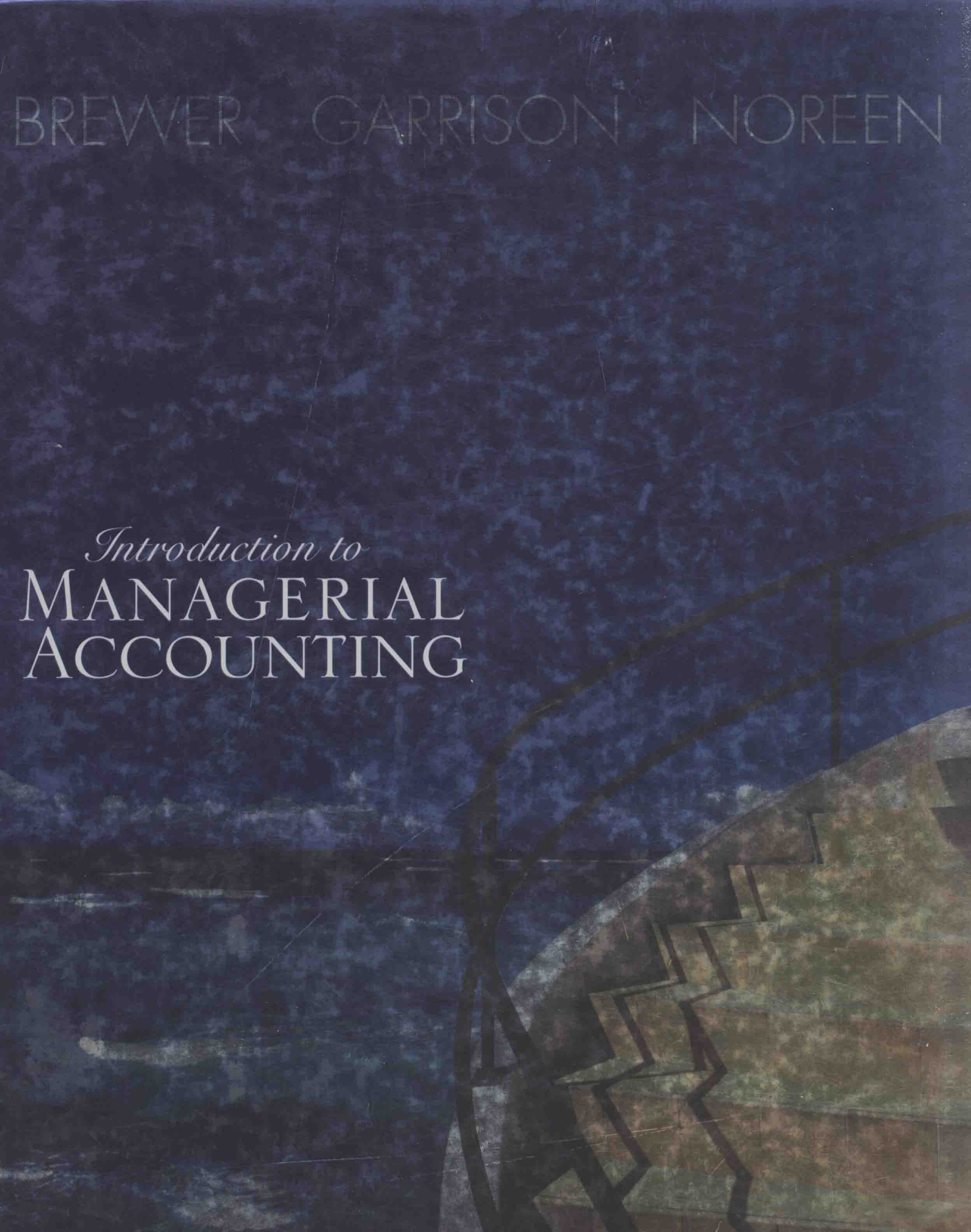


BREWER GARRISON NOREEN

*Introduction to*  
**MANAGERIAL  
ACCOUNTING**





# *Introduction to* **MANAGERIAL ACCOUNTING** *2nd edition*

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## INTRODUCTION TO MANAGERIAL ACCOUNTING

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This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 0 VNH/VNH 0 9 8 7 6 5 4 3

ISBN 0-07-281787-9

Editorial director: *Brent Gordon*

Publisher: *Stewart Mattson*

Executive editor: *Tim Vertovec*

Developmental editor I: *Sarah Wood*

Marketing manager: *Katherine Mattison*

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Senior digital content specialist: *Brian Nacik*

Cover design: *Ryan Brown*

Cover photo credit: © *Macduff Everton/Corbis*

Typeface: *10.5/12 Times New Roman*

Compositor: *GAC Indianapolis*

Printer: *Von Hoffmann Corporation*

## Library of Congress Cataloging-in-Publication Data

Brewer, Peter C.

Introduction to managerial accounting / Peter C. Brewer, Ray H. Garrison, Eric W.

Noreen.—2nd ed.

p. cm.

Rev. ed. of: Introduction to managerial accounting / Jeannie M. Folk, Ray H. Garrison, Eric W. Noreen. 1st ed. 2002.

Includes indexes.

ISBN 0-07-281787-9 (alk. paper)

I. Managerial accounting. I. Garrison, Ray H. II. Noreen, Eric W. III. Folk, Jeannie M. Introduction to managerial accounting. IV. Title.

HF5657.4.F65 2005

658.15'11—dc22

2003059317



# Brewer Garrison Noreen

When it comes to learning accounting, sometimes you need all the help you can get.

The **Introduction to Managerial Accounting** team understands that even a great textbook can only take you so far. To lend your students that extra helping hand, Jeannie Folk has prepared **Topic Tackler**, a CD-ROM tutorial focusing on those areas in the managerial accounting course that give students the most trouble. Through a carefully arranged, step-by-step sequence of video clips, PowerPoint® slideshows, drag-and-drop and fill-in-the-blank exercises, self-test quizzes, and Website hotlinks, **Topic Tackler** offers help on 2 key topics for every chapter, and keeps students engaged and learning every step of the way. For a demonstration, refer to the Online Information Center at [www.mhhe.com/bgn2e](http://www.mhhe.com/bgn2e).



**Video clips** provide enlightening, real-world perspectives from a variety of accounting experts.

**PowerPoint®** slide shows offer step-by-step coverage of challenging topics and make a great resource for review. Many also feature animations and video.

Fun, **interactive exercises** help students remember key terminology.

**Self-grading quizzes** cover all of the main topics, providing an ideal way to brush up before a test.

Concepts appearing in the text that receive additional treatment in **Topic Tackler** are marked with a unique icon.

## CD-ROM

Hotlinks to a variety of web resources keep your students "in the know" about the latest developments in accounting, as well as provide access to helpful career sites.

This highly engaging study tool will put your students in control of the most fundamental aspects of managerial accounting.

**TOPIC TACKLER**  
Managerial Accounting - 10th Edition

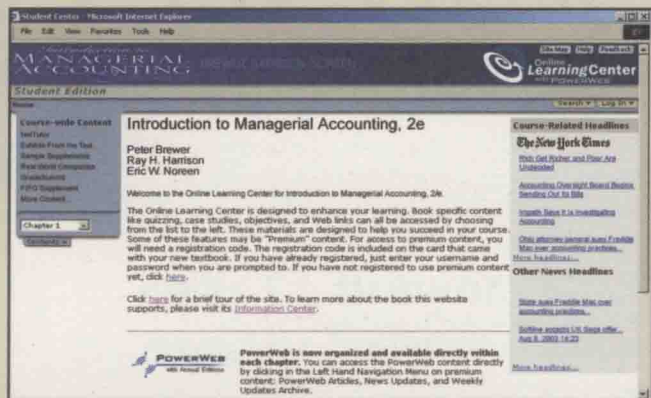
Chapter 5: Cost Behavior: Analysis and Use  
Concept 1: Fixed, Variable and Mixed Costs

Match the graphical representation of a cost with the appropriate term by clicking on the related button. (Assume that the vertical or y axis represents total cost and the horizontal or x axis represents the activity being measured.)

Graphical Representation	Total Variable Cost	Total Fixed Cost	Total Mixed Cost
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	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

# TECHNOLOGY

## Online Learning Center



Whether you're an instructor building a lesson plan or a student preparing for an exam, the Introduction to Managerial Accounting Online Learning Center is the perfect one-stop resource. Check it out at [www.mhhe.com/bgn2e](http://www.mhhe.com/bgn2e).

## Homework Manager

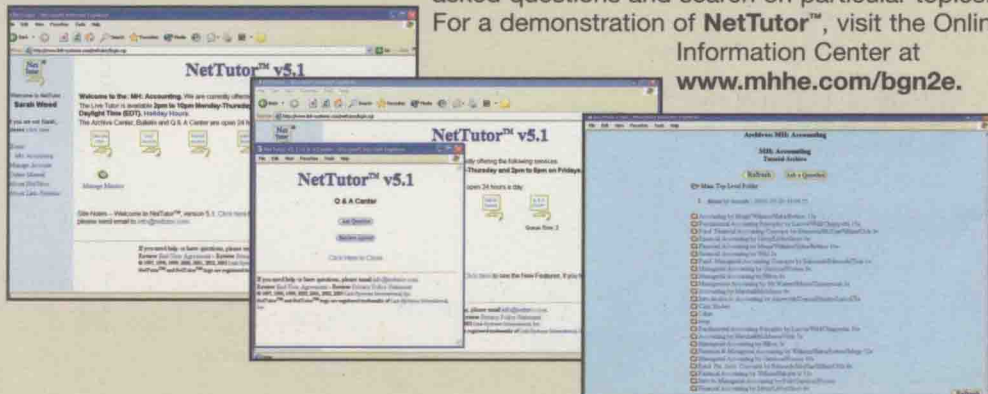


McGraw-Hill/Irwin's **Homework Manager** pulls problem structures directly from the end-of-chapter material using algorithmic technology, providing a limitless supply of online self-graded practice for students. These problem structures are easily identifiable in the text by the **Homework Manager** icon. A wealth of textbook-quality questions allows students to work on fresh problems until they have fully mastered the topic presented. Immediate feedback and scoring helps guide them through their studies. For a demonstration of McGraw-Hill/Irwin's Homework Manager, visit the Online Information Center at [www.mhhe.com/bgn2e](http://www.mhhe.com/bgn2e).

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For a demonstration of **NetTutor™**, visit the Online Information Center at [www.mhhe.com/bgn2e](http://www.mhhe.com/bgn2e).



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Other updates will be added throughout the term.

## DEDICATION

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*To our families and to our many colleagues who use this book.*

—Peter C. Brewer, Ray H. Garrison, and Eric W. Noreen



# about the authors



about

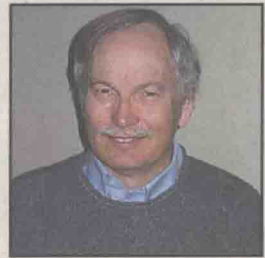
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is an associate professor in the Department of Accountancy at Miami University, Oxford, Ohio. He holds a BS degree in accounting from Penn State University, an MS degree in accounting from the University of Virginia, and a PhD from the University of Tennessee. He has published numerous articles in a variety of journals including: *Management Accounting Research*, *The Journal of Information Systems*, *The Journal of Cost Management*, *Strategic Finance*, *The Journal of Accountancy*, *Issues in Accounting Education*, *The Journal of Corporate Accounting and Finance*, *The Journal of Business Logistics*, and *The Supply Chain Management Review*.

Professor Brewer is a member of the editorial board of *Issues in Accounting Education* and has served on the editorial board of *The Journal of the Academy of Business Education*. He has also served as an associate editor for the *Journal of Engineering Valuation and Cost Analysis*. He has been recognized on two occasions by the Miami University Associated Student Government for "making a remarkable commitment to students and their educational development." He has taught a continuing professional education (CPE) workshop at the AAA national meeting dealing with teaching case-driven undergraduate management accounting courses and is a leading thinker in undergraduate management accounting curriculum innovation. He is a frequent presenter at various professional and academic conferences and meetings.

Prior to joining the faculty at Miami University, Professor Brewer was employed as an auditor for Touche Ross in the firm's Philadelphia office. He also worked as an internal audit manager for the Board of Pensions of the Presbyterian Church (U.S.A.). He frequently collaborates with companies such as Harris Corporation, Ethicon Endo-Surgery, Square D, Lenscrafters, and Fidelity Investments in a consulting or case writing capacity.

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Professor Noreen has served as associate editor of *The Accounting Review* and the *Journal of Accounting and Economics*. He has numerous articles in academic journals including: the *Journal of Accounting Research*; *The Accounting Review*; the *Journal of Accounting and Economics*; *Accounting Horizons*; *Accounting, Organizations and Society*; *Contemporary Accounting Research*; the *Journal of Management Accounting Research*; and the *Review of Accounting Studies*.

Professor Noreen teaches management accounting at the undergraduate and master's levels and has won a number of awards from students for his teaching.



## Ray H. Garrison

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As a certified public accountant, Professor Garrison has been involved in management consulting work with both national and regional accounting firms. He has published articles in *The Accounting Review*, *Management Accounting*, and other professional journals. Innovation in the classroom has earned Professor Garrison the Karl G. Maeser Distinguished Teaching Award from Brigham Young University.

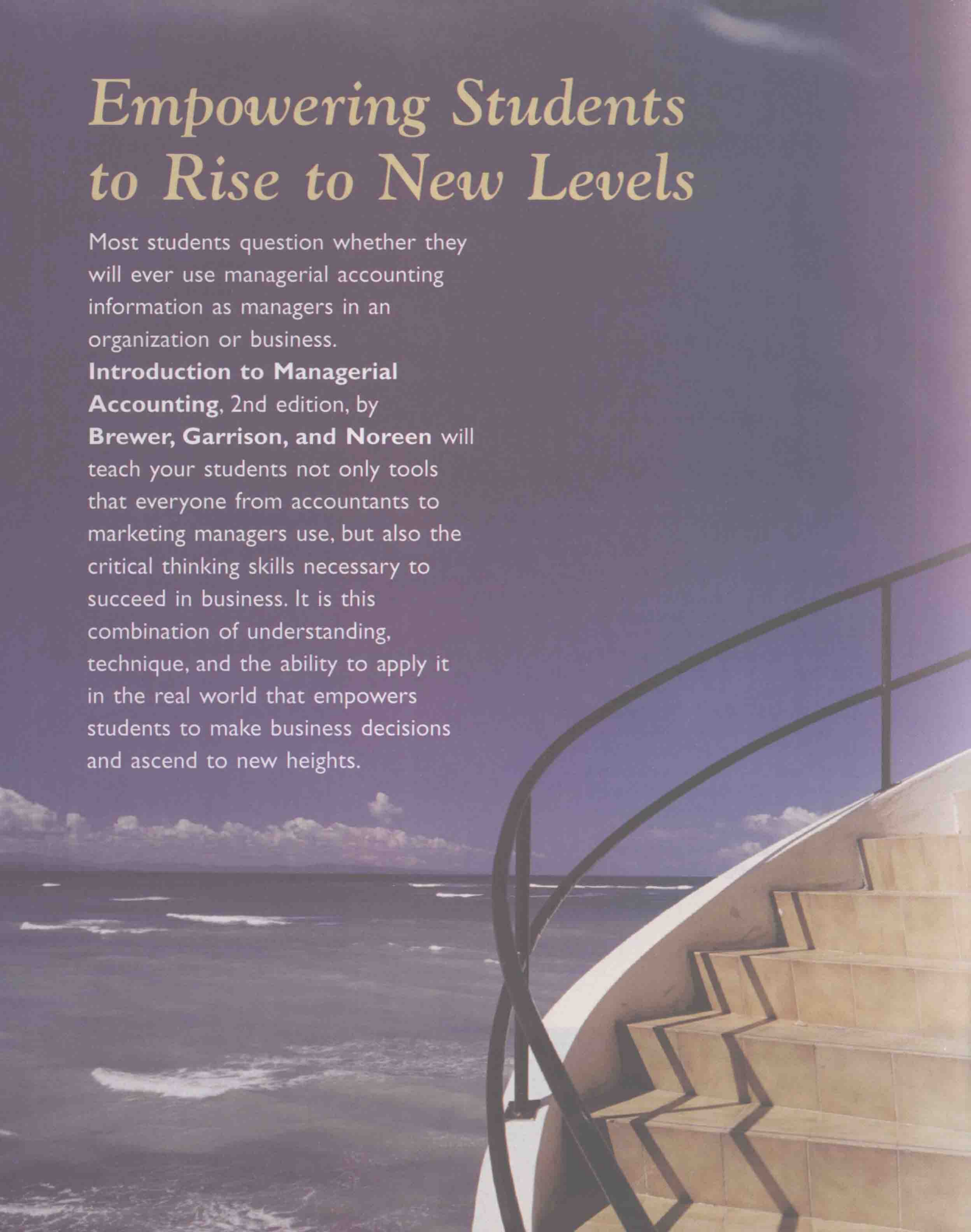




# *Empowering Students to Rise to New Levels*

Most students question whether they will ever use managerial accounting information as managers in an organization or business.

**Introduction to Managerial Accounting**, 2nd edition, by **Brewer, Garrison, and Noreen** will teach your students not only tools that everyone from accountants to marketing managers use, but also the critical thinking skills necessary to succeed in business. It is this combination of understanding, technique, and the ability to apply it in the real world that empowers students to make business decisions and ascend to new heights.



Introduction to Managerial Accounting, 2nd edition, by **BREWER/GARRISON/NOREEN** empowers your students to rise to new levels in the following ways:

## Concise

Most of your students taking this course will not be accounting majors. Your students want a text that is concise, and that presents material in a clear and readable manner. Your students' biggest concern is making sure they can solve the end-of-chapter problems after reading the chapter. Our market survey indicates that Brewer/Garrison/Noreen achieves this better than any other concise managerial accounting text on the market. Moreover, the authors write all the major supplements, so the text, study guide, test bank, and solutions manual are consistent with one another.

## Decision-Making Focus

It is important for your students to understand how managerial accounting information is used to make business decisions, especially if your students plan to be future managers. Brewer/Garrison/Noreen accomplishes this with three types of pedagogy. First, the Managerial Accounting in Action scenarios place students in a real-world business problem and then walk them through how to solve it. Second, the Decision Maker and You Decide boxes put the student in real-world scenarios, both corporate and entrepreneurial, and ask them to apply what they have learned. Lastly, the Building Your Skills cases help your students build the decision-making skills they need.

## Contemporary

Today's students rely on technology more than ever. Brewer/Garrison/Noreen provides them with the technological ancillaries they need to succeed in this class. McGraw-Hill/Irwin's Homework Manager uses the web and algorithmically generated problems taken from the text to develop problem-solving skills. Topic Tackler combines video, self-assessment, and PowerPoint lectures that cover the most difficult topics in each chapter. Additionally, NetTutor and the Online Learning Center provide your students with a variety of multimedia aids to help them master managerial accounting.

# What makes **Brewer/Garrison/Noreen**,

**Introduction to Managerial Accounting** is full of pedagogy designed to make studying productive and hassle-free. On the following pages, you will see the kind of engaging, helpful pedagogical features that make Brewer/Garrison/Noreen a favorite among both teachers and students.

## Opening Vignette

Each chapter opens with a two-page Chapter Opener featuring a real-world company.

## Author-Written Supplements

The authors write all of the text's major supplements, ensuring a perfect fit between text and supplement. For more information on Brewer/Garrison/Noreen's supplements, see pages xxii and xxiii.

## Infographics

New infographics have been included throughout the text to help students visualize key accounting concepts.

### CHAPTER FOUR

## Systems Design: Process Costing

#### A LOOK BACK

We described a basic job-order costing system in Chapter 2 that used a single plantwide overhead rate. Then, in Chapter 3, we looked at activity-based costing, a more sophisticated technique that uses a variety of allocation bases to assign overhead costs to products.

#### A LOOK AT THIS CHAPTER

Chapter 4 covers process costing, which is an important alternative to job-order costing. In process costing, departmental costs are applied uniformly to the products processed through the department during the period.

#### A LOOK AHEAD

After discussing how costs respond to changes in the level of business activity, we will introduce the contribution format income statement in Chapter 5.

#### CHAPTER OUTLINE

##### Comparison of Job-Order and Process Costing

- Similarities between Job-Order and Process Costing
- Differences between Job-Order and Process Costing

##### A Perspective of Process Cost Flows

- Processing Departments
- The Flow of Materials, Labor, and Overhead Costs
- Materials, Labor, and Overhead Cost Entries

##### SUPPLEMENT: FIFO METHOD (AVAILABLE ON THE WEB AT [WWW.MHHE.COM/BGN2E](http://WWW.MHHE.COM/BGN2E))

- Equivalent Units—FIFO Method
- Comparison of Equivalent Units of Production under the Weighted-Average and FIFO Methods

##### Production Report—FIFO Method

- Step 1: Prepare a Quantity Schedule

##### Equivalent Units of Production

- Weighted-Average Method

##### Production Report—Weighted-Average Method

- Step 1: Prepare a Quantity Schedule and Compute the Equivalent Units
- Step 2: Compute Costs per Equivalent Unit
- Step 3: Prepare a Cost Reconciliation
- A Comment about Rounding Errors

##### A Comparison of Costing Methods

### Continuous Process Manufacturing vs. Job-Order Manufacturing

#### Continuous Process:



Inputs

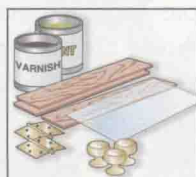


Conversion Process



Outputs

#### Job-Order Process:



Inputs



Conversion Process



Outputs



# 2nd edition, such a powerful learning tool?

## MANAGERIAL ACCOUNTING IN ACTION



Wrap-Up

based costs, we have been able to better identify the overhead costs of each product and thus derive more accurate cost data.

The pattern of cost distortion shown by the ABC team's findings is quite common. Such distortion can happen in any company that relies on direct labor-hours or machine-hours in assigning overhead cost to products and ignores other significant factors affecting overhead cost incurrence.

The ABC team presented the results of its work in a meeting attended by all of the top managers of Comtek Sound including the president, Sarah Kastler; the production manager, Frank Hines; the marketing manager, Nicole Sermone; and the accounting manager, Tom Frazier. After the formal presentation by the ABC team, the following discussion took place:

**Sarah:** I would like to personally thank the ABC team for all the work they have done. I am now beginning to wonder about some of the decisions we have made in the past using our old cost accounting system.

**Tom:** I hope I don't have to remind anyone that I have been warning people about this problem for quite some time.

**Sarah:** No, you don't have to remind us, Tom. I guess we just didn't understand the problem before.

... obvious from this activity-based costing information that we had every-  
wards. We thought the competition was pricing below cost on the CD  
in fact we were overcharging for these units because our costs were over-  
and we thought the competition was overpricing DVD units, but in fact our  
re way too low because our costs for these units were understated. I'll bet  
etition has really been laughing behind our backs!  
can bet they won't be laughing when they see our next bids.

## "Managerial Accounting in Action"

These highly praised vignettes depict cross-functional teams working together in real-life settings on products and services that students recognize from their own lives. Students are shown step-by-step how accounting concepts are implemented in organizations and how these concepts are applied to solve everyday business problems. First, "The Issue" is introduced through a dialogue. The student then walks through the implementation process. Finally the "Wrap-Up" summarizes the big picture.

## DECISION FEATURE

### Costing Cream Soda

Megan started a company that produces cream soda from an old family recipe. As first the company struggled, but as sales increased, the company expanded rapidly. Megan soon realized that to grow further, it would be necessary to borrow money. The investment in additional equipment was too large for her to finance out of the company's current cash flows. Megan was disappointed to find that few banks were willing to make a loan to such a small business, but she finally found a bank that would consider her loan application. However, Megan was told that she would have to supply up-to-date financial statements with her loan application. Megan had never bothered with financial statements before—the felt that as long as the balance sheet and company's checkbook kept increasing, the company was doing fine. She was puzzled how she was going to determine the value of the cream soda in the work in process and finished goods inventory. The valuation of the cream soda would affect both the cost of goods sold and the inventory value of her company. Megan thought of perhaps using job-order costing, which had been used at her previous employer, but her company produces only one product. She decided to use a standard cost system to make more cream soda, and more bottles. Megan didn't see how she could use a standard cost system. Perhaps there was another way to solve the problem. Would you like to produce your own brand of cream soda? Visit [www.amanet.org](http://www.amanet.org) on the Internet for a detailed discussion.

## LEARNING OBJECTIVES

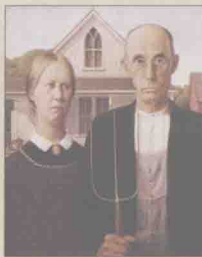
After studying Chapter 4, you should be able to:

- LO1 Record the flow of materials, labor, and overhead through a process costing system.
- LO2 Compute the equivalent units of production using the weighted-average method.
- LO3 Prepare a quantity schedule using the weighted-average method.
- LO4 Compute the costs per equivalent unit using the

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Chapter 3

## IN BUSINESS



### Is E-Tailing Really Easier?

The company [art.com](http://art.com)™ sells prints and framed prints over the web. An ABC study identified the following 12 activities carried out in the company:

1. Service customers
2. Website optimization
3. Merchandise inventory selection and management
4. Purchasing and receiving
5. Customer acquisition and retention—paid-for marketing
6. Customer acquisition and retention—revenue share marketing (affiliate group)
7. Sustain information system
8. Sustain business—administration
9. Sustain business—production
10. Maintain facility—administrative
11. Maintain facility—production
12. Sustain business—executive

For example, the activity "merchandise inventory selection and management" involves scanning, describing, classifying, and linking each inventory item to search options. "Staff must carefully manage each change to the database, which is similar to adding and removing inventory items from the shelf of a store. They annotate added inventory items and upload them into the system, as well as remove obsolete and discontinued items. . . . The number of inventory items for an e-tailer is typically much greater than for a brick-and-mortar [store], which is a competitive advantage, but experience shows managing a large inventory consumes substantial resources."

Source: Thomas L. Zeller, David R. Kublank, and Philip G. Makris, "How [art.com](http://art.com)™ Uses ABC to Succeed," *Strategic Finance*, March 2001, pp. 25–31. Reprinted with permission from the IMA, Montvale, NJ, USA. [www.amanet.org](http://www.amanet.org).

## "In Business"

These helpful boxed features offer a glimpse into how real companies use the managerial accounting concepts discussed within the chapter. Every chapter contains from two to nine of these current examples.

## Service

Owing to the growing number of service-based companies in business today, the second edition uses a helpful icon to distinguish service-related examples.

# What makes **Brewer/Garrison/Noreen,**

## The **Decision Maker**

feature fosters critical thinking and decision-making skills by providing real-world business scenarios that require the resolution of a business issue. The suggested solution is located at the end of the chapter.

Internet assignments teach students how to find information online and apply it to managerial accounting situations.

Writing assignments encourage your students to practice critical thinking.

The **You Decide** feature challenges students to apply the tools of analysis and make decisions. The suggested solution is found at the end of the chapter.

mayor of the city, Stephen Goldsmith, explained: "Introducing competition and privatization to government services requires real cost information. You can't compete out if you are using fake money." When city workers became aware of the costs of carrying out activities such as filling potholes in streets and were faced with the possible transfer of such tasks to the private sector, they became highly motivated to reduce costs. Instead of going out to fill potholes with a five- or six-man repair crew, plus a supervisor, they started doing the same job with a three- or four-man crew without a supervisor. The number of politically appointed supervisors, which had stood at 36 for 75 employees, was slashed by half.

Source: Robert S. Kaplan and Robin Cooper, *Cost & Effect: Using Integrated Cost Systems to Drive Profitability and Performance*, Harvard Business School Press, Boston, 1998, pp. 245-250.

## Legal Firm Business Manager

You have been hired to manage the business aspects of a local legal firm with a staff of 6 attorneys, 10 paralegals, and 5 staffpersons. Clients of the firm are billed a fixed amount per hour of attorney time. The fixed hourly charge is determined each year by dividing the total cost of the legal office for the preceding year by the total billed hours of attorney time for that year. A markup of 25 percent is then added to this average cost per hour of billed attorney time to provide for a profit and for inflation.

The firm's partners are concerned because the firm has been unprofitable for several years. The firm has been losing its smaller clients to other local firms—largely because the firm's fees have become uncompetitive. And the firm has been attracting larger clients with more complex legal problems from its competitors. To serve these demanding larger clients, the firm must subscribe to expensive on-line legal reference services, hire additional paralegals and staffpersons, and lease additional office space.

What do you think might be the reason for the unprofitable operations in recent years? What might be done to improve the situation for the coming year?

## DECISION MAKER

2. Which of the following statements is false? (You may select more than one answer.)
- Activity-based costing systems usually shift costs from low-volume products to high-volume products.
  - Benchmarking can be used to identify activities with the greatest potential for improvement.
  - Activity-based costing is most valuable to companies that manufacture products.

## CONCEPT CHECK

### Problems of Overhead Application

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	(14)	
Cost of Goods Sold .....	5,000	5,000
Manufacturing Overhead .....		

Note that since the Manufacturing Overhead account has a debit balance, Manufacturing Overhead must be credited to close out the account. This has the effect of increasing Cost of Goods Sold for April to \$123,500:

Unadjusted cost of goods sold [from entry (13)] .....	\$118,500
Add underapplied overhead [entry (14) above] .....	5,000
Adjusted cost of goods sold .....	<u>\$123,500</u>

After this adjustment has been made, Rand Company's income statement for April will appear as shown earlier in Exhibit 2-12.

## Remaining Balance in the Overhead Account

The simplest method for disposing of any balance remaining in the Overhead account is to close it out to Cost of Goods Sold. If there is a debit balance (that is, overhead has been underapplied), the entry to dispose of the balance would include a debit to Cost of Goods Sold. That debit would increase the balance in the Cost of Goods Sold account. On the other hand, if there is a credit balance, the entry to dispose of the balance would include a credit to Cost of Goods Sold. That credit would decrease the balance in the Cost of Goods Sold account. If you were the company's controller, would you want a debit balance, a credit balance, or no balance in the Overhead account at the end of the period?

## YOU DECIDE

## A General Model of Product Cost Flows

The flow of costs in a product costing system is presented in the form of a T-account model in Exhibit 2-14. This model applies as much to a process costing system as it does to a job-order costing system. Examination of this model can be very helpful in understanding how costs enter a system, flow through it, and finally end up as Cost of Goods Sold on the income statement.

## Multiple Predetermined Overhead Rates

Our discussion in this chapter has assumed that there is a single predetermined overhead rate for an entire factory called a **plantwide overhead rate**. This is a fairly common practice—particularly in smaller companies. But in larger companies, **multiple predetermined overhead rates** are often used. In a **multiple predetermined overhead rate** system, each production department may have its own predetermined overhead rate. Such a system, while more complex, is considered to be more accurate, since it can reflect differences across departments in how overhead costs are incurred. For example, over-



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- What cost would you expect to be included for direct materials? For rent of the factory building? (In preparing your answer, assume that direct materials is a variable cost and that rent is a fixed cost.)
4. Explain to the president the reason for any difference in the average cost per unit between (2) and (3) above.

## BUILDING YOUR SKILLS

### CHECK FIGURE

- (1) Cost of goods manufactured: \$450,000

### ANALYTICAL THINKING (LO1, LO2, LO3, LO4)

Hickey Company, a manufacturing firm, produces a single product. The following information has been taken from the company's production, sales, and cost records for the just completed year:



Production in units	30,000
Sales in units	?
Ending finished goods inventory in units	?
Sales in dollars	\$650,000
Costs:	
Advertising	\$50,000
Direct labor	\$80,000
Indirect labor	\$60,000
Raw materials purchased	\$160,000
Building rent (production uses 80% of the space; administrative and sales offices use the rest)	\$50,000
Utilities, factory	\$35,000
Royalty paid for use of production patent, \$1 per unit produced	
Maintenance, factory	
Rent for special production equipment, \$6,000 per year plus \$0.10 per unit produced	
Selling and administrative salaries	
Other factory overhead costs	
Other selling and administrative expenses	

**Spreadsheets** have become an increasingly common tool for managerial accountants; therefore, selected exhibits and data appear as Microsoft Excel® screen captures.

## End-of-Chapter Material

Our problem and case material continues to conform to AECC and AACSB recommendations and makes a great starting point for class discussions and group projects. Other helpful features include:

### PROBLEM 1-22 Financial Statements; Cost Behavior (LO1, LO4, LO5)

Various cost and sales data for Jaskot Company for the just completed year follow:

	A	B
1	Finished goods inventory, beginning	\$16,000
2	Finished goods inventory, ending	\$14,000
3	Depreciation, factory	\$21,000
4	Administrative expenses	\$45,000
5	Utilities, factory	\$12,000
6	Maintenance, factory	\$26,000
7	Supplies, factory	\$6,000
8	Insurance, factory	\$7,000
9	Purchases of raw materials	\$72,000
10	Raw materials inventory, beginning	\$5,000
11	Raw materials inventory, ending	\$8,000
12	Direct labor	\$61,000
13	Indirect labor	\$32,000
14	Work in process inventory, beginning	\$13,000
15	Work in process inventory, ending	\$14,000
16	Sales	\$355,000
17	Selling expenses	\$61,000
18		

### CHECK FIGURE

- (1) Cost of goods manufactured: \$233,000



### CASE (LO1, LO4)

While snoozing at the controls of his Pepper Six airplane, Dunse P. Sluggard leaned heavily against the door; suddenly, the door flew open and a startled Dunse tumbled out. As he parachuted to the ground, Dunse watched helplessly as the empty plane smashed into Operex Products' plant and administrative offices.

"The insurance company will never believe this," cried Mercedes Juliet, the company's controller, as she watched the ensuing fire burn the building to the ground. "The entire company is wiped out!"

"There's no reason to even contact the insurance agent," replied Ford Romero, the company's operations manager. "We can't file a claim without records, and all we have left is this copy of last year's annual report. It shows that raw materials at the beginning of this year (January 1) totaled \$30,000, work in process totaled \$50,000, and finished goods totaled \$90,000. But what we need is a record of these inventories as of today, and our records are up in smoke."

"All except this summary page I was working on when the plane hit the building," said Mercedes. "It shows that our sales to date this year have totaled \$1,350,000 and that manufacturing overhead cost has totaled \$520,000."

"Hey! This annual report is more helpful than I thought," exclaimed Ford. "I can see that our gross margin rate has been 40% of sales for years. I can also see that direct labor cost is one-quarter of the manufacturing overhead cost."

"We may have a chance after all," cried Mercedes. "My summary sheet lists the sum of direct labor and direct materials at \$510,000 for the year, and it says that our goods available for sale to customers this year has totaled \$960,000 at cost. Now if we just knew the amount of raw materials purchased so far this year."

"I know that figure," yelled Ford. "It's \$420,000! The purchasing agent gave it to me in our planning meeting yesterday."

"Fantastic," shouted Mercedes. "We'll have our claim ready before the day is over!"

To file a claim with the insurance company, Operex Products must determine the amount of cost in its inventories as of the date of the accident. You may assume that all of the materials used in production during the year were direct materials.

### Required:

Determine the amount of cost in the raw materials, work in process, and finished goods inventories as of the date of the accident. (Hint: One way to proceed would be to reconstruct the various schedules and statements that would have been affected by the company's inventory accounts during the year.)

### ETHICS CHALLENGE (LO2)

The top management of General Electronics, Inc., is well known for "managing by the numbers." With an eye on the company's desired growth in overall net profit, the company's CEO (chief executive officer) sets target profits at the beginning of the year for each of the company's divisions. The CEO has stated her policy as follows: "I won't interfere with operations in the divisions. I am available for advice, but the division vice presidents are free to do anything they want so long as they hit the target profits for the year."

In November, Stan Richart, the vice president in charge of the Cellular Telephone Technologies Division, saw that making the current year's target profit for his division was going to be very difficult. Among other actions, he directed that discretionary expenditures be delayed until the beginning of the new year. On December 30, he was angered to discover that a warehouse clerk had ordered \$350,000 of cellular telephone parts earlier in December even though the parts weren't really needed by the assembly department until January or February. Contrary to common accounting practice, the General Electronics, Inc., Accounting Policy Manual states that such parts are to be recorded as an expense when delivered. To avoid recording the expense, Mr. Richart asked that the order be canceled, but the purchasing department reported that the parts had already been delivered and the supplier would not accept returns. Since the bill had

of cost of goods manufactured.

statement.  
aced the equivalent of 12,000 units of product during the year just completed.  
age cost per unit for direct materials? What was the average cost per unit for

ts to produce 10,000 units of product during the coming year. What per unit cost  
would you expect the company to incur for direct materials at this level of  
y depreciation? (In preparing your answer, assume that direct materials is a  
at depreciation is a fixed cost that will be the same next year as it was this year.)  
dent any difference in the average cost per unit between (3) and (4) above.

### Financial Statements; Cost Behavior (LO1, LO4, LO5)

es for the year ended December 31 are provided below for Rolling Company:

Selling and administrative salaries	\$55,000
Insurance, factory	\$6,000
Utilities, factory	\$10,000
Purchases of raw materials	\$76,000
Indirect labor	\$3,000
Direct labor	?
Advertising expense	\$26,000
Cleaning supplies, factory	\$4,000
Sales commissions	\$33,000
Rent, factory building	\$49,000
Maintenance, factory	\$15,000

### CHECK FIGURE

- (1) Cost of goods manufactured: \$244,000



**Ethics assignments** serve as a reminder that good conduct is essential in business. Group projects can be assigned either as homework or as in-class discussion projects.



# What's new about

## PROLOGUE

### New in this Edition

- The TOC section has been completely rewritten.
- The role of the CFO is discussed in greater detail.
- Links between e-commerce and subsequent chapters are briefly laid out.
- Many new In Business boxes have been added.

## CHAPTER 1

### New in this Edition

- The illustration of Inventory Flows in Exhibit 1–5 has been improved.
- The alternative approach to computation of cost of goods sold has been eliminated.
- New material dealing with ethical issues in the determination of product and period costs has been added.
- Many new In Business boxes have been added.

## CHAPTER 2

### New in this Edition

- Better illustration of job-order costing vs. process costing has been added.
- Many new In Business boxes have been added.

## CHAPTER 3

### New in this Edition

- Many new In Business boxes have been added.

## CHAPTER 4

### New in this Edition

- Subtle changes have been made in the format of the production report to improve its readability.
- Rounding has been eliminated as an issue in all examples and end-of-chapter materials by ensuring that all computations carried out to the nearest whole cent yield exact answers.

## CHAPTER 5

### New in this Edition

- Scattergraph plots now precede the high-low method.
- We now refer to the method for estimating fixed and variable costs based on the visual fit to the scattergraph plot as the “quick-and-dirty” method. The emphasis in the scattergraph section of the text is now on diagnosis of cost behavior patterns rather than as a way to estimate fixed and variable costs.
- The term “regression line” is now reserved for the line that is computed by least-squares regression.

# the second edition?

## CHAPTER 6

### New in this Edition

- The CVP graph is introduced before break-even analysis to provide a better intuitive basis for the analysis.
- Many new In Business boxes have been added.

## CHAPTER 7

### New in this Edition

- The mechanics of how to construct the various schedules in the master budget are more thoroughly explained in the text.
- Many new In Business boxes have been added.

## CHAPTER 8

### New in this Edition

- A new exhibit, Exhibit 8–1, provides an overview of the variance reporting process.
- Several new In Business boxes have been added.
- The variances, and their computations, are more fully explained.

## CHAPTER 9

### New in this Edition

- Improved illustration of static vs. flexible budgets has been added.
- New In Business boxes have been added.

## CHAPTER 10

### New in this Edition

- New In Business boxes have been added.

## CHAPTER 11

### New in this Edition

- A new, easy-to-understand example has been added illustrating the identification of relevant and irrelevant costs.
- Material dealing with the reconciliation of the total and differential approaches has been added.
- The section dealing with equipment replacement decisions has been eliminated. This subject is more appropriately covered in the capital budgeting chapter.
- Many new In Business boxes have been added.

## CHAPTER 12

### New in this Edition

- Many new In Business boxes have been added.
- The present value tables have been expanded to include all rates of return between 5% and 25%.

## CHAPTER 13

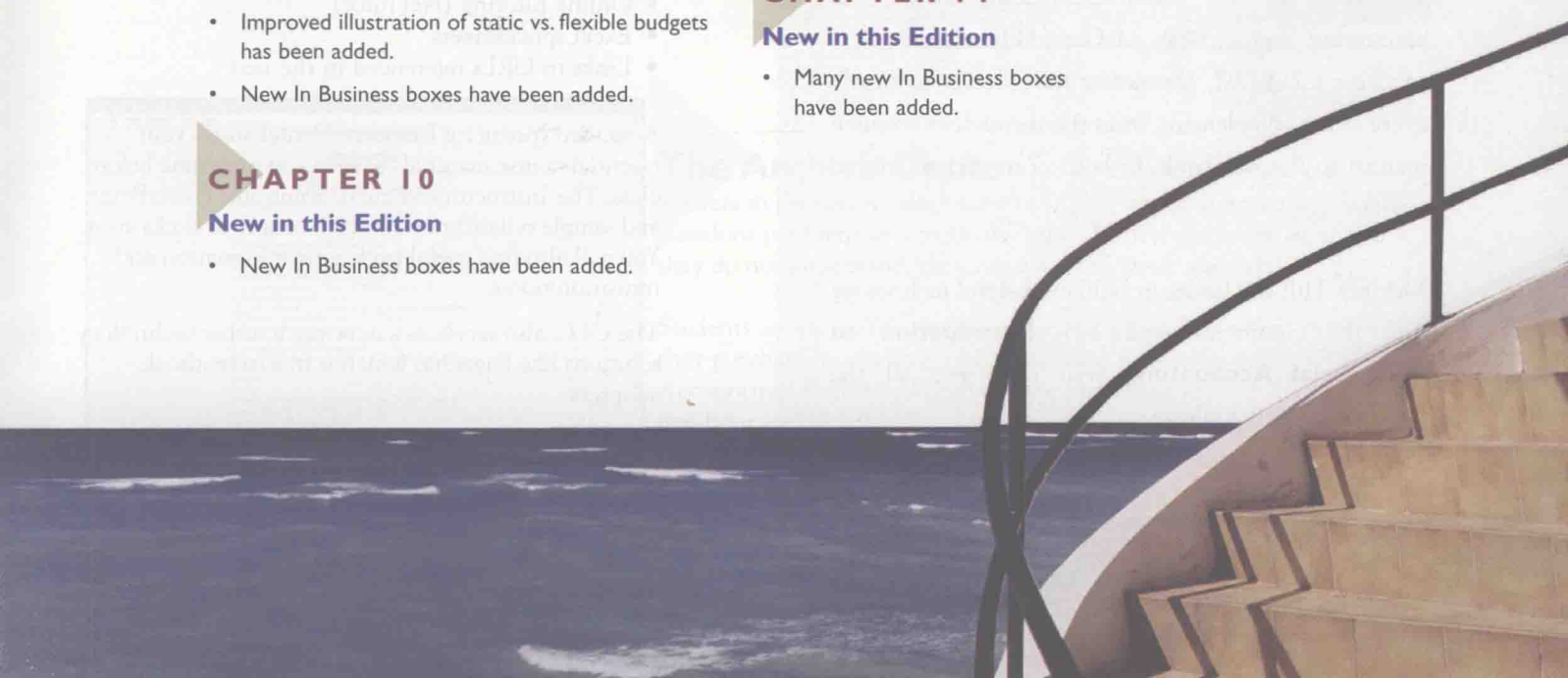
### New in this Edition

- Many new In Business boxes have been added.

## CHAPTER 14

### New in this Edition

- Many new In Business boxes have been added.

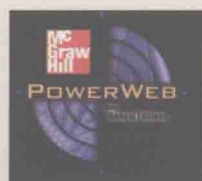


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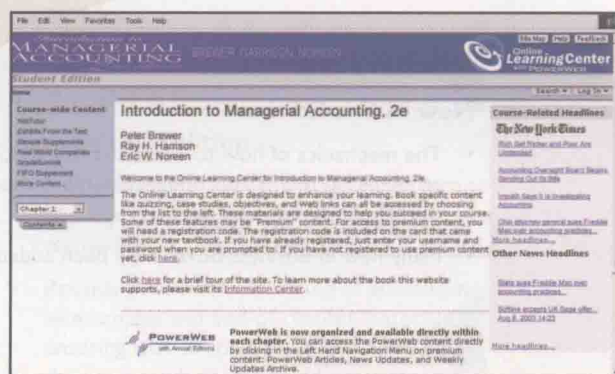
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