# Financial and Managerial Accounting: Seven Key Differences

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<tr>
<th></th>
<th>Financial Accounting</th>
<th>Managerial Accounting</th>
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<tr>
<td>1. Users</td>
<td>External persons who make financial decisions</td>
<td>Managers who plan for and control an organization</td>
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<tr>
<td>2. Time focus</td>
<td>Historical perspective</td>
<td>Future emphasis</td>
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<td>3. Verifiability versus relevance</td>
<td>Emphasis on objectivity and verifiability</td>
<td>Emphasis on relevance</td>
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<td>4. Precision versus timeliness</td>
<td>Emphasis on precision</td>
<td>Emphasis on timeliness</td>
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<td>5. Subject</td>
<td>Primary focus is on companywide reports</td>
<td>Focus on segment reports</td>
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<td>6. Rules</td>
<td>Must follow GAAP / IFRS and prescribed formats</td>
<td>Not bound by GAAP / IFRS or any prescribed format</td>
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<tr>
<td>7. Requirement</td>
<td>Mandatory for external reports</td>
<td>Not Mandatory</td>
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Work of Management

Planning

Controlling

Decision Making
Planning

1. Establish Goals.
2. Specify How Goals Will Be Achieved.
3. 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?
Managerial Accounting Activities: Marketing Majors

Planning

How much should we budget for TV, print, and internet advertising?

How many salespeople should we plan to hire to serve a new territory?
Managerial Accounting Activities: Marketing Majors

Controlling

Is the budgeted price cut increasing unit sales as expected?

Are we accumulating too much inventory during the holiday shopping season?
Managerial Accounting Activities: Marketing Majors

Decision Making

Should we sell our services as one bundle or sell them separately?

Should we sell directly to customers or use a distributor?
Managerial Accounting Activities: Operations Management Majors

How many units should we plan to produce next period?

How much should we budget for next period’s utility expense?
Managerial Accounting Activities: Operations Management Majors

Controlling

Did we spend more or less than expected for the units we actually produced?

Are we achieving our goal of reducing the number of defective units produced?
Managerial Accounting Activities: Operations Management Majors

Should we redesign our manufacturing process to lower inventory levels?

Should we buy a new piece of equipment or upgrade our existing machine?
Managerial Accounting Activities: Human Resource Management Majors

Planning

How much should we plan to spend for occupational safety training?

How much should we plan to spend on employee recruitment advertising?
Managerial Accounting Activities: Human Resource Management Majors

Controlling

Is our employee retention rate exceeding our goals?

Are we meeting our goal of completing timely performance appraisals?
Managerial Accounting Activities: Human Resource Management Majors

Decision Making

Should we hire an on-site medical staff to lower our healthcare costs?

Should we hire temporary workers or full-time employees?
Accounting Majors

Many accounting graduates begin working for public accounting firms. However, most leave at some point to work in other organizations.

The IMA estimates that 80% of professional accountants in the U.S. work in non-public accounting environments.
Certified Management Accountant

A management accountant who has the necessary qualifications and who passes a rigorous professional exam earns the right to be known as a Certified Management Accountant (CMA).
CMA Exam

Part 1  **Financial Planning, Performance and Control**
- Planning, budgeting, and forecasting
- Performance management
- Cost management
- Internal controls
- Professional ethics

Part 2  **Financial Decision Making**
- Financial statement analysis
- Corporate finance
- Decision analysis and risk management
- Investment decisions
- Professional ethics

Information about becoming a CMA and the CMA program can be accessed on the IMA’s website at [www.imanet.org](http://www.imanet.org) or by calling 1-800-638-4427.
A 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.
Customer Value Propositions

Customer Intimacy Strategy
Understanding 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.
Enterprise Risk Management

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.

Should I try to avoid the risk, accept the risk, or reduce the risk?
## Enterprise Risk Management

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

Business functions making up the value chain

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<th>R&amp;D</th>
<th>Product Design</th>
<th>Manufacturing</th>
<th>Marketing</th>
<th>Distribution</th>
<th>Customer Service</th>
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Process Management
Lean Production is often called Just-In-Time (JIT) production.
Lean Production

Traditional Manufacturing

Produce goods in anticipation of Sales → Store Inventory → Make Sales from Finished Goods Inventory
Lean Production

Because lean thinking only allows production in response to customer orders, the number of units produced tends to equal the number of units sold.

The lean approach also results in fewer defects, less wasted effort, and quicker customer response times than traditional production methods.
A constraint (also called a bottleneck) is anything that prevents you from getting more of what you want.

The Theory of Constraints (TOC) is based on the observation that effectively managing the constraint is the key to success.

The constraint in a system is determined by the step that has the smallest capacity.
Theory of Constraints

1. Identify the weakest link.

2. Allow the weakest link to set the tempo.

3. Focus on improving the weakest link.

4. Recognize that the weakest link is stronger.

Only actions that strengthen the weakest link in the “chain” improve the process.
Measurement Skills

A good manager complements an understanding of strategy, risks, and business processes with data-driven analysis.

The key to effective analysis is to understand that the question you are addressing defines what you measure and how you analyze the data.
Measurement Skills

What net income should my company report to its stockholders?
Measure and report historical data that complies with applicable rules.

How will my company serve its customers?
Measure and analyze mostly non-financial, process-oriented data.

Will my company need to borrow money?
Measure and analyze estimated future cash flows.
The primary purpose of this course is to teach measurement skills that managers use to support planning, controlling, and decision making activities.
Leadership Skills

Six Skills of an Effective Leader
1. Technical competence
2. High integrity
3. Understand how to implement organizational change
4. Strong communication skills
5. Capable of motivating and mentoring other people
6. Effectively manage team-based decision processes
The Institute of Management Accountant's (IMA) Statement of Ethical Professional Practice consists of two parts that offer guidelines for:

1. Ethical behavior.
2. Resolution for an ethical conflict.
IMA Guidelines for Ethical Behavior

Maintain professional competence.

Recognize and communicate professional limitations that preclude responsible judgment.

Provide accurate, clear, concise, and timely decision support information.

Follow applicable laws, regulations and standards.

Competence
IMA Guidelines for Ethical Behavior

Confidentiality

- Do not disclose confidential information unless legally obligated to do so.
- Ensure that subordinates do not disclose confidential information.
- Do not use confidential information for unethical or illegal advantage.
IMA Guidelines for Ethical Behavior

**Integrity**

- Mitigate conflicts of interest and advise others of potential conflicts.
- Abstain from activities that might discredit the profession.
- Refrain from conduct that would prejudice carrying out duties ethically.
IMA Guidelines for Ethical Behavior

Communicate information fairly and objectively.

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

Credibility

Disclose delays or deficiencies in information timeliness, processing, or internal controls.
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 managerial level.
- 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.
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.
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.
Corporate Social Responsibility

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.
# Corporate Social Responsibility

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<td><strong>Companies should provide customers with:</strong></td>
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<tr>
<td>● Safe, high quality products that are fairly priced</td>
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<tr>
<td>● Competent, courteous, and rapid delivery of products and services</td>
</tr>
<tr>
<td>● Full disclosure of product-related risks</td>
</tr>
<tr>
<td>● Easy to use information systems for shopping and tracking orders</td>
</tr>
<tr>
<td><strong>Companies should provide suppliers with:</strong></td>
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<tr>
<td>● Fair contract terms and prompt payments</td>
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<tr>
<td>● Reasonable time to prepare orders</td>
</tr>
<tr>
<td>● Hassle-free acceptance of timely and complete deliveries</td>
</tr>
<tr>
<td>● Cooperative rather than unilateral actions</td>
</tr>
<tr>
<td><strong>Companies should provide stockholders with:</strong></td>
</tr>
<tr>
<td>● Competent management</td>
</tr>
<tr>
<td>● Easy access to complete and accurate financial information</td>
</tr>
<tr>
<td>● Full disclosure of enterprise risks</td>
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<tr>
<td>● Honest answers to knowledgeable questions</td>
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| **Companies and their suppliers should provide employees with:** |
| ● Safe and humane working conditions |
| ● Non-discriminatory 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 |