

MANAGERIAL ACCOUNTING



Third Edition
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Managerial Accounting

Third Edition

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Third

Edition

Managerial Accounting

To My Wife

Barbara

Preface

Managerial Accounting, Third Edition, is designed to be used in a first course of one-semester or one-quarter length in managerial, or management, accounting. It is especially suited for the second course of a financial/managerial sequence, or a third course following a two-semester or two-quarter sequence of accounting principles courses, in which managerial topics were not emphasized.

ORGANIZATION

A major strength of this text is its organization. As written, the sequence of chapters is well organized for student understanding and comprehension. It provides a logical flow of concepts from one chapter to the next, making it a very teachable text. Chapters 1 through 12 provide the basis for a strictly managerial accounting course. However, the organization is flexible enough so that chapters can be sequenced as desired by the instructor to best meet course objectives. Examples of this flexibility are included below; and the *Instructor's Manual* provides course outlines that show several possible sequences.

Part One, Managerial Accounting Concepts, provides the basic concepts that students should understand in order to best comprehend the subsequent chapters, which emphasize planning, controlling, and decision-making. Chapter 1 emphasizes the nature of managerial accounting and its importance in management decision-making. Because cost behavior concepts provide a basic foundation needed in later chapters, they are included early in the text as chapter 2. Note that this topic is presented as a separate chapter, rather than merely as part of cost-volume-profit analysis (as is often done). Since cost behavior applies to a number of important areas of managerial accounting, separate coverage at this early stage makes the application of the concepts easier later in the course.

Chapter 3, **Manufacturing Costs**, describes the traditional manufacturing cost concepts essential to the understanding of managerial accounting applications, without including the details of job order and process costing, topics found in chapter 13. The chapter also provides a brief description of the new manufacturing environment and activity-based costing, with details following in subsequent chapters.

Chapter 4, **Contribution Approach to Decision-Making**, provides students with one of the basic managerial tools—the contribution approach income statement. The chapter also shows the relationship between the just-in-time inventory concept and variable costing. Upon completion of this chapter, along with the first three chapters, students are prepared for applications of managerial accounting provided in Parts Two and Three.

Part Two, Managerial Accounting for Planning and Controlling, includes chapters that present budgeting; flexible budgets, standards costs, and total quality control; overhead analysis and activity-based costing; and responsibility accounting and performance measurement. These chapters integrate features of the new manufacturing environment with those of traditional manufacturing. This allows students to understand and contrast the planning and controlling features for both types of firms.

Part Three, Managerial Accounting Techniques for Decision-Making shows how managers use accounting data in decision-making situations. This part includes chapters on cost-profit-volume analysis; relevant cost; capital budgeting; and quantitative techniques and JIT philosophy.

Part Four, Cost Accounting Concepts, includes chapter 13, **Cost Accounting Systems**, and chapter 14, **Cost Allocation**. These chapters are ideal for instructors whose course includes a stronger cost emphasis. They could be presented following chapters 3 or 4.

Part Five, Special Topics, contains chapters that, strictly speaking, are considered more financial than managerial—specifically, chapter 15, **Statement of Cash Flows**, and chapter 16, **Financial Statement Analysis**. Despite their financial emphasis, these chapters point out the usefulness of these topics to managers. In addition, their inclusion provides flexibility in structuring the second course of a two-course financial/managerial sequence. Often instructors prefer to cover the topics found in chapters 15 and 16 in the second course, rather than the first. The text allows that flexibility. If desired, these two chapters can be covered easily as the first two chapters in the course.

Finally, the text contains appendices to four chapters. These allow the instructor to expand coverage or to go into more depth in specific topics.

FEATURES

The text is designed to help students learn. Accordingly, it has been written with the student in mind and includes the following useful features:

1. **Learning objectives.** Indicate expected outcomes from studying the chapter. Objectives are listed at the beginning of each chapter. In addition,

the *Instructor's Manual* relates each learning objective to specific questions, exercises, and problems.

2. *Use of boldface type of key terms and concepts.* Highlights important items, making reference and review easier.
3. *Numerous exhibits.* Thoroughly explained, the exhibits provide excellent illustrations of managerial accounting applications.
4. *Review problems with solutions.* Provide students with an opportunity to solve a problem and check their solutions against the text solution. It also reinforces concepts presented in the chapter. A review problem follows each chapter.
5. *Assignment material.* Prepared by author. Includes an outstanding selection of clear and unambiguous questions, exercises, and problems, with an abundance of CPA and CMA exam problems. Each item is related to specific learning objectives provided in the text.
6. *Short titles for exercises and problems.* Help organize the assignment material and assist the instructor in making assignments.
7. *Key terms.* Provide an easy reference of important terms. A list of key terms follows each chapter for student review.
8. *Glossary.* Provides a ready reference of key terms and definitions at the end of the text. The chapter reference where the term is first used in the text is included.
9. *Check figures.* Allow students easy access to figures that they can use to check their work on exercises and problems. The check figures appear at the end of the text.

ANCILLARIES

Instructor's Manual. The *Instructor's Manual* provides author-prepared solutions to questions, exercises, and problems, each of which is cross-referenced to specific chapter learning objectives. Exercises and problems often include a "Note to Instructor" that provides additional information which may be helpful in class discussion. Furthermore, the manual provides suggested assignments and time and level of difficulty rating for exercises and problems. The manual is also punched for ease in placing in a three-ring binder.

Test Bank. The test bank provides a large number and variety of true-false and multiple-choice questions, as well as problems for each chapter. This allows the instructor to choose those test items desired in constructing an exam tailored to course objectives.

Study Guide. The guide is co-authored by Dr. C. Edward Cavert, Northern Virginia Community College, who is a specialist in the design of instructional materials to help students learn. The *Study Guide* provides a summary of key concepts, along with question/answer format to aid in review. A unique feature is the study guide's interaction with exhibits in the text, which is included as part of the study guide's review of chapter concepts. Each chap-

ter of the *Study Guide* also includes self-test questions and exercises with solutions.

Changes for this Edition

Users of prior editions have been well satisfied with this text. Thus, the features and strengths that were received positively have been retained for this third edition. A major change for this edition is inclusion of the elements of the new manufacturing environment. Since traditional manufacturing accounting still exists in many firms, it was necessary to achieve a balance in the discussion of the traditional and the new. This was done by integrating the various concepts of the new environment into the existing chapters, as appropriate. This allows students to see the similarities and differences between the traditional and the new, while allowing the instructor to include sufficient coverage of both areas in the typical semester or quarter. The most significant changes are as follows:

1. Chapter 1, Introduction to Managerial Accounting, was revised and reorganized to provide better emphasis on the importance of managerial accounting.
2. "Cost driver" terminology was introduced in chapter 2, Cost Behavior.
3. Chapter 3, Manufacturing Costs, was revised to include an introduction of the new manufacturing environment with a comparison between activity-based costing and traditional manufacturing accounting.
4. Chapter 4, Variable Costing, introduces just-in-time inventory and shows its relationship to variable costing.
5. Chapter 5, Budgeting, compares preparation of the production budget for a traditional manufacturer with that of a firm using the just-in-time philosophy.
6. Chapter 6, Flexible Budgets, Standards Costs, and Total Quality Control, was significantly revised. The revised chapter includes discussion of the differences between the new environment and traditional manufacturing in controlling manufacturing costs. The chapter also includes a new section, "Total Quality Control."
7. Chapter 7, Overhead Analysis and Activity-Based Costing, was significantly revised to include a detailed illustration of activity-based costing that contrasts traditional product costing with ABC. The appendix in prior editions, which included journal entries for a standard cost system, was deleted since this topic is considered to be of lesser importance for the text than it once was.
8. A discussion on the need to consider activity-based costing in evaluating segment performance was added to chapter 8, Responsibility Accounting and Performance Measurement.

9. The section, "Assumptions in CVP Analysis," in chapter 9, Cost-Volume-Profit Analysis, was revised to include consideration of activity-based costing and the JIT environment.
10. Chapter 10, Relevant Cost, was revised to include emphasis that relevant cost analysis should consider activity-based concepts.
11. Chapter 11, Capital Budgeting, was revised to include current IRS cost recovery percentages under ACRS. A new section, "Summary of Tax Effect on Cash Flows," was added to provide students with an easy summary for applying tax effect in capital budgeting.
12. A new section, "Just-in-Time Philosophy," was added to chapter 12, Quantitative Techniques and JIT Philosophy. This section describes the overall JIT concept that was discussed in chapter 4 only as it pertains to inventory.
13. Chapter 14, Cost Allocation, was revised to reflect the relationship between activity-based costing and cost allocation. In addition, the chapter points out that the Cost Accounting Standards Board has been re-created by Congress.
14. Chapter 15, Statement of Cash Flows, is a completely new chapter. It replaces the previous chapter on the statement of changes in financial position. While clearly explaining the elements of the cash flow statement, the chapter stresses the *use* of this statement in decision-making.
15. The recision of the FASB's requirement of inflation-adjusted financial statements, along with the general reduction in the inflation rate in recent years, has reduced interest in this topic. Accordingly, the previous chapter 17, Inflation Accounting, was eliminated from this edition.
16. Questions, exercises, and problems have been revised in every chapter, and new assignment material has been added.
17. Throughout the text, there has been extensive rewording of sentences, restructuring of paragraphs, and revision of exhibits, as necessary, to provide a text that is as clear and understandable as possible.

ACKNOWLEDGEMENTS

I thank C. Edward Cavert for his continued contribution with the revision of the *Study Guide*.

I appreciate the many helpful comments and suggestions that I received from both faculty and students who used the second edition. Their comments have been most beneficial in revising this edition.

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I thank the American Institute of Certified Public Accountants and the Institute of Certified Management Accountants of the Institute of Management Accountants for permission to use problem material from past CPA and CMA examinations. Such problems are indicated as "AICPA adapted" and "CMA adapted."

Finally, I thank my wife, Barbara, for her continued help and encouragement and for her assistance in the word processing of the *Instructor's Manual*.

1993

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