

The Costing of Products and Services

ASSIGNMENT 1: MANAGERIAL ACCOUNTING AND THE BUSINESS ENVIRONMENT

Read this assignment. Then read pages 1–24 in your textbook.

Globalization

Technology, telephony, and the Internet have now created worldwide opportunities for businesses to grow and expand. It's about the speed with which businesses can learn and adapt to the changing marketplace that allows them to stay ahead of their competition.

Computer technology allows companies to process data at a quicker pace. Telephony such as iPods and Smart Phones allow us to communicate faster than ever. The Internet allows businesses to access information and reach marketplaces that we were unable to tap into before.

While your business can take advantage of these new opportunities, there's a flip side to every coin. Once upon a time you worried about the guy across town. Now you must worry about the hundreds of other businesses that exist around the globe who are also trying to get the attention of the paying customer.

Strategy

Strategy is the plan. *Tactics* are what the business does to implement the plan. After assessing strengths, weakness, opportunities, and threats (*SWOT analysis*) to better understand the competition, a business can then create customer value propositions to gain a greater share of the marketplace.



Organizational Structure

When a business's owner wants it to grow beyond a small enterprise, it must begin to rely on others and empower them to make decisions. The business begins to *decentralize*. To remain efficient and productive, the organization needs to form a *structure*, a chain of command that allows everyone to know what their function is within the organization. It allows for greater communication and efficiency. Exhibit 1-2 in the textbook diagrams one of the most common types of organizational structures and provides an example of the hierarchy within it.

Process Management

For a business to be successful, it needs to have efficient processes to carry out business tasks. However, one size doesn't fit all. This has led to the three popular ways businesses manage and improve their process—*Lean Production*, the *Theory of Constraints*, and *Six Sigma*.

Traditionally, a business would get the raw materials, create the product, and end up with a finished good. Work was created to keep everyone busy and to have enough stock on hand.

Lean Production created a *lean thinking model*. It's a five-step approach that pulls units through the process in response to customer orders. This helps to eliminate excesses and provides greater responses to customer demands. It also creates greater financial efficiency through the use of just-in-time production. When a part is needed, it shows up "just in time" instead of being carried in inventories, which is money that can be used elsewhere.

The Theory of Constraints was the solution to how to overcome bottlenecks in the processes. A *bottleneck* is where the smallest capacity occurs. By not overloading the weakest process and strengthening that process, the weakest process will no longer be the weakest and a new constraint can be identified and then attacked, thus improving the overall processes.

Six Sigma was created to rely on customer feedback to drive improvement. Exhibit 1-6 shows the framework that's used to decrease costs and increase sales by understanding which activities add value and which activities don't add value.

The Importance of Ethics in Business

Business is a reflection of the individuals who run the business. Every business has standards (whether they know it or not) due to this reflection of the individuals.

Page 14 of your textbook outlines the Code of Conduct for Management Accountants, and Exhibit 1-7 provides the IMA Statement of Ethical Professional Practice. These set the standards for management accountants. *CMAs (Certified management accountants)* abide by these standards, thus creating and assuring a high level of professionalism and ethical practices.

Corporate Governance

It seems as if every month there's a headline story about top executive management that through mismanagement leaves shareholders harmed or at least wary. Enron and Qualcomm are examples. However, the vast majority of companies have effective *corporate governance* that puts the best interest of the stockholders before the interests of top management. Left unchecked, there will be those who will take advantage. In 2002, The Sarbanes-Oxley Act was created to protect and build stockholders' confidence by improving the reliability of company reporting information.

Enterprise Risk Management

A business must control its risks. If it doesn't, it will crash and burn. It needs to be able to foresee and identify risks in order to be proactive. For example, a rogue trader in a stock investment firm, if left unchecked without a system of checks and balances, could bankrupt the company before anyone realizes what's going on. Exhibit 1-9 provides some ideas for identifying and controlling business risks.

Corporate Social Responsibility

The purpose of a business is to make money. However, making money for money's sake isn't enough. A corporation has a responsibility to its shareholders and must take into consideration their expectations as to how the corporation fits into society.

The Certified Management Accountant (CMA)

Page 22 of your textbook identifies the steps necessary for an individual to attain the CMA designation. The CMA represents a high level of professionalism and ethics.



Self-Check 1

At the end of each section of *Managerial Accounting*, you'll be asked to pause and check your understanding of what you've just read by completing a "Self-Check" exercise. Answering these questions will help you review what you've studied so far. Please complete *Self-Check 1* now.

Questions 1–10: Indicate whether each of the following sentences is True or False.

- _____ 1. The controller occupies a staff position in an organization.
- _____ 2. A strategy is a game plan that enables a company to attract customers by mimicking what successful competitors do.
- _____ 3. Customer value propositions tend to fall into three broad categories—Theory of Constraints, Six Sigma, and Enterprise Risk Management.
- _____ 4. Companies that choose an operational excellence strategy are in essence saying to their customers, "Choose us because we can deliver products and services faster, more conveniently, and at a lower price than our competitors."

(Continued)



Self-Check 1

- _____ 5. A value chain consists of the major subassemblies that add value to a product.
- _____ 6. Efforts designed to increase the rate of output should generally be applied to nonconstraint work stations.
- _____ 7. The lean thinking model focuses on reducing defects to as close to zero as possible.
- _____ 8. Six Sigma is a process improvement method that targets a system's constraint for process improvement.
- _____ 9. Enterprise risk management involves replacing risky investments with investments in low-risk government securities.
- _____ 10. Corporate social responsibility refers to the moral obligation of all corporations to make substantial monetary contributions to charitable causes.

Fill in the blank with the correct term.

- 11. A/An _____ is a game plan that enables a company to attract customers by distinguishing itself from competitors.
- 12. A/An _____ is a series of steps that are followed to carry out some task in a business.
- 13. A/An _____ is a work space that takes employees and equipment from departments that were previously separated from one another and places them side by side.
- 14. Increasing the rate of output of a/an _____ as the result of an improvement effort is unlikely to have much effect on profits.
- 15. A management approach that coordinates business processes across companies to better serve end consumers is known as _____.

Check your answers with those on page 129.
