**INSTRUCTOR NOTES: CHAPTER 1**

**THE CHANGING ROLE OF MANAGERIAL**

**ACCOUNTING IN A DYNAMIC BUSINESS ENVIRONMENT**

**Learning Objectives**

1. Define managerial accounting and describe its role in the management process.

2. Explain four fundamental management processes that help organi­za­tions attain their goals.

3. List and describe five objectives of managerial accounting activity.

4. Explain the major differences between managerial and finan­cial accounting.

5. Describe the accounting and finance structure in an organization.

6. Describe the roles of an organization's chief financial officer (CFO) or controller, trea­surer, and internal auditor.

7. Understand and explain the value chain concept.

8. Explain how investments in capacity affect managerial decisions making.

9. Discuss the professional organizations and certifications in the field of managerial accounting.

10. Describe the ethical responsibilities and ethical standards that apply to managerial accounting.

**Chapter Overview**

# I. Managing Resources, Activities, and People

# A. What is managerial accounting?

# B. Management activities

# 1. Decision making

# 2. Planning

# 3. Directing operational activities

# 4. Controlling

# II. How Managerial Accounting Adds Value to the Organization

# Objectives of managerial accounting activity

### Provides information for decision making and planning

### Assists in directing and controlling

### Motivates managers and employees

### Measures performance

### Assesses an organization's competitive position

## Balanced Scorecard

## Managerial Versus Financial Accounting

### Focus of reports

### External vs. internal users of information

### Degree of regulation

### Information focus

## D. Managerial Accounting in Different Types of Organizations

# III. Where Do We Find Managerial Accountants in an Organization?

# Organization Chart

### Line and staff positions

### Chief financial officer (CFO) or controller

### Treasurer

### Internal auditor

## B. Cross-functional deployment

## C. Physical location

# IV. The Operational Context of Managerial Accounting

## Managerial Accounting and the Value Chain

1. Capacity and Capacity Costs

## Cost management systems

# V. Managerial Accounting as a Career

1. Professional Organizations
2. Professional Certification

VI. Managerial Accounting and the Ethical Climate of Business

Key concepts in the chapter are discussed below.

# **Managing Resources, Activities, and People**

1. Types of organizations include manufacturers, retailers, service providers, agribusinesses, and nonprofit firms. These organizations have goals—for example: growth, profit, quality, leadership, etc.
2. Organizations have information needs in the financial, production, personnel, environmental, and legal areas. Managerial accounting provides some of this information. **Managerial accounting** is the process of identifying, measuring, analyzing, interpreting, and communicating information in pursuit of an organization's goals.
3. The role of managerial accountants has expanded in recent years. **Managerial accountants** are specialists in using the tools of managerial accounting to help the organization and its managers run the operation smoothly. Formerly in staff positions, managerial accountants now serve as internal business consultants, trusted advisors, and "business partners."

* Management functions performed within an organization can often be summarized as decision making, planning, the directing of operational activities, and controlling.
* **Decision making—**theprocess of choosing among available alternatives
* **Planning—**developinga detailed financial and operational description of anticipated operations
* **Directing operational activities—**runningthe organization on a day-to-day basis
* **Controlling—**ensuringthat the organization operates in the intended manner to achieve its goals

# **How Managerial Accounting Adds Value to the Organization**

1. Provides managers with information (e.g., product costs, budgets, cash flows). The information includes financial and nonfinancial data to help managers with strategic planning and decision making.
2. Assists in directing and controlling (analyzing and comparing actual performance to budgeted plans; **attention-directing** to highlight successful or problem areas).
3. Motivates managers to achieve the organization's goals by communicating the plans, providing a measurement of how well the plan was achieved, and prompting an explanation of deviations from plans.
4. Measures performance not only for the entire organization, as in financial accounting, but also for many subunits (divisions, departments, managers).

* Assesses the organization's competitive position in the rapidly changing business environment. Looks at how well the firm is doing internally, in the eyes of its customers, from the standpoint of innovation and continuous improvement, and financially.
* The preceding factors are integrated in a model of performance evaluation known as the **balanced scorecard.**

1. Managerial Versus Financial Accounting

* **Financial accounting** is intended for external users (investors, creditors, etc.);is heavily regulated by the FASB, SEC; is mandatory for publicly-traded companies; is historic in nature.
* **Managerial accounting** is intended for internal users (managers); is not heavily regulated; is not mandatory but rather is adopted based on costs/benefits; is future-oriented.

# **Where Do We Find Managerial Accountants in an Organization?**

1. **Line** personnel are directly involved in carrying out the mission of the organization (e.g., assembly workers in a factory, doctors in a hospital, teachers in a school).
2. **Staff** personnel (accountants, lawyers, personnel directors, and other administrative positions) provide support for the organization's mission.

* An accountant in a CPA firm would be in a line position, because the organization's mission is providing accounting services. In contrast, an accountant at a university would be in a staff position.

1. The **chief financial officer (CFO)** or **controller** is the chief accountant responsible for the supervision of the accounting department, preparation of reports, and the interpretation of information to line managers.
2. The **treasurer** is responsible for raising capital, safeguarding assets, managing investments, insurance coverage, and the credit policy of an organization.
3. The **internal auditor** reviews accounting procedures, reports, and performance on behalf of top management.

* More and more, managerial accountants work throughout an entire enterprise and are deployed in cross-functional management teams, working with top executives and personnel from a variety of functional areas (e.g., marketing, production, engineering, and operations).

# **The Operational Context of Managerial Accounting**

1. More attention is being paid to the **value chain—**theset of linked, value-creating activities, from conducting product research, to manufacturing, to providing customer service.

* A number of activities occur prior to the production of a good or service (i.e., upstream activities) and several occur after (so-called downstream activities).

1. To achieve an organization's goals, managers must understand the entire value chain as well as the related cost-causing factors **(cost drivers).**
2. Managing the cost relationships within a value chain to the firm's advantage is called **strategic cost management**.

* A key objective of managerial accounting information is the management of an organization’s capacity and the costs of providing that capacity.

**Capacity** is the upper limit on the amount of goods or services that an organization can produce in a specified period of time. There are various concepts of an organization’s capacity. **Theoretical capacity** refers to the upper limit on production of goods or services if everything works perfectly. **Practical capacity** allows for normal occurrences such as machine downtime and employee fatigue or illness.

* The growing use of **cost management systems—**planningand control systems that measure the cost of resources and eliminate **non-value-added costs** (costs that can be eliminated with no deterioration of product quality, performance, or perceived value).
* These systems also help determine the efficiency and effectiveness of the enterprise, and identify new opportunities for the organization.
* **Activity-based costing (ABC)** is a system for determining the cost of producing goods or services.
* A**ctivity-based management (ABM)** is the process of using an ABC system to improve the operations of an organization.

# **V. Managerial Accounting as a Career**

* The Institute of Management Accountants (IMA) administers the **Certified Management Accountant (CMA)** program. Students interested in internal accounting rather than employment in a public accounting firm may wish to pursue this designation.

**VI. Managerial Accounting and the Ethical Climate of Business**

* Recent corporate scandals have involved mismanagement, alleged ethical lapses, and criminal behavior. Causes of these scandals were attributable to:
* Greedy corporate executives, managers who made over-reaching business deals and a lack of oversight by boards of directors and audit committees.
* Shoddy work by external auditors, a lack of sufficient probing by Wall Street analysts and the financial press, and overly aggressive accounting.
* Various reforms have begun to surface that remedy deficiencies in corporate governance and accounting. For example, the Sarbanes-Oxley Act both:
* Created the Public Company Accounting Oversight Board (PCAOB) to establish auditing standards and provide for an audit quality review process, and
* Limits the types of non-audit work that public accounting firms can perform for their audit clients.
* Professional ethics require high standards of conduct from management accountants in the areas of competence, confidentiality, integrity, and credibility.