



Managerial Accounting

**Jack L. Smith
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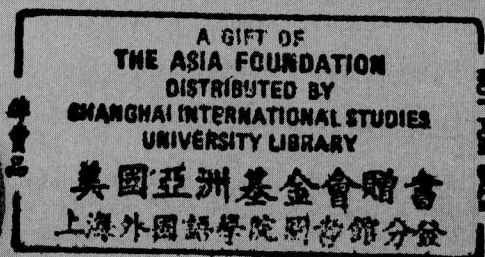
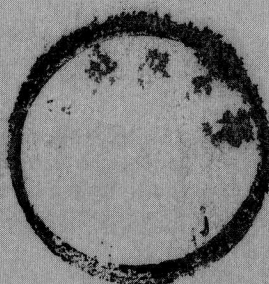
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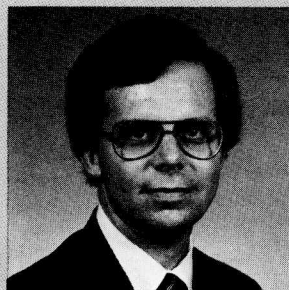
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About the Authors



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Robert M. Keith is a professor at the School of Accountancy at the University of South Florida. He received his Ph.D. in accounting from the University of Alabama and holds the CPA certificate. While his research interests center on financial accounting, Professor Keith also has a strong interest in accounting education at both the college and professional levels. He received the first Outstanding Accounting Faculty Award by the Delta Gamma Chapter of Beta Alpha Psi and was voted an outstanding discussion leader four years in a row by CPA participants in continuing professional education seminars sponsored by the Florida Institute of CPAs. In addition to papers presented at regional meetings of the AAA, Professor Keith's research has appeared in the *Journal of Accountancy* and *The Florida CPA*. He was also a coauthor with Jack L. Smith of *Accounting for Financial Statement Presentation*, published in 1979 and *Accounting Principles*, 2d edition. Professor Keith is a member of the American Accounting Association, the AICPA, and the Florida Institute of Certified Public Accountants, and has served on the editorial board of *The Florida CPA*.



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To Diane, Kristie, and Scott

To Leanne and Rob

In memory of my parents, Lois and Lewis Stephens, who raised their children

To love and respect their parents

To believe in themselves

To have empathy for the less fortunate

To develop a "punnish" sense of humor, and

To love, honor, and serve the Lord.

PREFACE

This text, along with its companion, *Financial Accounting*, are intended for use in a two-semester or three-quarter sequence by college students who plan a business career, who intend to enter the accounting profession, and who are interested in broadening their business background. While the two books are naturally suited to be used together in the financial accounting–managerial accounting sequence, they are written in such a manner that either may be used in combination with any other financial or managerial accounting textbook.

Our assumption in writing this text is that your students' exposure to business and/or accounting has been limited to a course(s) in financial accounting. Therefore, we have carefully explained and illustrated, where appropriate, all new business terms and practices as they are first introduced.

We view our text as being neither conceptual nor procedural but a balanced blend of the two. Students are informed *why* information is accounted for in a certain manner. The why is reinforced by illustrating *how* the accounting is accomplished. Students can better grasp concepts through sufficient attention to the procedures.

The primary emphasis throughout the text is on (1) the accountant's role in providing management with information to assist in the decision-making process, and (2) the use of that information by management in making both routine and nonroutine decisions. For accounting majors, the text redirects their focus from the external to the internal users. It forces them to think in terms of the meaning of the information they provide management, how the information is to be used, and how to present it in the most concise and understandable manner. In addition, the text provides the accounting major with a solid foundation for the later course in cost accounting. For nonaccountants, the text helps future managers realize how their own success depends substantially on an understanding of accounting information and on the ability to use that information to make good decisions.

IMPORTANT FEATURES IN THIS TEXT

We have incorporated into *Managerial Accounting* numerous pedagogical devices and techniques which we describe in this preface as general or specific. In the general category we include items that are presented in all chapters of the text, while in the pedagogical items we describe as specific are features found only in specific chapters.

GENERAL

- We have written this book in a lively style with extensive use of the active voice which we believe makes the material real and interesting and certainly more helpful to the student in learning and understanding it.

- Each of the six parts of the text is introduced by a section explaining its overall purpose and briefly describing its contents.

- Chapter objectives are given at the beginning of each of the 15 chapters.
- Margin notes are used extensively throughout the chapter to describe text material. Margin notes are also used to briefly indicate the objective of each exercise and problem in the back of each chapter.
- The text contains many well-illustrated charts, diagrams, and figures designed to help the student easily and quickly visualize concepts and relationships, and establish the proper perspectives underlying the material as it is explained.
- Real world examples extracted from sources such as *Forbes*, *Fortune*, *U.S. News & World Report*, and *Time*, provide the student with an opportunity to see how the principles of accounting are foundations of much that happens in the business world.
- Appendices are used to cover topics that may not be of interest to all users. The appendices are placed at the end of the chapters they relate to.
- Summaries are included at the end of each chapter.
- Important terms used in the chapter are presented again at the end of each chapter in the format of a glossary which includes references to the page where the term was first introduced.
- There are two different but parallel sets of problems to choose from for users who want to change the problems assigned from one year or term to the next.
- Check figures are located in the margin alongside the exercises and problems where they are most helpful to the student.

SPECIFIC

- Chapter 3 is a comprehensive discussion of variable, fixed, and mixed costs. The different types of variable and fixed costs are discussed in detail, and the accountant's view of these costs is compared to the view of the economist. The three methods of evaluating mixed costs (high-low, visual approximation, and least squares) are explained in a logical step-by-step manner.
- Coverage of cost-volume-profit analysis is divided into two chapters. Chapter 4 introduces the student to the basics of C-V-P analysis with emphasis on the importance of the contribution margin approach. Chapter 5 is concerned with the assumptions underlying C-V-P analysis—what they are, what they mean, and how the analysis has to be revised when the assumptions are no longer valid. Emphasis is placed on the assumptions concerning multiple product firms (the sales mix remains unchanged) and direct versus absorption costing (there is no change in the beginning and ending inventory in finished goods). The application of C-V-P analysis to absorption costing (when the results differ from direct costing) is examined in an appendix.
- Chapter 6 on relevant costing and special decisions is placed after cost-volume-profit analysis—so that students will already be familiar with the contribution margin approach—and before capital budgeting—so that they will have been introduced to short-run decisions before having to deal with the complexities of long-run decisions. EOQ models and the graphical approach to linear programming are included in appendices at the end of this chapter. In addition, the Japanese approaches to inventory management are discussed.

- Chapter 7 includes a comprehensive discussion of both discounted cash flow and nondiscounted cash flow capital budgeting methods. Taxes are ignored until Chapter 8. The discussion explains what each method is; how each method is used in situations involving both even and uneven cash flows; and how the results of each method are to be interpreted. The chapter includes an introductory explanation of present value for those students who need some review of the basic concepts.
- Chapter 8 is a comprehensive coverage of the tax considerations in capital budgeting. It includes an up-to-date discussion of the Tax Reform Act of 1986 and how the requirements of the Act affect capital budgeting analysis. Here again, both the discounted cash flow methods and nondiscounted cash flow methods are discussed in detail.
- Chapters 9 through 11 are organized as a logical package. Chapter 9 contains a comprehensive master budget, fully discussed and illustrated, for both a manufacturer and a retailer. The example for the master budget is carried over to Chapter 10 on flexible budgeting, which compares and contrasts the two types of budgets. A clear and concise development of the relationship between the flexible budget and standard costing is given, contrasting their uses for planning, control, and product costing for cost centers within an organization. In Chapter 11, additional items are discussed concerning the analysis of cost centers, as a natural lead-in to the discussion of profit centers and investment centers. All issues related to this analysis (cost allocation, centralization versus decentralization, transfer pricing, and ROI) are self-contained in a single chapter rather than dispersed among several chapters as is typically the case in other managerial accounting textbooks.
- Chapter 13 on process costing covers both the weighted average and FIFO methods in detail. The coverage of the two methods is completely independent, so it is not necessary to understand one method in order to cover the other method. In this way, an instructor can cover either or both methods. The discussion of standard process costing is discussed in an appendix.
- Chapter 14 on financial statement analysis and interpretation is presented as an ongoing analysis of a corporation to make this topic interesting and useful to the student.
- Chapter 15 on the statement of cash flows provides the student with the procedures for developing this new statement by either the "T-Account" method or the worksheet method. In the Solutions Manual, all problems in this chapter are solved using both methods; the instructor merely needs to indicate which method the student is to use.

SUPPLEMENTARY MATERIALS

Accompanying *Managerial Accounting* is a full array of supporting materials that include:

For the Instructor:

- *Solutions Manual*. Answers to all the questions, exercises, and problems are contained in this comprehensive manual. The type is extra large and extra bold so that any transparencies made from the manual will be clearly seen by the student in the last row of the classroom.

The questions, exercises, and problems follow closely the textual material and learning objectives. Estimated time, difficulty levels, and descriptions of all exercises and problems are provided as an aid to the instructor in selecting material appropriate for the level of the course being taught.

■ *Teacher's Manual*. Designed to aid primarily graduate teaching assistants, adjuncts, and other part-time instructors, the teacher's manual contains comments, notes, illustrations, and examples that the authors have found useful in teaching managerial accounting. The solutions to the *Tests and Exams* are also included in the *Teacher's Manual*.

■ *Tests and Exams*. Two completely different yet parallel sets are available to provide the instructor with alternative testing options. Each shrink-wrapped package contains 20 copies of each test and each exam.

Both sets include tests that each cover two or three chapters (except for the single-chapter test on Chapter 8) and a final comprehensive examination covering Chapters 1–13.

■ *Test Bank*. For those instructors who wish to construct their own examinations, a manual containing nearly a thousand true/false, multiple choice, and short problem test questions arranged by chapter are available. These questions are also available in a computerized test-generation system.

■ *Overhead Transparencies*. An extensive set of teaching transparencies is available for classroom use as an aid in illustrating many of the concepts discussed in the text.

FOR THE STUDENT

■ *Study Guide*. A comprehensive study guide, prepared by Paul Williams from North Carolina State University contains chapter-by-chapter reviews together with an abundance of multiple-choice, fill-in, and true or false questions as well as numerous problems. Solutions to all these self-test items are found in the back of the *Study Guide*.

■ *Practice Set*. A manual practice set for use after chapter four. The practice set will consist of different modules that can be assigned independently. The topics covered will include job order costing, cost-volume-profit analysis, the master budget, standard costing and variance analysis, relevant cost analysis and decision making. This practice set is also available in a computerized format. The solution is available in a separate solutions manual.

■ *Microcomputer Spreadsheet*. Lotus 1-2-3 templates for solving selected exercises and problems at the end of the chapter are available.

■ *Worksheets*. Partially filled-in accounting worksheets for all problems in the text are reprinted with the problem headings and some preliminary facts to help students save time and concentrate on working out the essence of each problem.

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We were most fortunate to have had the assistance of two outstanding individuals from the McGraw Hill editorial staff, who have become good friends over the years. Mike Elia, our manuscript editor, has become an integral part of our writing team, so integral in fact that we often think of our project as the Smith-Keith-Stephens-Elia book. Peggy Rehberger, our editing supervisor, handled the task of getting our text through production in an efficient, creative, timely, and personable manner.

Managerial Accounting

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