

Chapter-1 Introduction

01. Concepts:

Managerial accounting (MA) is concerned with providing information to managers for their use internally in the organization. Financial accounting is concerned with providing information to stockholders, creditors and others outside of the organization.

02. Significance:

Essentially, the manager carries out three major activities in an organization; planning, directing and motivating, and controlling. All three activities involve decision making.

03. Difference between MA & FA:

Table showing the Difference between Managerial Accounting and Financial Accounting:

SL.No	Points of Difference	Managerial Accounting	Financial Accounting
01	Definition	Managerial Accounting deals with providing accounting data and information for decision making.	Financial Accounting deals with providing accounting data and information for evaluating performances.
02	Purpose	For the purpose of making managerial decisions.	For the purpose of evaluating financial performances.
03	Users	Functional Managers: Marketing Manager Financial Manager Production Managers	Owners Lenders Tax authorities Regulators
04	Emphasize	Emphasize on decisions affecting the future.	Emphasize on summary of financial consequences.
05	Periodicity	On future activities	On past activities
06	Coverage	Detailed segment reports about departments, products, customers, and employees are prepared.	Only summarized data for the entire organization are prepared.
07	Timeliness/ Precision	Timeliness of information is required.	Precision of information is required.
08	Following GAAP	Need not follow GAAP	Must follow GAAP
09	Report preparation	Optional	Mandatory

04. Just in time system;

JIT Concept:

“Just in time” means that raw materials are received just in time to go into production, manufactured parts are completed just in time to be assembled into products, and products are completed just in time to be shipped to customers.

“Under a JIT system one doesn’t produce anything, anywhere, for anybody unless they ask for it somewhere down stream. Inventories are evil that we’re thought to avoid.”

JIT Consequences:

Managers that attempted to implement the JIT approach found that it was necessary to make other major improvements in operations if inventories were to be significantly reduced. First, production would be held up and a deadline for shipping a product would be missed if a key part was missing or was found to be defective, so supplies had to be able to be delivered defect free goods in just the right quantity and just when needed.

Benefits of JIT Systems:

The main benefits of JIT are:

1. Funds that were tied up in inventories can be used elsewhere.
2. Areas previously used to store inventories are made available for other, more productive uses.
3. Throughout time is reduced, resulting in greater potential output and quicker response to customers.
4. Defect rates are reduced resulting in less waste and greater customer satisfaction.

To remain competitive in an ever changing and ever more competitive business environment, companies must strive for continuous improvement.

Characteristics of JIT:

The characteristics of the JIT approach include the following;

Reducing the number of suppliers and requiring suppliers to make frequent deliveries of defect-free goods.

Creating a continuous flow of product through the plant, minimizing the investment in raw materials, work in process, and finished goods.

Making production operation more efficient by redesigning workstations and improving the plant layout by creating individual product flow lines.

Reducing setup time.

Reducing defects.

Cross training employees so that all are multiskilled and can perform all functions required at a particular workstation.-

b) A successful JIT system requires suppliers who are willing to make frequent deliveries of defect-free goods in small quantities. This often requires weeding out unreliable suppliers and working intensively with a few, ultra-reliable suppliers.

05. Ethical Standards

Case Study: 01

Mr. Thomas and Mrs. Linda are the president and assistant controller respectively of a sugar mill of a country which has 20 stores spread over the whole country. Both Mr. Thomas and Mrs. Linda have been working in the mill for the last fifteen years. Mrs. Linda has been given the responsibilities of inspecting the stores for the last ten years and asked to give a report on inventory.

While inspecting the stores Linda has discovered a sizable number of inventories not recorded in the stores account during the period. In the mean time she has discussed the matter with the other members of the management team and sought their opinions on the matter. The members of the management team had advised her just to ignore the matter as obsolete inventory. Other wise, all the members including Linda will have to face adverse impact on their compensation.

Required;

- a) What would be the responsibility of Linda in respect of the obsolete inventory? Examine in the context of the following standards of ethical conducts;
 - I. Competence,
 - II. Integrity and
 - III. Objectivity

- b) What difficulties Mrs. Linda will face while recording the obsolete inventory in her report? How she would overcome those.

Solution:

a) Failure to report the obsolete nature of the inventory would violate the Standards of Ethical conduct as follows;

Competence

- ❖ Perform duties in accordance with relevant technical standards.
- ❖ Prepare complete reports using reliable information.

By failing to write down the value of the obsolete inventory, Perlman would not be preparing a complete report using reliable information. In addition, generally accepted accounting principles (GAAP) require the write down of obsolete inventory.

Integrity

- ⬇ Avoid conflicts of interest.
- ⬇ Refrain from activities that prejudice the ability to perform duties ethically.
- ⬇ Refrain from subverting the legitimate goals of the organization.
- ⬇ Refrain from discerning the profession.

Members of the management team, of which Perlman is a part, are responsible for both operations and recording the results of operations. Since the team will benefit from a bonus, increasing earnings by ignoring the obsolete inventory is clearly a conflict of interest. Perlman would also be concealing unfavorable and subverting the goals of the organization. Furthermore, such behavior is a discredit to the profession.

Objectivity

- ⬇ Communication of information fairly and objectively.
- ⬇ Disclose all relevant information.

Hiding the obsolete inventory impairs the objectivity and relevance of financial statements.

b) As discussed above, the ethical course of action would be for Perlman to insist on writing down the obsolete inventory. This would not, however, be an easy thing to do. Apart from adversely affecting her own compensation, the

ethical action may anger her colleagues and make her very unpopular. Taking the ethical action would require considerable courage and self – assurance.

06. Professional Ethics ;

- a) **Competence** requires qualification, experience, training and understanding.
- b) **Responsibility and accountability;** should go together .responsibility without accountability is meaningless.
- c) **Objectivity;** objectivity ensures communicating information.
- d) **Integrity;** should be a man of high integrity which includes morality.
- e) **Pleasant behavior;** behavioral aspect must be pleasant.
- f) **Dutiful.**
- g) **Regularity;** Must maintain regularity in duties.
- h) **Loyalty of organization;** must be loyal.
- i) **Confidentiality of the organization;** must maintain confidentiality.

07. Business environment;

- a) **TQM;** Both from the views of customers and enterprises.
- b) **JIT;** provide necessary inventory looking at the minimum level.
- c) **Re-engineering;** process engineering ensuring a business process.
- d) **E-commerce;** introducing IT in commerce.
- e) **Global business:** international business.

Problem 1-8, Ethics: Just in Time

Case Study 02:

Requirement 01:

Considering the IMS's standards of ethical conduct Charlie cannot ignore the situation described about WIW, a publicly owned corporation.

Firstly, as part the standard of ethical conduct management account must “avoid actual or apparent conflicts of interest and advice all appropriate parties of any potential conflict”. Charlie has a responsibility to disclose all the relevant information regarding A-1 and advice the concerned management about the situation.

Secondly, J.B told Charlie that WIW has been trying to implement “Just in Time” system. So, as WIW's controller Charlie's responsibility is to make sure the proper implementation of JIT approach. As per the situation described on WIW, Charlie is informed that A-1 is more of a

jobber than a warehouse. A-1 cannot delivery the order fully from his won warehouse and in addition, some of the orders were late and not complete. So, the present arrangement with A-1 neglects most of the benefits tshat can acquire from the JIT.

Requirement 02:

Charlie should follow some specific steps to resolve this matter is mentioned below:

First Step: Charlie has to verify whether the collected information is correct or not.

Second Step: He should verify whether the mark up percentage & the figure of profit are obtained or not if WIW is delivered directly from manufacturer other than getting delivery from A-1.

Third Step: He should verify the situation again with J.B before informing the concerned management anything about the relationship between J.B and A-1. He needs to be confirmed that J.B is ignoring the interest of the company for that relationship though A-1 is not fit as supplier for JIT approach.

Forth Step: If J.B refuse to follow this course of action, Charlie's only alternative is to submit a memorandum to the board of Directors. J.B should be notified of this action in advance. The memorandum should present only the fact. If the board approves the continued relationship with A-1 Charlie may possible conclude that his concerns about an apparent conflict of interest do not represent an actual conflict. This presumes tóhat legal counsel has advised the board that the arrangement with A-1 doesn't violet any loss and that the company has made adequate disclosure in its public feelings. Only Charlie can makeup the decision as to weather or not he can continue at WIW under these circumstances.

Final Step: After trying every possible step if Charlie fails to establish a proper system in WIW he has to decide whether he will continue with this company or not.