CHAPTER LEARNING OBJECTIVES:

MAJOR:
- Complete knowledge of JIT, TQM, Process Reengineering & Theory of Constraints.
- Terminology (ALL CHAPTERS!)

MINOR:
- Identify and explain what managers do.
- Explain basic differences between managerial and financial accounting.
- Understand an organization chart.
- Be familiar with a code of ethics.

MANAGEMENT ACCOUNTING OVERVIEW

MANAGERIAL VS. FINANCIAL ACCOUNTING

FINANCIAL - information for outsiders (stockholders/creditors) and GAAP requirements must be followed.
MANAGERIAL - information for insiders (management), therefore not bound by GAAP.

MANAGERS - (1) plan, (2) direct & motivate and, (3) control. I.e., Plan, Do and Review.

PLANNING - short and long-term goals are set and budgets are prepared.

DIRECTING & MOTIVATING - assemble resources (human and other) and place them into service; then oversee activities, making decisions as necessary. I.e., the day-to-day activities of running the business.

CONTROLLING - analyze feedback (reports and other information) to assess need for minor or major adjustments. Comparing the actual results with budgets.

DIFFERENCES BETWEEN MANAGERIAL AND FINANCIAL ACCOUNTING:

<table>
<thead>
<tr>
<th></th>
<th>Managerial</th>
<th>Financial</th>
</tr>
</thead>
<tbody>
<tr>
<td>User:</td>
<td>internal</td>
<td>external</td>
</tr>
<tr>
<td>Emphasis:</td>
<td>planning (future)</td>
<td>reports (past)</td>
</tr>
<tr>
<td>Data:</td>
<td>relevant/flexible</td>
<td>precise as possible</td>
</tr>
<tr>
<td>Timing:</td>
<td>speedy</td>
<td>less speedy</td>
</tr>
<tr>
<td>Segment:</td>
<td>parts</td>
<td>whole</td>
</tr>
<tr>
<td>Basis:</td>
<td>financial, economic, finance,</td>
<td>financial (GAAP)</td>
</tr>
<tr>
<td></td>
<td>human behavior, etc.</td>
<td></td>
</tr>
<tr>
<td>Rules:</td>
<td>form of info as needed</td>
<td>GAAP</td>
</tr>
<tr>
<td></td>
<td>I.e., no rules to follow</td>
<td></td>
</tr>
<tr>
<td>Required:</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

ORGANIZATIONAL STRUCTURE

DECENTRALIZATION - (central theme of text) having other than the owner and top management make decisions and perform other management functions. I.e., the more decentralized the organization, the more low-level management is involved in the decision making day-to-day.

ORGANIZATIONAL CHART - shows formal (owner-management established) hierarchy of decision makers. I.e., various levels of bosses.
LINE POSITION - manager or worker directly involved in the sales or production.

STAFF POSITION - advice or information giver, or provider of materials or services. I.e., not directly involved in the sales or production.

CONTROLLER - manager of accounting department (staff position in overall company, but line position in accounting department).

ORGANIZATION TYPE: Profit, Not for Profit (private), Not for Profit (governmental). All have: objectives, strategies, management and structure. All can use and benefit from these management accounting tools.

Managers need a constant flow of information to be effective. This information will be verbal and written, formal and informal, quantitative and non-quantitative, etc. This course will focus on the quantitative information assembled and rearranged for analysis!

Recap:
Planning is done through budget making.
Directing & Motivating is done day by day.
Controlling is accomplished from analyzing and acting upon performance reports.
Decision-making is a result of a cost-benefit analysis.

ALL INFORMATION TO MANAGERS IS GIVEN IN SUMMARY FORM!

CHANGING BUSINESS ENVIRONMENT

Individual company production improvements are occurring as a result of JIT, TQM, and technology. Worldwide deregulation and competition is occurring at an increasing rate from such agreements as the EC (European Community), NAFTA (North American Free Trade Association) and GATT (General Agreement on Tariffs and Trade). E-Commerce is also dramatically affecting the way business is conducted. As a result information needs are growing at an increasing rate and companies need to become more competitive.

4 Approaches to becoming more competitive are:
- Just in Time
- Total Quality Management
- Process Reengineering
- The Theory of Constraints

JUST IN TIME

JIT PHILOSOPHY is simplification and elimination of waste. In practice it is striving for no, or at least very little inventories. Therefore, materials are purchased and production is done only as needed, i.e., just in time.

PULL vs PUSH approach to manufacturing. As orders are received from customers a signal is sent to the final assembly area and to preceding station(s) until needed goods are supplied/made.

5 KEY ELEMENTS:
- Reliance on few suppliers to make frequent deliveries.
- Plant layout (flow line) rearranged into product lines.
- Reduce Set-Up time.
- Suppliers and workers must have Total Quality Control for Zero Defects.
- Workers must be Multi-skilled on machines and maintenance.
6 BENEFITS: (4 are given in text)
- Reduced working capital needs (less inventory of materials, parts and finished products)
- Reduced floor space needs (less rent, depreciation, or space can be used for another purpose)
- Reduced through-put time (speeds delivery to customer)
- Reduced waste (zero defects in materials, components and workmanship)
- Increased worker productivity
- Smaller batch sizes can be produced because of reduced set-up time (time = money)

TOTAL QUALITY MANAGEMENT (TQM)

TQM’s focus is on (1) serving customers and (2) systematic problem solving using front-line workers.

BENCH MARKING is studying other successful companies ways of doing things.

PLAN-DO-CHECK-ACT CYCLE is a systematic, fact-based approach to problem solving. I.e., a scientific approach using front-line workers to analyze data and identify possible causes for problems, and then proposing a possible solution, then testing the possible solution to see if it does, in fact, solve the problems.

PROCESS REENGINEERING

This is a redesigning of the entire system using “outside experts” so as to reduce costs by eliminating unnecessary steps and eliminating opportunities for errors.

THE THEORY OF CONSTRAINTS

Finding the bottle-neck (area where it slows production) and increasing the production capability until it is no longer the constrained area. Once this is done the next Constraint is improved/removed.

ETHICS

Without ethical behavior by individuals and businesses, a slowing of growth and a possibility of failure would result. Individual and Professional Ethics requires Competence, Confidentiality, Integrity, Objectivity and Resolution. See Code Of Conduct for Management Accountants as an example of ethical behavior for all business situations!

THE FOLLOWING IS INFORMATIONAL ONLY AND IS NOT TO BE TESTED UPON.

There is detailed information on at least twenty accounting and business related professional certifications on the instructor’s web page. http://www.scc.losrios.edu/~burbagg. You can find out what is required to become a Certified Public Accountant (CPA), a Certified Management Accountant (CMA), a Certified Cash Manager (CCM), a Certified Financial Planner (CFP), or even a Certified Bookkeeper (CB). See the page “Professional Certifications”.