**Management Accounting**

**Management accounting** measures, analyzes, and reports financial and nonfinancial information that helps managers make decisions to fulfill the goals of an organization. Managers use management accounting information to develop, communicate, and implement strategy. They also use management accounting information to coordinate product design, production, and marketing decisions and to evaluate performance. Management accounting information and reports do not have to follow set principles or rules. The key questions are always (1) how will this information help managers do their jobs better, and (2) do the benefits of producing this information exceed the costs? Exhibit 1-1 summarizes the major differences between management accounting and financial accounting. Note, however, that reports such as balance sheets, income statements, and statements of cash flows are common to both management accounting and financial accounting.

Cost accounting provides information for management accounting and financial accounting.

**Cost accounting** measures, analyzes, and reports financial and nonfinancial information relating to the costs of acquiring or using resources in an organization. For example, calculating the cost of a product is a cost accounting function that answers financial accounting’s inventory-valuation needs and management accounting’s decision-making needs (such as

deciding how to price products and choosing which products to promote). Modern cost accounting takes the perspective that collecting cost information is a function of the management decisions being made. Thus, the distinction between management accounting and cost accounting is not so clear-cut, and we often use these terms interchangeably in the book. We frequently hear business people use the term cost management. Unfortunately, that term has no uniform definition. We use cost management to describe the approaches and activities of managers to use resources to increase value to customers and to achieve organizational goals. Cost management decisions include decisions such as whether to

enter new markets, implement new organizational processes, and change product designs. Information from accounting systems helps managers to manage costs, but the information and the accounting systems themselves are not cost management. Cost management has a broad focus and is not only about reduction in costs. Cost management includes decisions to incur additional costs, for example to improve customer satisfaction and quality and to develop new products, with the goal of enhancing revenues and profits.

