

Second Edition



Management Accounting

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Preface

This book is concerned with the development and use of accounting information within specific organizations for the purposes of planning, control, and the analysis of special decisions. The topics discussed are important to all students of business and management regardless of their career objectives. *Management Accounting, Second Edition*, is intended for use by students who have had previous exposure to financial accounting. However, the amount of financial accounting background required varies, depending on what managerial accounting coverage the instructor chooses to stress for this course. In the typical situation, where students have completed a course in financial accounting, any or all material may be used. Even if students in a professional development program or in an accelerated survey course have not been exposed to journal entries, all but Chapters 11 and 12 on product costing and cost allocation may be used. The flow of product costs is introduced and illustrated in Chapter 2 with the aid of diagrams rather than journal entries.

GOALS OF THE TEXT

We have attempted to make this book **relevant, flexible, clear, and accurate**. The text is relevant to the educational objectives of students of business and management. The book is flexible so that it may be compatible with the backgrounds of different students, the curricula of different institutions, and the course objectives of different instructors. Extensive efforts have been made to

produce a text that is clear and accurate. This should maximize the student's knowledge and understanding of management accounting while minimizing the time required of the instructor to explain material contained in the text. The instructor is thereby freed to provide additional enrichment or assistance, depending on the needs of individual students. Actions taken to meet these four goals are outlined below.

Relevant

- Emphasis is on accounting information as a management tool rather than as an end. Topics in management accounting are related to the functions of management.
- Illustrations of the use of management accounting in merchandising, service, manufacturing, not-for-profit, and government organizations are presented.
- Considerable attention is given to how standards are developed and to the interpretation of standard cost variances.
- The text includes a major (optional) appendix on budgeting in not-for-profit organizations.
- The use of quantitative models as decision aids is clearly illustrated, in a nontechnical manner, in an optional chapter.
- The impact of taxes on a wide variety of management decisions is clearly illustrated and discussed in an optional chapter. This chapter may be of particular value to students not planning to enroll in a tax course.
- Financial statement analysis and the statement of resource flows are presented in a manner that emphasizes their relevance to internal planning and control.
- The impact of changing prices on the use of managerial accounting data for internal planning and control, including capital budgeting, is discussed.

Flexible

- Once the first three chapters are covered, the remaining material can be sequenced in a variety of ways. (See Organization and Course Outlines.)
- The material can be packaged into a concise short course or a full semester.
- A wide variety of assignment material allows the instructor to adapt the text to a variety of teaching styles, program emphases, and time constraints.
- The text contains over 700 questions, exercises, and problems for class use or homework assignment.
- Numerous representative problems have been adapted from professional examinations.
- Redundant assignment material makes it possible for the instructor to vary similar assignments between sections and subsequent course offerings.
- Numerous appendixes lend flexibility to coverage of material.

- The mechanics of product costing is placed in optional chapters, which may be emphasized, surveyed, or omitted.
- Alternative sequencing of material can provide a product-costing emphasis, a planning-and-control emphasis, or a broad survey.
- Case-type problem material can be used to promote a discussion of issues raised in other chapters, or even other courses.

Clear

- Learning Objectives presented at the start of each chapter provide an orientation to the chapter material and its structure.
- The purpose or primary learning objective of each chapter is clearly stated and highlighted in the introduction to each chapter.
- The writing style is direct, and important relationships are always expressed in words.
- Wide margins allow for notes.
- The generous use of topical headings and subheadings promote readability and learning.
- Color illustrations emphasize key points.
- Key terms are highlighted when first introduced, listed at the end of each chapter, and defined in a glossary at the back of the book.
- A summary at the end of each chapter reiterates key points contained in the chapter.
- Review questions at the end of each chapter ask the student to recall basic concepts presented in the chapter. The questions are sequenced in the order in which topics are introduced in the chapter.
- Review problems at the end of all but Chapter 1 allow students to test and receive immediate feedback on their mastery of technical material contained in the accompanying chapter. The solutions to all review problems are contained at the end of the exercises and problems in the accompanying chapter. The end-of-chapter problems also provide detailed assignments related to the material presented in the chapter.
- The end-of-chapter exercises reinforce the student's knowledge of technical material contained in the accompanying chapter. Exercises are generally short and sequenced in the order in which topics are introduced in the accompanying chapter.
- The topical coverage of each exercise and problem is clearly identified in a boldfaced heading.
- Assignment materials based on chapter appendixes are clearly identified with boldfaced headings.

Accurate

- All materials have been prepared, reviewed, revised, and proofread by the authors.
- Developmental and marketing reviews by instructors at other institutions guided the authors in the preparation and revision of the text, and helped fine tune the finished product.
- Text and assignment materials have been classroom-tested.

CHANGES IN THE SECOND EDITION

The primary focus of the revision has been on improving the clarity of presentation. Special emphasis was placed on Chapter 6, Operating Budgets; Chapter 8, Performance Evaluation of Standard Cost Centers; Chapter 11, Product Costing; and Chapter 14, Capital Budgeting. In addition to these changes, the Tax Reform Act of 1986 necessitated a comprehensive revision of Chapter 15, and pronouncements of the Financial Accounting Standards Board necessitated changes in the portion of Chapter 16 dealing with the statement of resource flows.

In addition to the major changes mentioned above, learning objectives were added to the beginning of each chapter, and significant attention was given to the development of additional assignment material and the revision of old assignment material. Review problems have been added to Chapters 2 through 17. The review problems are placed after the review questions accompanying the chapter and the complete solution to each review problem is placed at the end of the exercises and problems accompanying the chapter. While many books place review problem solutions immediately after each problem, we believe separating the solution from the problem helps encourage students to work the problem before examining the solution. The number of problems and exercises accompanying all chapters after Chapter 1 has been increased to a minimum of 30. With each chapter having at least 12 review questions, a minimum of 42 assignment items accompanies each chapter. When the new exercises and problems are combined with revisions made to old exercises and problems, more than 50 percent of the exercises and problems accompanying each chapter are new or revised. A checklist of key figures for solutions is located in the back of the textbook.

In addition to the changes already mentioned in Chapters 6, 8, 11, 14, 15, and 16, the following topics in other chapters received significant attention in the preparation of the second edition:

- Professional accountants (Chapter 1)
- Cost-volume-profit graphs (Chapter 4)
- Operating leverage (Chapter 4, Appendix A)
- Sales mix analysis (Chapter 4, Appendix B)
- Flexible budgets emphasize efficiency (Chapter 7)

- Reconciling budgeted and actual income (Chapter 7)
- Management considerations in transfer pricing (Chapter 9)
- Applying transfer pricing (Chapter 9)
- Suboptimization (Chapter 9)
- Introduction to the assignment of common costs (Chapter 12)
- Economic lot size (Chapter 13)

SUPPLEMENTS

A variety of supplementary materials accompany the text:

- A solutions manual contains:
 - Alternative course outlines.
 - An evaluation of all assignment materials as to level of difficulty and estimated completion time.
 - Solutions to all review questions, exercises, and problems. These completed solutions are designed to serve as transparency masters.
- Transparency acetates for solutions to all problems.
- An instructor's resource guide, prepared by Professors Donald Keller, Paul Krause, and Samir Nissan of California State University, Chico, contains:
 - Alternative course outlines.
 - A detailed lecture outline of each chapter.
 - Identification of key concepts presented in each chapter plus additional ideas and explanation of how these concepts can be presented.
 - Lecture aids for each chapter, such as transparency masters.
 - Additional examples with solutions of materials presented in each chapter, illustrating important concepts.
- A test bank, prepared by Professors Donald Keller, Paul Krause, and Samir Nissan of California State University, Chico, is available in hardcopy or disk for use on the IBM personal computer or compatibles.
- A student study guide, prepared by Al Hartgraves, reemphasizes and reinforces basic concepts and techniques. For each chapter it contains:
 - A list of learning objectives.
 - A chapter review outline.
 - A self test, including multiple-choice questions, completion questions, and up to four exercises.
 - Solutions to the self test.
- Computer spreadsheet exercises, for use with Lotus 1-2-3 on the IBM personal computer or compatibles, which include a student manual and diskette.

ORGANIZATION AND COURSE OUTLINES

The text is divided into four parts. It is likely that most instructors will cover most or all of the material in Part I, Essential Elements of Management Accounting, and Part II, Planning and Control. Part III, Product Costing and Cost Allocation, focuses on a set of topics some instructors may wish to emphasize while others may prefer to omit or defer to a cost accounting course. Part IV, Selected Topics for Further Study, contains a variety of topics which may be assigned by the instructor to achieve particular course objectives.

The following outlines are intended to illustrate two of the alternative ways of sequencing text material. The first alternative, which emphasizes product costing, is most appropriate for students who will not take a cost accounting course. The second alternative, which emphasizes planning and control, is most appropriate for students who will take a cost accounting course. The second alternative might also be used in an introductory management accounting course taught at the graduate level, especially if the optional topics are included. Additional outlines are contained in the *Instructor's Resource Guide*.

| Alternative Assignment Schedules: Product Costing Emphasis | Chapter | Title |
|---|-----------|--|
| | | |
| | 1 | Accounting and Management |
| | 2 | Basic Cost Concepts |
| | 3 | Cost Behavior Analysis |
| | 11 | Product Costing |
| | *11 | Appendix A: Normal Factory Overhead Accounting |
| | 12 | The Assignment of Common Costs |
| | *12 | Appendix: Joint Products and By-Products |
| | 4 | Cost-Volume-Profit Analysis |
| | *5 | Relevant Costs for Management Decisions |
| | 6 | Operating Budgets |
| | 7 | Responsibility Accounting and Flexible Budgets |
| | 8 | Performance Evaluation of Standard Cost Centers |
| | 8 | Appendix A: A Closer Look at Fixed Overhead Variances |
| | *11 | Appendix B: Product Costing Using Standard Costs |
| | *9 | Control of Decentralized Operations |
| | *10 | Inventory Valuation Approaches and Segment Reporting** |
| | *Appendix | Time Value of Money |
| | *14 | Capital Budgeting |

* May be deleted on the basis of time constraints.

** Coverage of Chapter 10 may be limited to absorption and variable costing.

**Alternative
Assignment
Schedules:
Planning
and Control
Emphasis**

| Chapter | Title |
|----------------|---|
| 1 | Accounting and Management |
| 2 | Basic Cost Concepts |
| 3 | Cost Behavior Analysis |
| 4 | Cost-Volume-Profit Analysis |
| 5 | Relevant Costs for Management Decisions |
| *13 | Relevant Costs for Quantitative Models |
| 6 | Operating Budgets |
| *6 | Appendix: Not-for-Profit Budgeting |
| 7 | Responsibility Accounting and Flexible Budgets |
| 8 | Performance Evaluation of Standard Cost Centers |
| 9 | Control of Decentralized Operations |
| 10 | Inventory Valuation Approaches and Segment Reporting |
| *Appendix | Time Value of Money |
| *14 | Capital Budgeting |
| *15 | Impact of Taxes on Capital Budgeting and Other Management Decisions** |
| *16 | Financial Statement Analysis and the Statement of Resource Flows [†] |
| *17 | The Impact of Changing Prices |

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* May be deleted on the basis of time constraints.

** Coverage of Chapter 15 may be limited to the impact of taxes on capital budgeting.

[†] Coverage of Chapter 16 may be limited to Financial Statement Analysis.

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Comments or suggestions from users are most welcome.

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Atlanta, GA

W.J.M.
J.R.D.
A.L.H.

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