

Introduction to Accounting: The Language of Business

Lesson 11: Introduction to Managerial Accounting Supplemental Textbook



Introduction to Managerial Accounting

A manager's perspective

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Regardless of the area of business in which they choose to make their careers, students, especially when they reach the management level, will inevitably have financial responsibilities. As a manager, I need to understand some basic accounting information in order to make decisions and to process the information flow in and out of my office.

For example, I manage a department budget, and it is my responsibility to track cash inflow and outflow on a regular basis to ensure that the budget is administered appropriately. I track all our invoices, then reconcile them with a "Deck" report, which we receive from accounting. I also order supplies for our department, and that needs to be managed within a budget as well.

Every year we review our department's past expenditures and our anticipated expenditures, then establish a budget for the next year. At this point, we also make decisions about capital expenditures such as purchasing new computer equipment, and those plans are worked into the capital budget.

Aside from general administration, I am also responsible for a program called "Coca-Cola Cares", an employee hotline set up in 1992 to provide a vehicle for employees to report any problems they notice in the marketplace such as broken vending machines or inappropriate use of our trademark. I receive weekly and monthly reports to assess improvements based on increases and decreases in the number of calls we receive.

Another group under my management is telemarketing services, an internal service set up to help Coca-Cola associates with market research and customer service projects. Since independent telemarketing services can be very expensive, this system allows us to maintain high quality service to Coca-Cola customers in the most economically feasible way.

Have you ever considered starting or running a business, or know someone who has? Have you considered providing management skills to a nonprofit organization? If so, then you realize that good decisions are based on good information.

Managerial accounting helps managers make good decisions. Managerial accounting provides information about the cost of goods and services, whether a product is profitable, whether to invest in a new business venture, and how to budget. It compares actual performance to planned performance and facilitates many other important decisions critical to the success of organizations.

The remaining chapters in this book focus on managerial accounting. This chapter provides an overview of managerial accounting, defines cost terms, and shows how to determine the cost of a particular type of product known as a job.

Compare managerial accounting with financial accounting

Whereas financial accounting provides financial information primarily for external use, **managerial accounting** information is for internal use. By reporting on the financial activities of the organization, financial accounting provides information needed by investors and creditors.

Most managerial decisions require more detailed information than that provided by external financial reports. For instance, in their external financial statements, large corporations such as General Electric Company show single amounts on their balance sheets for inventory. However, managers need more detailed information about the cost of each of several hundred products.

We show the fundamental differences between managerial and financial accounting in the chart.

Financial accounting	Managerial accounting
Users External users of information – usually shareholders, financial analysts, and creditors Compliance with generally accepted Accounting Principles Must comply with generally accepted accounting principles.	Internal users of information – usually managers. Need not comply with generally accepted accounting principles. Internal cost/benefit evaluation determines how much information is enough.
Future versus past Uses historical data.	May use estimates of the future for budgeting and decision making.
Detail presented Presents summary data, costs, revenues, and profits.	More detailed data are presented about product.

Accountants currently face a big challenge: designing information systems that provide information for multiple purposes. Some people at lower levels in the organization need detailed information, but not the big picture provided by a company's income statement. However, managers at top levels need to see the big picture.

All of you will use accounting information in your careers. Therefore, you need to know enough about accounting to get the information you need for decision making.

Managerial accountants face many choices involving ethics. For example, managers are responsible for achieving financial targets such as net income. Managers who fail to achieve these targets may lose their jobs. If a division or company is having trouble achieving financial performance targets, managers may be tempted to manipulate the accounting numbers.

In its Standards of Ethical Conduct for Management Accountants, the Institute of Management Accountants (IMA) states that management accountants have an obligation to maintain the highest levels of ethical conduct by maintaining professional competency, refraining from disclosing confidential information, and maintaining integrity and objectivity in their work.¹

The standards recommend that people faced with ethical conflicts follow the company's established policies that deal with such conflicts. If the policies do not resolve the conflict, accountants should consider discussing the matter with their superiors, potentially going as high as the audit committee of the board of directors. In extreme cases, the accountants may have no alternative but to resign.

¹ See Standards of Ethical Conduct for Management Accountants (Montvale, N.J.: Institute of Management Accountants, June 1, 1983.)

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