Chapter 1

The Role of Managerial Accounting

In This Chapter

- Understanding why managerial accounting is important
- Costing business activities
- Planning for profits and cash flow
- Monitoring and evaluating performance
- Considering the tasks and accreditation of managerial accountants

After months of work, you find yourself on your long-anticipated road trip, cruising down the highway for a relaxing week at the shore. Your goal is to enjoy a quiet week of sand, surfing, and fun. To reach your goal, you need a strategy, which in this case is loading up your car with luggage, tying the surfboards to the roof, filling the tank with fuel, and hitting the gas.

But you can't forget to attend to important details along the way: Drive carefully, don't speed, follow the directions, and fill up the tank before you run out of gas. Watch for important road signs. Make sure the surfboards stay securely attached to the roof. And out of excitement, try to predict what time you'll reach your destination. Fulfilling your strategy (that is, actually getting to the shore) requires keeping an eye on a wide range of factors, many of which are critical to reaching your goal.

If you set aside the sand, sun, surf, and relaxation, managerial accounting is actually quite similar to going on a long road trip to the shore. Managerial accounting is the collecting and monitoring of information about a venture to make sure that it's on its way to successfully meeting its goals.

This chapter explains what managerial accountants do and why they do it. It also explains what costs are and considers different ways of measuring them. Then you explore the important managerial accounting tasks of planning,

budgeting, and monitoring and evaluating operations. You also find out the differences between managerial accounting and financial accounting.

Checking Out What Managerial Accountants Do

Managerial accounting plays a critical role in running a business because it provides valuable information about the business to help managers make educated decisions. The process of gathering information involves

- Analyzing costs to understand how they behave and how they will respond to different activities
- Planning and budgeting for the future
- Evaluating and controlling operations by comparing plans and budgets to actual results

After gathering information, managerial accountants then report the facts and figures to the company's managers, who need this information to run the business. In the following sections, I delve into each aspect of a managerial accountant's job.

Analyzing costs

Managerial accountants carefully collect information about a company's costs in order to understand how costs behave. What causes costs to increase? How can the company decrease them? Managerial accounting offers many useful tools to help understand what drives costs and how different events affect net income.

For example, consider Grux Company, which manufactures grout. Every year, Grux must pay for raw materials, executive salaries, and sales commissions. The cost of raw materials varies with the volume of grout produced — the more grout you want to make, the more raw materials you need to buy. Executive salaries are probably fixed — they don't change at all. Sales commissions vary with the amount of sales — the more sales, the more commissions. Managerial accounting helps Grux understand how different events affect costs and how they affect the company's profits.

Planning and budgeting

After managers set goals and strategies for a company, managerial accountants get to work developing a realistic plan — with numbers, of course — to implement these strategies and ultimately meet their goals. This budgetary process requires coordinating all of a company's functional areas, predicting sales, scheduling production, setting up purchases, planning staff levels, forecasting expenditures, and projecting cash flows.

The end result is a budget that predicts what will happen during the next period, explicitly laid down in dollars and cents.

Evaluating and controlling operations

Planning is one thing, but execution is another. Managerial accountants are responsible for continuously monitoring performance, evaluating it, and comparing it to the budget. This part of the job is a lot like taking an occasional look at the map when you're on a road trip to make sure you're on the right highway and going in the right direction.

Suppose that the Busy Hardware store projects it will sell 75,000 snow shovels next winter. It orders delivery of 25,000 shovels each on December 1, January 1, and February 1. It receives its first shipment on December 1, as planned. That December, the weather is unseasonably warm, and it doesn't snow; no one wants to buy snow shovels. On January 1, Busy Hardware receives its second shipment. But the heat wave continues, and there's no snow.

Carefully watching sales trends and inventory levels, Busy Hardware's managerial accountants notice the drop in snow-shovel sales and the accumulation of 50,000 unsold snow shovels in the back of the store. After checking the weather report, they call the Purchasing department to cancel the February 1 delivery.

Carefully monitoring operations can help a company avert disaster. It can also help a company identify areas for improvement. Managerial accountants typically compare budget to actual results, investigating large differences, or *variances.* Understanding the nature of these variances helps managerial accountants to identify problems that need additional management attention and also can help make future budgets more accurate.

Reporting information needed for decisions

Like other accountants, managerial accountants accumulate, classify, and report information. However, they report this information internally, to the company's own decision-makers, rather than externally, to shareholders.

The information-gathering function focuses on collecting information that is both useful for internal decision-making and also necessary for preparing external financial statements given to investors. Accordingly, managerial accountants classify revenues and costs into many different categories, for many different purposes. They then use this information to prepare reports and other information that helps managers understand how costs behave and how management decisions will impact total costs and profitability. The same accounting information system also provides information for external financial reporting. (I explain more about financial reporting in the later section "Distinguishing Managerial from Financial Accounting.")

Understanding Costs

Managerial accountants are often called *cost accountants* because they focus primarily on costs. They collect information about costs, analyze that information, predict future costs, and use many different techniques to estimate how much different products or processes will cost. A given product may even have several different costs, depending on how managers plan to use the information.

Tom's Taxi service estimates that driving from Tanta Mount to the airport costs $20 in gas plus $10 in wages, a total of $30, so that a round trip costs the company $60. A taxi picks up passenger Pearl, who pays $100 for a ride from Tanta Mount to the airport. Expected profit comes to $40 ($100 – $60).

After dropping Pearl off at the airport, another passenger, Tex, hails the taxi to drive him back to Tanta Mount. However, Tex only has $20 to pay for the taxi ride. Should the driver give Tex an $80 discount and drive him for only $20?

This scenario begs another question: How much will Tex's ride cost? You could say that it doesn't cost anything. After all, Pearl already paid for a round trip, and the taxi needs to be driven back to town anyway. However, you could also say that it costs $30, the cost of gas and wages for driving from the airport back to Tanta Mount. Or, to be fair, you could say that Tex's ride back to town costs $60, just like Pearl's ride to the airport (for which she paid $100). $30? $60?

Or wait, what if driving Tex will prevent the taxi from picking up another passenger on the way back to Tanta Mount? This passenger would pay a $50 fare. Tex is getting to be expensive; in order to drive him back from the airport, you may lose $50 in forgone revenue. Was that part of the cost of driving Tex?

As this example indicates, figuring out how much something costs requires considerable judgment and yet plays a very important role in the decisions you make. In the following sections, I define exactly what a cost is and describe some of the techniques accountants use to understand how costs behave. I briefly explain what to do with overhead costs, which are extremely difficult to assign to products (and which won't go away) and summarize how to cost products made in two different kinds of production environments. Finally, I introduce the idea of relevant and irrelevant costs because for decision-makers, some cost information makes a difference and — quite frankly — some doesn't.

Defining costs

A *cost* is the financial sacrifice a company makes to purchase or produce something. Managers accept this necessary evil with the expectation that costs provide some kind of benefit, such as sales and net income.

Costs can have many components. For example, a can of root beer includes raw material costs — the costs of purchasing water, sweetener, and other flavors. It also includes labor costs because the bottling plant must pay workers to run the machinery. And it includes *overhead,* which is the general expense of running the bottling plant. I describe many different kinds of costs in Chapter 3.

Costs can also be divided into product and period categories:

- **Product costs:** The costs of making products, usually inside the factory. These costs include raw materials, labor, and overhead. After a product is made, its cost becomes an asset: inventory.
- **Period costs:** The costs of running your business, usually outside the factory — that is, all the business's costs except its product costs. Some examples include office rent, income taxes, and advertising.

Product costs — and any costs that retailers must pay to purchase products — ultimately become part of cost of sales, an expense on the income statement. In Chapter 4, I explain how to compute this figure.

Predicting cost behavior

To make decisions, managers need to understand how certain choices affect costs and profitability. For example, suppose managers are trying to decide whether to pay employees overtime (time-and-a-half) in order to increase factory production. On one hand, more production will increase sales. On the other hand, overtime wages will increase cost rates. Which choice will result in higher profits?

To answer these questions, managerial accountants focus on cost behavior, which can be variable or fixed. *Variable costs* change with volume made or sold: the more you sell, the higher the cost. *Fixed costs* don't change with volume: Regardless of how many items you make or sell, the cost stays the same. Managerial accountants who know which costs are variable and which are fixed can use that information to predict how changes in volume affect total costs.

That said, managerial accountants don't know everything about cost behavior. They develop their understanding from what the company has experienced in the past. Radical changes push managerial accountants out of their comfort zones and make predicting future costs very difficult. For example, if a factory shuts down and then retools to make a new product, then managerial accountants have very little experience from which to make predictions. Similarly, if a factory doubles its production, hiring many more workers, then cost behaviors are also likely to change in unpredictable ways.

I explain the nature of cost behavior in greater detail in Chapter 5.

Driving overhead

Some costs behave very nicely, such that accountants can easily figure out how they relate to finished products. For example, if your factory makes leather wallets, you should have no problem figuring out exactly how much leather is necessary for each wallet. You can also observe and measure how long a single worker takes to sew a wallet together.

However, some costs — namely, overhead — are really hard to handle. These overhead costs include all costs that can't be easily traced to products, such as heat and electricity. How much heat and electricity cost goes into each wallet?

Don't dismiss the importance of this question. A chain is only as strong as its weakest link, and an inaccurate overhead allocation will over- or under-cost your product, causing you to misprice it, too. As factories automate, and as products become more complex to manufacture, companies use less and less labor but more and more overhead, making accurate costs all the more dependent on accurate overhead allocations. (Although I'm sure you've heard managers and other business people disparage overhead, I bet you never imagined it was this big a pain in the neck.)

As I explain in Chapter 6, managerial accountants dedicate much effort to identifying different factors that drive, or bring about, overhead costs. In the old days, when more factories were very labor intensive, overhead seemed to follow the amount of labor worked. Think about the classic sweatshop with underpaid workers operating sewing machines in a hot and crowded room. Overhead included supervisor wages and rent, which are costs of supporting workers. After all, the more workers you have, the more supervisors and rent you need to pay, so direct labor hours or wages drive overhead in this scenario. If Product X requires 30 minutes to make and Product Y requires one hour, a single unit of Product X brings on half the overhead that Product Y does. Note that because the amount of labor that goes into each product is easy to measure, labor itself usually gets excluded from overhead.

These days, with robots running factories, figuring out what drives overhead isn't so simple. Some factories have no direct labor. Therefore, managerial accountants have become more creative when allocating the cost of overhead to units. Many now use a system called activity-based costing to identify a set of overhead cost-drivers for overhead.

Costing jobs and processes

Factories usually use one of two approaches to manufacturing products. Some products are manufactured to meet customer specifications. These products are usually ordered directly by the customer, made especially for that customer, and follow a system called *job order costing.* Other products are mass produced, with the factory making many identical or near-identical units. These mass-production factories follow a system called *process costing.*

Job order costing

When manufacturers make goods to order, they accumulate the cost of each order separately. For example, if an expensive tailor custom-makes shirts, then he computes the cost of materials, labor, and overhead needed to make each shirt. Some shirts require more materials or labor than others and therefore cost more. Chapter 7 explains the fundamentals of job order costing.

Process costing

When manufacturers make many homogeneous products at once, they usually use process costing. Each unit must go through several different manufacturing departments. Therefore, accountants first assign costs to the departments and then assign the costs of the departments to the products made. Chapter 8 explains how to make these allocations.

Distinguishing relevant costs from irrelevant costs

Whether a cost is product or period, fixed or variable, job ordered or process (see the preceding sections for a rundown on all these options), you have to consider one basic rule: Some costs make a difference, and some don't.

When you're faced with a decision, pay attention to the costs that make a difference. Ignore the others. For example, suppose you're trying to decide whether to eat at home or in a restaurant. You want to do whatever is cheapest. Here are some relevant costs:

- The cost of food in the restaurant
- The cost of gasoline to drive to the restaurant
- The extra money you pay if you split the check among friends who order more expensive food or drinks than you
- Any extra groceries you would have to buy in order to eat at home
- The cost of paying a tip to the server

All these costs depend on your decision. However, certain costs are not relevant:

- **Your car's lease payments:** You may think that because you have an expensive lease payment you should justify it by driving your car. However, eating in a restaurant doesn't bring down your lease payments (sorry).
- **The cost of food spoiling in your fridge:** Perhaps you think you should eat at home so that the food in your fridge doesn't spoil. However, you already paid for the food in the fridge, so eating at home won't get you a refund. Choosing to eat in the restaurant doesn't mean you have to pay for the spoiled food twice.
- **Your rent payment:** Perhaps your rent is so high that you feel like it commits you to spending more time in your apartment (and less time in restaurants). However, staying home doesn't lower your rent.

When you're faced with a decision, focus on the costs that actually depend on the outcome of your decision. Ignore all other costs.

Accounting for the Future: Planning and Budgeting

When you understand how costs behave, you can then apply that understanding to develop realistic goals and strategies for the future. Knowing that fixed costs will stay fixed and that variable costs will change with volume, you can accurately predict likely costs, income, and cash flow for coming periods.

Analyzing contribution margin

Analysis of contribution margin provides a simple and powerful approach to planning. A product's *contribution margin* measures how selling that product will impact your overall profits. For example, if a farm stand sells jars of honey for $3 apiece and each jar costs $1 to make, the stand earns a contribution margin of $2 per jar. That is, every jar sold increases the farm stand's profits by $2. Contribution margin also helps you to figure out how many units of a product you need to sell in order for your business to break even. I explain this approach in Chapter 9.

Budgeting capital for assets

Another important planning technique is called *capital budgeting*. When faced with a decision to invest in long-term assets, such as a building or a piece of machinery, capital budgeting analyzes the future cash flows from the investment in order to tell decision-makers whether the investment would deliver sufficient profits for the company. Chapter 10 explains this technique.

Choosing what to sell

Most companies don't have the resources to make or buy every product they want to sell. Therefore, they must carefully choose between different opportunities to determine which ones will yield the highest profits.

For example, suppose a farmer with 100 acres of land must choose between growing corn or barley. The farmer needs to compare the relative profitability of each, selecting whichever yields the highest profits. Chapter 11 provides tools for making this kind of decision.

Pricing goods

Managers must take special care when pricing goods. After all, if you price your product too high, customers won't buy it. If you price it too low, you sacrifice the sales revenue and profits that a higher price would have yielded. Therefore, setting prices requires a measured understanding of how costs behave.

Suppose that your bakery produces fresh cakes costing $10 each. Managers set the retail price for one cake at $14.95 in order to cover the $10 cost with a reasonable profit margin. Furthermore, this price considers that the competing bakery down the block charges $15.95 for its cakes. Your price is neither too high nor too low.

Now suppose it's quitting time and you're preparing to close the store down for the night. Your policy of not selling day-old cakes means that you must throw away the day's merchandise. A customer walks in, offering you $2 for a cake that usually sells for $14.95. Should you accept the offer?

Probably, yes. One way or another, the cake cost you $10, and that money's gone. If you sell the cake for $2, you receive $2. If you choose to throw the cake away, you get nothing. Taking the $2 is the better option.

I explain pricing in greater detail in Chapter 12.

Setting up a master budget

The planning process climaxes with the master budget. To prepare this important document, managerial accountants collaborate with managers throughout the organization to develop a realistic plan, in numbers, for what will happen during the next period. As explained in Chapter 14, the master budget counts on your understanding of cost behavior, the results of capital budgeting, pricing, and other managerial accounting information in order to plan a concrete strategy to meet sales, profit, and cash-flow goals for the coming year.

Budgeting can get frustrating because decision-makers throughout the organization need to agree to a single plan, the master budget. Not only that, but the master budget they agree to must actually *work;* it must result in sustainable cash flows and meet the company's profitability goals.

Suppose Frank in the Sales department expects to sell 1,000 widgets for $20 each. Fran says that the Production department can produce a maximum of 900 widgets, costing $21 each. Sally in Cash Management says the company has $500 in cash. Combining all this information, as shown in Figure 1-1, results in a train wreck.

Projected Cash Flow

Sales revenue (900 widgets selling for $20 each)	$18,000
Cost of units sold (900 widgets costing $21 each)	(18,900)
Net loss	($900)

Projected Cash Flow

Beginning balance	$500
Cash received from sales	$18,000
Cash paid for units produced	(18,900)
Ending cash balance (overdraft)	($400)

Figure 1-1: A budget that doesn't work.

Illustration by Wiley, Composition Services Graphics

First of all, even though the Sales department projects selling 1,000 units, it can only sell as many units as the production department makes: 900 units. Therefore the company will probably not meet customer demand.

Next, the sales price is too low. Because the company spends $21 to make each widget but only sells each one for $20, it loses $1 on every widget, resulting in a projected net loss of $900.

Making matters worse, the company doesn't have enough cash. It has $500 in the bank at the beginning of the year, which will probably turn into a $400 overdraft by the end of the year.

In short, the company doesn't produce enough goods to sell, it sets the sales price too low, its production costs are too high, and it has insufficient cash flow.

Managers and managerial accountants need to work together to develop a budget that works. Suppose that, after some negotiation, the Sales department finds a way to raise its price to $22 per widget. The Production department realizes that it can produce 1,000 units if employees reconfigure their equipment. This equipment change also reduces the cost per unit to $19. Figure 1-2 shows what can happen under these new circumstances.

Projected Cash Flow

Sales revenue (1,000 widgets selling for $22 each)	$22,000
Cost of units sold (1,000 widgets costing $19 each)	(19,000)
Net income	$3,000

Projected Cash Flow

Beginning balance	$500
Cash received from sales	22,000
Cash paid for units produced	(19,000)
Ending cash balance	$3,500

Illustration by Wiley, Composition Services Graphics

Figure 1-2: A reworked budget.

As a result of close coordination (and perhaps a little arm twisting), the company now projects to fully meet customer demand for 1,000 units. In doing so, it expects (positive) net income of $3,000 and an ending cash balance of $3,500.

What would have happened if management took the departments' plans at face value without preparing a budget? It would have manufactured too few units at too high a cost and sold them at too low a price, incurring a loss. The budgetary process helps avoid this mess; it's a critical step to help a company meet its goals.

Flexing your budget

Unfortunately, things usually don't go as planned. When it comes to buying merchandise, customers get fickle. They may fall in love with your product and buy out all your merchandise. Or they may hate your product and refuse to buy any. How can you budget for such uncertainty?

A flexible budget allows you to plug different scenarios into next year's master budget. For example, if you expect sales to range between 10,000 and 15,000 units, you should prepare a budget that projects what would happen across this entire range. What happens to profits and cash flow if you sell 11,000 units? 12,000 units? And so on. A flexible budget helps prepare your company for a broad range of possibilities. You can read more about flexing the budget in Chapter 15.

Evaluating and Controlling Operations

A budget is a great planning tool for reaching your goals, as long as everyone in the company actually follows it. If everyone does whatever he or she wants, the result is chaos.

So how can managerial accountants ensure that the organization follows its budget? By continuously monitoring actual performance and comparing the budget to what actually happens. Making sure that the company is on course, following its plan, is called *control*.

Allocating responsibility

Companies are usually made up of many parts or departments, each of which takes responsibility for different aspects of operations. Consider some typical departments:

- **Purchasing department:** Takes responsibility for purchasing raw materials or merchandise to be resold
- **Manufacturing department:** Takes responsibility for different aspects of production
- **Quality control department:** Takes responsibility for ensuring that goods are produced at benchmark quality levels
- **Sales department:** Takes responsibility for selling goods
- **Maintenance department:** Takes responsibility for keeping buildings and equipment clean and in working order
- **Finance department:** Takes responsibility for managing cash activities and keeping records

Responsibility accounting requires attributing performance in different parts of the company to those responsible. For example, suppose you budget to purchase merchandise for $100 per unit. The company actually winds up paying $95 per unit. Credit for this achievement goes to the purchasing department.

Now suppose that even though you budget to sell 105,000 units, the company sells only 99,000. To discover what went wrong, go ask the sales department.

Chapter 16 describes responsibility accounting in greater detail.

Analyzing Variances

Responsibility accounting in a factory requires untangling many different causes and effects. *Variance analysis* extricates these different factors to reveal who was responsible for what.

For example, say that a single factory, in a single month, must deal with the following surprises:

- Raw materials cost an extra 5 percent.
- Four employees unexpectedly quit.
- A shipment of raw materials doesn't arrive on time, delaying production.
- A machine breaks down, requiring unexpected repairs costing $100,000.
- The company can raise prices by 10 percent.

Some of these events increase costs, while others cut costs (employees who quit). And the price increase should boost profits.

When you close your books, you discover that profits are up by 4 percent. Variance analysis reveals how each of these factors impacted profits. By how much did the 5 percent increase in raw materials hurt profitability? As explained in Chapter 17, variance analysis considers a broad range of factors and can reveal who is responsible for each of them.

Producing a cycle of continuous improvement

Managerial accounting runs in cycles of different lengths. Certain sales reports and controls may be repeated every day. Some reports may be prepared every month, or each quarter. Others may be prepared just once a year.

W. Edwards Deming popularized a tool called the PDCA cycle for continuous improvement, as shown in Figure 1-3.

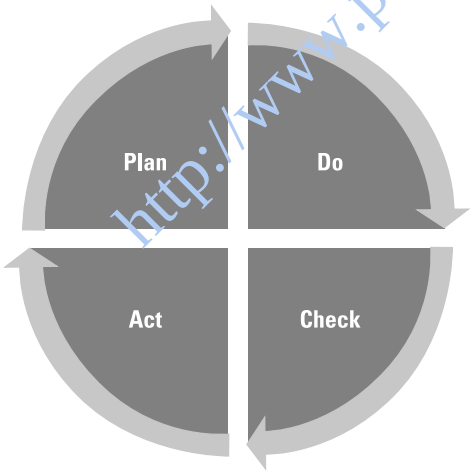

Illustration by Wiley, Composition Services Graphics

Figure 1-3: Deming's PDCA cycle.

Deming's PDCA cycle comes from the scientific model of forming hypotheses and then testing them, and it follows these steps:

1. **Plan.**

   Establish your objectives and how you plan to achieve them. In the scientific method, the equivalent step is creating your hypothesis and prediction.

   

   Ripe OJ's orange juice processing plant experiments with a new technology (the plan) to squeeze more juice out of oranges (the objective).

2. **Do.**

   Implement the plan — you make it happen. In the scientific method, this step is the test of your hypothesis.

   Ripe OJ's processing plant sets up the new technology and tries it out on real oranges.

3. **Check.**

   Measure to determine what happened. The scientific method calls this step the analysis.

   Ripe OJ's managers measure how much orange juice the new technology produced. Did the new technology actually squeeze more juice out of the oranges? Unfortunately, no. It squeezed less. The plant can usually produce 600 gallons in one batch. It expected the new technology to yield 700 gallons. Instead, the process yielded only 550.

4. **Act.**

   Think about root causes that may explain the differences between actual and planned results. To close the cycle of improvement, act on a new plan to implement and test these root causes. This stage reflects the scientific method's commitment to evaluation and improvement.

   Ripe OJ's managers call in the engineers to try to figure out why the plant produced so little orange juice. After much discussion, the engineers and managers believe that the shortfall was caused by a junior engineer's forgetting to plug the big contraption into the wall outlet. They plug it in and try again, returning to the plan stage (Step 1).

Distinguishing Managerial from Financial Accounting

Managerial accounting provides internal reports tailored to the needs of managers and officers inside the company. On the other hand, financial accounting provides external financial statements for general use by stockholders, creditors, and government regulators. Table 1-1 compares the differences between managerial and financial accounting based on the information prepared.

Table 1-1 Contrasting Managerial and Financial Accounting

Preparing Information	*Managerial Accountants*	*Financial Accountants*
What info?	Internal reports	Financial statements
Who uses info?	Managers who work for the company and officers of the company	Stockholders, creditors, and government regulators
When prepared?	Whenever needed	Quarterly and annually
How detailed?	Very detailed, to address specific decisions to be made by managers	Very general, pertaining to the whole company
How prepared?	In accordance with the needs of managers and officers	In accordance with Generally Accepted Accounting Principles (GAAP)
How verified?	By internal controls among managerial accountants	By external CPAs

Becoming a Certified Professional

In sports, a professional athlete is one who gets paid to play. In accounting, however (as in other professions, such as medicine or law), a professional is someone who demonstrates mastery of a certain field and who agrees to accept personal responsibility to practice his or her work according to established standards. For example, medical doctors take the Hippocratic oath.

Like other professionals, most managerial accountants accept a code of ethics, established by the Institute of Management Accountants (IMA). Agreeing to practice by this code is one of the requirements for becoming a certified managerial accountant.

Following the code of ethics

The IMA Statement of Ethical Professional Practice establishes overarching principles to guide the conduct of managerial accountants relating to honesty, fairness, objectivity, and responsibility.

Furthermore, the statement establishes specific standards. Failure to comply with the following standards can result in disciplinary action by the IMA:

I. COMPETENCE

Each member has a responsibility to:

1. Maintain an appropriate level of professional expertise by continually developing knowledge and skills.
2. Perform professional duties in accordance with relevant laws, regulations, and technical standards.
3. Provide decision support information and recommendations that are accurate, clear, concise, and timely.
4. Recognize and communicate professional limitations or other constraints that would preclude responsible judgment or successful performance of an activity.

II. CONFIDENTIALITY

Each member has a responsibility to:

1. Keep information confidential except when disclosure is authorized or legally required.
2. Inform all relevant parties regarding appropriate use of confidential information. Monitor subordinates' activities to ensure compliance.
3. Refrain from using confidential information for unethical or illegal advantage.

III. INTEGRITY

Each member has a responsibility to:

1. Mitigate actual conflicts of interest, regularly communicate with business associates to avoid apparent conflicts of interest. Advise all parties of any potential conflicts.
2. Refrain from engaging in any conduct that would prejudice carrying out duties ethically.
3. Abstain from engaging in or supporting any activity that might discredit the profession.

IV. CREDIBILITY

Each member has a responsibility to:

1. Communicate information fairly and objectively.
2. Disclose all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, analyses, or recommendations.
3. Disclose delays or deficiencies in information, timeliness, processing, or internal controls in conformance with organization policy and/or applicable law.

Becoming a certified management accountant

The IMA has developed the professional designation of certified management accountant (CMA). According to a 2009 study by the IMA, CMAs earn $22,000 more on average than noncertified accountants. Applicants must meet the following requirements:

- Become a member of the IMA.
- Pay the entrance fee.
- Satisfy the education qualification, which is usually a bachelor's degree in any area from an accredited college or university.
- Obtain passing scores on all required CMA examination parts.

- Satisfy the experience qualification, which is usually two continuous years of full-time employment working in managerial and/or financial accounting, within seven years of passing the CMA exam.
- Comply with the IMA Statement of Ethical Professional Practice.

For more information about CMA certification, see the IMA's website (`www.imanet.org`).

Becoming a chartered global management accountant

The American Institute of Certified Public Accountants (AICPA) and the U.K. Chartered Institute of Management Accountants (CIMA) recently established a new credential, the chartered global management accountant (CGMA). AICPA voting members can earn this designation by meeting certain experience requirements. CIMA members automatically qualify for this designation, and other managerial accountants can gain it through either the AICPA or the CIMA.