



**SILESIA
UNIVERSITY**

SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

MANAGERIAL ACCOUNTING

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MANAGERIAL ACCOUNTING/NANMU

OUTLINE OF THE LECTURE

1. Managerial accounting
2. Financial accounting versus managerial accounting
3. Pillars of managerial accounting
4. A strategic management perspective
5. An enterprise risk management perspective

MANAGERIAL ACCOUNTING

Financial accounting

- is concerned with reporting financial information to external parties (such as stockholders, creditors, regulators)

Managerial accounting

- is concerned with providing information to managers for use within the organization

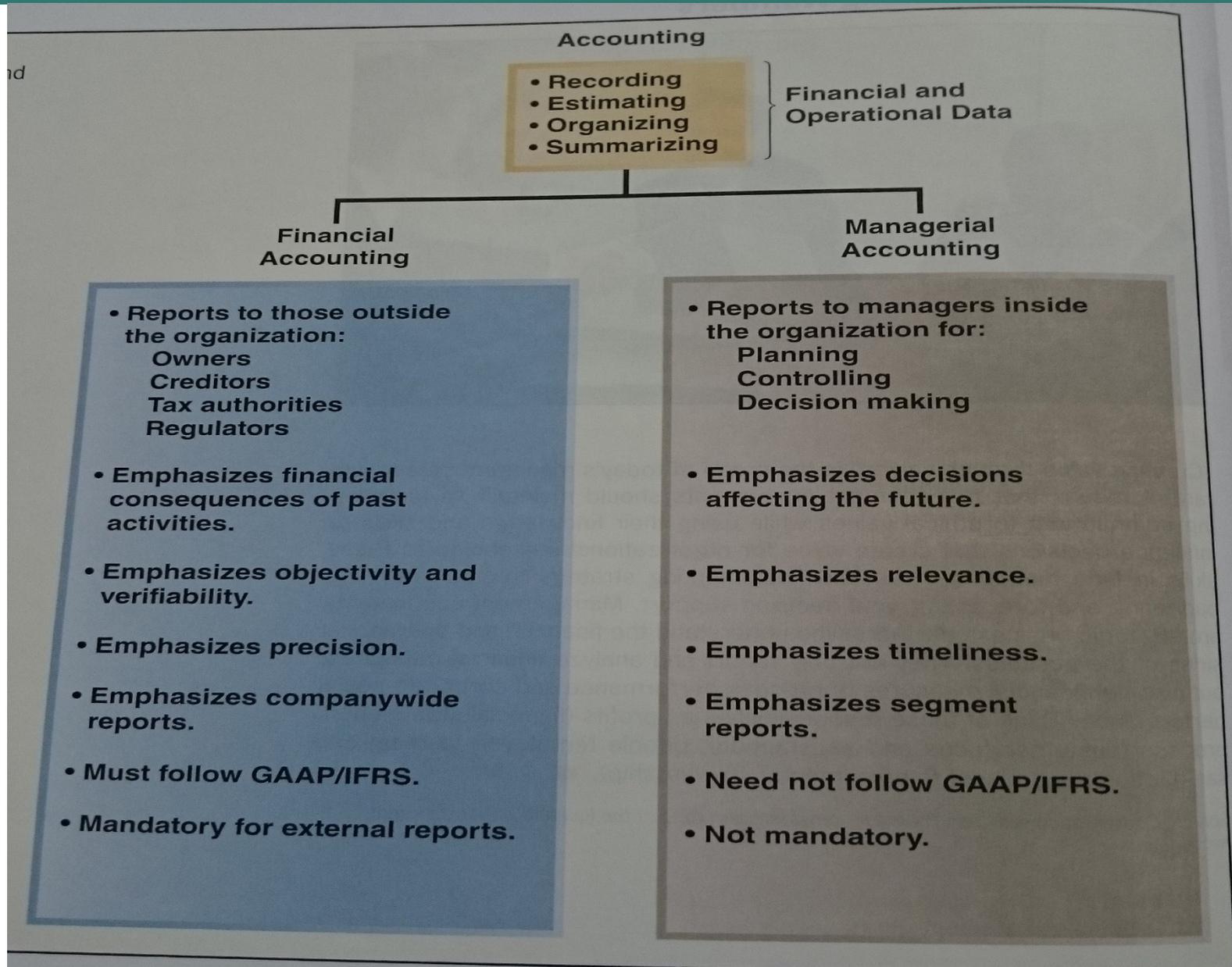
FINANCIAL ACCOUNTING

- Reports to those outside the organization:
 - Owners
 - Creditors
 - Tax authorities
 - Regulators
- Emphasizes financial consequences of past activities
- Emphasizes objectivity and verifiability
- Emphasizes predictions
- Emphasizes companywide reports
- Must follow GAAP/IFRS
- Mandatory for external reports

MANAGERIAL ACCOUNTING

- Reports to managers inside the organization for:
 - Planning
 - Controlling
 - Decision making
- Emphasizes decisions affecting the future
- Emphasizes relevance
- Emphasizes timeliness
- Emphasizes segment reports
- Need not follow GAAP/IFRS
- Not mandatory

MANAGERIAL ACCOUNTING



THREE PILLARS OF MANAGERIAL ACCOUNTING

- Planning
- Controlling
- Decision making

PLANNING

- involves establishing goals and specifying how to achieve them
- includes establishing plans

Plans are often accompanied by a budget.

Budget is a detailed plan for the future that is usually expressed in formal quantitative terms.

CONTROLLING

- involves gathering feedback to ensure that the plan is being properly executed or modified as circumstances change
- Once you established and started implementing plan, you would transition to the control process
- Part of control process includes preparing **performance reports**

Performance report compares budgeted data to actual data in an effort to identify and learn from excellent performance and to identify and eliminate sources of unsatisfactory performance.

Performance reports can also be used as one of many inputs to help evaluate and reward employees.

DECISION MAKING

- involves selecting a course of action from competing alternatives
- perhaps the most basic managerial skill is the ability to make intelligent, data-driven decision
- many decisions revolve around the following three questions
 1. **What** should we be selling?
 2. **Who** should we be serving?
 3. **How** should we execute?

MANAGERIAL ACCOUNTING

	Marketing	Supply Chain Management	Human Resource Management
Planning	<p>How much should we budget for TV, print, and Internet advertising?</p> <p>How many salespeople should we plan to hire to serve a new territory?</p>	<p>How many units should we plan to produce next period?</p> <p>How much should we budget for next period's utility expense?</p>	<p>How much should we plan to spend for occupational safety training?</p> <p>How much should we plan to spend on employee recruitment advertising?</p>
Controlling	<p>Is the budgeted price cut increasing unit sales as expected?</p> <p>Are we accumulating too much inventory during the holiday shopping season?</p>	<p>Did we spend more or less than expected for the units we actually produced?</p> <p>Are we achieving our goal of reducing the number of defective units produced?</p>	<p>Is our employee retention rate exceeding our goals?</p> <p>Are we meeting our goal of completing timely performance appraisals?</p>
Decision Making	<p>Should we sell our services as one bundle or sell them separately?</p> <p>Should we sell directly to customers or use a distributor?</p>	<p>Should we transfer production of a component part to an overseas supplier?</p> <p>Should we redesign our manufacturing process to lower inventory levels?</p>	<p>Should we hire an on-site medical staff to lower our health care costs?</p> <p>Should we hire temporary workers or full-time employees?</p>

WHAT SHOULD WE BE SELLING?

- What products and services should be the focus of our marketing efforts?
- What new products and services should we offer?
- What prices should we charge for our products and services?
- What products and services should we discontinue?

WHO SHOULD WE BE SERVING?

- Who should be the focus of our marketing efforts?
- Who should we start serving?
- Who should pay price premiums or receive price discounts?
- Who should we stop serving?

HOW SHOULD WE EXECUTE?

- How should we supply our parts and services?
- How should we expand our capacity?
- How should we reduce our capacity?
- How should we improve our efficiency and effectiveness?

A STRATEGIC MANAGEMENT PERSPECTIVE (1)

Companies do not succeed by sheer luck. They need to develop a strategy that defines how they intend to succeed in the Marketplace.

- Strategy is a game plan that enables a company to attract customers by distinguishing itself from competitors.
- The focal point of a company's strategy should be its target customers.
- The essence of strategy is customer value propositions

A STRATEGIC MANAGEMENT PERSPECTIVE (2)

Customer value propositions tend to fall into three broad categories:

- Customer intimacy
- Operational excellence
- Product leadership

AN ENTERPRISE RISK MANAGEMENT PERSPECTIVE

- Every strategy, plan and decision involves risks.
- Enterprise risk management is a process used by a company to identify those risks and develop responses to them that enable it to be reasonably assured of meeting its goals.
- Risks range from risks that relate to the weather to risks associated with computer hackers, complying with the law, employee theft and products harming customers.
- In managerial accounting, companies use controls to reduce the risk that their plans will not be achieved.

MANAGERIAL ACCOUNTING

Examples of Business Risks

- Intellectual assets being stolen from computer files
- Products harming customers
- Losing market share due to the unforeseen actions of competitors
- Poor weather conditions shutting down operations
- A website malfunctioning
- A supplier strike halting the flow of raw materials
- A poorly designed incentive compensation system causing employees to make bad decisions
- Financial statements inaccurately reporting the value of inventory
- An employee stealing assets
- An employee accessing unauthorized information
- Inaccurate budget estimates causing excessive or insufficient production
- Failing to comply with equal employment opportunity laws

Examples of Controls to Reduce Business Risks

- Create firewalls that prohibit computer hackers from corrupting or stealing intellectual property
- Develop a formal and rigorous new product testing program
- Develop an approach for legally gathering information about competitors' plans and practices
- Develop contingency plans for overcoming weather-related disruptions
- Thoroughly test the website before going "live" on the Internet
- Establish a relationship with two companies capable of providing needed raw materials
- Create a balanced set of performance measures that motivates the desired behavior
- Count the physical inventory on hand to make sure that it agrees with the accounting records
- Segregate duties so that the same employee does not have physical custody of an asset and the responsibility of accounting for it
- Create password-protected barriers that prohibit employees from obtaining information not needed to do their jobs
- Implement a rigorous budget review process
- Create a report that tracks key metrics related to compliance with the laws

A CORPORATE SOCIAL RESPONSIBILITY PERSPECTIVE

- Companies have a corporate social responsibility (CSR) to serve other stakeholders (such as customers, employees, suppliers)

Corporate social responsibility is a concept whereby organizations consider the needs of all stakeholders when making decisions.

Corporate social responsibility extends beyond legal compliance to include voluntary actions that satisfy stakeholder expectations.

A PROCESS MANAGEMENT PERSPECTIVE (1)

- Business processes serve the needs of a company's most important stakeholders – its customers.
- Business process is a series of steps that are followed in order to carry out some task in a business.
- Value chain is often used to describe how an organization's functional departments interact with one another to form business processes.
- A value chain consists of the major business functions that add value to a company's products and services.
- Managers need to understand the value chain to be effective in terms of planning, control and decision making.

A PROCESS MANAGEMENT PERSPECTIVE (2)

- Managers use a process management method known as lean thinking or what is called Lean Production.

Lean Production is a management approach that organizes resources such as people and machines around the flow of business processes and that only produces units in response to customer orders.

- It is often called just-in-time production (JIT) – products are only manufactured in response to customer orders and they are completed just-in-time to be shipped to customers.

A LEADERSHIP PERSPECTIVE (1)

- An important role for organizational leaders is to unite the behaviors of their fellow employees around two common themes – pursuing strategic goals and making optimal decisions.
- Leaders need to understand how **intrinsic motivation**, **extrinsic incentives** and **cognitive bias** influence human behavior.

Intrinsic Motivation

- intrinsic motivation refers to motivation that comes from within us; stop for a moment and identify the greatest accomplishment of your life
 - a leader, who employees perceive as credible and respectful of their value to the organization, can increase the extent to which those employees are intrinsically motivated to pursue strategic goals

A LEADERSHIP PERSPECTIVE (2)

Extrinsic incentives

- many organizations use extrinsic incentives to highlight important goals and to motivate employees to achieve them
- the bonus system motivates employees to attain the time reduction goal

A LEADERSHIP PERSPECTIVE (3)

Cognitive Bias

- leaders need to be aware that all people (including themselves) possess cognitive biases, or distorted thought processes, that can adversely affect planning, controlling, and decision making
- while cognitive biases cannot be eliminated, effective leaders should take two steps to reduce their negative impacts - they should acknowledge their own susceptibility to cognitive bias and they should acknowledge the presence of cognitive bias in other and introduce techniques to minimize their adverse consequences

MANAGERIAL ACCOUNTING

Companies should provide *customers* with:

- Safe, high-quality products that are fairly priced.
- Competent, courteous, and rapid delivery of products and services.
- Full disclosure of product-related risks.
- Easy-to-use information systems for shopping and tracking orders.

Companies should provide *suppliers* with:

- Fair contract terms and prompt payments.
- Reasonable time to prepare orders.
- Hassle-free acceptance of timely and complete deliveries.
- Cooperative rather than unilateral actions.

Companies should provide *stockholders* with:

- Competent management.
- Easy access to complete and accurate financial information.
- Full disclosure of enterprise risks.
- Honest answers to knowledgeable questions.

Companies and their suppliers should provide *employees* with:

- Safe and humane working conditions.
- Nondiscriminatory treatment and the right to organize and file grievances.
- Fair compensation.
- Opportunities for training, promotion, and personal development.

Companies should provide *communities* with:

- Payment of fair taxes.
- Honest information about plans such as plant closings.
- Resources that support charities, schools, and civic activities.
- Reasonable access to media sources.

Companies should provide *environmental and human rights advocates* with:

- Greenhouse gas emissions data.
- Recycling and resource conservation data.
- Child labor transparency.
- Full disclosure of suppliers located in developing countries.