

Seventh Edition

MANAGERIAL ACCOUNTING



Dominiak and Louderback

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preface

This book is designed for an introductory course in managerial accounting. Though we wrote the book with the undergraduate student in mind, we have had many reports of its successful use in both graduate and management development courses. One reason is that the wide variety of assignment material allows instructors to select assignments consistent with their students' backgrounds.

The book emphasizes the *uses* of managerial accounting information. It is therefore appropriate not only for accounting majors but also for nonaccounting business majors (marketing, management, finance, etc.), and majors in nonbusiness areas such as engineering, mathematics, and the physical sciences.

We assume that a reader has had one or two terms of financial accounting or a working exposure to basic financial statements. We expect that a reader has 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, with the exception of that chapter, critical to understanding the concepts.

Most discussions in the book focus on the functions of management: planning, decision making, controlling, and performance evaluation. This emphasis is apparent even in the chapters on product costing (Chapters 13-15), a topic that accounting textbooks seldom discuss with the nonaccountant 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.

Our objectives in this edition remain essentially the same as those for the first six 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 the reader, through discussion, illustration, and assignment material, the almost infinite number of applications of managerial accounting principles to decision making in economic entities of all types (including personal decisions);
5. To encourage the reader to recognize that *people*, not entities, make decisions and are responsible for the results of those decisions.

We use several 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 continued reliance on previously developed concepts by the regularity 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 beliefs and feelings. We expect readers to recognize that accounting data provide relevant information but do not dictate courses of action.

Throughout the book we emphasize that decisions are made on the basis of 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 FEATURES

1. *More Real-World Examples and More Activity-Based Costing.* The most comprehensive changes reflected in this edition are the increased number of references to actual companies and the increased coverage

and integration of the terminology and techniques of the just-in-time (JIT) philosophy and of activity-based costing. These ideas are incorporated throughout the book, consistent with its overall plan, so that almost every chapter is affected.

- Activity-based costing (ABC) is now an integral part of virtually every chapter after Chapter 3. This important topic should not be treated in a separate chapter as if it were an add-on.
- 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.
- More examples from the real world are included with more references to actual companies.

The assignment material in various chapters has been revised or expanded to reflect the integration described above. In addition, we have incorporated in the text the reported experiences of some companies that have adopted advanced manufacturing techniques.

2. *More International Coverage.* More attention is given to international matters, such as cultural differences as well as currency translation.
3. *More 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.
4. *Guidelines for Preparing Memoranda.* Virtually all chapters have assignments that require preparing memoranda with regard to the Accounting Education Change Commission. A new appendix gives guidelines for preparing memoranda.
5. *New Appendix A.* Former Chapter 16 on quantitative methods is now an appendix.
6. *Statement of Cash Flows and Analyzing Financial Statements Chapters on Disk.* Former Chapters 17 and 18 are on disk and available for reproduction.

ALTERNATIVE CHAPTER SEQUENCING

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. We recommend, however, that whatever chapters are used, they should be covered in the order presented. The text does offer considerable flexibility in the order of coverage.

Appendix A, which discusses several quantitative methods of analysis, can be covered separately at any time after Chapter 12. 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.) The section on inventory control models is particularly relevant to Chapter 6, which covers production and purchases budgets. 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. (Note that giving early emphasis to product costing 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 Chapter 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 C, which deals with present values, was designed to be used with Chapters 8 and 9 on capital budgeting. It assumes no previous exposure to the general idea of the time value of money, but those who have had such exposure are likely to find this material useful for review.

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 different 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 no review questions that can be answered by referring to a sentence or two in the chapter. Discussion questions are designed to increase students' understanding of concepts, and 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 is 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.

SUPPLEMENTARY MATERIAL

Test Bank, which contains true-false and multiple-choice questions and short problems, is available in both printed and microcomputer versions.

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. For each chapter, it provides a brief statement of the topical coverage, suggestions of assignment items for coverage of basic concepts, and a brief commentary about concepts or approaches that students find difficult to understand.

Transparencies are available upon adoption for many solutions.

Lotus 1-2-3 templates for various assignments are complimentary to instructors who adopt this text.

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 Guide for each chapter identifies those concepts, practices, or approaches that cause the most difficulty or greatest misunderstanding for students.

Videos assist in classroom presentations of new manufacturing environment techniques, such as continuous-flow manufacturing and activity-based costing.

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