

A. THOMPSON MONTGOMERY

MANAGERIAL ACCOUNTING INFORMATION

AN INTRODUCTION TO ITS
CONTENT AND USEFULNESS

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PREFACE FOR INSTRUCTORS

This book is a companion volume to *Financial Accounting Information: An Introduction to Its Preparation and Use*.¹ It is designed for use in a single course devoted to managerial accounting offered at the undergraduate or MBA foundation-course level. Distinct managerial accounting courses have evolved as part of a growing awareness of several interrelated factors:

1. All business majors, and especially nonaccounting majors, need a thorough grounding in managerial accounting tools and concepts.
2. Managerial accounting is quite different and distinct from financial accounting. An inappropriate and potentially confusing impression of its purpose and role is often given when the subject is appended to or even combined in the same course or text with financial accounting.
3. A more balanced coverage of the two areas in separate courses can provide the majority of business majors with adequate basic exposure to both topics.
4. An understanding of cost behavior, relevant costs for decision purposes, and the operations and implications of a budgetary control system is of more importance to the nonaccountant than are the details of a cost accounting system.
5. Future accountants more readily learn cost accounting essentials at the intermediate-course level. Where much cost accounting detail is also included in the introductory course, unnecessary duplication may exist.
6. Future accountants need a more complete exposure to budgeting and control than is generally included in most common intermediate and advanced accounting courses.

¹ Reading, Mass.: Addison-Wesley Publishing Company, 1978.

7. Therefore, a managerial accounting course that emphasizes cost attributes, decision making, and budgeting, and that provides minimal exposure to cost accounting, achieves two objectives. First, it provides the majority of business students with the most appropriate emphasis, given their needs. Second, it provides future accountants with both necessary exposure to budgetary control and costs relevant to decision making and also the context for subsequent in-depth study of cost systems.

In the past, many students have found managerial accounting courses confusing and unnecessarily difficult for several reasons:

1. Courses and texts have often been merely a collection of loosely related topics with no obvious unifying objective or purpose. In some instances, continuity and coherence have been attempted by making the course a thinly disguised and watered-down version of an intermediate cost course. In the latter instance, most students who have not identified, and may never identify, with the cost accountant's interests and objectives find their only unifying objective to be "pass this course." Even potential accountants may become disillusioned when not presented with a meaningful, integrated picture of the vital importance and usefulness of accounting information to all levels of business and thus to society.
2. In some courses and texts, new subject matter is first introduced as something to be learned for its supposed intrinsic value. The material is then followed by isolated examples of application and usefulness. The "what" and "how" precede the "why." Today's students are less willing to learn material blindly on the premise that sometime in the future they will (may) find it relevant and useful.
3. Some existing managerial texts assume an unrealistic level of student sophistication. A large number of today's elementary accounting students are almost totally unfamiliar with business objectives, business problems, and the business information needs that managerial accounting serves. Often students are no longer required to take a basic business course as a prerequisite to elementary accounting courses. They may not even perceive lower cost or higher profit to be a desirable objective. Even MBA students taking foundation courses are novices with respect to business practice and terminology. They may be brighter and able to assimilate material more rapidly and in more depth, but they start at the same point as their undergraduate counterparts.

SPECIAL FEATURES

This text has certain distinctive features intended both to serve the objectives and also to cope with the problems listed above:

- The central unifying focus of this book is upon the budgetary and control process. Integration is accomplished through the use, throughout the text,

of the same small manufacturing firm, to which students can readily relate. All major concepts are introduced in the context of serving this one firm's problems.

- The essential elements of cost accounting are all covered in the first chapter and in Chapter 13. The introductory cost chapter may serve as a bridge from financial accounting to managerial accounting (financial accounting is not an essential prerequisite to the use of this text—see below).
- Chapter 2 provides an overview of the entire budgeting and control process, and introduces an eight-chapter section devoted to budgeting and decision making. Following the normal and logical budgeting sequence, the student is involved in each step leading to the final preparation of the master budget in Chapter 10.
- Chapters 11 through 15 are devoted to various aspects of control, and include an entire chapter devoted to control in nonprofit organizations; and Chapters 16 and 17 introduce the price-level issue and more sophisticated quantitative tools.

Following the pattern developed and successfully used in the companion text:

- Students are continuously involved in the learning process. Each chapter leads off with a business problem involving the development and use of managerial accounting information. Students first perceive the need for specific accounting information as a means of solving the problem. The information is then introduced in the context of the desired solution and in terms of general applicability. Students are encouraged to use newly introduced knowledge in the solution of other practical and relevant business (as distinct from accounting) problems.
- Students encounter new accounting topics only as they need them, and the topics are in a logical learning sequence of "building blocks" of progressively greater sophistication.
- The informal and conversational tone throughout the book is less severe and potentially intimidating than in traditional texts, and thus further encourages involvement.
- Coverage is included of some topics often omitted in elementary courses. Exposure to basic economic concepts and to uses of managerial accounting information in finance, marketing, and general management is presented at a simplified level and is designed to heighten the relevance that is the aim of the course. Throughout the text the student is provided with illustrations of the interface between managerial accounting and the other common business core-subject areas.
- Each chapter starts with a preview of material to be covered and its

relevance, and concludes with a summary of behavioral skills that the student should have developed in working through the chapter.

- No significant knowledge of business practice or terminology is assumed. Important new common business and managerial accounting terms are italicized when first introduced and then listed for review at the end of each chapter. An extensive glossary of over 1,000 terms is included in an appendix for ready student reference and review.
- Chapter review questions cover all important concepts introduced in the chapter.
- Chapter problems are separately designated as “essential” and “supplementary.” The latter category has particular relevance to graduate MBA foundation courses and more rigorous undergraduate courses.
- Complete solutions to all odd-numbered problems are included in an appendix. The student therefore has available, if needed, additional examples of applications in each topic area beyond the minimal samples included with the chapter text material. The student also has the opportunity to solve the odd-numbered problems and have immediate reinforcement, in a manner similar to that in a programmed text.
- Chapters contain mini-cases and questions for class discussion that are designed, particularly for graduate students, to highlight unresolved managerial accounting issues, and to stimulate involved interest beyond material covered in the text.
- Many chapters are divided into a main body and an appendix, to facilitate instructor flexibility in selecting materials and making assignments (see discussion below).
- An overview of essential financial accounting concepts is also included in a text appendix. For students taking managerial accounting without having previously taken a course or courses in financial accounting, this material should be assigned between the Introduction and Chapter 1. Others may use the material for review, or omit it entirely.

FLEXIBILITY IN USE

A reading of the table of contents will reveal that the coverage of this book is extensive and perhaps greater than that desired by many instructors. Chapters 1 through 6 and 9 through 14 represent the core of the book and are designed for study in the sequence presented. Chapters 7 and 8 may be assigned as a pair in their given position, or between Chapters 10 and 11, or following Chapter 14. Chapters 15, 16, and 17 may be included or omitted, depending upon the aim of a particular course. It is recommended that Chapters 15 and 16 be assigned as related outside reading if they are not to be incorporated in the mainstream of your course.

Appendices provide even greater flexibility. The appendices to Chapters 2 and 9, along with book appendices D and E, are designed to provide or reinforce essential financial accounting concepts. The appendices to Chapters 3 and 5 are provided for those instructors who desire to incorporate least-squares regression analysis. Assigning both has proved to provide needed reinforcement, although the Chapter 5 appendix may stand alone. The Chapter 7 appendix reviewing present value should be assigned to all students not previously familiar with PV calculation who will be required to study Chapters 7 and 8. The appendix to Chapter 13 may be omitted or assigned, depending upon the relative preparer (bookkeeping) emphasis in a course. The remaining chapter appendices (4, 6, 8, 10, 12, 14, 15, and 16) include more sophisticated material related to their respective chapters, and may be included or omitted by instructor choice.

This flexibility makes the book suitable over a range of students from second-semester freshmen at a community college to graduate students. Specific suggested course outlines, including time and emphasis recommendations for each topic, depending upon course length (quarter or semester) and upon level of coverage desired, are included in the Instructor's Manual, together with customary support materials.

ACKNOWLEDGMENTS

Acknowledgments are so necessary, so deserved, and so numerous. As stated in the companion text, I am indebted to Professors Charles Horngren, Gerald Wentworth, and James Porterfield at Stanford for much needed encouragement and support years ago when I was completing the doctorate. Department chairmen George Stenberg, William Niven, Julien Wade, and Dean Arthur Cunningham at San Francisco State made possible the scheduling opportunity that has allowed me to validate in the classroom the somewhat distinctive approaches in this text.

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Pat Kennedy typed the many drafts of the entire manuscript. I trust that she will always be sure of my everlasting gratitude.

Once again the team of Bill Hamilton and Mary Cafarella, my editors at Addison-Wesley Publishing Company, somehow managed to convert the manuscript into a printed volume. Their miracles are appreciated.

I will welcome suggestions and comments on this text and the support materials, from both faculty and students.

San Francisco
January, 1979

A.T.M.

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