

FINAL EXAM STUDY GUIDE

Chapter 1 Accounting as a Tool For Management

Unit 1.1 What is Managerial Accounting?

Definition of Managerial Accounting

- **Managerial accounting:** the generation and analysis of relevant information to support managers' strategic decision-making activities

Comparison of Managerial and Financial Accounting

	Managerial Accounting	Financial Accounting
Primary users	Internal-managers and decision makers	External-investors and creditors
Mandated rules	None	GAAP
Reporting unit	Organizational segments such as divisions, locations, and product lines	Organization as a whole
Time horizon	Past results and projected future results	Past Results
Timing of information	As needed, even if information is not exact	After the end of an accounting period

Internal versus External Users

- Managerial accounting benefits internal users
 - It includes reports and information prepared for a range of decision makers within the organization
- The information provided by managerial accountants is *not* disseminated to the general public

Lack of Mandated Rules

- All public companies that are traded on a US stock exchange and governed by the SEC must prepare financial statements following **GAAP**.
 - Many other nonpublic companies prepare GAAP-based financial statements at the request of creditors.
- Managerial accounting has no comparable set of rules for governing what information must be provided to decision makers or how that information is presented

Focus on Operating Segments

- GAAP based financial statements present a picture of the financial health of the company as a whole
- Because most managerial decisions are made at an operating-segment level, managerial accounting information must focus on smaller units of the company.
 - Decision makers need to know about product lines, manufacturing plants, business segments, and operating divisions

Focus on Future

- Financial accounting exists to report the results of operations
 - It is considered historical information
- Managerial accounting reports historical info, often with the purpose of comparing actual results to budgeted results.
- But managerial accounting helps managers to make decisions that will affect the company's future by projecting the results of certain decisions
 - To evaluate whether a decision will have a positive or negative effect on the company

Emphasis on Timeliness

- Managerial accountants place more emphasis on the timely delivery of information than on the delivery of information that is precise to the penny

The Manager's Role

- Managerial accounting is designed to assist managers with 4 general activities, planning, controlling, evaluating, and decision making

	<u>Planning</u>	<u>Controlling</u>	<u>Evaluating</u>	<u>Decision Making</u>
What is it?	Strategic: deciding on long-term direction of corporation Operational: deciding how to implement long-term strategy	Monitoring day-to-day operations to ensure that processes operate as required	Comparing actual results to planned results for the period	Choosing a course of action
Who does it?	Strategic: upper management Operational: upper and	Managers and workers	Managers	Managers and workers

	middle management			
When is it done?	Strategic: annually, focusing on a 5-10 year-period	In real time, hourly, daily--the sooner the better	Weekly, monthly, quarterly, annually	As needed
Examples	Preparing the annual operating budget that allocates resources	Checking a sample of products to determine whether they are in compliance with customer specifications	Reviewing the regional sales history for the year during the regional sales manager's annual performance appraisal	Dropping a slow-selling product from the catalog

Planning

- Managers participate in both short-term and long-term planning activities
- **Long-term planning**, often referred to as strategic planning, establishes the direction in which an organization wishes to go
- Once a strategy has been established for the organization as a whole, managers begin to develop plans for achieving that strategy
- **Short-term planning** or **operational planning** translates the long-term strategy into a short-term plan to be completed within the next year.

Controlling and Evaluating

- After plans have been put in place and the organization has begun to move toward its goals, managers become involved in **controlling activities**
- One purpose of controlling activities is to monitor day-to-day operations to ensure that processes are operating as expected.
- Managers want to motivate employees to help the organization achieve its strategic plan and must assess how well they have performed relative to expectations
 - **Evaluating activity**

Decision Making

- **Decision making**: the forefront of managerial activity
- Need info about available alternatives
 - Managerial accountants provide most of this

The Managerial Accountant's Role