

INTRODUCTION TO

Management Accounting

Thirteenth Edition

CHAPTERS 1-14

Horngren | Sundem | Stratton



Introduction to Management Accounting

Thirteenth Edition

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***To Joan, Chelsea, Erik, Marissa,
Liz, Garth, Jens, Reed, Grant,
Norma, Gina, Adam, Nisha, and Tiana***

ABOUT THE AUTHORS

Charles T. Horngren (center) is the Edmund W. Littlefield Professor of Accounting, emeritus, at Stanford University. A graduate of Marquette University, he received his MBA from Harvard University and his Ph.D. from the University of Chicago. He is also the recipient of honorary doctorates from Marquette University and DePaul University.

A certified public accountant, Horngren served on the Accounting Principles Board for six years, the Financial Accounting Standards Board Advisory Council for five years, and the Council of the American Institute of Certified Public Accountants for three years. For six years, he served as a trustee of the Financial Accounting Foundation, which oversees the Financial Accounting Standards Board and the Government Accounting Standards Board.

Horngren is a member of the Accounting Hall of Fame.

A member of the American Accounting Association, Horngren has been its president and its director of research. He received its first annual Outstanding Accounting Educator Award.

The California Certified Public Accountants Foundation gave Horngren its Faculty Excellence Award and its Distinguished Professor Award. He is the first person to have received both awards.

The American Institute of Certified Public Accountants presented its first Outstanding Educator Award to Horngren.

Horngren was named Accountant of the Year, Education, by the national professional accounting fraternity, Beta Alpha Psi.

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Horngren is the author of other accounting books published by Prentice Hall: *Cost Accounting: A Managerial Emphasis*, Eleventh Edition, 2003 (with Srikant Datar and George Foster); *Introduction to Financial Accounting*, Eighth Edition, 2002 (with Gary L. Sundem and John A. Elliott); *Accounting*, Sixth Edition, 2005 (with Walter T. Harrison Jr. and Linda Bamber); and *Financial Accounting*, Fifth Edition, 2004 (with Walter T. Harrison Jr.).

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P R E F A C E

Now more than ever, managers have to understand how their decisions effect costs.

Management accounting is an essential tool that enhances a manager's ability to make effective economic decisions. Because understanding concepts is more important than memorizing techniques, *Introduction to Management Accounting*, 13/e describes both theory and common practices so students understand how to produce information that's useful in day-to-day decision making. From the first chapter, we encourage students to think about why companies use various techniques, not to blindly apply the techniques.

Introduction to Management Accounting, 13/e deals with all business sectors—non-profit, retail, wholesale, service, selling, and administrative situations—as well as manufacturing. The focus is on planning and control decisions, not on product costing for inventory valuation and income determination.

Our Philosophy

Introduce concepts and principles early, then revisit them at more complex levels as students gain understanding, and provide appropriate real-company examples at every stage.

As management accounting builds on financial accounting, the concepts within management accounting build on one another. Students begin their understanding of managerial decisions by asking, "How will my decisions affect the costs and revenues of the organization?" Students then progress to more complex questions: "What is the most appropriate cost-management system for the company?" "What products or services should we emphasize?" "What do our budget variances mean?"

Our goals are to choose relevant subject matter and to present it clearly and accessibly using many examples drawn from actual companies. Companies such as Starbucks, Boeing, AT&T, McDonald's, Microsoft, and more set the stage for chapter material and are revisited throughout so that students understand management accounting concepts in a real-company context.

Take your pick—two different text versions fit any course structure.

Introduction to Management Accounting, 13/e (Chapters 1–14) provides a concise treatment of management accounting topics suitable for a one-term course.

Introduction to Management Accounting, 13/e (Chapters 1–17) includes three financial accounting chapters in addition to the fourteen management accounting chapters. This version is especially suited to continuing education or MBA courses where students need to learn financial and management accounting in a one-term course. The financial accounting chapters also provide material for any student who may need a financial accounting review.

Introduction to Financial Accounting, 8/e and *Introduction to Management Accounting*, 13/e provide a seamless presentation for any first year accounting course. Please contact your Prentice Hall representative about cost-savings discounts when both books are adopted.

New Edition Enhancements

- **NEW and revised Business First boxes** provide insights into operations at well-known domestic and international companies, including technology and e-Commerce companies such as Reichhold Inc., DaimlerChrysler, IBM, Battelle, and EncrypTix.
- **NEW and revised chapter opening vignettes** help students understand accounting's role in current business practice. We revisit the chapter opening company later in chapter discussions so students can see how accounting decisions effect real company practices. Starbucks, General Motors, L. A. Darling, AT&T, Boeing, Nantucket Nectars, and McDonald's are just some of the companies students will recognize.
- **NEW Making Managerial Decisions boxes** in all chapters allow students to take what they've learned, apply this material to a real business situation, and then plot a course of action.
- **NEW assignment material in all chapters**, including an Excel Application Exercise, new end-of-chapter summaries, and Fundamental Assignment Problems in selected chapters, and a general updating of most exercises and problems to reflect significant text changes.
- **NEW Ethics problems or cases** in each chapter.

Updated Material

- Chapter 1—includes significantly more ethics coverage including new Business First boxes; coverage of ERP and XBRL added.
- Chapter 2—clarified distinction between total and unit contribution margin, including new exhibit comparing gross margin and contribution margin; two new Business First boxes; new Boeing examples throughout the chapter discussion.
- Chapter 3—Discussion of capacity decisions expanded; new problem material on data presentation and analysis.
- Chapter 4—major chapter revision focusing on simplifying the presentation as well as adding more examples and illustrations; ABC coverage simplified with more examples and illustrations and complex multistage ABC moved to an appendix; includes new section on process mapping.
- Chapter 5—new, expanded ethics discussions as well as expanded coverage of target costing; new assignments on ABC and target costing.
- Chapter 6—new Nantucket Nectars examples throughout chapter; new Business First box on outsourcing; shortened and simplified discussion of more advanced material by placing it in Summary Problem for Your Review with solution; several new questions, exercises, and problems using the chapter-opening company.
- Chapter 7—new Business First box on budgeting as a value driver; new section on activity-based master budgets; new Making Managerial Decisions boxes.
- Chapter 8—simplified coverage of variance analysis; McDonald's, chapter-opening company, is revisited throughout the chapter discussion.
- Chapter 9—balanced scorecard moved to a section on nonfinancial measures and heavily revised with a new example; "Goal Congruence, Managerial Effort, and Motivation" heavily revised for clearer presentation; added coverage of Six Sigma and two new Business First boxes.
- Chapter 10—heavily revised and reorganized section on transfer pricing is now covered later in the chapter; EVA material revised; new section, "Budgeting, Performance Targets, and Ethics."
- Chapter 11—inflation now covered in an appendix; added coverage on internal rate of return (IRR), real options, and ethical issues concerning tax avoidance and evasion.

- Chapter 12—extensive chapter revision includes revised exhibits as well as new discussions involving chapter-opening company, L. A. Darling; Exhibit 12-1 revised to set overall framework for chapter discussions; problems 12-34 through 12-36 added to illustrate and apply chapter discussion for service-department cost allocation, process maps, ABC product costing, and ABC customer profitability.
- Chapter 13—combines the coverage of overhead in two chapters of the Twelfth edition into one logical discussion; the major illustration used in both Chapters 13 and 14 is based on same company, allowing students to study Chapter 14 before 13 or study only Chapter 14; discussion simplified by eliminating many journal entries; chapter illustrations use Dell Computer Corporation, the chapter-opening company; simplified discussion by deleting sections on *selection of expected activity level for computing the fixed-overhead rate* and *actual, normal, and standard costing*.
- Chapter 14—consolidates coverage of these two product-costing systems into one new chapter; the process-costing section of the chapter opens with a vignette that combines two companies: one with a job-costing system and the other with a process-costing system; Summary Problem for Your Review applies concepts to chapter-opening company; simplified coverage of process costing by deleting first-in, first-out method for process-costing systems.
- Chapter 15—Microsoft used extensively throughout chapter discussions; added material on ethics, including Business First box; improved explanation of cash versus accrual accounting.
- Chapter 16—extensively rewritten coverage of statement of cash flows, including discussion of free cash flow; new appendix on accounting for inventory (in Chapter 19 of Twelfth edition).
- Chapter 17—consolidated goodwill discussion; revised and updated financial ratios; now includes General Motors consolidated statements; new appendix on changing prices and income measurement (in Chapter 19 of Twelfth edition).
- Financial Accounting review streamlined and covered in three rather than four chapters.

Supplements for Instructors and Students

INSTRUCTOR'S RESOURCE CD-ROM A complete, one-step resource for instructors, including all faculty and student supplements as well as testing software. Available upon request from your local Pearson Prentice Hall representative.

INSTRUCTOR'S RESOURCE MANUAL BY SCOTT YETMAR (CLEVELAND STATE UNIVERSITY) Substantially revised, this resource manual provides insightful and useful tips on how to best manage course content when using *Introduction to Management Accounting*, 13/e in class. Chapter-by-chapter explanations and pedagogical philosophies are clearly delineated and oriented to greatly aid the teaching process.

SOLUTIONS MANUAL AND SOLUTIONS TRANSPARENCIES BY CHARLES T. HORNGREN (EMERITUS STANFORD UNIVERSITY), GARY L. SUNDEM (UNIVERSITY OF WASHINGTON, SEATTLE), AND WILLIAM O. STRATTON (PEPPERDINE UNIVERSITY) Comprehensive solutions for all end-of-chapter material. Also available in acetate form for in-class presentation.

TEST ITEM FILE BY SCOTT YETMAR (CLEVELAND STATE UNIVERSITY) A ready-to-use bank of testing material. Each chapter includes a variety of types of questions, including true/false, multiple choice, and critical thinking problems. Intended for ease of use, each question is linked to chapter objectives, and also provides suggested difficulty level and reference to text pages where answers can be found.

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COURSE WEB SITE AT [HTTP://WWW.PRENHALL.COM/HORNGREN](http://www.prenhall.com/horngren) A complete online resource that offers a variety of Internet-based teaching and learning support. Our Web site provides a wealth of resources for students and faculty. Resources include

- an online study guide;
- downloadable supplements, including PowerPoint and General Ledger Software for student use;
- learning assessment sections;
- practice tests with immediate feedback for self-study use.

STUDENT STUDY GUIDE BY FRANK R. SELTO (UNIVERSITY OF COLORADO) The Student Study Guide contains a wealth of resources designed to aid students in text comprehension. Each chapter includes chapter overviews, study tips, self-test questions, demonstration problems and worked-out solutions, and more.

SPREADSHEET TEMPLATES BY ALBERT FISHER (COMMUNITY COLLEGE OF SOUTHERN NEVADA) Ready-made templates to accompany selected end-of-chapter problems can be found at <http://www.prenhall.com/horngren>.

EXCEL APPLICATION EXERCISES The Excel Application Exercises were prepared by Glenda C. Levendowski, CPA, Mesa Community College and Terry Levendowski, CMA, CPA, Consultant.

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BRIEF CONTENTS

Preface xv

Part 1 | Focus on Decision Making

- 1** Managerial Accounting and the Business Organization 2
- 2** Introduction to Cost Behavior and Cost-Volume Relationships 42
- 3** Measurement of Cost Behavior 86
- 4** Cost Management Systems and Activity-Based Costing 128
- 5** Relevant Information and Decision Making: Marketing Decisions 198
- 6** Relevant Information and Decision Making: Production Decisions 250

Part 2 | Accounting for Planning and Control

- 7** The Master Budget 294
- 8** Flexible Budgets and Variance Analysis 338
- 9** Management Control Systems and Responsibility Accounting 380
- 10** Management Control in Decentralized Organizations 424

Part 3 | Capital Budgeting

- 11** Capital Budgeting 470

Part 4 | Product Costing

- 12** Cost Allocation 520
- 13** Accounting for Overhead Costs 568
- 14** Job-Costing and Process-Costing Systems 618

APPENDIX A 662

APPENDIX B 668

GLOSSARY G1

INDEX I1

PHOTO CREDITS P1

C O N T E N T S

Preface xv

Part 1 Focus on Decision Making

1 Managerial Accounting and the Business Organization 2

Chapter Opener: Starbucks 3

- Accounting and Decision Making 5
- Importance of Ethics 8
- Management Accounting in Service and Nonprofit Organizations 10
- Cost-Benefit and Behavioral Considerations 10
- The Management Process and Accounting 11
- Planning and Control for Product Life Cycles and the Value Chain 13
- Accounting's Position in the Organization 17
- Career Opportunities in Management Accounting 20
- Adaptation to Change 21
- Changes in Business Processes 22
- Ethical Conduct for Professional Accountants 24
- Highlights to Remember 30
- Accounting Vocabulary 31
- Fundamental Assignment Material 31
- Additional Assignment Material 33

2 Introduction to Cost Behavior and Cost-Volume Relationships 42

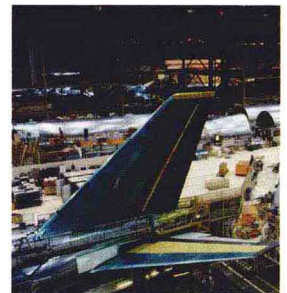
Chapter Opener: Boeing 43

- Identifying Activities, Costs, and Cost Drivers 44
- Comparing Variable and Fixed Costs 46
- Cost-Volume-Profit Analysis 49
- Additional Uses of Cost-Volume Analysis 59
- Nonprofit Application 63
- Highlights to Remember 65
- Appendix 2A: Sales-Mix Analysis 65
- Appendix 2B: Impact of Income Taxes 67
- Accounting Vocabulary 68
- Fundamental Assignment Material 68
- Additional Assignment Material 70

3 Measurement of Cost Behavior 86

Chapter Opener: America West 87

- Cost Drivers and Cost Behavior 88
- Management Influence on Cost Behavior 91
- Cost Functions 93
- Methods of Measuring Cost Functions 97
- Highlights to Remember 106
- Appendix 3: Use and Interpretation of Least-Squares Regression 107
- Accounting Vocabulary 110
- Fundamental Assignment Material 110
- Additional Assignment Material 112





4 Cost Management Systems and Activity-Based Costing 128

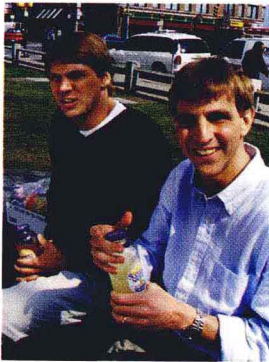
Chapter Opener: **AT&T** 129

- Cost Management Systems 130
- Cost Accounting Systems 131
- Cost Terms Used for Strategic Decision Making and Operational Purposes 132
- Cost Terms Used for External Reporting Purposes 136
- Traditional and Activity-Based Accounting Systems 140
- Activity-Based Management: A Cost Management System Tool 147
- Detailed Illustration of Traditional and Activity-Based Cost Accounting Systems 148
- Highlights to Remember* 161
- Appendix 4: Multistage ABC (MSABC) Systems* 162
- Accounting Vocabulary* 169
- Fundamental Assignment Material* 170
- Additional Assignment Material* 177

5 Relevant Information and Decision Making: Marketing Decisions 198

Chapter Opener: **Grand Canyon Railway** 199

- The Concept of Relevance 200
- The Special Sales Order 203
- Deletion or Addition of Products, Services, or Departments 208
- Optimal Use of Limited Resources 211
- Pricing Decisions 213
- General Influences on Pricing in Practice 216
- Cost-Plus Pricing 217
- Target Costing 224
- Highlights to Remember* 228
- Accounting Vocabulary* 229
- Fundamental Assignment Material* 229
- Additional Assignment Material* 233



6 Relevant Information and Decision Making: Production Decisions 250

Chapter Opener: **Nantucket Nectars** 251

- Opportunity, Outlay, and Differential Costs 252
- Make-or-Buy Decisions 255
- Joint Product Costs 260
- Irrelevance of Past Costs 262
- Irrelevance of Future Costs That Will Not Differ 265
- Beware of Unit Costs 265
- Conflicts Between Decision Making and Performance Evaluation 266
- How Income Statements Influence Decision Making 267
- Highlights to Remember* 271
- Accounting Vocabulary* 272
- Fundamental Assignment Material* 272
- Additional Assignment Material* 276

Part 2 | Accounting for Planning and Control

7 The Master Budget 294

Chapter Opener: **Ritz-Carlton** 295

- Budgets and the Organization 296
- Preparing the Master Budget 301
- Difficulties of Sales Forecasting 312
- Getting Employees to Accept the Budget 314
- Financial Planning Models 315

Highlights to Remember 317
Appendix 7: Use of Spreadsheets for Budgeting 318
Accounting Vocabulary 320
Fundamental Assignment Material 320
Additional Assignment Material 322

8 Flexible Budgets and Variance Analysis 338

Chapter Opener: McDonald's 339

Flexible Budgets: Bridge Between Static Budgets and Actual Results 340
 Isolating the Causes of Variances 345
 Flexible-Budget Variances in Detail 352
 Overhead Variances 357
Highlights to Remember 359
Accounting Vocabulary 360
Fundamental Assignment Material 360
Additional Assignment Material 362

9 Management Control Systems and Responsibility Accounting 380

Chapter Opener: Health Net 381

Management Control Systems 382
 Designing Management Control Systems 384
 Goal Congruence, Managerial Effort, and Motivation 389
 Controllability and Measurement of Financial Performance 391
 Nonfinancial Measures of Performance 395
 Management Control Systems in Service, Government, and Nonprofit Organizations 404
 Future of Management Control Systems 405
Highlights to Remember 407
Accounting Vocabulary 408
Fundamental Assignment Material 408
Additional Assignment Material 411

10 Management Control in Decentralized Organizations 424

Chapter Opener: Nike 425

Centralization Versus Decentralization 426
 Performance Measures and Management Control 429
 Measures of Profitability 431
 Residual Income (RI) and Economic Value Added (EVA) 432
 ROI or Residual Income? 435
 A Closer Look at Invested Capital 437
 Transfer Pricing 440
 Keys to Successful Management Control Systems 450
Highlights to Remember 452
Accounting Vocabulary 453
Fundamental Assignment Material 453
Additional Assignment Material 456



Part 3 Capital Budgeting

11 Capital Budgeting 470

Chapter Opener: Deer Valley Lodge 471

Capital Budgeting for Programs or Projects 472
 Discounted-Cash-Flow Models 472
 Sensitivity Analysis and Risk Assessment in DCF Models 479