Introduction to Managerial Accounting

First of all, let's realize that you have already completed *financial accounting*. You are entering a whole new world- the world of *managerial accounting*. Let's see some of the differences in the two.

Financial Accounting	**Managerial Accounting**
Reports for outsiders; creditors, stockholders	Reports to insiders, management, etc.
Looks back to past activities and reports on them	Predicts the future!
Companies must use financial accounting	Managerial accounting is optional
Mu0st follow GAAP/ IFRS rules	No rules!

Managerial accounting is done for the purposes of planning, control and decision making. So even though it is **not** required, we certainly know it's important.

Video Alert

Here is a great video that explains the difference between managerial and financial accounting! Just click the link below:

http://www.youtube.com/watch?v=aVcs5CgsnfI&list=FLRdNV_L3nGyG8QdcTYFwKHw&index=28&feature=plpp_video

One of the first, (and most frequent) terms you will learn about is COST. Everything in managerial accounting revolves around determining how much it will cost to make or sell your item. The better we get at determining the costs involved, the more successful our business will be, right? If we decide to make beaded bracelets and we do not analyze the costs involved, we might find that it will cost *more to make one*than anyone would ever pay to buy one from you! That is just one example. I'm sure you can think of others now.

Another key term is that of manufacturing overhead. These are the indirect costs that are incurred in making the product. By indirect, I mean that it is difficult to trace that type of cost back to the product. This can be the rent on the factory, the utilities, depreciation and more. However, we need to be aware of these indirect costs since they are REAL costs and impact our decision making.

Web Site Alert

Here is a great web site with information about overhead. We will be working with this term all semester!

http://member.accountingcoach.com/explanations/PDF/ManufacturingOverhead.pdf

Inventory is another term we'll have to become better acquainted with! Inventory is really your stockpile of merchandise for sale. Sometimes, it is only in raw form and will need to be assembled into the product that you finally sell. So in a manufacturing environment, the asset account for inventory will have three sections: raw materials, work-in-process and finished goods available for sale. JIT, or Just-in-Time, is the practice of making an item ONLY when it is needed. As you can imagine, there are pros and cons to this. We have a lot of work to do once an order comes in! But, we will never be stuck with excess inventory.

So as you begin your journey into this branch of accounting, remember that we are entering an exciting world with no GAAP! Has that convinced you yet? We are also going to help our company price its products *just right* and make a lot of money!

Enjoy your week!

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Reference

Edmonds, T. Olds, P., McNair, F., & Tsay, B. (2012). *Survey of Accounting* (3rd ed.). New York, NY: McGraw-Hill Irwin