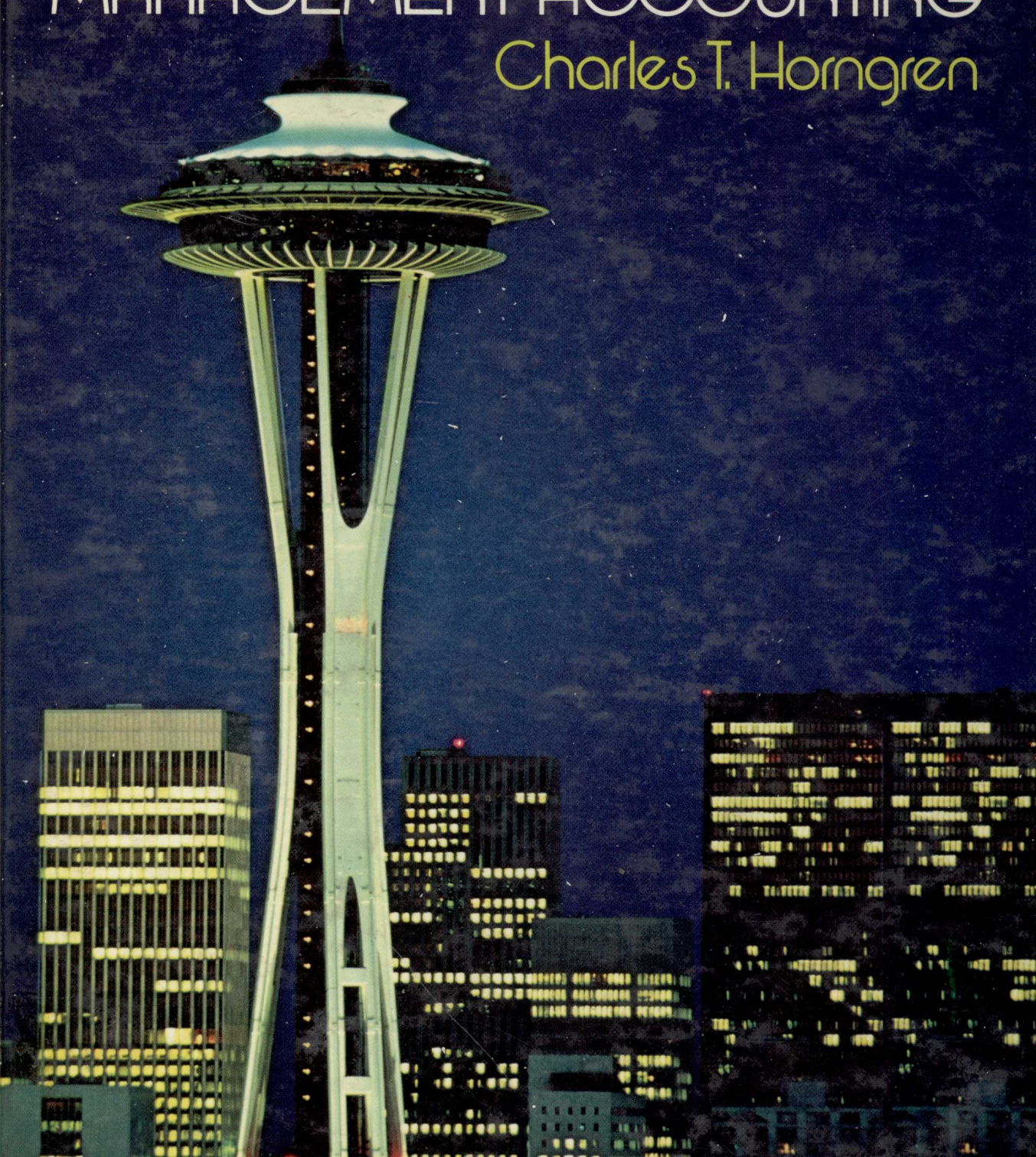


FIFTH EDITION

# Introduction to MANAGEMENT ACCOUNTING

Charles T. Horngren



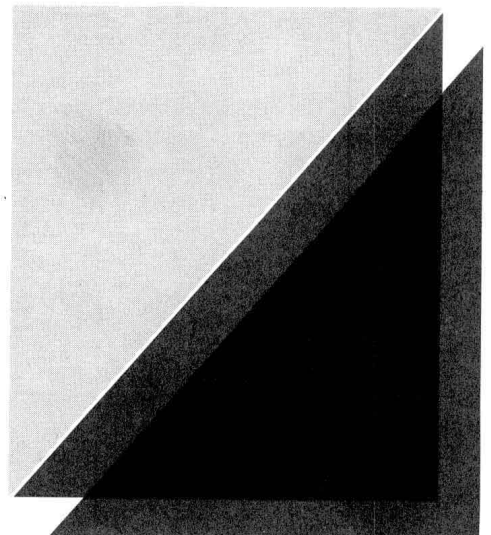


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FIFTH EDITION

Introduction to  
MANAGEMENT ACCOUNTING



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to Joan, Scott, Mary, Susie, Cathy

Charles T. Horngren is the Edmund W. Littlefield Professor of Accounting at Stanford University. A graduate of Marquette University, he received his MBA from Harvard University, and his Ph.D. from the University of Chicago. He is also a recipient of an honorary DBA from Marquette University.

Professor Horngren served on the Accounting Principles Board for six years, the Financial Accounting Standards Board Advisory Council for five years, and the Council of the American Institute of Certified Public Accountants for three years.

A member of the American Accounting Association, Horngren has been its president and its director of research. He received the Outstanding Accounting Educator Award in 1973, when the association initiated an annual series of such awards.

Horngren is also a member of the National Association of Accountants, where he was on its research planning committee for three years.

Horngren is the author of three other best-selling Prentice-Hall titles—the companion to this book, *Introduction to Financial Accounting*, 1981; *Cost Accounting: A Managerial Emphasis*, fourth edition, 1977; and *CPA Problems and Approaches to Solutions*, fifth edition, 1979 (with J. A. Leer).

In recognition of his outstanding contributions to accounting education, Horngren was named the first Consulting Editor of the Prentice-Hall Series in Accounting.

# PREFACE

*Introduction to Management Accounting* is the second member of a matched pair of books that provides full coverage of the essentials of financial and managerial accounting. The first book is *Introduction to Financial Accounting*. In combination, the pair can be used throughout two semesters or three quarters of introductory accounting.

This book is an introduction to internal accounting—most often called *management accounting*. It deals with important topics that all students of management and business should study. The book is written primarily for students who have had one or two terms of basic accounting.

It is also appropriate for continuing educational programs of varying lengths in which the students have had no formal training in accounting. My twin goals have been to choose relevant subject matter and to present it clearly.

Major revisions in the content and organization occurred in the preceding edition. This revision has concentrated on improvements in clarity, assignment materials, and consistency with the new companion volume, *Introduction to Financial Accounting*. In particular, more straightforward, easier assignment material has been introduced, covering the nuts and bolts of each chapter. At the same time, the general nature of the assignment material that has been a key to the popularity of preceding editions has been retained. In short, the assignment material as a whole has been improved. There is enormous variety and flexibility and a higher proportion of simpler, shorter problems. More than ever, this is a basic book aimed at a reader who has a minimal background in accounting, if any.

This book attempts a balanced, flexible approach. For example, it deals as much with not-for-profit, retail, wholesale, selling, and administrative situations as it does with manufacturing. The fundamental accounting concepts and techniques for planning and control are applicable to all types and functions of organizations, not just to manufacturing. This more general approach makes it easier for the student to relate the book's examples and problems to his or her particular interests. Moreover, many valuable concepts (for example, master budgets) are more easily grasped if they are not complicated by intricate manufacturing situations.

Stress is on planning and control, not on product costing for purposes of inventory valuation and income determination. This approach, which excludes the troublesome but unimportant complications introduced by changes in inventory levels, simplifies the presentation of planning and control techniques in the classroom. Instead of the simultaneous discussion of costs for control and for product costing found in most texts, this text concentrates on planning and control without dwelling on product costing at all until Chapter 13. At that point, the implications of overhead application for product costing may be considered in perspective and in relation to management policy decisions regarding the "best" inventory valuation method.

Significant changes in this edition include

1. Major changes in the assignment material, which have already been described.
2. New problems of various types are presented in nearly every chapter, often using nonmanufacturing settings such as hospitals and universities. Considerable attention is given to not-for-profit organizations.
3. Chapters 9, 10, and 11 have been condensed and combined into two chapters that show the behavioral ramifications of management accounting more concretely than before. For example, material on goal congruence and incentive is introduced in conjunction with the material on decentralization in Chapter 10.
4. Special care has been taken to permit easy use of the material on product costing. If desired, the latter may be smoothly covered almost simultaneously with related coverage of planning and control. Thus Chapter 13, "Job and Process Systems and Overhead Application," can be assigned without hesitation immediately after Chapter 3, "Introduction to Manufacturing Costs." Similarly, Chapter 14, "Overhead Application: Direct and Absorption Costing," can be assigned immediately after Chapter 7, "Flexible Budgets and Standards for Control."
5. There is a set of learning objectives at the beginning of each chapter. These enable the reader to focus on what he or she should achieve.
6. The final four chapters on financial accounting are almost completely new. They represent a self-contained explanation of basic financial accounting, which is covered in far more detail in the separate companion book, *Introduction to Financial Accounting*.
7. The student guide (by Dudley W. Curry) that is available as supplementary material features numerous changes and additions in the self-test and practice exercises for each chapter.
8. The chapter-by-chapter test bank (by Dudley W. Curry), available free to textbook adopters, has been thoroughly overhauled and considerably expanded. In addition, a computerized option is now available that facilitates the construction of tailor-made tests in volume.

## ALTERNATIVE WAYS OF USING THIS BOOK

In my opinion, the first nine chapters provide the foundation of the field of management accounting. These nine chapters may be amplified by assigning the subsequent chapters in the given order, or by inserting them after the earlier chapters as desired. Such insertion may be achieved without disrupting the readers' flow of thought. The most obvious candidates for insertion are indicated below:

Chapters	1	↑	2	3	↑	4	5	↑	6	7	↑	8	9 → 10-19
		16			13			11			14		
		17						12					
		18											
		19											

If they are going to be covered in a course in management accounting, any or all of the financial accounting chapters (16–19) may be undertaken anytime. (For example, to provide a change of pace, I have even used such chapters in the midst of a course.)

Instructors tend to disagree markedly about the sequence of topics in a course in management accounting. Criticisms of *any* sequence in a textbook are inevitable. Consequently, this book tries to provide a modular approach that permits hopping and skipping back and forth with minimal inconvenience. In a nutshell, my rationale is to provide a loosely constrained sequence to facilitate diverse approaches to teaching. Content is of primary importance; sequence is secondary.

Teaching is highly personal and is heavily influenced by the backgrounds and interests of assorted students in miscellaneous settings. To satisfy this audience, a book must be a pliable tool, not a straitjacket.

As the author, I prefer to assign the chapters in the sequence provided in the book. But I am not enslaved by the sequence. Through the years, I have assigned an assortment of sequences, depending on the readers' backgrounds.

Part One, "Focus on Decision Making," provides a bedrock introduction, so I assign it in its entirety. Sometimes I assign Chapter 16 immediately after Chapter 1, particularly if the readers have little or no background in financial accounting. Moreover if there is time in the course for students to become more familiar with product costing, I frequently assign Chapter 13 immediately after Chapter 3. Furthermore, there is much logical appeal to studying the chapters on capital budgeting (Chapters 11 and 12) immediately after the chapters on relevant costs (Chapters 4 and 5). However, tradition has prevented my placing such chapters there, plus the fact that capital budgeting is often amply covered in other courses. In addition, the master budget is often covered in finance courses, so Chapter 6 is frequently skipped in courses in accounting.

Part Two, "Accounting for Planning and Control," emphasizes the attention-directing functions of accounting. I often assign Chapter 14 immediately after Chapter 7 because it stresses the product-costing aspects of standard costs, whereas Chapter 7 focuses on the control aspects.

Part Three, "Selected Topics for Further Study," contains chapters on capital budgeting, product costing, and quantitative techniques. These topics are important, but the decision to study them will depend on the teachers' preferences, the other courses in the curriculum, and the students' previous courses.

Part Four introduces, interprets, and appraises basic financial accounting. These chapters form a unified package that covers all elementary financial accounting in capsule form with heavy stress on interpretation and uses and, except in Chapter 16, with little attention given to the accumulation of the information. In my view, a major objective of basic financial accounting should be to equip the student with enough fundamental concepts and terminology so that he or she can reasonably comprehend any industrial corporate annual report.

Chapters 16–19 may be skipped entirely or may be used in a variety of ways:

1. In courses or executive programs where the students have *no* accounting background but where the main emphasis is on management rather than financial accounting.



2. In courses where the chapters may be used as a quick review by students who have had some financial accounting previously.
3. In courses where one or two of Chapters 16–19 may be chosen to remedy weaknesses or gaps in the background of the students.

Chapters 16–19 need not be used in total, page by page or topic by topic. The teacher is free to pick and choose those topics (particularly in Chapter 19) that seem most suitable for his or her students.

On the other hand, some teachers may want to use these chapters to teach the fundamentals of financial accounting to students with no prior background in accounting. Classroom testing has shown that such teaching can be done successfully, provided that the homework material is chosen carefully.

The front of the solutions manual contains several alternate detailed assignment schedules and ample additional recommendations to teachers regarding how best to use this book.

## Acknowledgments

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I have received ideas, assistance, miscellaneous critiques, and assorted assignment material in conversations and by mail from many students and professors. Each has my gratitude, but the list is too long to enumerate here.

Professor Dudley W. Curry (Southern Methodist University) has my special thanks for offering many helpful suggestions and for preparing the test bank material and the student guide that are available as supplementary material. In addition he has contributed the learning objectives for each chapter, prepared several new problems, and revised several old problems.

I am also especially grateful to Jonathan Schiff for his review of the manuscript and his preparation of Instructor Resource Outlines, available to adopters upon request.

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And, finally, my thanks to Ron Ledwith, Esther Koehn, Linda Conway, and Elinor Paige at Prentice-Hall.

Comments from users are welcome.

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