

The Accounting Role in the Organization

Chapter 1

ÇU IE240-Spring'10

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Learning Objective 1

Describe how cost accounting supports management accounting and financial accounting.

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Management Accounting

It measures and reports financial and nonfinancial information that helps managers make decisions to fulfill the goals of an organization.

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Financial Accounting

Its focus is on reporting to external parties.
It measures and records business transactions.
It provides financial statements based on generally accepted accounting principles.

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Cost Accounting

It provides information for both management accounting and financial accounting.
It measures and reports financial and nonfinancial data.

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Cost Management

It describes the activities of managers in planning and control of costs.
It includes the continuous reduction of costs.
It is a key part of general management strategies and their implementation.

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Learning Objective 2

Understand how management accountants affect strategic decisions.

Strategic Cost Management

Developing strategy
Building resources and capabilities
Implementing strategy

Strategic Cost Management

Building resources and capabilities

Current Assets

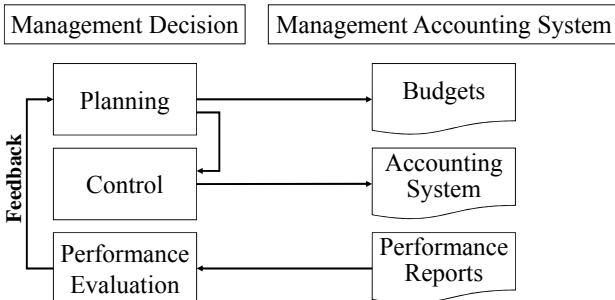
Long-Term Productive Assets

Intangible Assets

Learning Objective 3

Distinguish between the planning and control decisions of managers.

Planning and Controlling



Planning and Controlling

What is planning?

Setting goals

Predicting results

Deciding how to attain goals

Planning and Controlling

What is control?

Deciding and taking actions

Deciding on performance evaluation and feedback

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Planning and Controlling

What are budgets?

They are quantitative expressions of a proposed plan of action.

They aid in the coordination and implementation of the plan.

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Planning and Controlling

What are performance reports?

These are reports that compare actual results with budgeted amounts.

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Performance Report Example

Boone Shop, July 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues	\$59,000	\$60,000	\$1,000 F
Cost of goods sold	42,000	43,400	1,400 U
Wages	6,700	7,000	300 U
General	1,300	900	400 F
Fixed costs	<u>5,000</u>	<u>5,000</u>	<u>0</u>
Operating income	\$ 4,000	\$ 3,700	\$ 300 U

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Performance Report Example

Actual cost of goods sold were 72% of revenues instead of the budgeted 71%.

	<u>Budget</u>	<u>%</u>	<u>Actual</u>	<u>%</u>
Revenues	\$59,000	100	\$60,000	100
Cost of goods sold	<u>42,000</u>	<u>71</u>	<u>43,400</u>	<u>72</u>
Gross margin	\$17,000	29	\$16,600	28

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Feedback

This involves managers examining past performance and systematically exploring alternative ways to make better informed decisions in the future.

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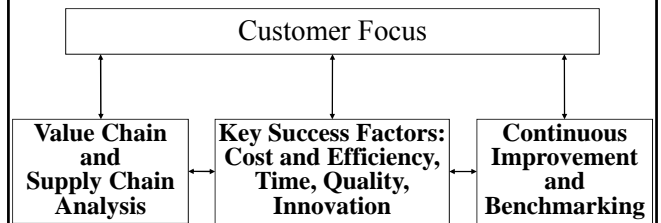
Learning Objective 4

Identify four themes managers need to consider for attaining success.

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Key Themes in Management Decision Making



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Customer Focus

The challenge facing managers is to continue investing sufficient (but not excessive) resources in customer satisfaction such that profitable customers are attracted and retained.

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Value Chain and Supply Chain Analysis

This theme has two related aspects:

1. Treat each of the business functions in the value chain as an essential and valued contributor.
2. Integrate and coordinate the efforts of all business functions in addition to developing the capabilities of each individual business function.

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Value Chain and Supply Chain Analysis

Supply chain – describes the flow of goods, services, and information from cradle to grave, regardless of whether those activities occur in the same organization or other organizations.

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Key Success Factors

These are operational factors that directly affect the economic viability of the organization.

Cost – organizations are under continuous pressure to reduce costs.

Quality – customers are expecting higher levels of quality.

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Key Success Factors

Time – organizations are under pressure to complete activities faster and to meet promised delivery dates more reliably.

Innovation – there is now heightened recognition that a continuing flow of innovative products or services is a prerequisite to the ongoing success of most organizations.

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Continuous Improvement and Benchmarking

Continuous improvement by competitors creates a never-ending search for higher levels of performance within many organizations.



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Learning Objective 5

Describe the set of business functions in the value chain.

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Value Chain

The term “value chain” refers to the sequence of business functions in which usefulness is added to the products or services of an organization.

The term “value” is used because as the usefulness of the product or service is increased, so is its value to the customer.

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Value Chain

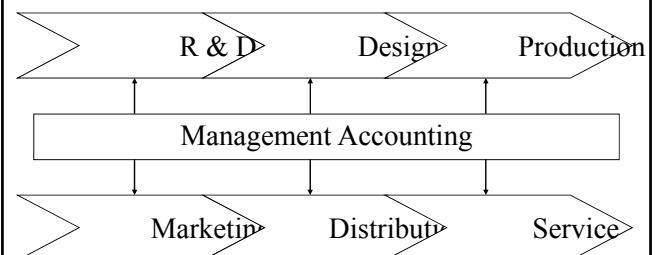
Management accountants provide decision support for managers in the following six business functions:



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Value Chain



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Value Chain Functions

Research and Development

It is the process that is conducted to generate and experiment with ideas related to new products, services, or processes.

Value Chain Functions

Design

It is the detailed planning and engineering of products, services, or processes.

Value Chain Functions

Production

It is the acquisition, coordination, and assembly of resources to produce a product or deliver a service.

Value Chain Functions

Marketing

It is the manner by which companies promote and sell their products or services to customers or prospective customers.

Value Chain Functions

Distribution

It is the delivery of products or services to the customer.

Value Chain Functions

Service

It is the after-sale support activities provided to customers.



End of Chapter 1

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