

READY NOTES

to accompany

**MANAGERIAL
ACCOUNTING**

Seventh Edition

**Ray H. Garrison
Eric W. Noreen**

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to accompany

MANAGERIAL ACCOUNTING

CONCEPTS FOR PLANNING, CONTROL, DECISION MAKING

Seventh Edition

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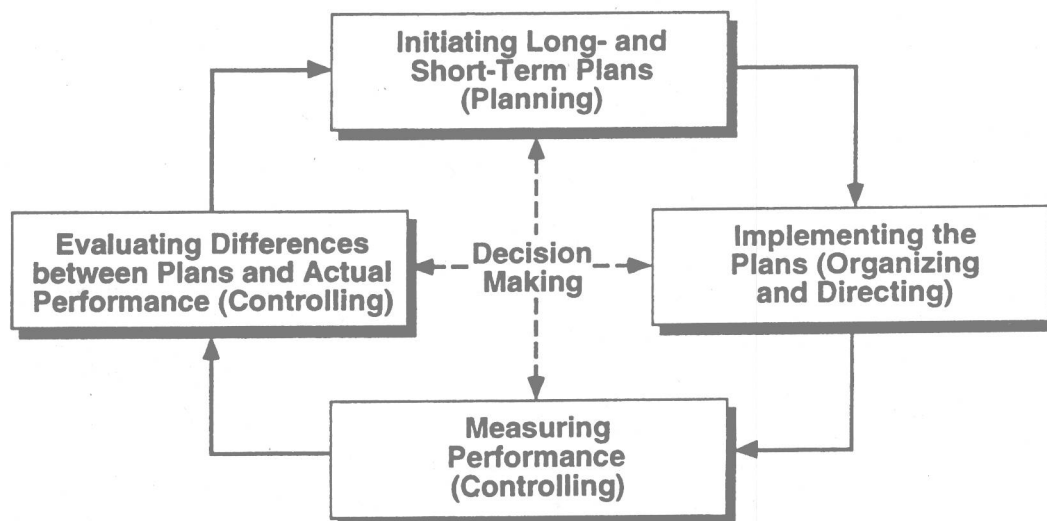
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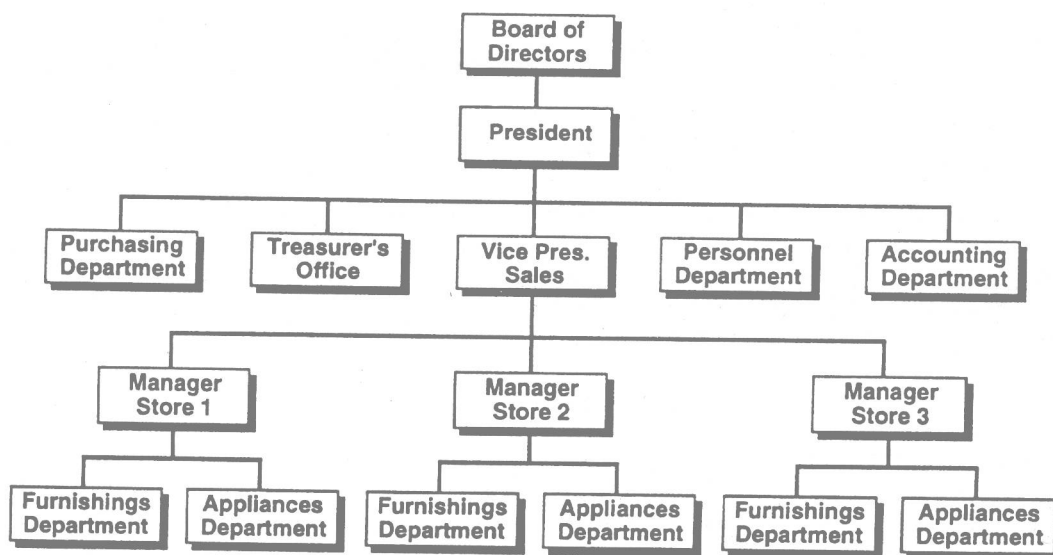
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THE PLANNING AND CONTROL CYCLE

AN ORGANIZATION CHART



**STANDARDS OF ETHICAL CONDUCT
FOR MANAGEMENT ACCOUNTANTS**
(adapted from IMA)

COMPETENCE

- Maintain professional competence.
- Follow laws, regulations, and standards.
- Prepare complete and clear reports and recommendations after appropriate analysis.

CONFIDENTIALITY

- Don't disclose confidential information.
- Ensure that subordinates do not disclose confidential information.
- Do not use confidential information for personal gain or advantage.

INTEGRITY

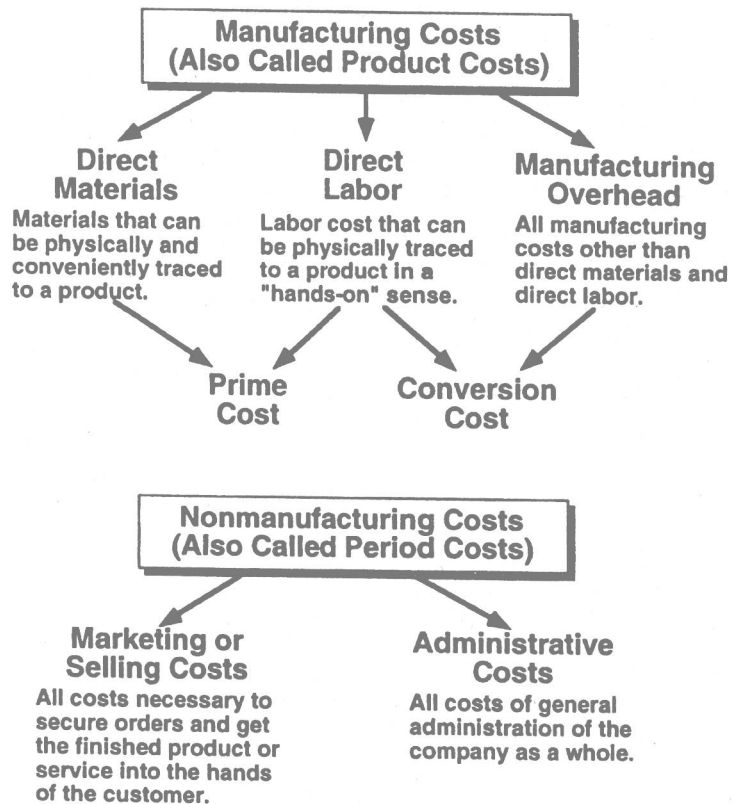
- Avoid actual or apparent conflicts of interest.
- Refuse gifts, favors, or hospitality that might influence objectivity.
- Refrain from subverting the organization's legitimate objectives.
- Recognize and communicate personal limitations.
- Communicate unfavorable as well as favorable information and opinions.
- Refrain from actions that discredit the profession.

OBJECTIVITY

- Communicate information fairly and objectively.
- Fully disclose all information that could be expected to influence a user's understanding.

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A SUMMARY OF COST TERMS



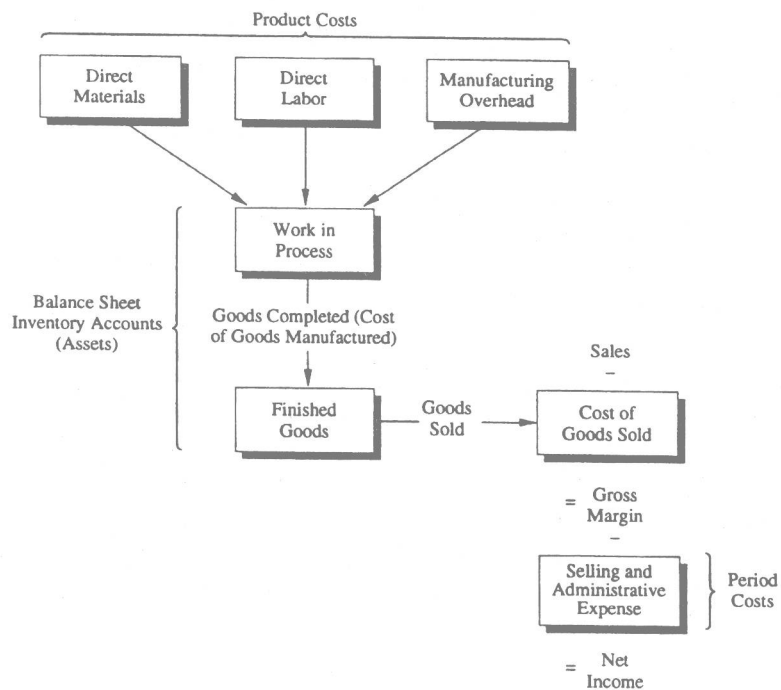
COST OF GOODS MANUFACTURED

Rider Company
Schedule of Cost of Goods Manufactured

Direct materials:		
Beginning raw materials inventory	\$ 10,000	
Add: Purchases of raw materials	<u>200,000</u>	
Raw materials available for use	210,000	
Deduct: Ending raw materials inventory . . .	<u>30,000</u>	
Raw materials used in production		\$180,000
Direct labor		270,000
Manufacturing overhead:		
Indirect materials	5,000	
Indirect labor	100,000	
Utilities, factory	80,000	
Property taxes, factory	36,000	
Insurance, factory	9,000	
Equipment rental	70,000	
Depreciation, factory	<u>120,000</u>	
Total overhead costs		<u>420,000</u>
Total manufacturing costs		870,000
Add: Beginning work in process inventory .		<u>40,000</u>
		910,000
Deduct: Ending work in process inventory .		<u>60,000</u>
Cost of goods manufactured		<u>\$850,000</u>

Cost of goods sold:		
Beginning finished goods inventory	\$130,000	
Add: Cost of goods manufactured	<u>850,000</u>	
Goods available for sale	980,000	
Deduct: Ending finished goods inventory . .	<u>80,000</u>	
Cost of goods sold		<u>\$900,000</u>

COST FLOWS IN A MANUFACTURING FIRM (Exhibit 2-5)



COST BEHAVIOR

In terms of behavior, costs are frequently divided into two categories—variable and fixed.

VARIABLE COSTS

Variable cost behavior can be summarized as follows:

<i>Variable Cost Behavior</i>	
<i><u>In Total</u></i>	<i><u>Per Unit</u></i>
Total variable cost increases and decreases in proportion to changes in activity.	Variable costs remain constant per unit.

EXAMPLE: A company manufactures microwave ovens. Each oven requires a timing device that costs \$30. The per unit and total cost of the timing device at various levels of activity would be:

<i><u>Cost per Timing Device</u></i>	<i><u>Number of Ovens Produced</u></i>	<i><u>Total Variable Cost—Timing Devices</u></i>
\$30	1	\$ 30
30	10	300
30	100	3,000
30	200	6,000

FIXED COSTS

Fixed cost behavior can be summarized as follows:

<i>Fixed Cost Behavior</i>	
<i>In Total</i>	<i>Per Unit</i>
Total fixed cost is not affected by changes in activity (i.e., total fixed cost remains constant even if activity changes).	Fixed costs decrease per unit as the activity level rises and increase per unit as the activity level falls.

EXAMPLE: Assume again that a company manufactures microwave ovens. The company pays \$9,000 per month to rent its factory building. The total and per unit cost of the rent at various levels of activity would be:

<i>Rent Cost per Month</i>	<i>Number of Ovens Produced</i>	<i>Rent Cost per Timing Device</i>
\$9,000	1	\$9,000
9,000	10	900
9,000	100	90
9,000	200	45

OTHER COST TERMS

DIRECT AND INDIRECT COSTS

A direct cost is a cost that can be obviously and physically traced to the particular segment under consideration. For example, if the segment under consideration is a product line, then the materials and labor involved in the manufacture of the product line would both be direct costs.

An indirect cost is a cost that must be allocated in order to be assigned to the segment under consideration. Manufacturing overhead, for example, would be an indirect cost of a product line.

CONTROLLABLE COSTS

A cost is considered to be controllable at a particular level of the organization if managers at that level have the power to authorize the cost.

There is a time dimension to controllability. Costs that are controllable over the long run may not be controllable over the short run.