

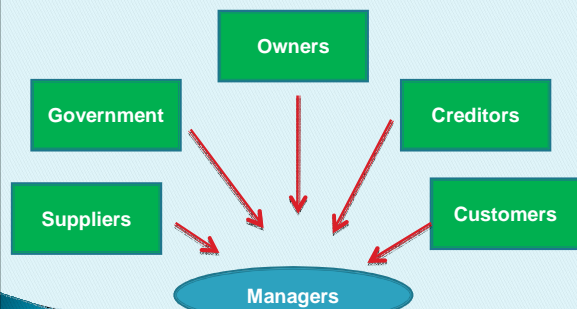
Introduction to Management Accounting

Chapter 15

Learning Objective 1

Distinguish management accounting from financial accounting

Management Accountability



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Management's Accountability to Stakeholders

Stakeholders	Provide	Management is accountable for:
Operating activities		
Suppliers	Products & services	?
Employees	Time & expertise	?
Customers	Cash	?
Investing activities		
Suppliers	Long-term assets	?

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Management's Accountability to Stakeholders

Stakeholders	Provide	Management is accountable for:
Financing activities		
Owners	Cash or other assets	?
Creditors	Cash	?
Actions that affect society		
Governments	Permission to operate	?
Communities	Human and physical resources	?

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Financial vs. Management Accounting

- For external reporting
- For internal planning and control

Financial Accounting

Management Accounting

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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

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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
- ▶ Total Quality Management

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Learning Objective 3

Classify costs and prepare an income statement for a service company

Service Company

- ▶ Seek to provide services
- ▶ Simplest accounting
- ▶ All costs are period costs

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Income Statement of a Service Company

Net income

=

Revenues

=

Expenses

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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

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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

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Product costs

- Part of inventory
- Expensed when sold

Period costs

- Not part of inventory
- Expensed when incurred

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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	\$\$\$

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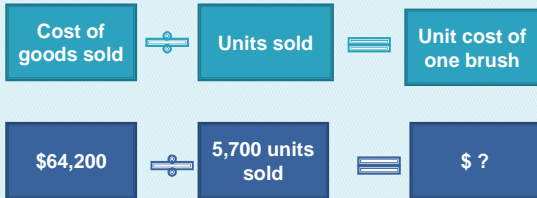
Exercise 15-18

Gonzales Brush Company Income Statement For the year ended December 31, 2011	
Net sales revenue	\$128,500
Cost of goods sold:	
Beginning inventory	\$7,400
Plus: Purchases	62,800
Less: Ending inventory	(6,000)
Cost of goods sold	64,200
Gross profit	64,300
Selling and administrative expense	45,400
Net income	\$18,900

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Exercise 15-18 (continued)

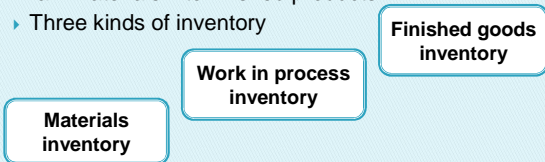


Learning Objective 5

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



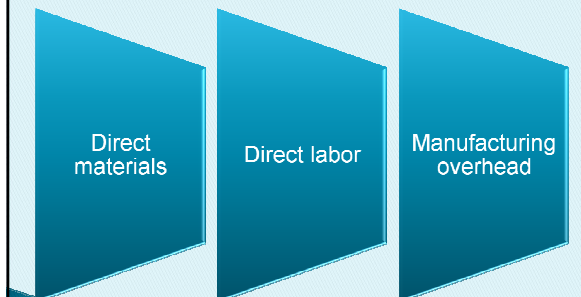
Types of Cost

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

Direct costs

Indirect costs

Inventoriable Product Costs



Manufacturing Overhead

- ▶ Includes only indirect costs related to manufacturing
- ▶ Examples:
 - Indirect materials
 - Indirect labor

Other Manufacturing Overhead

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

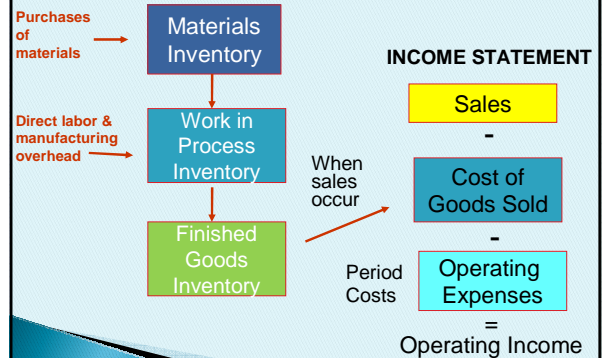
Manufacturing Company: Income Statement

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	(\$\$\$\$\$)
Cost of goods sold	\$\$\$\$\$\$
Gross profit	\$\$\$\$\$\$
Selling and administrative expense	\$\$\$\$\$
Operating income	\$\$\$\$\$\$

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

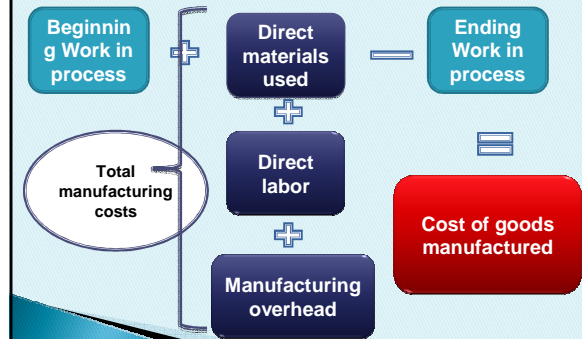
BALANCE SHEET



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	(\$\$\$)
Direct materials used	\$\$\$
Direct labor	\$\$\$
Manufacturing overhead	\$\$\$
Total manufacturing costs incurred during the year	\$\$\$\$
Total manufacturing costs to account for	\$\$\$
Less: Ending Work in process inventory	\$\$\$
Cost of goods manufactured	\$\$\$

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 + Manuf. overhead	= Cost of goods available for sale
- Ending inventory	- Ending inventory	- Ending inventory
= Direct materials used	= Cost of goods manufactured	= Cost of goods sold

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Short Exercise 15-11

Max-Fli Golf Company Schedule of Cost of Goods Manufactured For the year ended December 31, 2010	
Beginning Work in process inventory	\$6,000
Add: Direct materials used	15,000
Direct labor	7,000
Manufacturing overhead	18,000
Total manufacturing costs incurred during the year	40,000
Total manufacturing costs to account for	46,000
Less: Ending Work in process inventory	(3,000)
Cost of goods manufactured	\$43,000

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Learning Objective 6

Use reasonable standards to make ethical judgments

Ethical Standards

- ▶ Institute of Management Accountants (IMA) developed standards to help meet ethical challenges

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End of Chapter 16