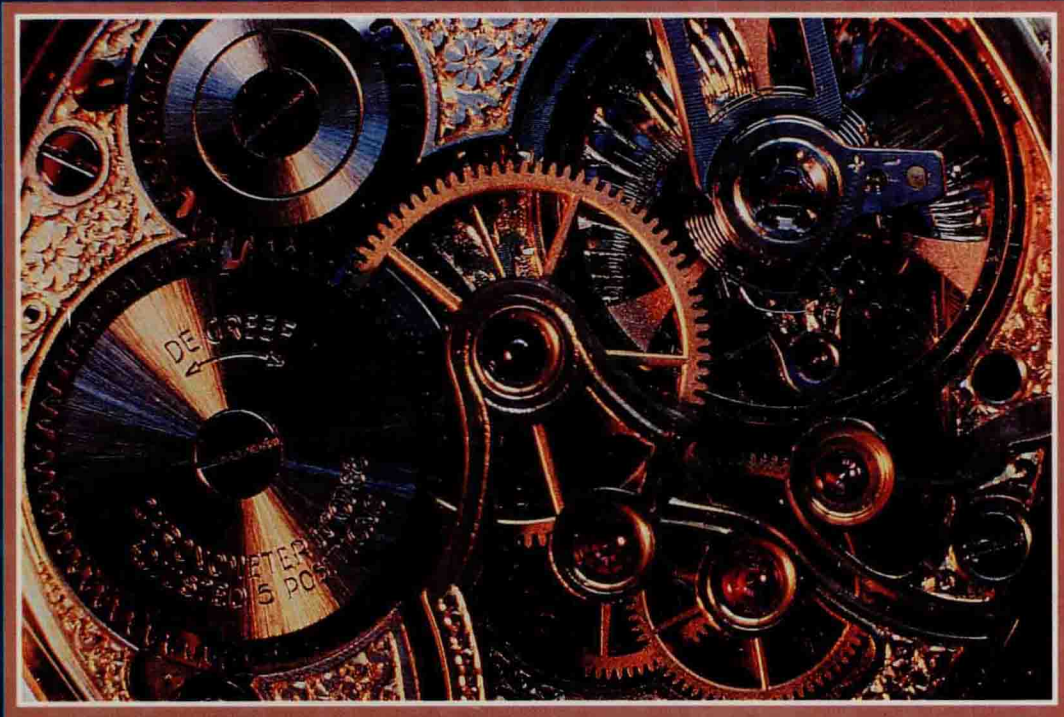


Seventh Edition



MANAGERIAL ACCOUNTING

Ray H. Garrison



Eric W. Noreen

Seventh Edition

MANAGERIAL ACCOUNTING

Concepts for Planning, Control,
Decision Making

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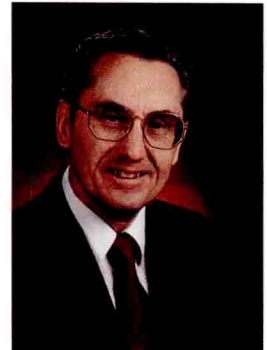
*To the many colleagues who have
used prior editions of this book*

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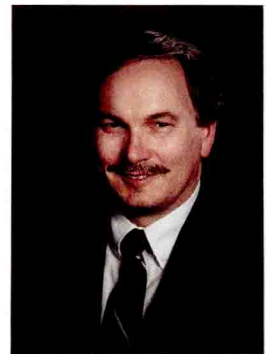


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Active within the accounting profession and the academic community, he is a frequent presenter at workshops and conferences throughout the world. He teaches management accounting at the undergraduate, masters, and doctoral levels and has won a number 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. The emphasis of *Managerial Accounting* is on uses of accounting data within an organization by its managers.

As suggested by the subtitle to the book, 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, control, and decision-making responsibilities.

A paramount objective of *Managerial Accounting* has always been to make a clear and balanced presentation of relevant subject matter. This focus on relevance continues in this seventh edition with extended coverage of current topics such as just-in-time systems, activity-based costing, flexible manufacturing systems, performance measures used in the new manufacturing environment, theory of constraints, ethical issues, and the cost of quality. As in the prior edition, these topics are integrated into the text and problem material *throughout the book*. Also, in recognition of the widespread application of management accounting concepts, many examples and problems in the book 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* of subject matter, *balance* of topics, and a continued tradition of *clarity* in presentation.

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 in the organization and content of the book. Sufficient text material is available to permit the instructor to choose topics and depth of coverage as desired. Appendixes, 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 seventh edition has a number of new features that are explained in greater detail elsewhere in this preface. These new features include “Focus on Current Practice” boxes throughout the book, new problem material dealing with ethical issues, and problems and cases requiring writing skills and analytical and critical thinking.

In addition to these new features, there are several general changes in this edition that enhance the relevance and “user-friendliness” of the book. Every chapter now contains one or more review problems that highlight the concepts covered in the chapter, along with a fully worked-out solution. Also, in addition to being listed at the beginning of each chapter, learning objectives are now placed in the margin next to the sections to which they relate. And there is an increased emphasis on international aspects of managerial accounting in this edition, including examples of how various management accounting concepts are applied throughout the world.

As in prior editions, special attention has been given to bringing new exercise, problem, and case material into the book. Users will again find a wide range of assignment material in terms of level of difficulty. Specific changes to the book are described in the following table.

Seventh Edition	Sixth Edition	Changes in the Seventh Edition
Chapter 1	Chapter 1	A section on professional ethics has been added.
Chapter 2	Chapter 2	The material on just-in-time systems in Chapter 2 in the prior edition has been moved to Chapter 5.
Chapter 3	Chapter 3	The material on activity-based costing in Chapter 3 in the prior edition has been moved to Chapter 5. A discussion of bar code technology in controlling manufacturing processes has been added to Chapter 3. In addition, a four-page acetate overlay has been added to enhance understanding of manufacturing cost flows.
Chapter 4	Chapter 4	The FIFO approach to the production report has been moved to an appendix, although the FIFO method of computing equivalent units has been retained in the chapter. Thus, students can still learn the essential difference between the FIFO and weighted-average methods even if the appendix is not covered.
Chapter 5	—	This new chapter, “Systems Design: JIT and Activity-Based Costing,” greatly expands the coverage of JIT, activity-based costing, and related issues. Placing this material in a separate chapter allows more flexibility in its use. Instructors have the option of covering it in depth, assigning it as additional reading material in conjunction with either Chapter 3 or Chapter 4, or omitting it entirely.
Chapter 6	Chapter 5	The material relating to hand computation of the least-squares method has been placed in an appendix. Many calculators now perform least-squares computations, so

Seventh Edition	Sixth Edition	Changes in the Seventh Edition
		these procedural steps are receiving less emphasis at many schools.
Chapter 7	Chapter 6	The material in this chapter has been reorganized. The sections on cost structure and operating leverage have been combined with the section on automation and CVP analysis and placed near the end of the chapter. This reorganization allows the discussion of cost structure and operating leverage to come later in the chapter after students have a basic understanding of CVP concepts.
Chapter 8	Chapter 7	The contribution approach to costing has been expanded and now stands alone as a retitled chapter, "Variable Costing: A Tool for Management."
Chapter 9	Chapter 8	—
Chapter 10	Chapter 9	—
Chapter 11	Chapter 10	Material has been added to this chapter on how flexible budgets can be prepared and used when a company employs activity-based costing.
Chapter 12	Chapter 11	This new chapter, "Segment Reporting, Profitability Analysis, and Decentralization," blends material on segmented reporting from Chapter 7 with Chapter 11. Material has also been added on the value chain, customer profitability analysis, and the use of activity-based costing in assigning selling, general, and administrative expenses to segments.
Chapter 13	Chapter 13	Material has been added on the theory of constraints and on the use of activity-based costing data in decisions.
Chapter 14	Chapter 14	—
Chapter 15	Chapter 15	A discussion of the investment tax credit has been added.
Chapter 16	Chapter 16	Parts of this chapter have been rewritten to mesh with the activity-based costing material in Chapter 5, and the chapter has been retitled "Service Department Costing: An Activity Approach," which more accurately reflects the thrust of the chapter. Also, a general discussion of the reciprocal method of handling interdepartmental service costs has been added.
Chapter 17	Chapter 17	—
Chapter 18	Chapter 18	—
Appendix K	—	A new self-standing appendix titled "Quality Costs and Reports" has been added to the book. This appendix is not attached to any specific chapter so that instructors have flexibility in using the material it contains. The authors recommend that this appendix be assigned in conjunction with either Chapter 5 or Chapter 12. However, it can be assigned in conjunction with any chapter, or it can be omitted entirely. In addition to a discussion of quality costs and reports, this appendix contains a discussion of the new ISO 9000 standards that have become so important in international commerce.
Appendix L	Chapter 12	This self-standing appendix is a condensation of the chapter on "Pricing of Products and Services" from the prior

**Seventh
Edition****Sixth
Edition****Changes in the Seventh Edition**

edition. Condensing the pricing material into a self-standing appendix allows instructors the flexibility to cover it in depth, assign it as additional reading material in conjunction with any chapter (Chapter 12 or Chapter 13 are probably best), or omit it entirely.

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 (other than in the assignment material). Rather, the revision has been completed with a single thought in mind—to make the seventh edition of *Managerial Accounting* the most up-to-date and teachable book available in its field.

NEW FEATURES**Focus On Current Practice**

One of the strengths of *Managerial Accounting* has always been its “real world” orientation. This orientation is further strengthened in the current edition by “Focus on Current Practice” boxes throughout the book. These boxes contain glimpses of how actual companies use or are affected by the concepts discussed in the various chapters.

International Aspects of Managerial Accounting

International aspects of management have become increasingly important in recent years due to the emergence of regional and global markets. Discussions and examples that have an important international dimension are identified in the margin of the text by the logo shown here.

**Assignments Requiring Writing Skills**

Employers place great emphasis on the communication skills of their professional employees. This book contains over 100 exercises, problems, and cases that require written solutions and provide an opportunity for students to hone their communications skills. These exercises, problems, and cases are identified in the margin of the text by this logo.

**Ethical Issues**

Problems involving ethical issues are included in the assignment materials at the end of many of the chapters. These problems highlight an important and interesting dimension of management and help to bring the subject alive. These problems are identified in the margin of the text by this logo.

**SUPPLEMENTS FOR THE INSTRUCTOR**

A number of supplementary materials are available to adopters.

Solutions Manual This manual provides completely worked-out solutions to all questions, exercises, problems, and cases in the text. In addition, the manual contains suggested course outlines, a listing of exercises, problems and case mate-

rial scaled as to difficulty, and a listing of suggested exercise, problem, and case assignments for each chapter.

Instructor's Resource Guide This manual contains lecture notes and masters of the teaching transparencies (see below) for each chapter. A new feature in this edition is an "assignment map" for each chapter that indicates the topics covered by each exercise, problem, and case. Lecture notes are also available on both 5.25" and 3.5" diskettes for IBM® compatible microcomputers.

Solutions Transparencies These transparencies feature completely worked-out solutions to all exercises, problems, and cases in the text. Masters of these transparencies are available in the Solutions Manual.

Teaching Transparencies This comprehensive set of over 260 teaching transparencies covering every chapter can be used as the basis for classroom lectures and discussions.

Test Bank The newly revised Test Bank, prepared by Professor Larry Deppe of Westminster College, contains over 1,200 true-false and multiple-choice questions, computational problems, and essay questions organized by chapter. Both a printed version and a microcomputer version of the Test Bank are available. The microcomputer version is available on both 5.25" and 3.5" diskettes for IBM® compatible microcomputers.

Computerized Testing Software This microcomputer test generator program allows the instructor to select and edit exam questions from the Test Bank database. Questions can be selected using several criteria, such as chapter, type of question (e.g., multiple-choice, true-false, problem solving), and level of difficulty. The software is menu-driven, requiring little computer knowledge. It comes with a program disk, data disks containing the Test Bank database, and clearly written documentation. It provides password protection, can be used on a network, and is available on both 5.25" and 3.5" diskettes for IBM® compatible microcomputers.

Check Figures A list of check figures gives key amounts for selected problems and cases. These check figures are available in bulk.

Richard D. Irwin Managerial/Cost Accounting Video Library Topical videos are available to adopters that cover special topics such as Computer-Integrated Manufacturing, where the subject matter lends itself particularly well to a visual approach. A separate Video Guide provides details about the content and length of the videos and discussions of how they can be used in the classroom.

SUPPLEMENTS FOR THE STUDENT

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

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

Ready Notes Ready Notes are copies of the teaching transparencies that come with the book. These Ready Notes simplify taking notes in class.

Manual Practice Set Prepared by Keith Weidkamp of Sierra College, *Shel-*

bourne Manufacturing, Inc., illustrates the accounting system used by a manufacturing company.

The Irwin Business Communication Handbook Prepared by Kitty O. Locker of Ohio State University, this handbook is designed to give students the tools to improve written and verbal skills for business.

Computer Supplements The following computer supplements are available:

- *Spreadsheet Applications Template Software (SPATS)* This software was developed by Minta Berry of Berry Publication Services and contains innovatively designed Lotus® 1-2-3® templates that can be used to help solve selected problems and cases in the text. These selected problems and cases are identified in the margin of the text with the logo shown here. SPATS includes an effective tutorial for Lotus® 1-2-3®. SPATS is available on both 5.25" and 3.5" diskettes for IBM® compatible microcomputers.
- *Tutorial Software* This microcomputer software was prepared by Professor Leland Mansuetti of Sierra College. It includes true-false, multiple-choice questions, and a glossary of key terms with explanations for both correct and incorrect answers by students. The tutorial is available on both 5.25" and 3.5" diskettes for IBM® compatible microcomputers.
- *Electronic Spreadsheet Problem (ESP)* Prepared by Professor John Wanlass of DeAnza College, this spreadsheet package can be used to solve many of the problems in the text. ESP is available on both 5.25" and 3.5" diskettes for IBM® compatible microcomputers.
- *Ramblewood Manufacturing, Inc.* This software, which was prepared by Leland Mansuetti and Keith Weidkamp, simulates the operations of a company that manufactures customized fencing. It can be used to illustrate job-order costing systems in a realistic setting and the entire simulation requires 10 to 14 hours to complete. It is available on both 5.25" and 3.5" diskettes for IBM® compatible microcomputers.



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 revising each edition. Each of those who have offered comments and suggestions has our thanks.

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Ray H. Garrison

Eric W. Noreen

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