

# 1 Managerial Accounting

Early portions of this textbook dealt mostly with financial accounting. Financial accounting is concerned with reporting to external parties such as owners, analysts, and creditors. These external users rarely have access to the information that is internal to the organization, nor do they specify the exact information that will be presented. Instead, they must rely on the general reports presented by the company. Therefore, the reporting structure is well defined and standardized. The methods of preparation and the reports presented are governed by rules of various standard-setting organizations. Furthermore, the external users generally see only the summarized or aggregated data for an entity.

In contrast, managers of a specific business oftentimes need or desire far more detailed information. This information must be tailored to specific decision-making tasks of managers, and its structure becomes more “free formed.” Such managerial accounting information tends to be focused on products, departments, and activities. In this context, the management process is intended to be a broad reference to encompass marketing, finance, and other disciplines. Simply stated: managerial accounting is about providing information in support of the internal management processes. Many organizations refer to their internal accounting units as departments of strategic finance. This title is more reflective of their wide range and scope of duties.

Managerial accounting is quite different from financial accounting. External reporting rules are replaced by internal specifications as to how data are to be accumulated and presented. Hopefully, these internal specifications are sufficiently logical that they enable good economic decision making. For example, specific reporting periods may be replaced with access to real-time data that enable quick responses to changing conditions. And, forecasted outcomes become more critical for planning purposes. Likewise, cost information should be disseminated in a way that managers can focus on (and be held accountable for!) those business components (“segments”) under their locus of control.

In short, the remainder of this book is about the ideas and methods that can be used to provide accounting information in direct support of the “broadly defined” role of managing a business organization. If you aspire to work in strategic finance, the remainder of this book is your introductory primer. But, for most readers – those who must manage some part of an organization – the remainder of this book is your guide to knowing how and when the management accountant’s tools can be used to help you do your job better!

## 1.1 Professional Certifications in Management Accounting

You are no doubt familiar with the CPA (certified public accountant) designation; it is widely held and recognized. The certification is usually accompanied by a state issued license to practice public accounting. However, there are also CMA (certified management accountant) and CFM (certified financial manager) designations. These are not “licenses,” per se, but do represent significant competency in managerial accounting and financial management skills. These certifications are sponsored by the Institute of Management Accountants.

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