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# Notes – Chapter 1

Introduction to Managerial Accounting

I. What is it?
   a. Analytical tools, methods, and techniques.
   b. Facilitate the management procesas.
   c. Identify opportunities and problems.
   d. Take measurements.
   e. Perform analysis and make determinations based on accumulated information.
   f. Communicate that information to those in need.
   g. Ultimately provide the information needed to make the best possible decisions.

II. Financial vs. Managerial Accounting
   a. Financial has GAAP and other standards. Managerial accounting has no real standards save about ethics and the like.
   b. Financial accounting is designed to for outside users: investors, regulators, et cetera. Managerial accounting is about the inside people, and thus needs to meet only internal needs.

III. What is Management?
   a. Making decisions governing the daily and long-term operations of the business with specific regard to efficiency, equity, and effectiveness.
      i. Effectiveness = Actual Output / Planned Output
      ii. Efficiency = Output / Input. What did it take to be effective? Goals can be met effectively but in an inefficient manner.
   b. Planning and organizing, maximizing profits.
   c. Three Components
      i. Planning & Organizing (Budgeting)
         1. Strategic. Define what you want ("Strategic Intent")
         2. Tactical. How are you going to achieve it?
      ii. Implementation.
         1. Resource acquisition – financial management is key!
         2. Infrastructure establishment – people, buildings, equipment, relationships, supply base, knowledge
         3. Executing an action plan.
      iii. Control. Measurement! Feedback and correction in relation to the implementation.

IV. Management Models
   a. Historic
      i. Hierarchical.
      ii. Derived from the military. Only the church and the military have historically had experience in mass management.
      iii. Emphasis was on production and manufacturing.
      iv. Use specialization of labor heavily.
      v. Driven by economies of scale. "Bigger is Better"
      vi. Prof. Porter (Harvard: Sustainable Competitive Advantage. Develop and sustain an advantage relative to the competition.
      vii. Whole model is being challenged now. It doesn't fit the changing environment.
   b. Trends and Catalysts for Change
      i. Globalization
         1. Can now market to the world – must then compete with the world.
         2. First begin doing international business by importing and exporting. No real international presence, but can pick the best worldwide suppliers – not limited to any local market.

3. Then become multinational by putting capital in other countries. Maybe start with just a sales office and progress to full manufacturing plants.
4. Become Global. Organized to consider the whole world as your market. Honda: "Think global. Source Local."

ii. E-Business / Technology
1. Computer Integrated Manufacturing (CIM)
2. Manufacturing Requirement Planning (MRP)
3. Manufacturing Resource Planning (MRP II)
4. Enterprise Resource Planning (ERP)
5. "Cheap Information." Networks.
6. Electronic Data Interchange (EDI). Trade information between suppliers and buyers. "All" majors have it.
7. XML.

iii. Downsizing
1. Maybe firms are just too big, or maybe they want to outsource something.
2. "Core Competition." Figure out what's key (core) to your success and focus on improving that.
3. Find others who are already good at the other stuff and let them worry about it.

iv. Customer Service Expectations
1. Rising!
2. Customers want greater variety and faster acquisition.
3. "Time Compression." Faster development cycles, less lead time in parts and manufacturing.

v. Service sector is on the rise.
1. Manufacturing used to drive the economy. Now service is growing.
2. The product is consumed as it is delivered. Manufacturing has inventory to inspect and control, service doesn't.

c. Evolving Process
i. Sales, Research and Development, Manufacturing, and Accounting were all kept separate.before.
ii. Now functions are integrated more so the *process* can be managed as a whole.
iii. Take Inputs, perform "Business Process Activities" and obtain outputs.
iv. Process Elements (Hierarchy)
1. Macro-Process [Management]
2. Sub-Process Level 1 [Order Fulfillment]
3. Sub-Process Level 2 [Source]
4. Activity [Vendor Identification]
5. Task [Issue Purchase Order]

v. Shifts the focus of management upward so the focus is on the output, not the tiny details.
vi. Demands different information from accountants.
vii. Easy to discuss but harder to transition from "the old way" to "the new way."

d. Realities for Future Management
i. Increasing complexity, more of everything. More regulation, more products, et cetera.
ii. Continued increase in customer service demands.
iii. Direct labor declines in importance, leading to higher fixed-costs and less flexibility but more efficiency.

e. Information has potential to overload
i. Cheaper and more accessible.
ii. Potential to get thoroughly "caught-up" in performance measures.
iii. Establish a Chief Information Officer to govern the use of measures.

iv. Constantly rationalize the use of performance measures based on who's actually using them.

f. Increasing Integration
   i. Intra- and inter-company
   ii. "Value Chain."
      1. Companies need to work together.
      2. Simple value chain: Suppliser → Focal Company → Customer
   iii. Outsourcing Continues
   iv. Competitive Advantages can't be sustainable with so much change.
   v. Knowledge management
      1. Capital becomes secondary
      2. We focus on production now, but we may need to start measuring knowledge acquisition.
      3. Not the same as information! "You Jedi should know the difference between *knowledge* and.. heh heh.. *wisdom!*"
g. Flexibility. Be ready and able to adjust to key changes.

V. Managerial Accounting Models
   a. Old: Manufacturing centric. Focus on production. New: Focus on service as well.
   b. Old: Direct labor emphasis. New: Activity Based Costing (gauge costs by activity, not just individual cost drivers).
   c. Old: "Cost Accounting." Record costs as an item goes through the process. New: Proactive cost management. Understand what's driving your costs and be able to influence it.
   d. Old: Intra-organizational. New: Integrated.
   e. New: Focus on customer service. Ultimate drive is to meet customer expectations.
   f. Old: Cost accounting. Just what it costs. New: Knowledge and learning plays a bigger role.
   g. New: Total Business Consultant. Don't need to just watch the factory floor.