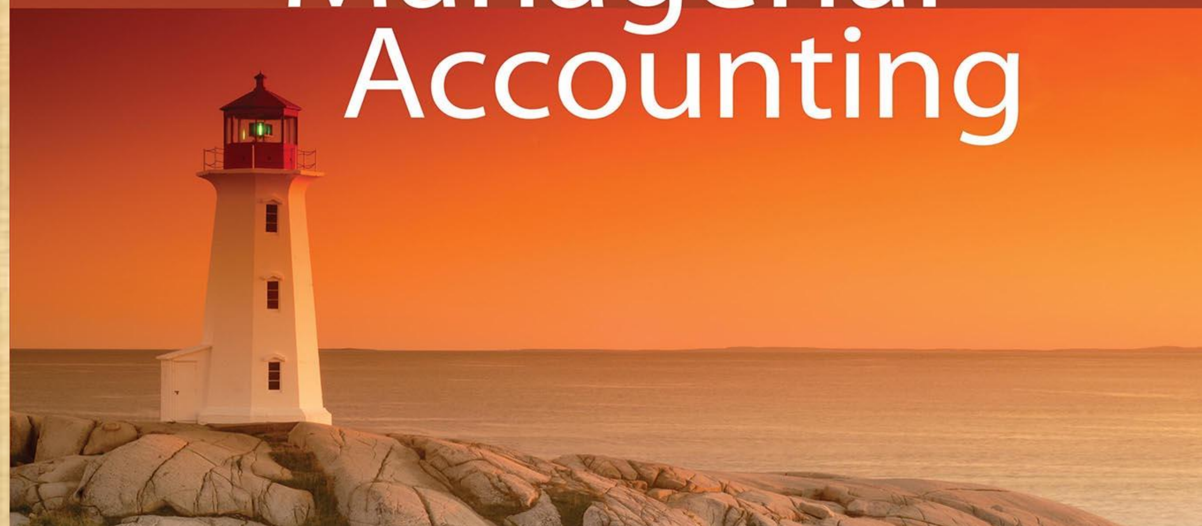
SECOND EDITION

Managerial Accounting



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ASIA GLOBAL EDITION

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Managerial Accounting and the Business Environment

Chapter 1

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Comparison of Financial and Managerial Accounting

	Financial Accounting	Managerial Accounting
1. Users	External persons who make financial decisions	Managers who plan for and control an organization
2. Time focus	Historical perspective	Future emphasis
3. Verifiability versus relevance	Emphasis on verifiability	Emphasis on relevance for planning and control
4. Precision versus timeliness	Emphasis on precision	Emphasis on timeliness
5. Subject	Primary focus is on the whole organization	Focuses on segments of an organization
6. GAAP	Must follow GAAP and prescribed formats	Need not follow GAAP or any prescribed format
7. Requirement	Mandatory for external reports	Not Mandatory

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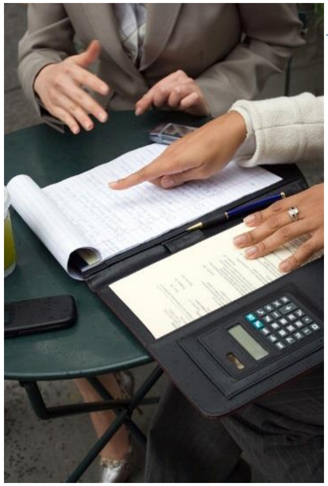
Work of Management

Planning

Controlling

Decision Making

Planning



Establish Goals.

Specify How Goals Will Be Achieved.

Develop Budgets.

Controlling

The control function gathers feedback to ensure that plans are being followed.

Feedback in the form of performance reports that compare actual results with the budget are an essential part of the control function.

Decision Making

Decision making involves making a selection among competing alternatives.

What should we be selling?

Who should we be serving?

How should we execute?

Management Accounting and Cost Accounting

- Management Accounting
  - relates to the provision of appropriate information, including cost information for decision-making, planning, control, and performance evaluation.
- Cost accounting
  - defines costs and valuates inventories to help managers to run businesses; examples including
    - FIFO, weighted average inventory valuation technique
    - Job costing, Process costing, Activity-based costing
    - Cost allocation techniques

Management Accounting and Cost Accounting
- are intertwined and
- the terms are sometimes interchangeable
  - ➢ their functions are to help companies make better decisions

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Managerial Accounting and Globalization

Offshore to China ???

Outsource to India ???

Customer Value Propositions

- **Customer Intimacy Strategy** → Understand and respond to individual customer needs.
- **Operational Excellence Strategy** → Deliver products and services faster, more conveniently, and at lower prices.
- **Product Leadership Strategy** → Offer higher quality products.

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Value Creation: Value-added activities and processes

- Create value to stakeholders
- Need to pay attention to value-added (vs. non-value-added) activities and processes
  - Possible techniques focusing on value-added activities and processes include:
    - Activity-based costing and management
    - Lean production
    - Just-in-time inventory management and production
    - Theory of Constraints
    - Kaizen costing
    - Life-cycle costing
    - Target pricing and costing
    - Quality management, e.g. total quality management and six sigma

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Value Creation: Different Perspectives

- External Perspectives – Value chain management
  - Suppliers (upstream)
  - Customers (downstream)
- Internal Perspectives – Value chain management
  - Business processes (examples mentioned in slide 17)
- Leadership Perspective
  - Leaders who can unite behaviors of fellow employees
    - Need to consider ***intrinsic and extrinsic motivating factors***
    - Need to be aware of ***cognitive biases*** that adversely affect planning, controlling and decision making.
- Cultural Perspective
  - National and organizational cultures
    - Power distance, individualism, uncertainty avoidance, masculinity and long-term orientation

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Process Management

A business process is a series of steps that are followed in order to carry out some task in a business.

R&D	Product Design	Manufacturing	Marketing	Distribution	Customer Service

Business functions making up the value chain

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Managerial Accounting: Beyond the Numbers

In addition to the External, Internal, Leadership and Cultural Perspectives, the following four *business management perspectives* also go beyond the numbers to enable intelligent planning, control, and decision making:

- An Ethics Perspective
- A Corporate Governance Perspective
- An Enterprise Risk Management Perspective
- A Corporate Social Responsibility and Sustainability Perspective

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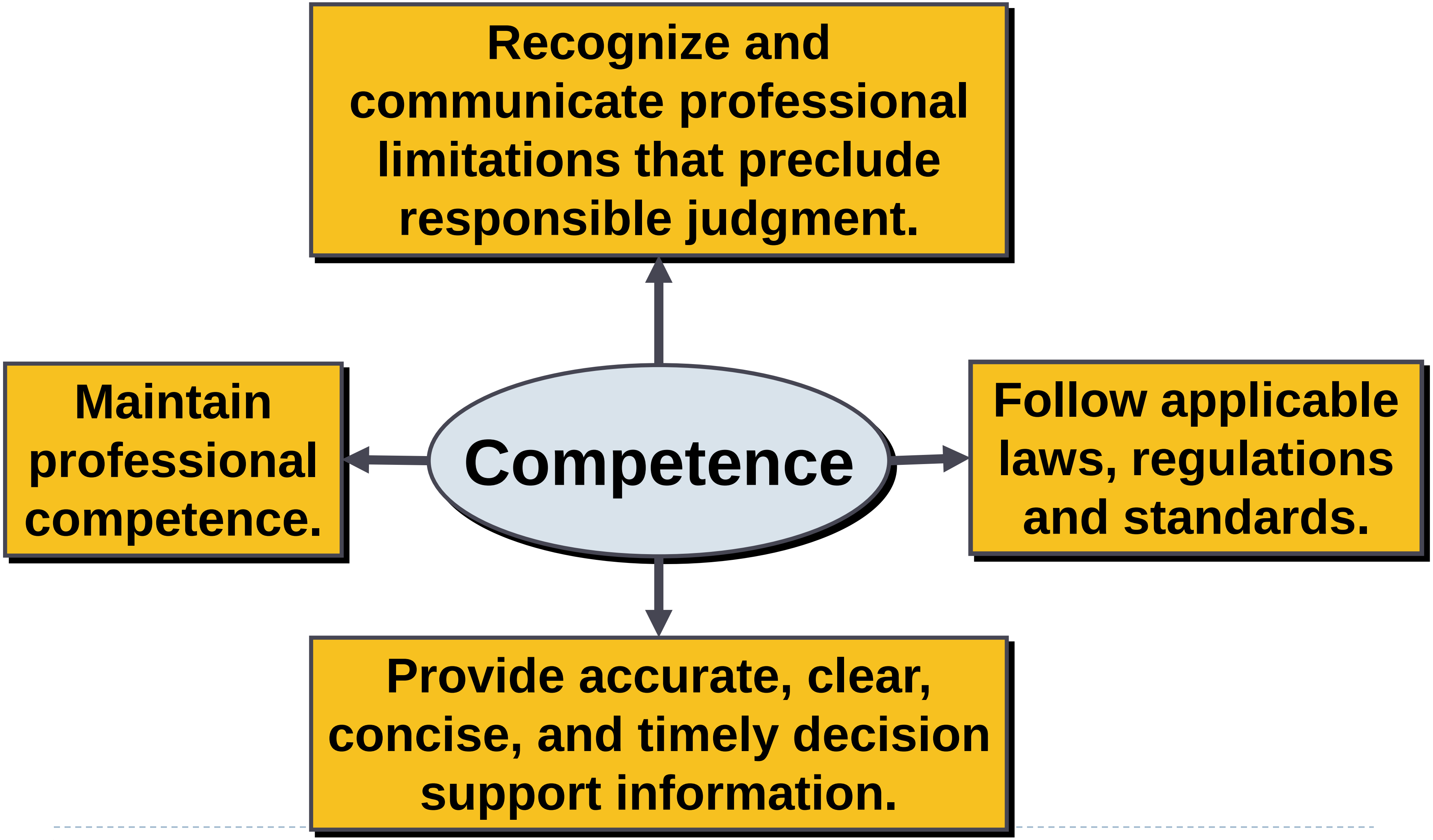
An Ethics Perspective

All Professional Management Accountants Bodies issue their own Code of Conduct but they all share similar fundamental principles and conceptual approaches as the one issued by the Institute of Management Accountants.

The Institute of Management Accountants' (IMA) Statement of Ethical Professional Practice consists of two parts that offer guidelines for:

➊ Ethical behavior.
➋ Resolution for an ethical conflict.

An Ethics Perspective:
IMA Guidelines for Ethical Behavior



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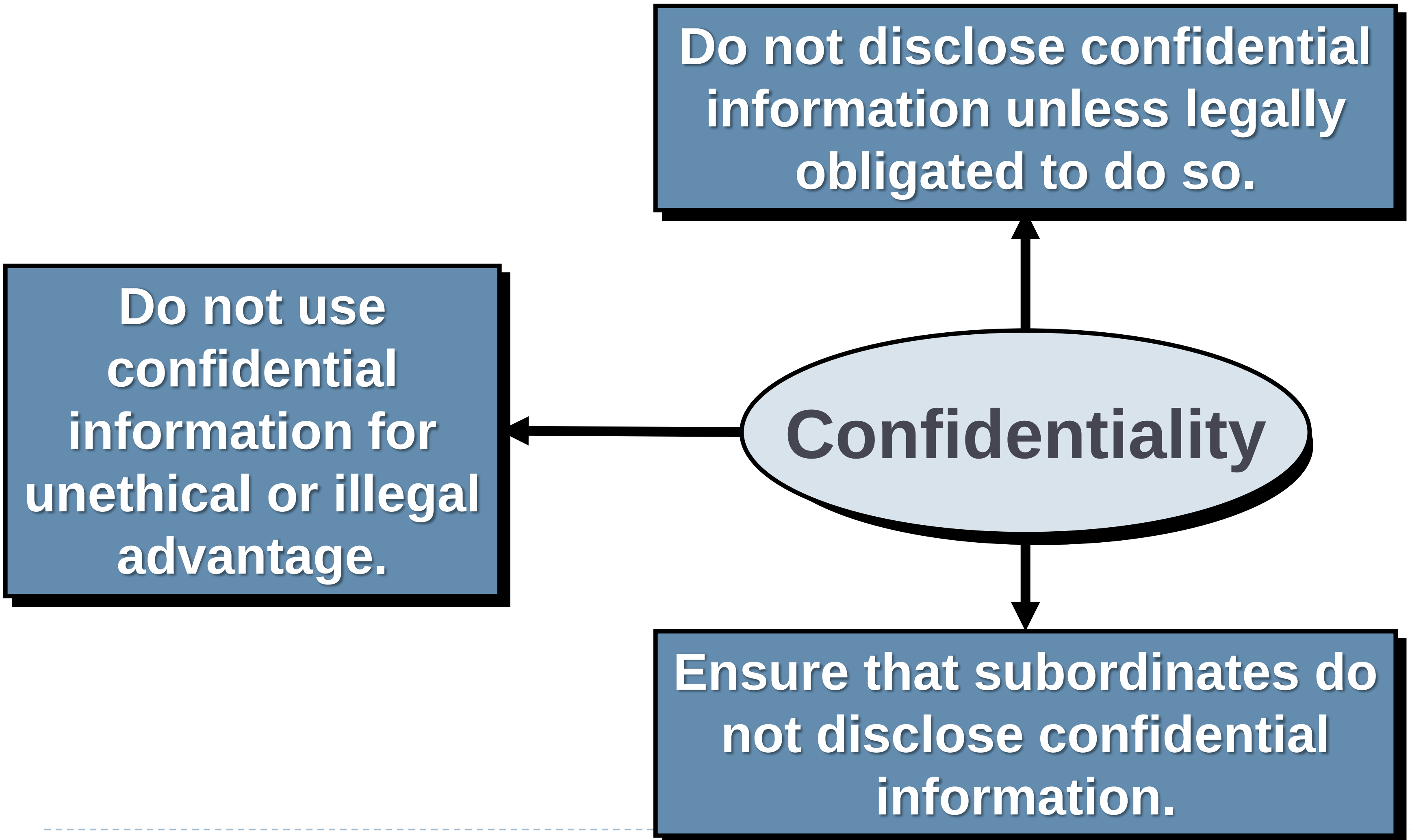
An Ethics Perspective: IMA Guidelines for Ethical Behavior



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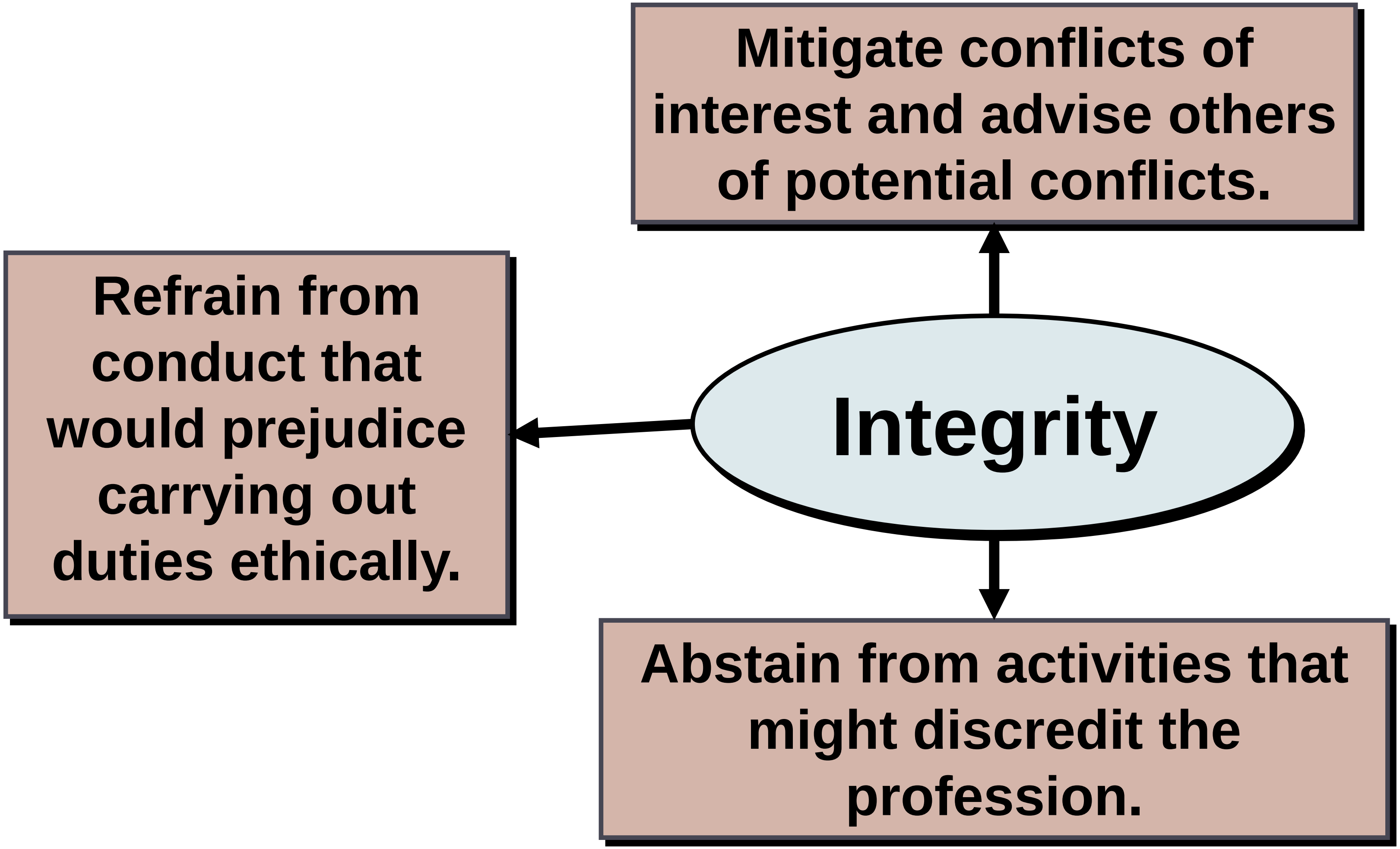

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An Ethics Perspective: IMA Guidelines for Ethical Behavior

Credibility

Communicate information fairly and objectively.

Disclose delays or deficiencies in information timeliness, processing, or internal controls.

Disclose all relevant information that could influence a user's understanding of reports and recommendations.

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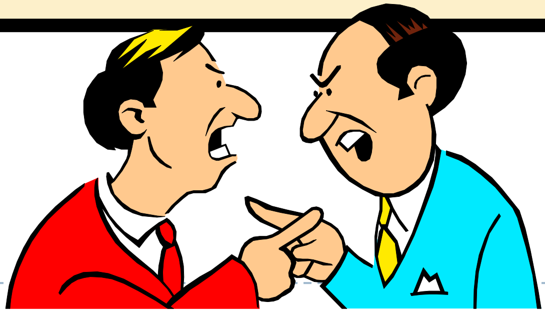
An Ethics Perspective:
IMA Guidelines for Resolution of an Ethical Conflict

Follow employer's established policies.

For an unresolved ethical conflict:

- Discuss the conflict with immediate supervisor or next highest uninvolved manager.
- If immediate supervisor is the CEO, consider the board of directors or the audit committee.
- Contact with levels above the immediate supervisor should only be initiated with the supervisor's knowledge, assuming the supervisor is not involved.



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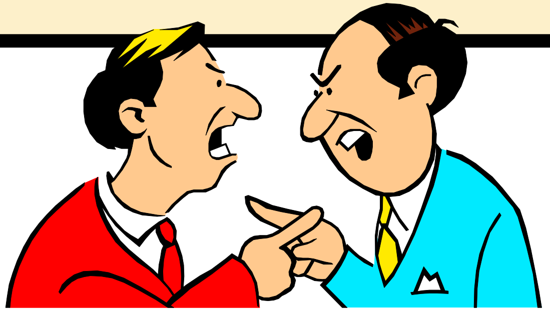
An Ethics Perspective:
IMA Guidelines for Resolution of an Ethical Conflict

Follow employer's established policies.

For an unresolved ethical conflict:

- Except where legally prescribed, maintain confidentiality.
- Clarify issues in a confidential discussion with an objective advisor.
- Consult an attorney as to legal obligations.



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An Ethics Perspective: Why Have Ethical Standards?

Ethical standards in business are essential for a smooth functioning economy.

Without ethical standards in business, the economy, and all of us who depend on it for jobs, goods, and services, would suffer.

Abandoning ethical standards in business would lead to a lower quality of life with less desirable goods and services at higher prices.

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An Ethics Perspective: Company Codes of Conduct

Broad-based statements of a company's responsibilities to:

Employees

Customers

Suppliers

And to the communities in which the company operates.

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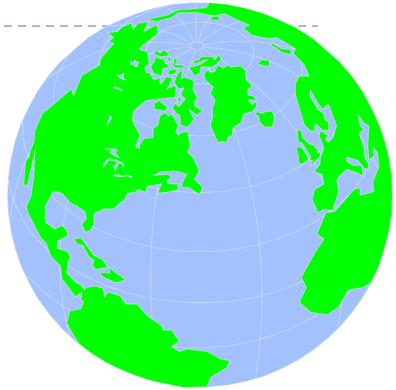
An Ethics Perspective: Codes of Conduct on the International Level

The Code of Ethics for Professional Accountants, issued by the International Federation of Accountants (IFAC), governs the activities of professional accountants worldwide.



In addition to integrity and objectivity, resolution of ethical conflicts, competence, and confidentiality, the IFAC's code deals with the accountant's ethical responsibilities in:

Taxes,
Independence,
Fees and commissions,
Advertising and solicitation,
Handling of monies, and
Cross-border activities.

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A Corporate Governance Perspective

The system by which a company is directed and controlled.

Board of Directors

Incentives and monitoring for

Top Management

To pursue objectives of

Stockholders

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A Corporate Governance Perspective: The Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 was intended to protect the interests of those who invest in publicly traded companies by improving the reliability and accuracy of corporate financial reports and disclosures. Six key aspects of the legislation include:

❶ The Act requires both the CEO and CFO to certify in writing that their company's financial statements and disclosures fairly represent the results of operations.

❷ The Act establishes the Public Company Accounting Oversight Board to provide additional oversight of the audit profession.

❸ The Act places the power to hire, compensate, and terminate public accounting firms in the hands of the audit committee.

❹ The Act places restrictions on audit firms, such as prohibiting public accounting firms from providing a variety of non-audit services to an audit client.

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A Corporate Governance Perspective: The Sarbanes-Oxley Act of 2002

(continued)

❺ The Act requires a public company's independent auditor to issue an opinion on the effectiveness of the company's internal control over financial reporting to accompany management's assessment, and both are included in the company's annual report.

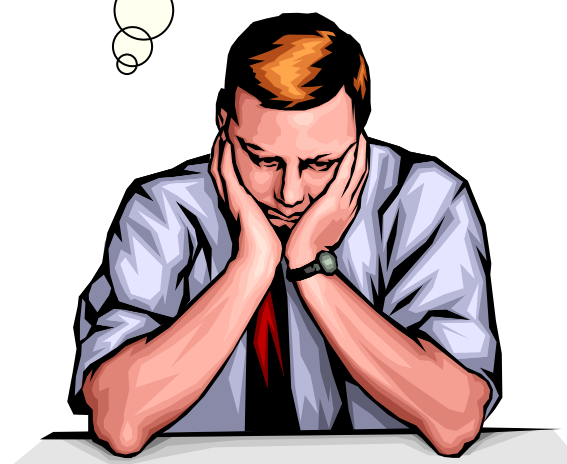
❻ The Act establishes severe penalties for certain behaviors, such as:

- Up to 20 years in prison for altering or destroying any documents that may eventually be used in an official proceeding.
- Up to 10 years in prison for retaliating against a "whistle blower."

An Enterprise Risk Management Perspective

Should I try to avoid the risk, share the risk, accept the risk, or reduce the risk?

A process used by a company to proactively identify and manage risk.



Once a company identifies its risks, perhaps the most common risk management tactic is to reduce risks by implementing specific controls.

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An Enterprise Risk Management Perspective

Examples of Business Risks	Examples of Controls to Reduce Business Risks
• Products harming customers	• Develop a formal and rigorous new product testing program
• Losing market share due to the unforeseen actions of competitors	• Develop an approach for legally gathering information about competitors' plans and practices
• Poor weather conditions shutting down operations	• Develop contingency plans for overcoming weather-related disruptions
• Website malfunction	• Thoroughly test the website before going "live" on the Internet
• A supplier strike halting the flow of raw materials	• Establish a relationship with two companies capable of providing raw materials
• Financial statements unfairly reporting the value of inventory	• Count the physical inventory on hand to make sure that it agrees with the accounting records
• An employee accessing unauthorized information	• Create password-protected barriers that prohibit employees from obtaining information not needed to do their jobs

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Corporate Social Responsibility & Sustainability Perspective

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

- Customers
- Employees
- Suppliers
- Communities
- Stockholders
- Environmental & Human Rights Advocates

CSR extends beyond legal compliance to include voluntary actions that satisfy stakeholder expectations.

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Corporate Social Responsibility & Sustainability Perspective

Examples of Corporate Social Responsibility	
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 and their suppliers should provide **employees** with: ● Safe and humane working conditions ● Non-discriminatory treatments and the right to organize and file grievances ● Fair compensation ● Opportunities for training, promotion, and personal development
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 **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 **stockholders** with: ● Competent management ● Easy access to complete and accurate financial information ● Full disclosure of enterprise risks ● Honest answers to knowledgeable questions	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

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Corporate Social Responsibility & Sustainability Perspective

Sustainability

Global Reporting Initiative (GRI)

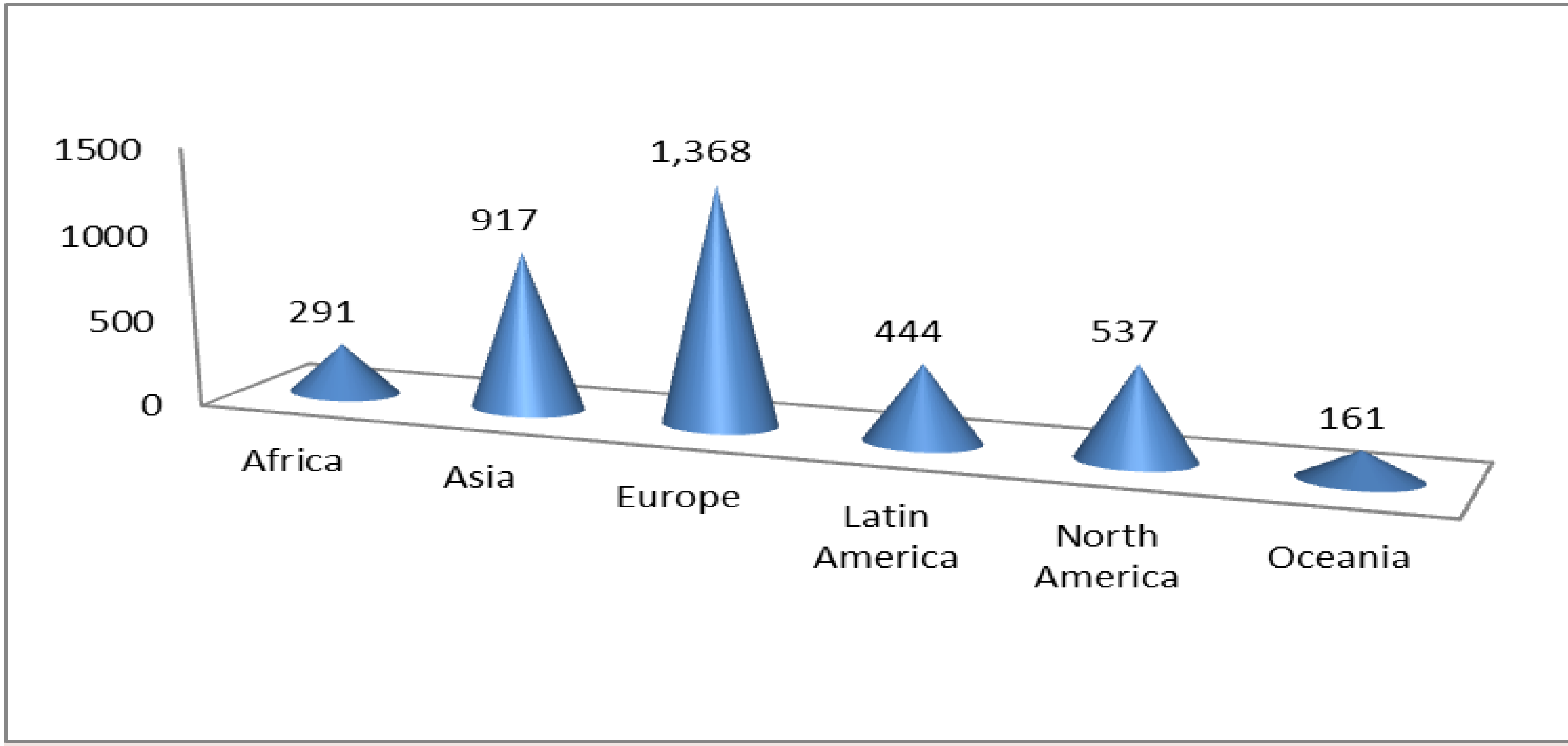
- promotes a systematic and standardized approach
    - to corporate social responsibility and embed it in corporate culture;
    - to stimulate demand for sustainability information;

thus benefitting both reporting organizations and report users.

International Federation of Accountants (IFAC) Sustainability Framework

- Organizations should
    - achieve a “Triple Bottom-Line”
        - ➢ Economic, environmental an social goals (or 3Ps: Profit, Planet, and People)
            - ✓ promote a sound corporate governance and ethical responsibility to ensure financial success through ethical operations and transactions;
            - ✓ promote cultural diversity and equality;
            - ✓ provide opportunities for social and economic development of the communities; and
            - ✓ minimize environmental damages, and provide a safe working and living environment for the communities.

Sustainability Reporting: GRI Registered Companies



Examples of GRI Registered Companies

Asia:	Air China, AsusTek, Canon, Reliance Industries, Samsung Securities, SingTel
Europe:	Air France-KLM, BP, Daimler, Nestle, Nokia
United States:	AT&T, Dell, ExxonMobil, Intel, Johnson & Johnson

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Professional Qualification of Management Accountants

- Traditional accounting qualifications, e.g. Chartered Accountants (ACA), Certified Public Accountants (CPA) and Chartered Certified Accountants (ACCA)
- Management accountants qualifications, e.g.:

Institution	Abbrev	Country	Qualification
The Institute of Management Accountants	IMA	US	CMA
Certified Management Accountants of Canada (previously known as The Society of Management Accountants of Canada)	CMA Canada	Canada	CMA
The Chartered Institute of Management Accountants	CIMA	UK	FCMA ,ACMA
The Institute of Certified Management Accountants of Australia	ICMA	Australia	CMA
- CMA Philippines		Philippines	CMA
- CMA Indonesia		Indonesia	CMA

End of Chapter 1

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