

# **COST ACCOUNTING**

**CONCEPTS AND APPLICATIONS FOR  
MANAGERIAL DECISION MAKING**

**THIRD EDITION**



**RALPH S. POLIMENI**

**FRANK J. FABOZZI**

**ARTHUR H. ADELBERG**

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MANAGERIAL DECISION MAKING**

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# PREFACE

Our primary reason for writing this book was to produce a text that can be easily understood by students and still provide comprehensive coverage of the topics generally found in a cost accounting text. To achieve this goal, we have included extensive illustrations in each chapter and eliminated unnecessary words and details. Every chapter includes the following additional sections to aid the student in understanding the subject matter: chapter review, glossary, comprehensive summary problems with solutions, and assignment materials in the form of questions, multiple choice, exercises, and problems. Wherever applicable, assignment material was adapted from C.P.A. and C.M.A. examinations. Many chapters also include an appendix providing information beyond the scope of that which is normally presented in a cost accounting text.

Fundamental concepts and techniques are covered in depth before a student is exposed to the more complex areas of cost accounting. To ensure a solid foundation, the first part (Chapters 2 through 13) presents a thorough coverage of product costing. The second part (Chapters 14 through 25) deals mainly with performance evaluation and managerial decision making. We feel it is vital for students to have a thorough understanding of product costing before they can attempt to analyze the data produced from today's sophisticated cost accounting systems.

Another objective was to coordinate the assignment material at the end of each chapter with the concepts and techniques presented in the body of the chapter. We have found that nothing is more frustrating to students, or hinders their learning and motivation more, than end-of-chapter assignment material that cannot be answered by conscientiously studying the chapter text. It is our belief that the learning process is fostered when students are able to apply their new-found skills to problem situations. Assignment material in each chapter covers a wide range, beginning with simple problems (to promote confidence) and gradually building up to complex problems at the end (to provide a challenge).

All the major areas of cost accounting and analysis are covered in detail, including the nature, concepts, and classifications of cost accounting, product cost accumulation systems, external financial statements and internal reports, costing and control of materials, labor, and factory overhead, job order cost systems, process cost systems (two chapters), joint product and by-product costing, the master budget, standard costing (three chapters), direct and absorption costing, relevant costs and revenues in short-term decision making, cost-volume-profit analysis, capital budgeting (two chapters), introduction to quantitative techniques, optimization models, descriptive models and regression analysis,



decentralized operations and responsibility accounting, responsibility center performance evaluation, gross profit analysis, and transfer pricing.

The primary emphasis of the text is on manufacturing organizations. However, cost accounting is equally applicable to nonmanufacturing enterprises such as banks, insurance companies, hotels and restaurants, churches, hospitals, schools, all levels of government, and specific activities such as marketing or distribution, and many types of administrative and clerical positions. Examples and end-of-chapter problems have thus been included using nonmanufacturing enterprises.

A new feature of this edition is the discussion of computer systems throughout the text. For example, each chapter has a section on computer systems.

A symbol ■ has been placed in end-of-chapter material to designate the most appropriate exercises and problems that can be worked via a spreadsheet. There are many different types of commercial software to select from, and we chose, and marked with the computer symbol, exercises and problems without a specific software package in mind.

We encourage instructors and students to employ the power of spreadsheet software for cost accounting decision making. With Lotus 1-2-3® or another spreadsheet our selection of exercises and problems should expedite your use of microcomputers. A disk containing templates to solve selected end-of-chapter problems is provided with the text.

This text is designed primarily for a two-semester course, with the first semester devoted to product costing (Chapters 1 through 13) and the second semester emphasizing cost analysis (Chapters 14 through 25). However, it can also be used in a one-semester or a three-quarter course. A manual practice set is available covering both job order and process costing procedures. This practice set provides a comprehensive review of the two major cost accounting systems used to compute product costs.

A study guide is also available that contains detailed outlines of each chapter, objective questions (240 true-false and 360 multiple choice), and numerous short problems.

A solutions manual for assignment material, an instructor's manual, and examination test questions are available for instructors.

We wish to thank the American Institute of Certified Public Accountants and the National Association of Accountants for their permission to use material adapted from C.P.A. and C.M.A. examinations.

We also wish to thank Kathleen M. Villani of Queensborough Community College for preparing the study guide and instructor's manual, and Angelo E. DiAntonio of Towson State University for preparing the spreadsheet software.

Special thanks must also be given to Jacqueline Burke, Howard Efron, Lisa Pontrelli, and Robert Weiner for their assistance in proofreading the manuscript. In addition, the people at McGraw-Hill were very supportive and helpful throughout the project.

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