

## Ch. 1

- I. What is Managerial Accounting?
  - a. Focuses on providing internal management with the information it needs to run a company efficiently and effectively
  - b. 3 primary responsibilities (decision-making)
    - i. Planning – goals & objectives → budgets
    - ii. Directing – overseeing day-to-day operations
    - iii. Controlling
  - c. The Role of Management Accountants
    - i. Organizational structure
    - ii. Determining unit costs
      1. Product costing
  - d. Differences between Managerial and Financial Accounting
    - i. Provision of relevant information to help managers make profitable business decisions (future-oriented)
- II. What Role Do Management Accountants Play?
  - a. Company structure
    - i. Board of directors appoint Board of Directors/hire CEO, COO, & CFO
  - b. The Changing Roles of Management Accountants
    - i. More for consulting, business management reporting, financial advising, and working as analysts
  - c. Required Skills
    - i. Accounting (managerial & financial)
    - ii. Analytical skills
    - iii. Knowledge of business functions
    - iv. Teamwork
    - v. Oral & communication skills
    - vi. Strong Excel skills
  - d. Professional Associations
    - i. IMA, CMA, AICPA, CGMA
  - e. 3 pillars of sustainability: social, environmental, economic
  - f. Sarbanes-Oxley act puts more pressures on CFOs/CEOs

## Ch. 2

- I. Building Blocks of Managerial Accounting
  - a. Service, Merchandising, and Manufacturing Companies
    - i. Service Companies
      1. Sell intangible services (health care, insurance, consulting)
      2. Generally NO inventory (if so, just for internal use)
        - a. Salaries & benefits usually > 70% of costs
    - ii. Merchandising Companies
      1. Resell tangible products bought by suppliers
      2. Retailers and wholesalers

3. They have inventory
  - a. Inventory = cost of merchandise + all costs necessary to get merchandise in place & ready to sell (freight, tariffs)
- iii. Manufacturing Companies
  1. Use labor, plant, and equipment to convert raw materials into finished products
  2. Types of inventory
    - a. **Raw materials inventory**
      - i. All raw materials used in manufacturing
      - ii. Includes plant materials (ex: janitorial supplies)
    - b. **Work in process inventory**
      - i. Goods that are not yet complete
    - c. **Finished goods inventory**
      - i. Completed goods that have not yet been sold
- iv. Not all companies strictly in one category – ex: restaurants
- v. **Value Chain:** activities that add value to company's products/services
  1. **Research & Development (R&D)**
  2. **Design** – engineering of products/services & how to produce them
  3. **Production or Purchases** – resources used to produce a product or service, or to purchase finished merchandise intended for resale
  4. **Marketing** – promotion and advertising (creating demand)
  5. **Distribution** – delivery of products/services to customers
  6. **Customer Service** – support provided after the sale
    - a. Cross-functional teams used @ all levels of value chain
- vi. Most sustainability occurs during design (eco-friendly packaging, etc.)
  1. **Life-Cycle Assessment:** company analyzes enviro impact “from cradle to grave”
  2. **Biomimicry:** companies try to mimic natural biological processes in which dead organisms become the input for another organism or process
  3. Adopting sustainable purchasing practices
  4. **Greenwashing:** overstating a company's commitment to sustainability
    - a. This can negatively affect companies sometimes

## II. How Do Companies Define Cost?

- a. **Cost Object:** anything that managers want separate measurement of cost for
  - i. Examples: individual units, different models, alternate mktg strategies
- b. **Direct cost:** cost can be traced to the cost object
- c. **Indirect cost:** cost relates to cost object but can't directly be traced (or too inefficient to trace)
  - i. *Assigning costs* = attaching indirect costs to cost object
  - ii. *Tracing costs* = tracing direct costs to cost object
- d. Costs for Internal Decision Making and External Reporting

- i. **Total Costs** – includes costs of all resources used through the value chain
  - 1. **“PERIOD COSTS”** aka operating/selling expenses
    - a. Refers to R&D, design, marketing, distribution, and customer service
    - 2. *Expensed right away during the period which they are incurred*
- ii. **Inventoriable Product Costs** – only includes the costs incurred during the “production or purchases” part of the value chain
  - 1. These are treated as assets (inventory) until the product is sold
  - 2. When sold, removed from inventory & expensed as COGS
    - a. So, *not “expensed” right away* during “P or P” process
  - 3. Types of costs
    - a. **Direct Materials (DM)** – primary materials
    - b. **Direct Labor (DL)** – cost of compensating employees who physically convert raw materials into finished products
    - c. **Manufacturing Overhead (MOH)** – includes all manufacturing costs other than DM & DL – ALL INDIRECT MANUFACTURING COSTS
      - i. Indirect materials – ex: janitorial supplies
      - ii. Indirect labor – ex: Publix deli employee wages?
      - iii. Other indirect manufacturing costs – ex: taxes
- iii. **Prime Costs = DM + DL**
- iv. **Conversion Costs = DL + MOH**

### III. How Are Inventoriable Product Costs and Period Costs Shown in the Financial Statements?

- a. All Inventoriable product costs = inventory until sold → then COGS
- b. Period costs expensed as operating expenses (during same period)
- c. Different Businesses & Financials
  - i. Service company
    - 1. No inventory
    - 2. Period costs expensed as operating expenses on Inc. statement
  - ii. Merchandising company
    - 1. Purchases inventory
    - 2. COGS deducted from Sales Revenue to show Gross Profit
      - a. Deduct Operating Expenses
      - b. This gives us the company’ Operating Income
  - iii. Manufacturing company
    - 1. Only big difference from merchandising = inventory MADE
      - a. Leads to a different COGS sum
- d. **Cost of Goods Manufactured:** costs of goods that were completed and moved to *Finished Goods Inventory* during the period
- e. Calculations
  - i. Calculation of Direct Materials (DM) Used (pg. 66)
  - ii. Calculation of COG Manufactured (pg. 67)
  - iii. Calculation of COGS (pg. 67)