are made to reward or punish managers, and decisions are made to change operations or revise plans.
## 5 A comparison of managerial and financial accounting

<table>
<thead>
<tr>
<th></th>
<th>Financial accounting</th>
<th>Management accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audiences</strong></td>
<td>External: stockholders, creditors, tax authorities</td>
<td>Internal: Workers, manager, exec.</td>
</tr>
<tr>
<td><strong>Purpose</strong></td>
<td>Report on past performance to external parties; provide a contracting basis</td>
<td>Inform internal decisions made by employees and managers; feedback and control on operating Current; future oriented</td>
</tr>
<tr>
<td><strong>Timeliness</strong></td>
<td>Delayed; historical</td>
<td>Current; future oriented</td>
</tr>
<tr>
<td><strong>Restrictions</strong></td>
<td>Regulated; rules driven by generally accepted accounting principles and government authorities</td>
<td>No regulations; systems and information determined by management to meet strategic or-</td>
</tr>
<tr>
<td><strong>Type of Information</strong></td>
<td><strong>Financial measurements</strong> only</td>
<td><strong>Financial plus operational</strong> and <strong>physical measurement</strong> on processes, tech., suppliers, customers</td>
</tr>
<tr>
<td><strong>Nature of Information</strong></td>
<td>Objective, auditable, reliable, consistent, precise</td>
<td>More subjective and judgemental; <strong>valid, relevant, accurate</strong></td>
</tr>
<tr>
<td><strong>Scope</strong></td>
<td>Highly <strong>aggregate</strong>, report on entire organization</td>
<td>Disaggregate; if from local decision</td>
</tr>
</tbody>
</table>
6 Cost terms used in discussing planning, control and decision making

The section defines key cost terms so that you will have the accounting vocabulary necessary to discuss issues related to planning, control, and decision making.

Variable costs and fixed costs

Sunk costs

Opportunity costs: The values of benefits foregone when one decision alternative is selected over another are opportunity costs.

Direct and indirect costs

Controllable cost and noncontrollable cost: The distinction between controllable and noncontrollable costs is essentially important when evaluating manager performance.
Two key ideas in managerial accounting

Two key ideas is the followings:

(1) Decision making relies on incremental analysis—an analysis of the revenues that increase (decrease) and the costs that increase (decrease) if a decision alternative is selected.

(2) You get what you measure.

Because rewards often depend on how well an employee performs on a particular measure, employees direct their attention to what is measured and may neglect what isn’t measured.
8 A Brief History of Management Accounting

1) The age of cost accounting system

2) Large-scale integrated companies change the focus from cost accounting to management accounting

3) The age from Japanese firms to enter into USA with Japanese management systems; QFD must be managed simultaneously.
9. Diversity of Management Accounting Information

Financial Information ➔ Underlying activities drive financial results ➔ Key activities of any organization’s business-level strategy to identify ➔ it is target customers and delivering what those target customers want

1) price: the relative price the customer pays, given the product’s features and competitors’ product features

2) Quality: the degree of conformance between what the customer is promised and what the customer receives.

3) Functionality and features: the performance of the product relevant to the customer.

4) Service: all the other elements of the product relevant to the customer.
10 The Information age and managerial accounting

(1) Competition and Information technology
   Deregualtion and Open market between nations
   Internet, and the competition between virtual market and real market

(2) The impact of information technology on management of the value chain
   one example of Milano clothers inc. for strong value chain model in USA.

(3) Software systems that impact value chain management
11 Ethical considerations in managerial decision making

Management accountants must understand and anticipate the reactions of individuals to information and measurements.

Ethics and Management Accountant

Why focus on ethics? First and foremost, ethical decision making is simply “the right thing to do.” But additionally when managers behave ethically, they gain the confidence of their customers, suppliers, subordinates, and company stockholders and the confidence is likely to translate into gains to the bottom line and the company stock price.