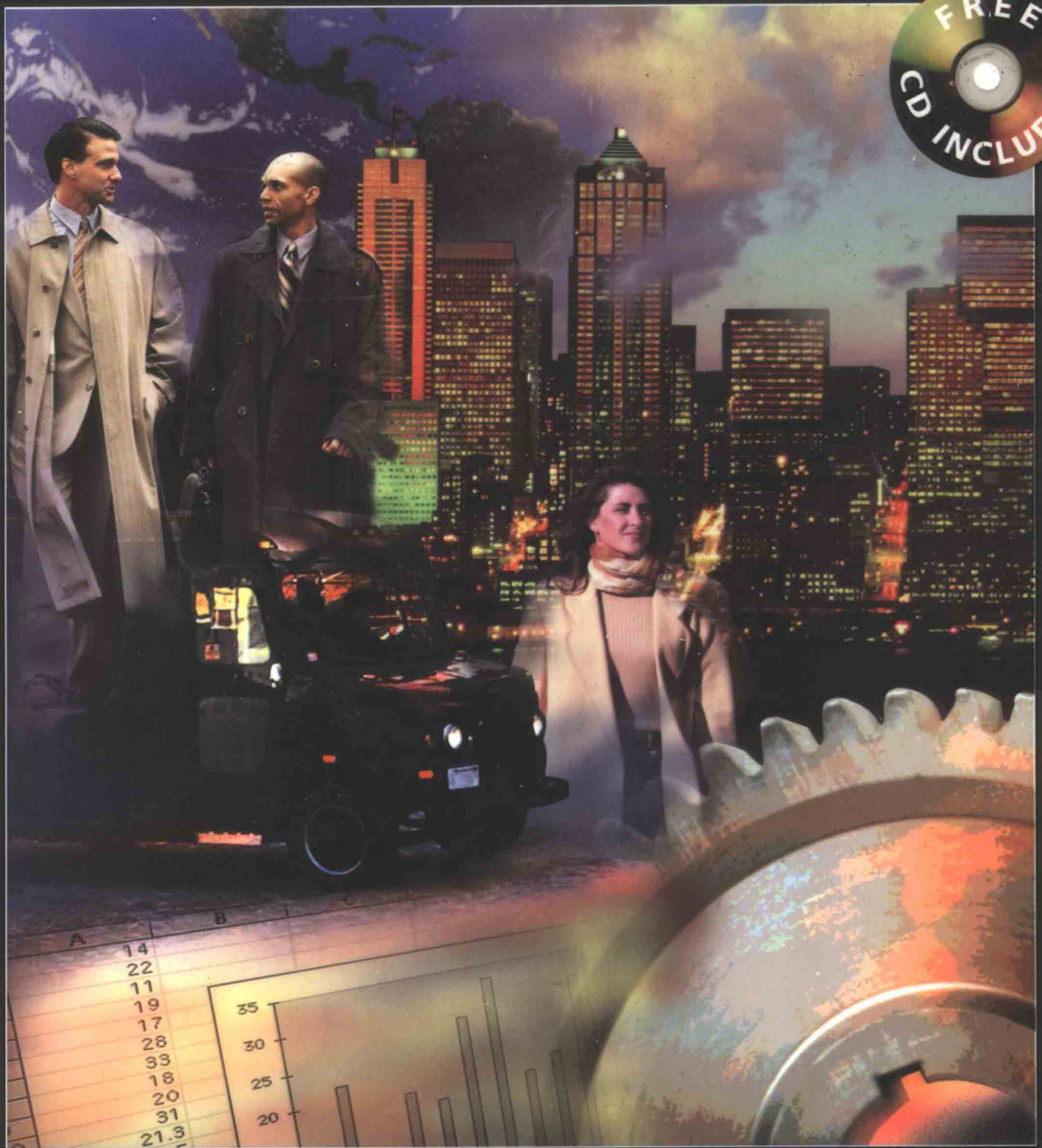


GARRISON | NOREEN



Managerial Accounting Ninth Edition

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

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MANAGERIAL ACCOUNTING

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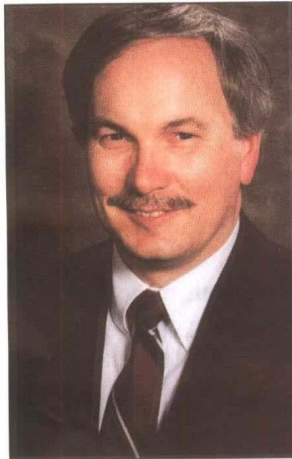
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RAY H. GARRISON is *emeritus* Professor of Accounting at Brigham Young University, Provo, Utah. He received his B.S. and M.S. degrees from Brigham Young University and his D.B.A. degree from Indiana University.

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.



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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*. He is a frequent presenter at workshops and conferences throughout the world.

Professor Noreen teaches management accounting at the undergraduate, masters, and doctoral levels and has won a number of awards from students for his teaching.

Preface

This text is designed for a one-term course in managerial accounting after students have already completed one or two terms of basic financial accounting. *Managerial Accounting* is concerned with how a manager should use accounting data within his or her organization. Managers need information to carry out three essential functions in an organization: (1) planning operations, (2) controlling activities, and (3) making decisions. The purpose of *Managerial Accounting* is to show what kind of information is needed, where this information can be obtained, and how this information can be used by managers as they carry out their planning, controlling, and decision-making responsibilities.

A paramount objective of *Managerial Accounting* has always been to provide a clear and balanced presentation of relevant subject matter. This focus on relevance continues in the ninth edition with coverage of current topics such as the balanced scorecard, activity-based costing and management, and the theory of constraints. In recognition of the widespread application of managerial accounting concepts, many examples and problems deal with not-for-profit, service, retail, and wholesale organizations as well as with manufacturing organizations. In short, the watchwords for this edition of *Managerial Accounting* have again been *relevance*, *balance*, and a continued tradition of *clarity*.

Organization and Content

As in the prior editions, flexibility in meeting the needs of courses varying in length, content, and student composition continues to be a prime concern. Sufficient text material is available to permit the instructor to choose topics and depth of coverage as desired. Appendices, parts of chapters, or even (in some cases) whole chapters can be omitted without adversely affecting the continuity of the course. The Solutions Manual gives a number of alternatives for organizing the course.

New in This Edition

The ninth edition builds on the success of the eighth edition. Changes are motivated by a desire to make the material even more accessible and relevant to students. The popular “Managerial Accounting in Action” dialogues involving businesspeople in lifelike settings have been expanded. “Focus on Current Practice” boxes have been updated and new ones added throughout the book. New chapter openers help students relate chapter concepts with the real world. Where feasible, technical material has been simplified to make it clearer and easier to learn and new Internet exercises have been added to the end of each chapter.

As in prior editions, special attention has been given to the exercise, problem, and case material in the book. Users will again find a wide range of assignment material with various levels of difficulty.

Three major changes have been made in the organization and content of the book. The activity-based costing chapter has been completely rewritten to emphasize decision making and has been moved so that it follows the chapter on variable costing. The material on the cost of quality has been moved to an appendix at the end of the text. And new material on the balanced scorecard has been added to Chapter 10.

Many small “polishing” changes have been made throughout the book to improve flow, comprehension, and readability. However, change has not been made simply for the sake of change. Rather, the revision has been completed with a single thought in mind—to make the ninth edition of *Managerial Accounting* the most up-to-date and teachable text available in its field. Technology advances are reflected in the Presentation Manager CD ROM, free student CD ROM, Online Learning Center, and telecourse.

The Texty and McGuffey awards are a further reflection of the excellence of this product. Awarded by the Text and Academic Authors Association, these awards recognize works for their excellence in the areas of content, presentation, appeal, and teachability.

Specific Chapter Enhancements

All of the chapters have been improved and updated in various ways in this edition. The following table summarizes the most significant of these changes:

Chapter	Major Content Changes in This Edition
Chapter 2	More emphasis has been placed on service companies.
Chapter 3	The schedule of cost of goods manufactured has been simplified to make it easier to understand and to construct. Under- or overapplied overhead is now allocated among ending inventories and Cost of Goods Sold on the basis of the amount of overhead applied during the period in the ending balances of the accounts rather than on the basis of their gross ending balances. A new appendix covers the controversy over the choice of the level of activity in the denominator of the predetermined overhead rate.
Chapter 5	This was Chapter 6 in the eighth edition and has been revised and updated.
Chapter 6	This was Chapter 7 in the eighth edition and has been revised and updated.
Chapter 7	This was Chapter 8 in the eighth edition and has been revised and updated.
Chapter 8	This new chapter covers activity-based costing. The ABC material in the text has been completely rewritten to emphasize decision making in both service and manufacturing companies.
Chapter 10	The balanced scorecard has been added to the chapter and integrated with the material on operating performance measures.
Chapter 11	Much greater emphasis is given to the control of overhead costs in service companies.
Chapter 12	The chapter has been reorganized. The discussion of decentralization now comes first, followed by the segment margin. The transfer pricing appendix has been completely rewritten with a new approach based on the economics of negotiated transfer prices.
Chapter 14	The preference ranking material that was previously in Chapter 15 has been brought forward to Chapter 14.
Chapter 15	The MACRS depreciation material has been simplified.
Chapter 18	Trend analysis now includes time-series plots of data. The gross margin percentage has been added while extraordinary items and diluted earnings per share have been dropped.
Pricing Appendix	A new section stresses the role of the price elasticity of demand in setting prices. The contribution approach to cost-plus pricing has been dropped. The drawbacks of using the absorption costing approach to cost-plus pricing are given more coverage.
Quality Appendix	This cost of quality material has been extracted from Chapter 5 in the eighth edition.

Instructor Supplements

New!

PRESENTATION MANAGER CD-ROM ISBN 0072304022

This is your all-in-one resource. It contains the Instructor's Manual, Test Bank, transparencies, PowerPoint, and video clips—organized by concept and chapter. Thanks to the Presentation Manager, you can create a multimedia presentation that incorporates video, transparencies, and PowerPoint slides.

INSTRUCTOR'S RESOURCE GUIDE AND VIDEO GUIDE ISBN 0256260745

These extensive chapter-by-chapter lecture notes can serve as a base for classroom presentation. They also provide useful ways of presenting key concepts and ideas. An "assignment grid" for each chapter indicates the topics covered by each exercise, problem, and case. The video guide provides a brief overview of the key points and length of the video segments. It also provides questions to promote classroom discussion.

PROFESSIONAL LEARNING UNIT SYSTEM (P.L.U.S.) EDITION ISBN 0071092498

This special Instructor's Edition contains annotations in the margins to help you plan your lessons. There are five types of marginal annotations: Instructor's Notes, Reinforcing Problems, In the Real World, Suggested Readings, and Check Figures.

SOLUTIONS MANUAL AND DISK ISBN 007109248X

This supplement contains completely worked-out solutions to all assignment material and a general discussion of the use of group exercises. In addition, the manual contains suggested course outlines and a listing of exercises, problems, and cases scaled as to difficulty.

SOLUTIONS TRANSPARENCIES ISBN 0071092501

These transparencies feature completely worked-out solutions to all assignment material. Their boldface type is large enough for the back row of any lecture hall. Masters of these transparencies are available in the Solutions Manual.

TEACHING TRANSPARENCY MASTERS ISBN 007109251X

Contains a comprehensive set of over 260 teaching transparencies covering every chapter that can be used for classroom lectures and discussion.

READY SHOWS (PowerPoint® Slide Version 7) ISBN 0072355735

Prepared by Jon Booker, Charles Caldwell, Susan Galbreath, and Richard Rand, all of Tennessee Technical University, these slides offer a great visual complement for your lectures. A complete set of slides covers each objective and key topic of the text.

READY SLIDES ISBN 0072355743

These four-color acetates are produced from the Ready Shows. The Ready Slides and Ready Shows were prepared by Jon Booker of Tennessee Technological University.

COMPUTEST (Windows ISBN 0256260850 and MAC ISBN 0256260842)

This test bank is now delivered in the Diploma Shell, new from Brownstone. Use it to make different versions of the same test, change the answer order, edit and add questions, and conduct online testing.

TEST BANK ISBN 025626077X

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TELETEST

By calling a toll-free number, you can specify the content of exams and have a laser-printed copy of the exams mailed to you.

CHECK FIGURES ISBN 0071092528

This list of check figures gives key answers for selected problems and cases.

SPREADSHEET APPLICATION TEMPLATE SOFTWARE (SPATS)

ISBN 0072345306

Prepared by Jack Terry of ComSource Associates, Inc., these Excel templates offer solutions to the Student SPATS version.

VIDEO LIBRARY

Designed to strengthen your classroom presentations, grab student interest, and add variety to your students' learning process, these six volumes of videos include international and service examples to go along with numerous manufacturing examples.

INSTRUCTOR'S MANUAL TO ACCOMPANY MANAGERIAL ACCOUNTING USING EXCEL 97 ISBN 0072295325

This supplement provides teaching tips and solutions for use with this product.

New! **LECROY CENTER TELECOURSE** An exciting new Telecourse has been developed in partnership with the LeCroy Center. New videos and a student guide have been created for this text. Visit <http://dallas.dcccd.edu> for more details.

Student Supplements

New! **STUDENT CD-ROM** (Shrink-wrapped free with *Managerial Accounting*, 9/E)
ISBN 0072324120

Students can use this software's tutorial features for added learning opportunities, or click on a video clip for a real-world look relating to chapter material.

WORKBOOK/STUDY GUIDE ISBN 0071092463

This study aid provides suggestions for studying chapter material, summarizes essential points in each chapter, and tests students' knowledge using self-test questions and exercises.

READY NOTES ISBN 0256260818

This booklet provides Ready Slide exhibits in a workbook format for efficient note taking.

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Much like the Ready Notes, this booklet offers a hard-copy version of all the Teaching Transparencies. Students can annotate the material during the lecture and take notes in the space provided.

WORKING PAPERS ISBN 0256260761

This study aid contains forms that help students organize their solutions to homework problems.

SPATS ISBN 0072345314

Prepared by Jack Terry of ComSource Associates, Inc., this spreadsheet-based software uses Excel to solve selected problems and cases in the text. These selected problems and cases are identified in the margin of the text with an appropriate icon.

MANAGERIAL ACCOUNTING USING EXCEL 97 ISBN 0072296291

Prepared by Ali Peyvandi and Nancy Hongola, both of California State University at Fresno, this product incorporates spreadsheets into a managerial accounting course with a four-step process:

- Provides students with a brief introduction to the computer.
- Introduces students to an Excel spreadsheet and its functions.
- Asks students to solve managerial accounting problems using Excel templates.
- Requires students to solve managerial accounting problems by creating a spreadsheet from scratch.

KJC MANUFACTURERS, INC. ISBN 007030744X

Prepared by Leland Mansuetti of Sierra College, this manual practice set contains a narrative of transactions for a manufacturing company. KJC is a small corporation that manufactures patio furniture. Its records include Sales Journal, a Cash Receipts Journal, a Voucher System, General Ledger, and Accounts Receivable Ledger. Estimated completion time is 15 to 20 hours.

RAMBLEWOOD MANUFACTURING, INC. (Windows ISBN 0256221383 and CD-ROM ISBN 0072348151)

This computerized practice set was prepared by Leland Mansuetti and Keith Weidkamp, both of Sierra College, and has been completely updated. This software simulates the operations of a company that manufactures customized fencing. It can be used to illustrate job-order costing systems with JIT inventory in a realistic setting. The entire simulation requires 10 to 14 hours to complete. A new feature prevents files from being transferred from one disk to another without detection. It is available on 3.5" diskettes and the CD-ROM, Windows platform.

COMMUNICATION FOR ACCOUNTANTS: EFFECTIVE STRATEGIES FOR STUDENTS AND PROFESSIONAL ISBN 0070383901

Authored by Maurice Hirsch of Southern Illinois University-Carbondale and Susan Gabriel and Rob Anderson, both of St. Louis University, this brief and inexpensive handbook addresses the need for accountants to communicate effectively through both writing and speaking.

Features

CHAPTER OPENERS

Chapter content reflects the real world, so it seems only appropriate that the chapter openers do as well. That's why new business examples now start every chapter. They are designed to engage the reader and place upcoming material in a real-world context.

Chapter Eight

Activity-Based Costing: A Tool to Aid Decision Making

Business Focus

More companies are becoming aware of the need to distinguish between their profitable and unprofitable customers. To do this, compa-

every month on each of its more than 75 million accounts . . . By wading through all that data . . . BofA is able to zero in on the

tomers may be moving their business elsewhere. . . . The heavy intervention seems to be working . . . [C]ustomer defections are down, and

FOCUS ON CURRENT PRACTICE BOXES

Managerial Accounting's real-world orientation is further strengthened with updated boxes containing actual companies and how they use, or are affected by, the concepts discussed in the related chapters. Anywhere from two to nine examples per chapter show how managerial accounting is used in actual business practice.



Focus on Current Practice

Japanese law makes it difficult to lay off or fire workers or to hire away employees from competitors. Exemptions may be granted to the no-layoff rule—particularly for small companies—but this rule effectively ties an employee to a single company for life. As a result, labor is commonly regarded as a fixed cost in Japan. This reduces the ability of Japanese companies to adjust costs in response to peaks and valleys in the business cycle, but there are advantages to this system. "Since Japanese workers enjoy lifetime job guarantees, they see no downside risk in helping employers improve productivity. In fact, they embrace new technology because they

MANAGERIAL ACCOUNTING IN ACTION BOXES

These are vignettes involving businesspeople in lifelike settings. They are frequently used to introduce core concepts and stimulate interest. They are essential to, and an integral part of, reading and understanding the text. Real products and services that students can relate with are used as much as possible.

Managerial Accounting in Action

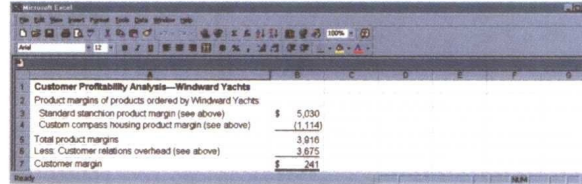


Samantha Trivers, president of Double Diamond Skis, was worried about the future of the company. After a rocky start, the company had come out with a completely redesigned ski called The Ultimate. It was made of exotic materials and featured flashy graphics. Exhibit 4-5 illustrates how this ski is manufactured. The ski was a runaway best seller—particularly among younger skiers—and had provided the company with much-needed cash for two years. However, last year a dismal snowfall in the Rocky Mountains had depressed sales, and Double Diamond was once again short of cash. Samantha was worried that another bad ski season would force Double Diamond into bankruptcy.

Just before starting production of next year's model of The Ultimate, Samantha called Jerry Madison, the company controller, into her office to discuss the reports she would need in the coming year.

SPREADSHEET INTEGRATION

ABC and budgeting are functions for which most managerial accountants use spreadsheets. Therefore, exhibits in these chapters appear as Microsoft® Excel spreadsheet screen captures. This unique feature helps students recognize the importance of spreadsheets as an ABC and budgeting tool and shows how they look in a spreadsheet.



Customer Profitability Analysis—Windward Yachts	
Product margins of products ordered by Windward Yachts	
Standard stanchion product margin (see above)	\$ 5,030
Custom compass housing product margin (see above)	(1,114)
Total product margins	3,916
Less: Customer relations overhead (see above)	3,675
Customer margin	\$ 241

MORE INCLUSION OF SERVICE COMPANY EXAMPLES

Special attention to real-world examples has always been a priority in *Managerial Accounting*. Where appropriate, the authors use service company examples in the text.

END-OF-CHAPTER MATERIAL

Solid, reliable end-of-chapter exercises, problems, and cases continue to respond to AECC and AACSB recommendations. This includes group projects, writing assignments, and ethics content.

INTERNET EXERCISES

Garrison and Noreen have always embraced new technology to help students learn. That's why Internet exercises have been added to the end-of-chapter material. A new World Wide Web logo points out which exercises or problems require students to investigate a company online. All URLs are accessible as hot links from the text's web site (www.mhhe.com/garrison).

NEW DESIGN

Clear presentation is always important, and the ninth edition doesn't ignore function for the sake of aesthetics. A contemporary design offers new real-world Chapter Openers, redesigned logos in the margins, as well as other engaging features—like boxed material that is integrated within the text, and color-coded chapter openers that reflect the division of chapters into parts.

Discussions and examples ranging from ethics to the real world are identified in the margin of the text by an appropriate icon.



World Wide Web

Indicates an end-of-chapter exercise requiring research on the Internet.



International

Represents discussions with an international dimension.



Writing

Represents an exercise that offers a chance for students to hone their written communication skills.



Spreadsheet Application Template Software (SPATS)

Identifies selected end-of-chapter material that may be solved using these spreadsheet templates.



Ethics

Found in margin whenever ethical issues are discussed.

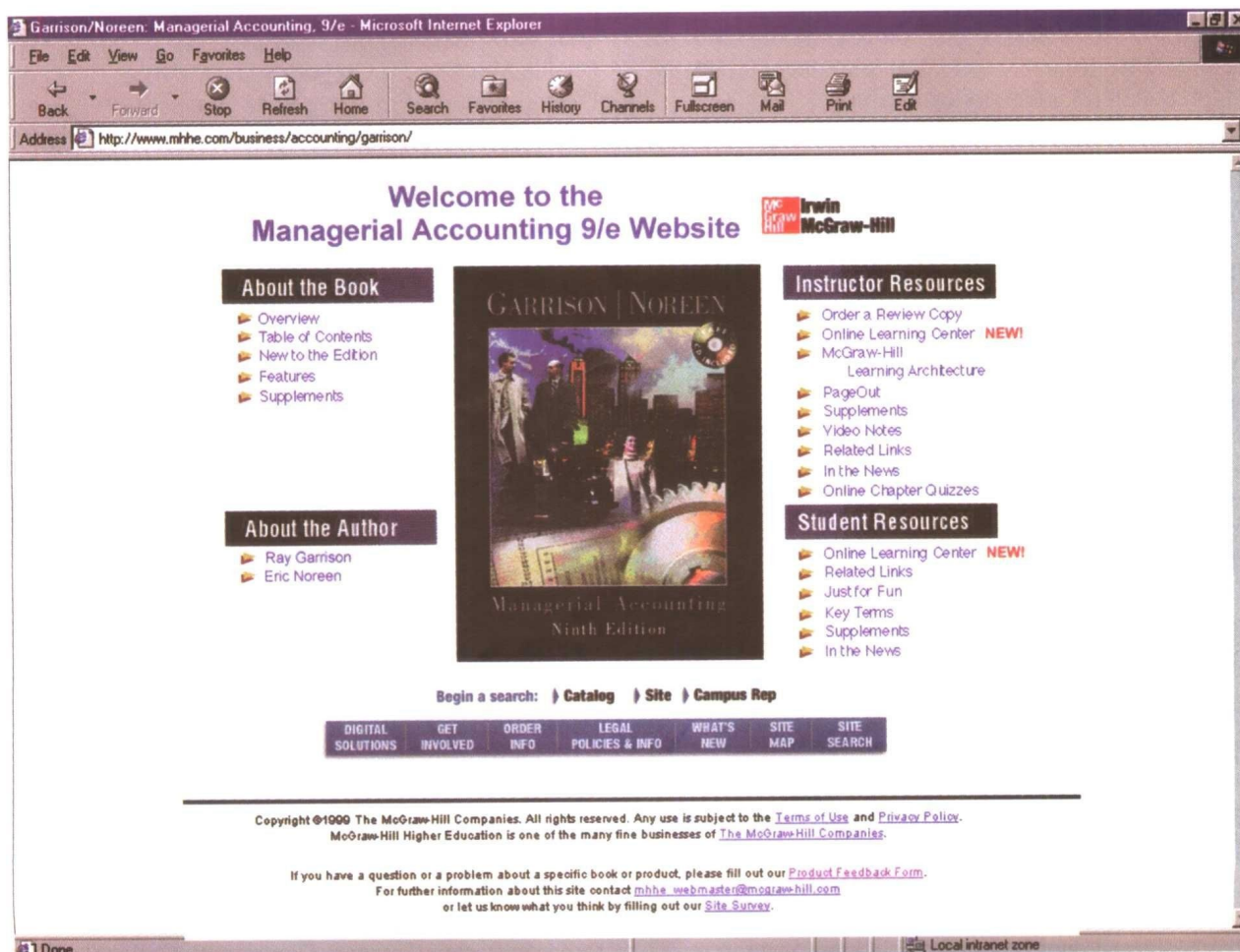


Real World

Appears in margin when an actual company is discussed in the text.

WEB PAGE

A dynamic, extensive web site has been developed for students and instructors. See the inside cover of this text for details or visit www.mhhe.com/garrison.



Development Focus and Acknowledgments

Suggestions have been received from many of our colleagues throughout the world who have used the prior edition of *Managerial Accounting*. This is vital feedback that we rely on in each edition. Each of those who have offered comments and suggestions has our thanks.

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Ray H. Garrison
Eric Noreen

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