



Managerial Accounting

Fourth Edition

Ray H. Garrison

Managerial Accounting

**Concepts for Planning,
Control, Decision Making**

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To
Mildred Olsen Norman
Vernal O Bray Norman

For their lives of service and example

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Preface

This text is designed for a one-term course in managerial accounting for use by students who have already completed one or two terms of basic financial accounting. The emphasis of *Managerial Accounting* is on uses of accounting data internally by managers in directing the affairs of business and nonbusiness organizations.

Managers need information in order to carry out three essential functions in an organization: (1) to plan operations; (2) to control activities; and (3) to make decisions. The purpose of *Managerial Accounting* is to show *what kinds* of information the manager needs, *where* this information can be obtained, and *how* this information is used in carrying out these essential functions. The book has a “top-down” focus in that it looks at accounting data through the eyes of those who must use the data in the management of an enterprise. Looking at accounting data from this perspective allows several things to be accomplished with the book. First, it helps students to realize that accounting data are a *means* rather than an *end*. Second, it provides a unifying base on which to build concepts. And third, it permits the instructor to portray the internal accountant in his or her true role—that of a key participant in the basic functions of management.

Although the emphasis of the book is on uses of accounting data, care has been taken to not sacrifice the student’s need for basic technical understanding. To this end, topics are covered in enough depth to ensure full comprehension of basic concepts. The student is then able to proceed with confidence and understanding in the application of these concepts to organizational problems.

A paramount objective in writing this book has been to make a clear and balanced presentation of relevant subject material. Effort has been made to draw examples and homework problems, where appropriate, from service-oriented as well as from profit-oriented situations, and from nonmanufacturing as well as from manufacturing situations.

New in this edition

In the revision process, care has been taken to retain all of the strengths cited by users of the first three editions. The book has been updated where needed, however, with the following changes or additions:

1. Special emphasis has been given to writing new exercise and problem material. As a result of this special emphasis, a majority of the exercises and problems in the book are either completely revised or new to this edition. As in prior editions, users will find a wide range of problems in terms of level of difficulty.

2. Written definitions have been provided for all “key terms” at the end of each chapter. In addition, these terms are now shown in bold-face type where they first appear in the chapter. In all, nearly 300 managerial accounting terms are thus highlighted and defined for the student.

3. Several new exhibits have been added to Chapter 2 (“Cost Terms, Concepts, and Classifications”) to assist the student in digesting new cost terms. Also, a comprehensive review problem on cost terms has been added to the chapter.

4. Chapter 4 (“Systems Design: Process Costing”) has been completely rewritten. The chapter now includes a bridge between Chapters 3 and 4 so that the student can see the similarities and differences between job-order and process costing more clearly. Many illustrations and exhibits are included in the new chapter to clarify the more complex parts of process costing. Also, the production report has been restructured to simplify its preparation and to show a more logical flow of data.

5. A discussion of independent and dependent variables has been added to Chapter 5 (“Cost Behavior: Analysis and Use”) to assist the student in better understanding cost analysis.

6. Some of the material in Chapter 7 (“Segmented Reporting, and the Contribution Approach to Costing”) dealing with direct and absorption costing has been rewritten. An effort has been made to simplify the discussion somewhat, and a review problem on direct and absorption costing has been added to the chapter.

7. A new section dealing with inflation and capital budgeting has been added as an appendix to Chapter 14 (“Capital Budgeting Decisions”).

8. Much of the material in Chapter 15 (“Further Aspects of Investment Decisions”) dealing with income taxes and capital budgeting has been rewritten. Also, the material dealing with tax effects on payback and simple rate of return has been removed from the chapter and placed in an appendix.

In addition to the above, scores of small “polishing” changes have been made throughout the book in an effort to further improve flow, comprehension, and readability. In no case, however, has change been made simply for the sake of change (other than in the assignment material). Rather, the revision has been completed with a single objective in mind—to make the fourth edition of *Managerial Accounting* the most teachable book of its kind available anywhere.

Using the text

As in the prior editions, flexibility in meeting the needs of courses varying in length, content, and student composition continues to be a prime concern in the organization and content of the book. Sufficient text material is available to permit the instructor to choose topics and depth of coverage as desired. Appendixes, parts of chapters, or even whole chapters can be omitted without adversely affecting the continuity of the course. An instructor's manual is available which gives a number of alternate assignment outlines and suggestions as to the problems to be assigned from various chapters.

The book contains over 750 questions, exercises, and problems for in-class use or for homework assignment. In addition, a study guide is available as is a comprehensive test bank containing over 1,000 objective-type questions. My appreciation is extended to professors Roland Minch, SUNY—Albany; Richard Hodges, University of Nebraska at Omaha; and Ronald B. Pawliczek, Boston College, who prepared the bulk of the test bank materials.

Acknowledgments

Ideas and suggestions have been received from many faculty members who used the prior edition of the book. Each has my thanks, since the book is a better product as a result of their insightful comments.

The following professors spent considerable time providing in-depth reviews of the prior edition: Richard Hodges, University of Nebraska at Omaha; Linda M. Marquis, University of Cincinnati; Leslie R. Loschen, University of Southern California; Sherry K. Moore, University of Texas at San Antonio; John M. Alvis, University of Kentucky; Jesse F. Dillard, The Ohio State University, Columbus; Felix P. Kollaritsch, The Ohio State University, Columbus; and Thomas J. O'Neil, American International College.

Permission has been received from the Institute of Management Accounting of the National Association of Accountants to use questions and/or unofficial answers from past CMA examinations. Also, my appreciation is extended to the American Institute of Certified Public Accounts, and the Society of Management Accountants of Canada for permission to use (or adapt) selected problems from their examinations. These problems bear the notations CMA, CPA, and SMA, respectively.

Ray H. Garrison

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MANAGERIAL ACCOUNTING
Concepts for Planning, Control, Decision Making

1

Managerial Accounting— A Perspective

Learning objectives

After studying Chapter 1, you should be able to:

Explain what an organization is, and describe the work done by management in organizations.

Name the steps in the planning and control cycle, and explain how each step impacts on the work of management.

Prepare an organization chart, and explain its purpose.

Distinguish between the line and staff responsibilities in an organization.

Name the three groups into which organizations can be classified, and discuss the ways in which nearly all organizations are similar.

Describe the three broad purposes for which the manager needs accounting information.

Identify the major differences and similarities between financial and managerial accounting.

Define or explain the key terms listed at the end of the chapter.