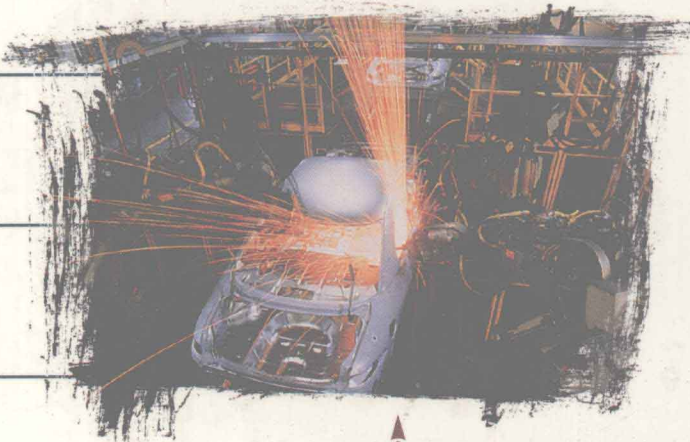


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MANAGERIAL ACCOUNTING

Eighth Edition



Dominiak & Louderback



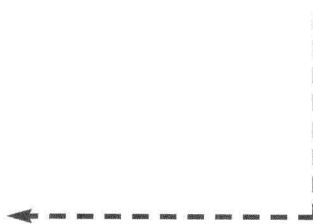
▶ **MANAGERIAL ACCOUNTING**

Eighth Edition



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preface

In the tradition of the first seven editions, *Managerial Accounting*, eighth edition, continues its leading-edge coverage of management accounting topics within a decision-making framework. *Managerial Accounting* parallels the shift in today's business world, focusing not just "on the numbers," but on the functions of management: planning, decision making, controlling, and performance evaluation. This emphasis is apparent even in the "traditional" chapters on product costing (Chapters 13-15), a topic that accounting textbooks seldom discuss with the non-accountant in mind. Those chapters approach product costing from the standpoint of analyzing results under different costing systems, rather than concentrating on cost-accumulation procedures or the accounting problems related to those procedures.

Because the book emphasizes the uses of managerial accounting information, it is appropriate not only for accounting majors but also for other business majors (marketing, management, finance, etc.). It can also be used by majors in nonbusiness areas such as engineering, mathematics, and the physical sciences. The real-world examples and decision situations illustrated throughout the text and assignment material help students put information into a business perspective, rather than strictly an accounting focus.

The eighth edition of this book is, like the previous seven editions, intended for an introductory course in managerial accounting. Though we wrote the book with the undergraduate student in mind, it has seen successful use in graduate courses and in management development programs. The wide variety of assignment material allows instructors to use the book at various levels by selecting assignments consistent with students' backgrounds.

We assume that a student has had one or two terms of financial accounting or a working exposure to basic financial statements. We expect some understanding of the most basic principles on which financial statements are based. The journal-entry/T-account framework appears only in Chapter 15 and is not otherwise necessary to understanding the concepts. For those instructors wanting to cover the statement of cash flows and financial statement analysis, we have added two chapters (Chapters 17 and 18) on these topics. Assignment materials for these topics are included in the text, study guide, and test bank.

TEXT OBJECTIVES

Our objectives in this edition remain essentially the same as those for the first seven editions:

1. To present clearly and understandably the most important conceptual and practical aspects of managerial accounting.
2. To order the material in a way that allows the reader to build from elementary concepts to more complex topics and thus to integrate and expand early understanding.
3. To illustrate some of the interrelationships between managerial accounting and other courses in a normal business curriculum.
4. To show students, through discussion, illustration, and assignment material, the manifold applications of managerial accounting principles to decision making in economic entities of all types (including personal decisions).
5. To help students recognize that *people*, not entities, make decisions and are responsible for the results of those decisions.

We use various means to achieve these objectives. First, we use examples and illustrations liberally. Second, we proceed through the text (and its increasingly complex concepts) in a building-block fashion. We begin with the principles of cost behavior and cost-volume-profit analysis, which underlie virtually all of managerial accounting, and use this basis to approach the more complex problems encountered in decision making, comprehensive budgeting, responsibility accounting, and product costing. A reader will see the reliance on previously developed concepts by the use of references to earlier chapters.

The applicability of managerial accounting concepts to a wide variety of economic entities is most obvious in sections of the text that specifically refer to nonbusiness situations. But both the examples used in other parts of the text and the decision situations posed in assignment material also reflect our efforts to demonstrate the opportunities for using managerial accounting concepts in a nonbusiness context.

We regularly draw attention to qualitative and difficult-to-quantify aspects of a topic. As part of the qualitative considerations, we discuss behavioral problems and point out the implications of such problems. We raise these qualitative issues to emphasize that decisions are made by individuals with differing opinions, values, and moral standards. We expect students to recognize that accounting data provide relevant information but do not dictate courses of action.

Throughout the book we emphasize that decisions are based on estimates and that some factors important to a decision are difficult to quantify. Our intentions are to underscore (1) the presence of uncertainty and (2) the importance of recognizing all the available alternatives and all the factors relevant to each alternative. Both the text and many of the problems emphasize that a major problem in managing any enterprise is determining the right questions to ask and, concomitantly, what kinds of information to seek. In our opinion, students should learn that real-world problems do not present themselves in the form of schedules to be filled in and manipulated. Indeed,

sometimes a manager's most difficult task is to discern, from the mass of economic activity taking place all around, exactly what the problem is that requires investigation and resolution.

NEW TO THIS EDITION

Based on user and reviewer feedback, we have added many new features to the eighth edition.

Learning Objectives. Each chapter now begins with a set of learning objectives. These learning objectives provide an overview of chapter concepts and serve as a framework for study and comprehension.

Better Integration of Real-World Examples. An important change in this edition is the increased number of references to actual companies, many from annual reports. The *vignettes* that begin each chapter are a new feature that uses real-world material to set the stage for the chapter material. *More examples* from the real world are included with more references to actual companies. Much of the real-world material appears in boxed *Insights*, which are new to this edition. *Assignment material* includes more items related to activities and policies of real companies. Real-company names are highlighted throughout the text for easy identification. A *company index* appears at the back of the text.



Chapter "Links." A strength of our text has always been its building-block approach—using the basic concepts and principles of managerial accounting as a basis for learning about more complex topics. New "link" margin icons now help students quickly identify references to related concepts. A left arrow represents a concept that was covered in an earlier chapter, while a right arrow indicates a concept that will be covered in more detail in a later chapter.

More Activity-Based Costing. In response to the widespread usage of activity-based costing (ABC) in today's business world, we have expanded the discussion of ABC in Chapter 3. ABC is also integrated into virtually every succeeding chapter, rather than isolated in a separate chapter.

More on Strategy. We discuss several managerial accounting principles and techniques in the context of corporate strategy. Most apparent are the use of a **General Mills** annual report in Chapter 1 and elsewhere, as well as more attention to strategic issues in Chapters 4, 5, 8, 9, and in some of the product costing material.

Additional Integration of JIT. The eighth edition includes increased coverage and integration of the terminology and techniques of the just-in-time (JIT) philosophy. These ideas are incorporated throughout the book, consistent with its overall plan, so that almost every chapter is affected. More complete integration of the new manufacturing environment is evident and nearly every chapter refers to the just-in-time (JIT) operating philosophy. As with ABC, this subject should be integrated and not treated as an add-on.

New Chapter Coverage. Chapter 16 on quantitative methods replaces an appendix and now includes discussion of the theory of constraints. The statement of cash flows and analyzing financial statements are included as Chapters 17 and 18.

ADDITIONAL FEATURES

Ethics. Material on ethics has been expanded and includes a reprint of the IMA Standards for Professional Conduct. Most chapters have assignments dealing with ethical issues.

International Coverage. We have maintained, and in many cases expanded, attention to international matters, such as cultural differences as well as currency translation.

Guidelines for Preparing Memoranda. Virtually all chapters have assignments that require preparing memoranda with regard to the Accounting Education Change Commission. Appendix A gives guidelines for preparing memoranda.

ASSIGNMENT MATERIAL

One of the strongest features of this book is the assignment material, because of its integration with the text, its volume, and its variety with respect to degree of difficulty and economic entities. Users of previous editions have told us that these factors make it possible to teach this course, and the individual topics therein, at various levels of difficulty. Users cite the same factors in successful offerings of the course to students with widely diverse backgrounds. (Comments in the Solutions Manual aid in judicious choice of assignment items to accommodate different objectives.)

End-of-chapter material includes questions for discussion, exercises, problems, and cases. There are now short-answer review questions that can be solved by referring to a sentence or two in the chapter. Discussion questions are designed to increase students' understanding of concepts and use of critical-thinking skills; thus, many have no clearly correct answers. Exercises are usually short and cover basic applications of one or two key concepts. Problems tend to be longer than exercises and are more challenging, sometimes contain irrelevant information, and often ask the student to state reservations about whatever solutions are proposed. Both exercises and problems are generally arranged in order of increasing difficulty.

Cases normally contain less information than needed to develop a single solution; our intention is to emphasize this inconvenient characteristic of real-life situations. For most cases, the student must propose an analytical approach appropriate to the available, relevant information. Cases, and the later problems, require the student to determine what principles are relevant and how those principles apply in a given situation. That is, these assignments are designed to encourage the student to think, since a manager must do so.

ALTERNATIVE SEQUENCES

The text contains more material than is needed for a one-term course, and we expect most users to omit one or more chapters. Several users have found alternative sequencing to be practical. The text does offer considerable flexibility in the order of coverage.

Chapter 16, which discusses several quantitative methods of analysis, can be covered separately at nearly any time. Or, individual segments of that chapter can be assigned in conjunction with earlier chapters. The section on statistical decision theory has illustrations that use materials from Chapters 6, 8, and 12. The illustrations, while concentrating on applying the quantitative methods, draw on topics discussed in these earlier chapters. (The concept of expected value can be introduced as early as Chapter 5.) We have dropped the section on inventory control models. The linear programming section extends the material in Chapter 5 on alternative uses of limited resources. Similarly, the section on learning curves can supplement the discussion in Chapter 3 on cost prediction methods.

Instructors desiring an earlier and greater emphasis on product costing can move to Chapters 12 through 15 after Chapter 3. (Beginning product costing early requires incorporating Chapter 12 in the coverage of that topic rather than as part of the study of responsibility accounting, because some understanding of standard costs is assumed in Chapters 14 and 15.) Some users increase the time available to cover product costing by omitting Chapters 10 and 11. Alternatively, some users omit all product costing material, or omit all or parts of Chapters 14 and 15. Chapter 4 can be omitted without loss of continuity. Also, one or both chapters on capital budgeting (Chapters 8 and 9) can be omitted without serious loss of continuity.

Appendix B, which deals with the time value of money, is available for use with Chapters 8 and 9 on capital budgeting. It assumes no previous exposure to the principles of present and future value, but those who have had such exposure are likely to find this material useful for review.

SUPPLEMENTARY MATERIAL

Check Figures. Key figures for solutions to selected assignment material are provided at the back of the text.


Study Guide. (Prepared by Jay Holmen, University of Wisconsin-Eau Claire) The study guide is designed to help students obtain full value from the study of this text. This supplement, which offers key statements to use as guides in reading the chapters, includes not only objective questions but also a variety of short- and medium-length problems (solutions included) to test understanding. The final section of the study guide for each chapter identifies those concepts, practices, or approaches that cause the most difficulty or greatest misunderstanding for students.

Solutions Manual. The solutions manual contains solutions for all assignment material and suggested times for completing assignments. It also provides notes to the instructor regarding class use of the material. These notes offer (1) alternative approaches for arriving at solutions, (2) suggestions for eliciting

class discussion, and (3) suggestions for expanding individual assignments to cover new issues, pursuing existing issues in more depth, or highlighting relationships between managerial accounting concepts and concepts studied in other business disciplines. Also, the solutions manual contains suggested time allocations for alternative course lengths and chapter sequencing.

Solutions Transparencies. Acetate transparencies for many solutions are available to adopters.

Test Bank. (Prepared by Jay Holmen, University of Wisconsin-Eau Claire) The test bank, which contains true-false and multiple-choice questions and short problems, is available in both printed and microcomputer (MicroExam) versions. The eighth edition test bank has been expanded significantly to permit the preparation of several exams without repetition of material.

 **Spreadsheet Templates.** (Prepared by Marvin Bouillon, Iowa State University) Lotus 1-2-3®¹ templates for various end-of-chapter assignments are complimentary to adopters. Spreadsheet assignments are identified in the text with a margin icon.

PowerPoint Slides. (Prepared by Marvin Bouillon, Iowa State University) PowerPoint®² teaching transparencies provide an electronic slide-show outline of each chapter, including key concepts, examples, and exhibits from the text.

Videos. Three videos are available to adopters to assist in classroom presentations of new manufacturing environment techniques, such as continuous-flow manufacturing, activity-based costing, and JIT.

Cases in Cost Management: A Strategic Emphasis. (Written by John K. Shank, Dartmouth College) This set of cases is offered for those instructors who want to augment their management accounting course with richer, longer “fun” problems. Each case includes specific numerical questions to challenge and help develop the students’ calculation skills with management accounting techniques. Each case also includes broader discussion questions to sharpen the controversial aspects of the calculations and emphasize the managerial issues behind the numbers. Accompanying the book is an instructor’s manual, which contains comprehensive teaching commentaries for each of the cases.

Readings and Issues in Cost Management. (Edited by James Reeve, University of Tennessee) This text is designed to expose students to the concepts and information they need to become responsive and flexible managers. Articles in the text cover topics such as TQM, employee empowerment, reengineering, continuous improvement, and short-cycle management.

ACKNOWLEDGMENTS

We wish to thank the many instructors and students whose comments and suggestions have helped us significantly in the preparation of all eight editions of this book. In particular, we want to thank the reviewers of the eighth edition:

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Many people at South-Western have been extremely helpful. We particularly appreciate the work of our Developmental Editor, Leslie Kauffman. Others who made the work go more smoothly were Jason Fisher (Production Editor) and Mary Draper (Accounting Team Director).

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Geraldine F. Dominiak
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