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财务与会计系列

管理与成本会计

MANAGEMENT AND COST ACCOUNTING

(THIRD EDITION)

COLIN DRURY



世界财经与管理教材大系



东北财经大学出版社

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(第三版)

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科林·朱瑞 著

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出版者的话

但凡成事，均缘于势。得势则事成，失势则事不顺。顺势而行，如顺水行舟；借势而动，如假梯登高；造势而为，如太空揽月。治学、从政、经商、置业，均不可一日失势。势者，长处、趋势也。

今日中国，是开放的中国；当今世界，是开放的世界。改革开放，大势所趋，势不可挡。经济开放、文化开放、政治开放，世界需要一个开放的中国，中国更要融入开放的世界。借鉴国际惯例，学习他人之长，已经到了不可不为之时。

借鉴国际惯例，学习他人之长，已属老生常谈，但学什么、如何学、以何为蓝本为众多志士仁人所关注。可喜的是，由赤诚图文信息有限公司精心策划，ITP、McGraw-Hill 及 Simon & Schuster 等国际出版公司特别授权，东北财经大学出版社荣誉出版的“世界财经与管理教材大系”现已隆重面世！她以“紧扣三个面向，精选五大系列，奉献百部名著，造就亿万英才”的博大胸襟和恢弘气势，囊括经济学、管理学、财务与会计学、市场营销学、商务与法律等财经、管理类主干学科，并根据大学教育、研究生教育、工商管理硕士（MBA）和经理人员培训项目（ETP）等不同层次的需要，相应遴选了具有针对性的教材，可谓体系完整，蔚为大观。所选图书多为哈佛、斯坦福、麻省理工、伦敦商学院、埃维商学院等世界一流名校的顶尖教授、权威学者的经典之作，在西方发达国家备受推崇，被广为采用，经久不衰，大有“洛阳纸贵”之势。

借鉴国际惯例，毕竟只是因势而动；推出国粹精品，才是造势而为。在借鉴与学习的同时，更重要的是弘扬民族精神，创建民族文化。“民族的，才是国际的”。我们提倡学他人之长，但更希望立自己之势。

势缘何物，势乃人为。识人、用人、育人、成人，乃人本之真谛。育人才、成能人，则可造大势。育人、成人之根本在教育，教育之要件在教材，教材之基础在出版。换言之，人本之基础在书本。

凡事均需讲效益，所谓成事，亦即有效。高效可造宏基，无效难以为继，此乃事物发展之规律。基于此，我们崇尚出好书、出人才、出效益！

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1998年4月

Management and Cost Accounting

The Chapman & Hall Series in Accounting and Finance

Consulting editors

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Preface

The aim of the third edition of this book is to explain the principles involved in designing and evaluating management and cost accounting information systems. Management accounting systems accumulate, classify, summarize and report information that will assist managers in their decision-making, planning and control activities. A cost accounting system traces costs to jobs or products for financial accounting requirements in order to allocate costs incurred during a period between cost of goods sold and inventories. As the title suggests, this book is concerned with both management and cost accounting but emphasis is placed on the former. A major theme of this book is that different financial information is required for different purposes.

After many years of teaching management and cost accounting to various professional, undergraduate, postgraduate and post-experience courses I became convinced there was a need for a book with a more 'accessible' text. A large number of cost and management accounting text books have been published and these are generally aimed at students who are preparing for the examinations of professional accountancy bodies. Many of these books contain a detailed description of accounting techniques without any discussion of the *principles* involved in evaluating management and cost accounting systems. Such books often lack a conceptual framework, and ignore the considerable amount of research conducted in management accounting in the past three decades. At the other extreme some books focus entirely on a conceptual framework of management accounting with an emphasis on developing normative models of what ought to be. These books pay little attention to accounting techniques. My objective has been to produce a book which falls within these two extremes.

This book is intended primarily for students who are preparing for the cost and management accounting examinations of the professional accountancy bodies at the foundation and advanced professional level and degree students who are pursuing a one or two year management accounting course. It should also be of use to higher national diploma and postgraduate students who are studying cost and management accounting for the first time. An introductory course in financial accounting is not a prerequisite, although many students will have undertaken such a course.

Since the publication of the second edition of this book a considerable amount of attention has been focused on the relevance of contemporary management accounting practices and the conventional wisdom of management accounting as portrayed in textbooks. Much of this recent attention has resulted from the impact of the changing competitive and manufacturing environment. Investing in advanced manufacturing technologies has caused many problems; such as how to appraise the capital investments, how to compute product costs and how to modify control systems and performance measures so that they motivate managers to meet the new strategic manufacturing and competitive goals of their organizations. Some organizations have reported that their existing cost systems have hindered, rather than helped the required changes to come about. This has resulted in claims by some writers that current management accounting systems are obsolete and that a revolution in management accounting is required to match the revolution in manufacturing technology. As a result of the changing manufacturing and competitive environment, much new material has been introduced in the third edition of this book. The notable alterations are:

Major changes in
content

1. Chapters 11 and 21 are entirely new chapters. Chapter 11 describes activity-based *product* costing systems and contrasts activity-based costing with traditional product costing and decision-relevant costs. Chapter 21 describes the different manufacturing systems and production management strategies and also outlines the main features of the new manufacturing technologies. The management accounting implications of alternative production management strategies and advanced manufacturing technologies are also explained.
2. Chapter 25 (Past, current and future developments in management accounting) in the second edition has been rewritten and replaced by Chapter 27. This chapter outlines the past developments in management accounting, describes the major criticisms that have been made against existing management accounting practices and discusses the potential future developments. This chapter also contains new material on total quality management, life cycle costing, strategic management accounting and customer profitability analysis.
3. A greater emphasis on survey findings and company practice. In particular the findings of a survey, undertaken by the author, of 303 UK manufacturing companies, are recorded throughout the book.
4. Updating of references. A large percentage of the citations in the third edition refer to articles and books published subsequent to the second edition.
5. A substantial number of new end-of-chapter problems has been added from examinations subsequent to the second edition.
6. New text on activity-based cost *management* in Chapters 11 and 17.
7. New text in Chapter 21 on just-in-time manufacturing and backflush costing.
8. New text in Chapter 2 emphasizing the importance of the time horizon in classifying a cost as fixed or variable. Chapter 2 stresses that costs which are fixed in the short-run may be variable in the long-run and may vary with factors other than volume. The notion of 'complexity-related costs' is introduced.
9. Extensive rewriting of Chapter 4 describing how traditional product costing systems allocate overheads to products to meet the financial accounting requirements. This revised chapter provides the foundation for a comparison, in Chapter 11, of traditional and activity-based product costing systems.
10. Extensive rewriting of the material on decision-relevant costs in Chapter 10. In particular greater emphasis is placed on indicating that the decision-relevant approach adopts whichever planning time horizon the decision-maker considers appropriate for a given situation. The dangers of focusing excessively on the short-term and the need to focus on maximizing long-term cash inflows are emphasized. The chapter also contains new text on segmental profitability analysis.
11. Chapter 12 contains new text on decision-relevant and activity-based costs for pricing decisions. This chapter also includes new material on target costing.
12. New text in Chapter 14 on the modified internal rate of return and extensive rewriting of the text of 'Evaluation investments in advanced manufacturing technologies'.
13. New text in Chapter 15 classifying the different approaches to measuring risk.
14. Chapter 16 contains new text on identifying potential strategies and evaluating strategic options within the context of the long-term planning process.
15. The title of Chapter 17 (Chapter 16 in the second edition) has been changed from 'Control in the organization' to 'Operational control and performance measurement'. As the change in the title suggests, a greater emphasis is placed on operational control and performance measurement. New text has been added on non-financial performance measures and operational control and performance measurement in service organizations.
16. An extensive revision and simplification of the text on standard costing (Chapters 18 and 19). To simplify the introduction to standard costing Chapter 18 focuses initially on a variable standard costing system. It is stressed that the additional variances reported by an absorption costing system are required to meet financial accounting requirements and are not required for cost control. The material on material mix and yield and sales variances has been rewritten and new text has been added on market share and size variance.

17. Chapter 20 (Behavioural aspects of accounting control systems) has been updated to reflect new research in this area.
18. New text in Chapter 22 summarizing the steps involved in estimating cost functions.
19. New text in Chapter 23 on materials requirements planning and just-in-time purchasing and manufacturing.
20. Extensive rewriting of Chapters 25 (Measuring divisional profitability) and 26 (Transfer pricing in divisionalized companies). New text has been added in Chapter 25 on the impact of depreciation and inflation and the text on 'Reconciling short-term and long-term residual income measures' has been transferred to the Appendix. The material in Chapter 26 relating to transfer pricing in situations where the market for the intermediate product is imperfect or non-existent has been rewritten.

The addition of two entirely new chapters (Chapters 11 and 21) has resulted in a re-numbering of chapters. The topics in Chapters 1–10 of the third edition are the same as the second edition but the title of Chapter 10 has been changed from 'Measuring costs and benefits for decision-making' to 'Special studies: measuring relevant costs for decision-making'. The alterations beyond Chapter 10 are as follows:

- * Old Chapters 11–19 are now Chapters 12–20 and the title of the old Chapter 16 has been changed from 'Control in the organization' to 'Operational control and performance measurement'.
- * Old Chapters 20–25 are now Chapters 22–27 and the title of the old Chapter 23 has been changed from 'Performance measures and control in divisionalized companies' to 'Measuring divisional profitability'.

A major theme of this book is that different financial information is required for different purposes, but my experience indicates that this approach can confuse students. In one chapter of a typical book students are told that costs should be allocated to products including a fair share of overhead costs; in another chapter they are told that allocated costs are irrelevant and should be disregarded. In yet another chapter they are told that costs should be related to people (responsibility centres) and not products, whereas elsewhere no mention is made of responsibility centres.

In writing this book I have devised a framework which is intended to overcome these difficulties. The framework is based on the principle that there are three ways of constructing accounting information. The first is cost accounting with its emphasis on producing product costs for allocating costs between cost of goods sold and inventories to meet financial accounting requirements. The second is the notion of decision-relevant costs with the emphasis on providing information to help managers to make good decisions. The third is responsibility accounting and performance measurement which focuses on the costs and revenues of responsibility centres.

This book consists of 27 chapters divided into eight parts. The role of each chapter within the overall framework is explained briefly in Chapter 1 and in more detail in the introduction to each section of the book. The first part (Part One) consists of two chapters and provides an introduction to management and cost accounting. The following three parts reflect the three different ways of constructing accounting information. Part Two consists of six chapters and is entitled Cost Accumulation for Stock Valuation and Profit Measurement. This section focuses on cost accounting with the emphasis on allocating manufacturing costs to products to separate costs between cost of goods sold and the closing stock valuation. The extent to which product costs accumulated for stock valuation and profit measurement should be adjusted for decision-making and responsibility accounting is also briefly considered. Part Three consists of seven chapters and is entitled Information for Decision-making. Here the notion of decision-relevant costs and the information which should be presented to help managers to make good decisions is discussed. Part Four consists of five chapters and is entitled Information for Planning and Control.

Structure and plan
of the book

This section emphasizes the process for integrating the decisions into a meaningful, coordinated package via the budgeting process and also focuses on responsibility accounting, operational control and performance measurement. The emphasis here is on the accounting process as a means of providing information to help managers control the activities for which they are responsible. The behavioural aspects of management accounting are included as a separate chapter in this section. Part Five contains one chapter. In this section the different production systems and advanced manufacturing technologies are described and their management accounting implications are discussed. Part Six consists of three chapters and is entitled *The Application of Quantitative Methods to Management Accounting*. Part Seven focuses on Divisional Performance Evaluation and consists of two chapters which deal with the problems of measuring the performance of divisional managers. The final part consists of a single chapter and is concerned with past, current and future developments in management accounting.

In devising a framework around the three methods of constructing financial information there is a risk that the student will not appreciate that the three categories use many common elements, that they overlap, and that they constitute a single overall management accounting system, rather than three independent systems. I have taken steps to minimize this risk in each section by emphasizing why financial information for one purpose should or should not be adjusted for another purpose. In short, each section of the book is not presented in isolation and an integrative approach has been taken.

When I wrote this book an important consideration was the extent to which the application of quantitative techniques should be integrated with the appropriate topics or considered separately. I have chosen to integrate quantitative techniques whenever they are an essential part of a chapter (for example, the use of probability statistics are essential to Chapter 13, *Decision-making under conditions of risk and uncertainty*) but my objective has been to confine them, where possible, to Part Six.

This approach allows for maximum flexibility. Teachers wishing to integrate quantitative techniques with earlier chapters may do so but those who wish to concentrate on other matters will not be hampered by having to exclude the relevant quantitative portions of chapters.

Alternative course sequences

Although conceived and developed as a unified whole, the book can be tailored to the individual requirements of a course and to the preferences of the individual reader. For a discussion of the alternative sequencing of the chapters see *Guidelines to Using the Book* in Chapter 1. The following are suggested programmes for various courses:

Foundation professional accountancy examinations with a major emphasis on cost accounting:

All of Parts One and Two, Chapters 9–11 of Part Three plus Chapters 16–18 of Part Four.

Professional accountancy examinations at the professional or advanced level:

Revision of prescribed reading for the foundation level plus the remaining chapters of the book.

A two-year management accounting course for undergraduates

Part One, Chapter 4 (Part Two) and Parts Three to Eight

A one-year degree or post-experience course in management accounting

Part One, Chapter 4 (Part Two), Part Three (Chapters 9–15), Part Four (Chapters 16, 17, 18 and 20) and Chapters 21, 25, 26 and 27.

Assignment materials and supplementary manuals

Throughout this book I have kept the illustrations simple. Students can check their understanding of each chapter by answering the self assessment questions. Answers to these questions are contained in a separate section at the end of this book. More complex questions are set at the end of each chapter to enable students to pursue certain topics in more depth. Each question is graded according to the level of difficulty. Questions graded 'Intermediate' are normally appropriate for a first year

course whereas questions graded 'Advanced' are normally appropriate for a second year course or the final stages of the professional accountancy examinations.

This book is part of an integrated educational package. A *Students' Manual* provides suggested answers to the questions which are asterisked here in the main text and a *Teachers' Manual* provides answers to the remaining questions. Students are strongly recommended to purchase the *Students' Manual*, which complements this book. It contains suggested answers to over 200 questions. Both the *Students' Manual* and the *Teachers' Manual* have been revised and extended. New answers have been added and the content of both manuals has been substantially revised.

In recognition of the increasing need for the integration of IT teaching into the curriculum, the third edition of this book is accompanied by a *Spreadsheet Applications Manual*, which has been written by Dr Alicia Gazely of Nottingham Business School. This explains basic spreadsheet techniques and then builds up over twenty models which illustrate, and allow students to explore, examples in the main text. Details of the techniques are given for Supercalc 5 and Lotus 1-2-3. All students undertaking courses which include spreadsheet applications of management accounting techniques should purchase a copy of this manual. Guidance notes and a disc are available to teachers on adoption.

Also available on adoption is a set of overhead projector transparency masters. The complete package therefore consists of:

- Main text
- Students' Manual
- Teachers' Manual
- Spreadsheet Applications Manual
- Guidance Notes and Disc for Spreadsheet Applications Manual
- OHP Masters

A separate section is included at the end of each chapter providing advice on key articles or books which students are recommended to read. In addition a list of references and further reading is provided so that students can pursue particular topics in more depth. Many of the references are the original work of writers who have played a major role in the development of management accounting. The contribution of such writers is often reflected in this book but there is frequently no substitute for original writing.

Photocopies of the recommended articles may be obtained by post from the libraries of the professional accountancy bodies. A small charge is made for this service. Polytechnic and university libraries also provide a similar service. In addition they provide an inter-library loan service which enables students to request books not stored by the particular institution.

Recommended an
further reading

Some of the material on linear programming and standard costing was developed from a course on financial control given by Tony Rayman at the University of Bradford Management Centre in the mid 1970s. I am also particularly indebted to Professor John Perrin and Dick Wilson who both commented helpfully on the first edition; to Alan Nelson of Chapman & Hall for his valuable assistance; and to Bronwen, my wife, who has converted my original manuscripts into one final typewritten form. I also wish to acknowledge the support of the Chartered Association of Certified Accountants for funding a survey into the management accounting practices of UK manufacturing companies. The survey findings are reported throughout this book. My appreciation goes also to the Chartered Institute of Management Accountants, the Chartered Association of Certified Accountants, the Institute of Chartered Accountants in England and Wales, and the Association of Accounting Technicians for permission to reproduce examination questions. Questions from the Chartered Institute of Management Accountants' examinations are designated CIMA; questions from the Chartered Association of Certified Accountants are designated CACA or ACCA; questions from the Institute of Chartered

Acknowledgement

Accountants in England and Wales are designated ICAEW; and questions from the Association of Accounting Technicians are designated AAT. The answers in the accompanying teachers' and students' guides to this book are my own and are in no way the approved solutions of the above professional bodies.

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