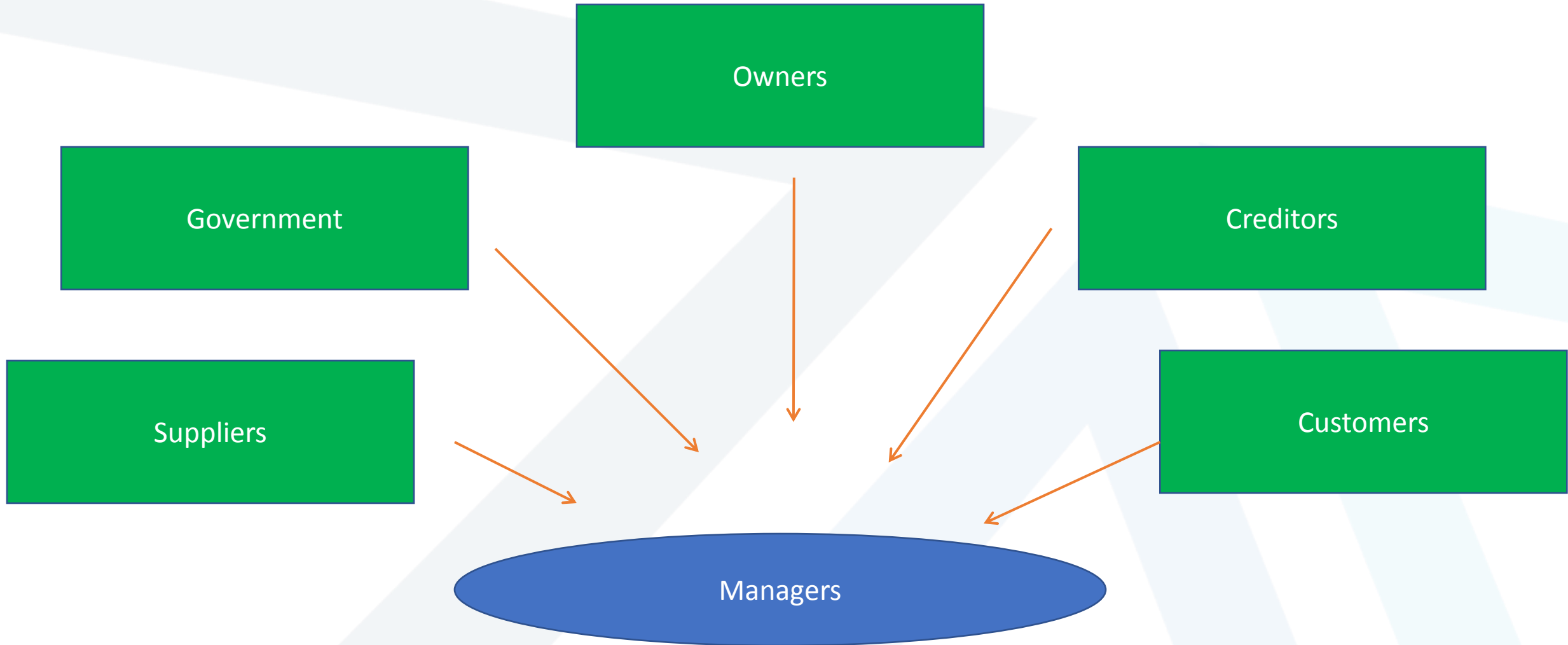


Introduction to Management Accounting

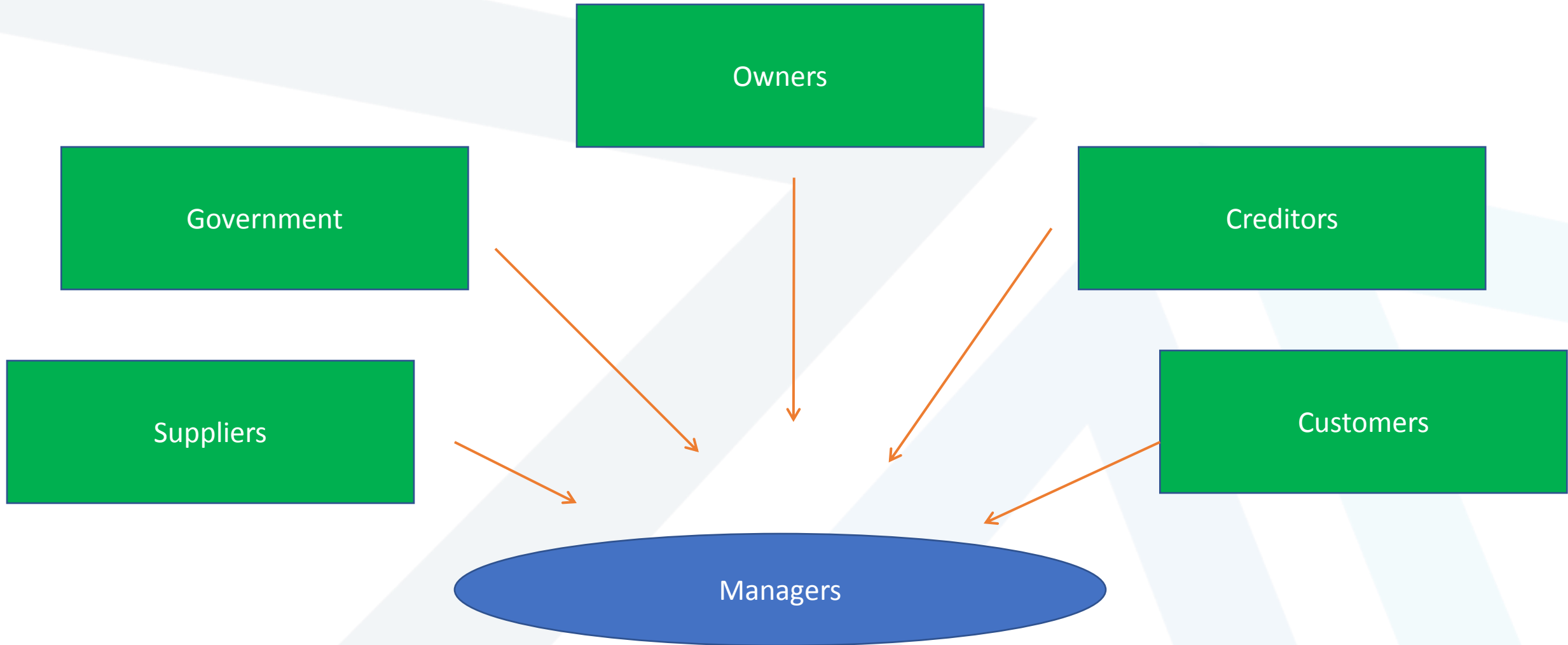
Learning Objective 1:

Distinguish management accounting
from financial accounting

Management Accountability



Management Accountability



Management's Accountability to Stakeholders

Stakeholders	Provide	Management is accountable for:
Operating activities		
Suppliers	Products & services	Using the goods & services to earn a profit
Employees	Time & expertise	Providing a safe and productive work environment
Customers	Cash	Providing products & services at a reasonable price
Investing activities		
Suppliers	Long-term assets	Purchasing the most productive assets

Management's Accountability to Stakeholders

Stakeholders	Provide	Management is accountable for:
Financing activities		
Owners	Cash or other assets	Providing a return on the owners' investment
Creditors	Cash	Repaying principal and interest
Actions that affect society		
Governments	Permission to operate	Obeying laws and paying taxes
Communities	Human and physical resources	Providing jobs and operating in an ethical manner to support the community

Financial vs. Management Accounting

- For external reporting
- Provides financial statements for external stakeholders
- Satisfies management's accountability to
 - Owners & creditors
 - Regulatory agencies
 - Customers & society

Financial Accounting

- For internal planning and control
- Provides information to help managers as they lead the business
 - Plant & equipment
 - Human resources
- Forward-looking

Management Accounting

Management versus Financial Accounting

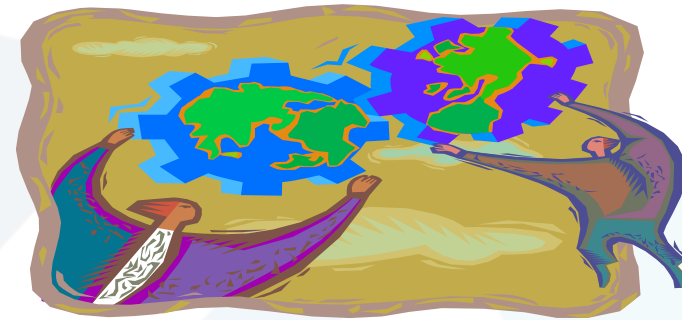
	Management Accounting	Financial Accounting
Primary users	Internal – the company’s managers	External – investors and creditors
Purposes of information	Help managers plan and control operations	Help with investment and credit decisions
Focus and time dimension	Relevance of information; focus on the future	Relevance and reliability of information; focus on the past
Type of report	Internal reports No audit needed	Financial statements prescribed by GAAP Audit by CPAs
Scope of information	Detailed reports on a weekly or daily basis	Summarized reports quarterly and/or annually
Behavioral	Concern about how reports affect employee behavior	Concern about adequate disclosure

Learning Objective 2

Identify trends in the business environment and the role of management accountability

Today's Business Trends

- Shift toward a service economy
- Global competition
- Time-based competition
 - Advanced information systems
 - E-Commerce
 - Just-in-Time management
- Total Quality Management



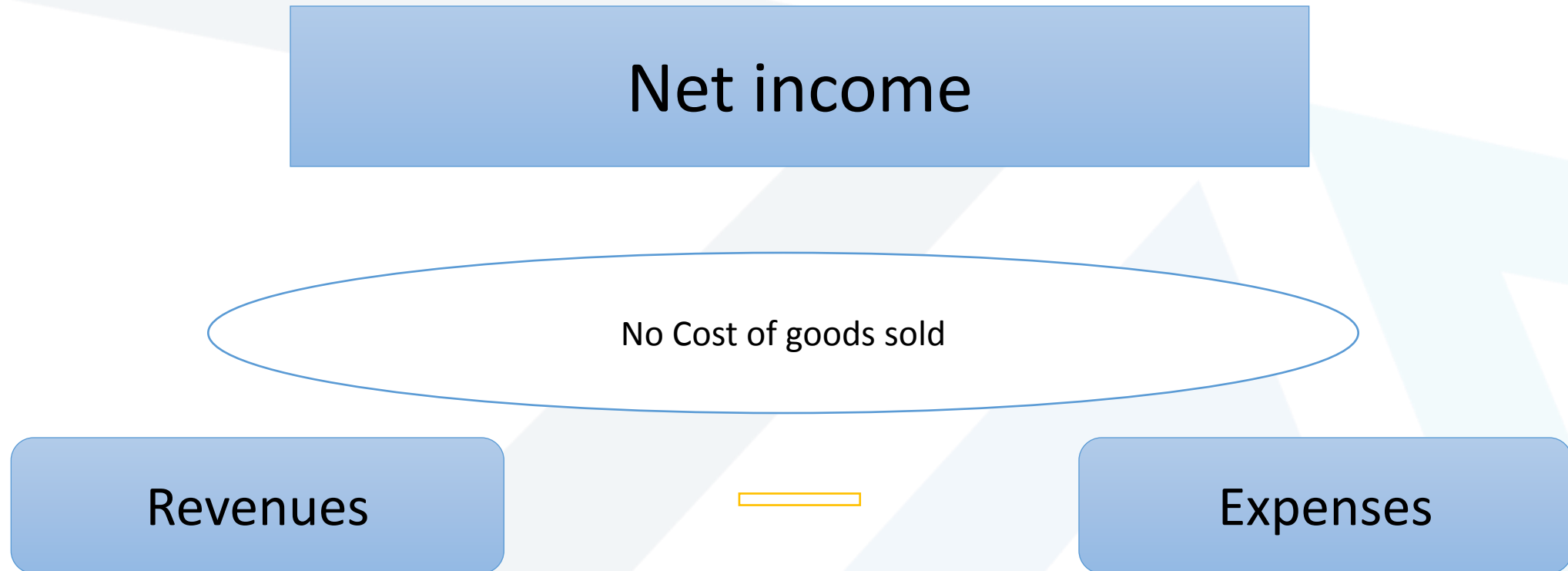
Learning Objective 3

Classify costs and prepare an income statement for a service company

Service Company

- Seek to provide services with
 - High quality
 - Reasonable prices
 - Timely delivery
- Simplest accounting
 - No inventory
- All costs are period costs
 - Incurred and expensed in same period

Income Statement of a Service Company

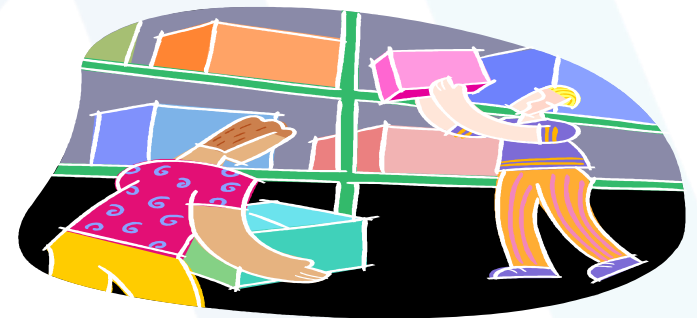


Learning Objective 4

Classify costs and prepare an income statement for a merchandising company

Merchandising Company

- Resell products purchased from suppliers
- Keep an inventory of products
- Cost of goods sold is a major expense
 - Product costs flow through the inventory
 - GAAP requires companies to record inventorable product costs as an asset until sold



Product Costs

- Includes cost to purchase goods plus freight-in

Beginning inventory

Plus: Purchases, net

Plus: Freight-in

Less: Ending inventory

Equals: Cost of goods sold

Product costs

- Part of inventory
- Expensed when sold

Period costs

- Not part of inventory
- Expensed when incurred

Merchandising Company: Income Statement

Any Company Income Statement For the year ended December 31, 2011	
Net sales revenue	\$\$\$\$
Cost of goods sold	\$\$\$\$
Gross profit	\$\$\$
Operating expenses	\$\$\$
Operating income	\$\$\$
Other income (expense)	\$\$
Net income	\$\$\$

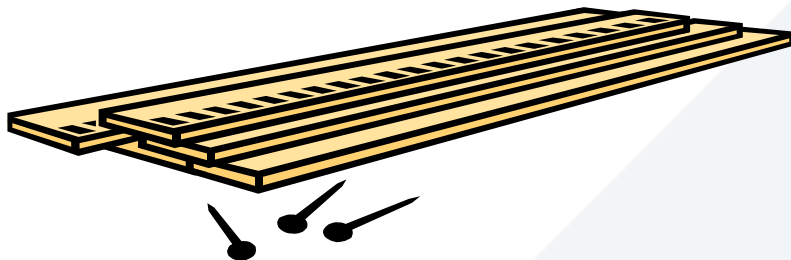
Learning Objective 5

Classify costs and prepare an income statement and statement of cost of goods manufactured for a manufacturing company

Manufacturing Companies

- Use labor, plant, supplies, and facilities to convert raw materials into finished products
- Three kinds of inventory

Materials inventory



Work in process inventory



Finished goods inventory



Types of Cost

Cost object: Anything for which managers want a separate measurement of cost

Examples: a product, department or activity

- Can be directly traced to a **cost object**
- Direct materials
- Direct labor
- Cannot be traced directly to a cost object
- Manufacturing overhead

Direct costs

Indirect costs

Inventoriable Product Costs

Direct materials

- Become a physical part of the finished product

Direct labor

- Wages of employees who convert materials into the company's products

Manufacturing overhead

- All other costs other than direct materials and labor

Manufacturing Overhead

- Includes only indirect costs related to manufacturing
 - Does NOT include costs for selling, general, or administrative functions
- **Examples:**
 - Indirect materials
 - Become part of finished product, but cannot be conveniently or cost-effectively traced
 - Indirect labor
 - Manufacturing wages not easily traced to products
 - Plant managers & maintenance

Other Manufacturing Overhead

- Other costs related to the manufacturing facility and plant assets
 - Repairs & maintenance
 - Utilities
 - Rent & insurance
 - Property taxes
 - Depreciation

Manufacturing Company: Income Statement

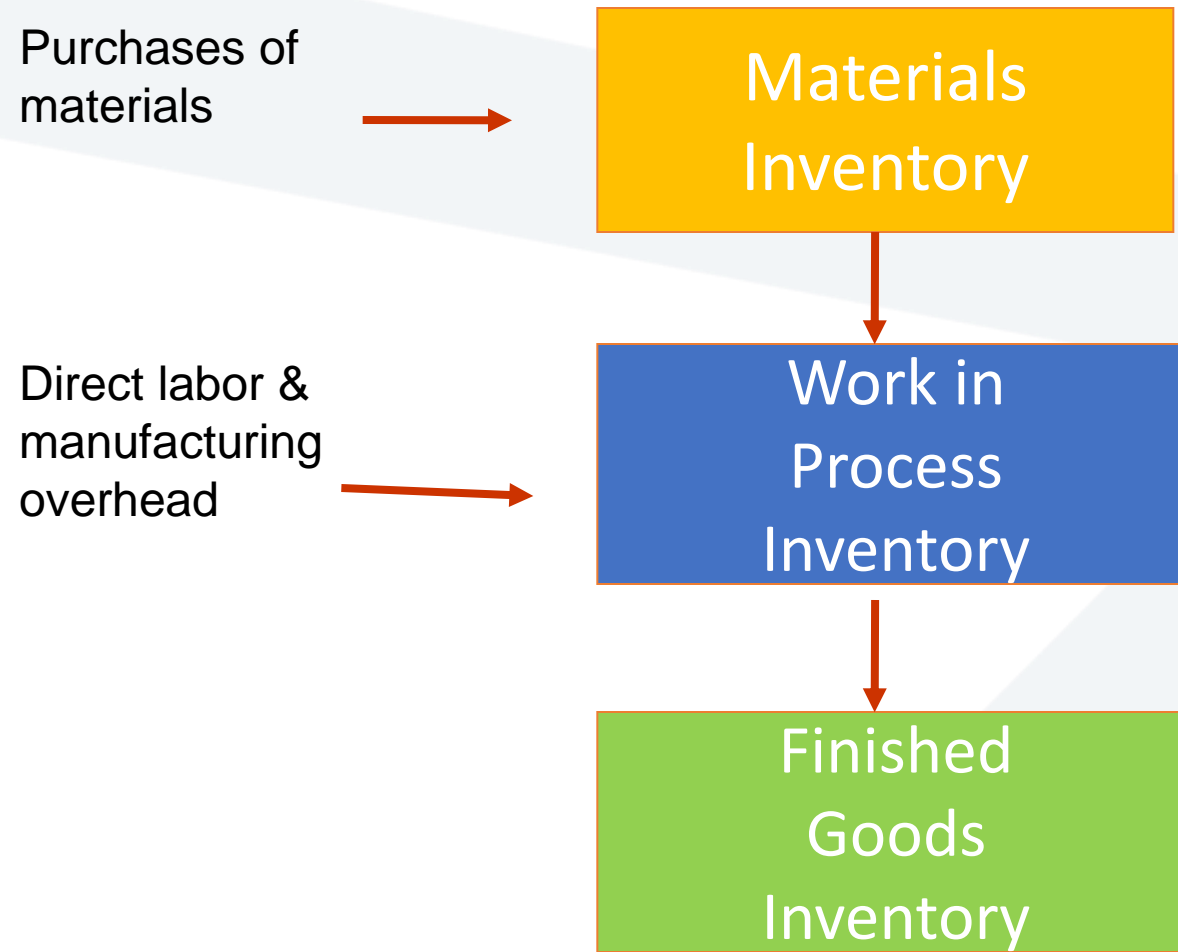
Any Manufacturing Company
Income Statement
For the year ended December 31, 2011

Net sales revenue		\$\$\$\$\$\$\$\$
Cost of goods sold:		
Beginning finished goods inventory	\$\$\$\$\$\$	
Plus: Cost of goods manufactured	\$\$\$\$\$	
Less: Ending finished goods inventory	<u>(\$\$\$\$\$)</u>	
Cost of goods sold		<u>\$\$\$\$\$\$\$\$</u>
Gross profit		\$\$\$\$\$\$\$\$
Selling and administrative expense		<u>\$\$\$\$\$</u>
Operating income		<u>\$\$\$\$\$\$\$\$</u>

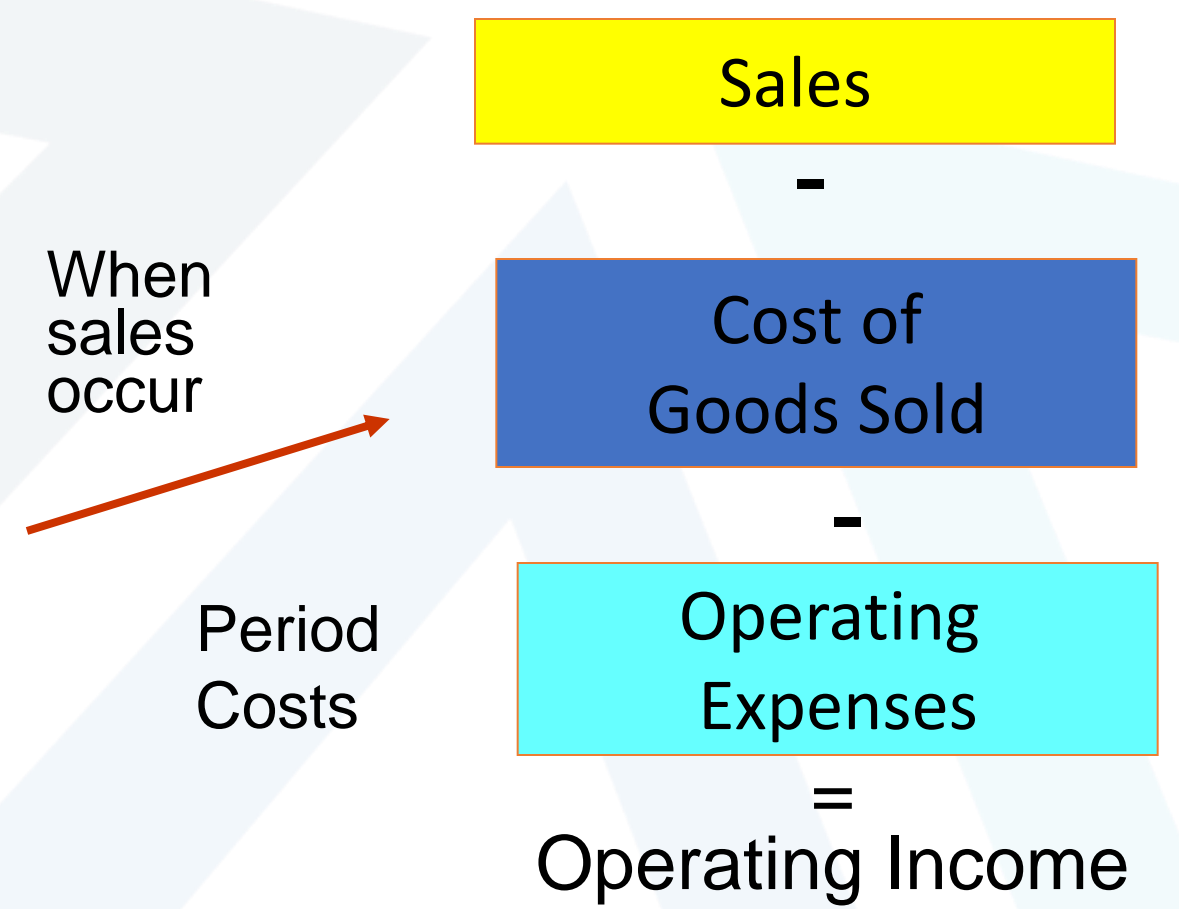
Comparison of Product and Period Costs

Type of company	Inventoriable product costs	Period costs (Expenses)
Service company	None	Salaries, depreciation, utilities, advertising, insurance, property taxes
Merchandising company	Purchases plus freight in	Salaries, depreciation, utilities, advertising, insurance, property taxes, and delivery expense
Manufacturing company	Direct materials, Direct labor and manufacturing overhead	Office salaries, depreciation, utilities, advertising, insurance, property taxes on office, selling expenses

BALANCE SHEET



INCOME STATEMENT

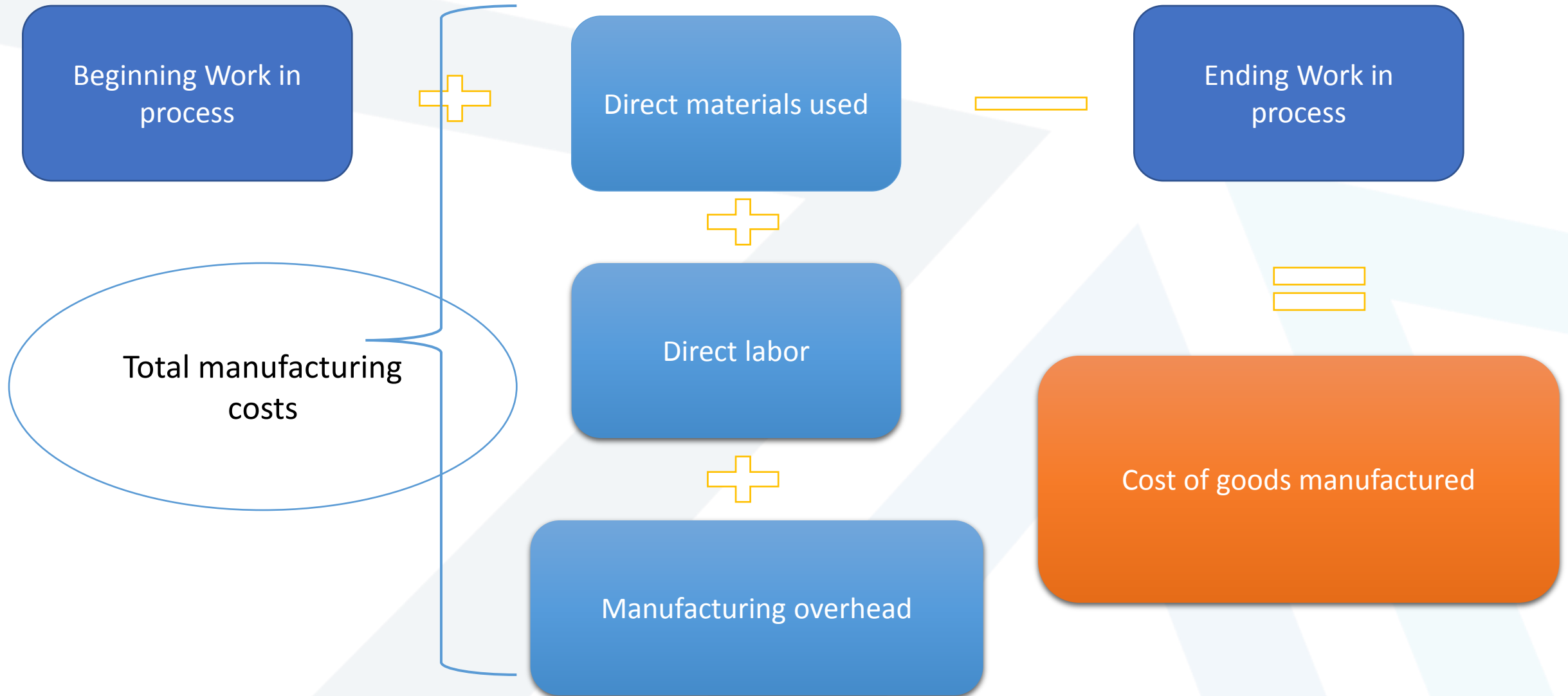


Cost of Goods Manufactured

Any Manufacturing Company
Schedule of Cost of Goods Manufactured
For the year ended December 31, 2011

Beginning Work in process inventory		\$\$\$
Add: Direct materials used		
Beginning direct materials inventory	\$\$\$	
Plus: Direct materials purchased	\$\$\$	
Less: Ending direct materials inventory	<u>(\$\$\$)</u>	
Direct materials used		\$\$\$
Direct labor		\$\$\$
Manufacturing overhead		<u>\$\$\$</u>
Total manufacturing costs incurred during the year		\$\$\$
Total manufacturing costs to account for		\$\$\$
Less: Ending Work in process inventory		<u>\$\$\$</u>
Cost of goods manufactured		<u>\$\$\$</u>

Cost of Goods Manufactured



Flow of Costs Through a Manufacturer's Inventory Account

Direct materials inventory	Work in process inventory	Finished goods inventory
Beginning inventory	Beginning inventory	Beginning inventory
+ Purchases and freight-in	+ Direct materials used	+ Cost of goods manufactured
= Direct materials available for use	+ Direct labor	= Cost of goods available for sale
	+ Manuf. overhead	
- Ending inventory	- Ending inventory	- Ending inventory
= Direct materials used	= Cost of goods manufactured	= Cost of goods sold