Managerial Accounting

Overview
- A managerial accounting system must serve several purposes.
  - Must allocate decision making authority over company’s resources
  - Furnish information to support decision-making
  - Generate information to evaluate and reward performance
- Managers
  - Deal with operations of a business and internal information
  - Uses information to improve business performance and meet objectives of the company
  - Information for managers does not need to follow GAAP, as does financial accounting information for outside users

Accounting Cycles
- Purchase and Payments: purchase materials and supplies; pay A/P
- Payroll Cycle: schedule employees for production with regular pay
- Production cycle: collect materials, labor and overhead into work in process; once completed, the costs are transferred to finished goods inventory until they are sold
- Sales/Receipts cycle: sales recorded when goods are sold; finished goods costs are transferred to cost of goods sold; customers are billed and receipts recorded when cash or receivables are collected

Types of Costs
- A cost is a sacrifice or giving up of resources to meet an objective.
- A direct cost is a cost that is specific and exclusive for an objective.
- An indirect cost can’t be identified with an objective economically.
  - It can be allocated based on an output measure (cost driver).

Manufacturing or Product Costs
- Direct Materials (DM) are raw materials and parts directly traceable and attached to the product.
- Direct Labor (DL) are wages and other payroll of employees that work to convert materials into finished goods and are directly traceable.
- Manufacturing Overhead (MOH) are costs indirectly traceable.
- Prime costs: Direct materials and direct labor
- Conversion costs: Direct labor and manufacturing overhead
- Unallocated costs are those that have no relationship at all to an objective. These are usually period costs
- Period costs are costs that occur in a time period, unrelated to inventory
  - Expensed in the time period they are incurred

Non-manufacturing or Period Costs
- Selling costs are costs associated with selling the product.
  - Sales salaries and commission, advertising, depreciation expense
- General and Admin. costs are to sustain central management and home office, incorporate the business
  - Buildings, offices, equipment, salaries not related to manufacturing
- Other period costs include income taxes and interest expense.