

Chapter 1	Management Accounting: Information that Creates Value 2
Chapter 2	The Organization as a System of Activities 32
Chapter 3	Cost Management Concepts and Cost Behavior 70
Chapter 4	Traditional Cost Management Systems 112
Chapter 5	Activity-Based Cost Management Systems 158
Chapter 6	Management Accounting Information for Activity and Process Decisions 216
Chapter 7	Cost Information for Pricing and Product Planning 268
Chapter 8	Capital Budgeting 318
Chapter 9	Management Accounting and Control Systems for Strategic Purposes: Assessing Performance over the Entire Value Chain 364
Chapter 10	Motivating Behavior in Management Accounting and Control Systems 394
Chapter 11	Using Budgets to Achieve Organizational Objectives 436
Chapter 12	Responsibility Centers and Financial Control 504
Glossary	573
Subject Index	583
Company Index	594

Acknowledgments xxvi
 About the Authors xxvii

Chapter 1

Management Accounting: Information that Creates Value 2

Management Accounting Information 5

What Is Management Accounting Information? 5

Differences Between Management Accounting and Financial Accounting 5

Diversity of Management Accounting Information 6

Repair Mechanic 6

- The Technological Edge: Enterprise Resource Planning (ERP) Software Automates Companies' Transactions Systems 7

Manager of the Service Department 8

Manager of the Dealership 10

Functions of Management Accounting 10

Management Control: Origins in Twentieth-Century Enterprises 12

DuPont and General Motors: Innovative Management Accounting Systems at Diversified Corporations 13

Management Accounting and Control in Service Organizations 14

Service Companies' Demand for Management Accounting Information 14

Changing Competitive Environment 15

Manufacturing and Service Companies 15

Government and Nonprofit Organizations 15

- In Practice: How EMC Uses Cost Information with Its Suppliers 16

Measuring and Managing Activities and Business Processes 17

- In Practice: Measuring the Finance Function 18

Management Accounting and Strategy 18

Behavioral Implications of Management Accounting Information 19

- In Practice: Airborne Freight: Low Costs to Fly High 19

Ethics and the Management Accountant 20

- The Technological Edge: The Pervasiveness of Management Accounting and Performance Measurement: The Case of the Failed Mars Probes 21

Ikon Printing Revisited 24

Summary 25

Key Terms 25

Assignment Materials 25

Chapter 2

The Organization as a System of Activities 32

The Nature of the Organization's Objectives 34

- In Practice: The Nature of Organization Objectives 35

Three Levels of Strategy	37
The Nature and Role of Strategy	38
Strategy and Its Implications for Management Accounting and Control	38
■ The Technological Edge: Manufacturers Build on ERP to Gain an E-Business Edge	39
The Organization as a Sequence of Activities or a Value Chain	40
How Are Activities Defined?	40
Focusing the Value Chain	41
Organization and Process Control	42
■ In Practice: Cutting Costs and Reducing Service	42
Performance Measurement and Management Accounting	43
■ In Practice: The Nature of “Effective” and “Efficient”	44
■ In Practice: How Continental Airlines Used Performance Measurement for a Corporate Turnaround—Substituting Goals for Rules	45
■ In Practice: Measuring Performance at Federal Express	47
Performance Measures as Aids in Operations Control	47
Performance Targets	48
Cost as a Process Performance Measure	48
Identifying and Developing Useful Information about Activities	51
■ In Practice: Nonvalue-Added Activities in Steel Making	52
■ In Practice: Activity Analysis in a Hospital	53
Mike’s Custom Windows—Revisited	54
Summary	55
Summary Example	55
Key Terms	56
Assignment Materials	56

Chapter 3

Cost Management Concepts and Cost Behavior 70

What Does Cost Mean? 72

When the Purpose Is to Compute the Cost of Something 72

Organizing Costs Based on the Way They Are Created 73

How the Use of Cost Information Defines Its Focus and Form 75

Using Cost Information Outside the Organization 75

■ In Practice: What Drives Manufacturing Support Costs 77

Using Cost Information Inside the Organization 79

Cost-Benefit Considerations in Developing Cost Information 79

How Decisions Define the Nature of the Cost Required 80

Do Different Costs for Different Purposes Cause Costing Chaos? 81

Opportunity Cost 81

Comparing Cost Classification Systems 82

How Perspective Determines the Cost Definition 83

Long-Run and Short-Run Costs 83

How Organizations Create Costs—An Example 84

Starting Up 84

Early Growth	84
■ The Technological Edge: Costing Web Sites	85
Reaching the Boundaries of Existing Capacity	86
Expanding the Product Line and Acquiring More Capacity Resources	86
Redefining the Business	87
Continued Growth	87
Cost Structures Today	88
Types of Production Activities	90
Using the Cost Hierarchy	93
Understanding the Underlying Behavior of Costs	93
Nonmanufacturing Costs as Product Costs	97
Life-Cycle Costs	97
Evaluating Profit Performance at Joan's Landscaping	100
Summary	101
Key Terms	102
Assignment Materials	102

Chapter 4

Traditional Cost Management Systems 112

Cost Management Systems 114

Job Order and Process Costing Systems 114

- Components of a Job Bid Sheet 115
- Job Costs and Markup 116
- In Practice: The Cost of Making Bicycles 117
- Determination of Cost Driver Rates 117
- Problems Using Fluctuating Cost Driver Rates 118

Melissa's Auto Service Revisited 119

- System Description 119
- Recommended System Changes 121
- New Cost Accounting System Illustrated 122
- In Practice: Sentry Group—Producing Fireproof Products 124
- Number of Cost Pools 124

Recording Actual Job Costs 125

- The Technological Edge: Using the Internet to Reduce Product and Process Costs 128

Multistage Process Costing Systems 128

- Comparison with Job Order Costing 129
- Process Costing Illustrated 129
- In Practice: Costing Products at Kenco Engineering 130

Summary 133

Key Terms 133

Appendix 4-1 133

Two-Stage Cost Allocations 134

- The Effect of Departmental Structure on Allocation 134
- Stage 1 Cost Allocations 135

Direct Allocation Method	136
Allocation Bases at PATIENTAID	136
Stage 2 Cost Allocations	138
Sequential and Reciprocal Allocation Methods	143
Sequential Allocation Method	143
Reciprocal Allocation Method	144
Key Terms	147
Assignment Materials	147
Chapter 5	
Activity-Based Cost Management Systems	158
Traditional Manufacturing Costing Systems	160
Limitations of Cooper Pen's Traditional Cost System	162
Simple and Complex Pen Factories	163
Activity-Based Cost Management Systems	164
Tracing Costs to Activities	164
Tracing Costs from Activities to Products	167
■ In Practice: Using Activity-Based Costing for Operational Improvements	168
Selecting Activity Cost Drivers	171
■ In Practice: Activity-Based Costing Helps Food Companies Reach Full Potential	172
Measuring the Cost of Resource Capacity	174
Fixed and Variable Costs in Activity-Based Cost Systems	175
Marketing, Selling, and Distribution Expenses: Tracing Costs to Customers	177
■ The Technological Edge: ERP and Strategic Activity-Based Management	178
Managing Customer Profitability	180
Service Companies	181
■ In Practice: ABC and the Post Office	182
Customer Costs in Service Companies	182
ABC Model for a Service Company	183
Implementation Issues	184
■ In Practice: Barriers to Implementing ABC Systems	185
Summary	188
Key Terms	190
Summary Problem	190
Assignment Materials	191
Chapter 6	
Management Accounting Information for Activity and Process Decisions	216
Evaluation of Financial Implications	219
Sunk Costs Are Not Relevant	219
Relevant Costs for the Replacement of a Machine	220

Analysis of Relevant Costs	220
Summary of Relevant Costs	221
Assuming Responsibility for Decisions	221
■ In Practice: Throwing Good Money after Bad	222
Make-or-Buy-Decisions	222
Avoidable Costs	223
Qualitative Factors	224
Facility Layout Systems	225
Process Layouts	226
Product Layouts	227
■ In Practice: ABC versus TOC: Will Ever the Twain Meet?	228
Cellular Manufacturing	229
Inventory Costs and Processing Time	229
Inventory and Processing Time	229
Inventory-Related Costs	229
■ The Technological Edge: Cycle Time and Inventory Reduction through SAP	230
Cost and Benefits of Changing to a New Layout: An Example Using Cellular Manufacturing	230
Cost of Nonconformance and Quality Issues	237
Quality Standards	238
Costs of Quality Control	239
Just-in-Time Manufacturing	242
Implications of Just-in-Time Manufacturing	242
■ In Practice: Seeing the Big Picture: Manufacturing, Marketing, and Distribution Activities and the Average Cost of a Compact Disk	243
Just-in-Time Manufacturing and Management Accounting	244
Production Flows	245
Effects on Work-in-Process Inventory	246
Effect on Production Costs	246
Cost of Rework	247
Cost of Carrying Work-in-Process Inventory	248
Benefits from Increased Sales	249
Summary of Costs and Benefits	251
Summary	251
Summary Example	251
Key Terms	252
Assignment Materials	253
Chapter 7	
Cost Information for Pricing and Product Planning	268
Role of Product Costs in Pricing and Product Mix Decisions	270
Short-Term and Long-Term Pricing Considerations	271
Short-Term Product Mix Decisions—Price Takers	272
■ In Practice: Newspaper Wars in Britain	273

■ In Practice: Pricing for No Vacancy	278
The Impact of Opportunity Costs	278
Short-Term Pricing Decisions—Price Setters	279
Available Surplus Capacity	281
No Available Surplus Capacity	281
■ In Practice: Full Cost-Based Pricing Continues to Be Popular	281
Long-Term Pricing Decisions—Price Setters	283
■ The Technological Edge: When Enterprise System Prices Are Too High, Rent?	284
Long-Term Product Mix Decisions—Price Takers	287
■ In Practice: What Managers Do to Maintain (or Even Grow) Market Share When Prices Fall Worldwide?	288
Summary Example	289
Summary	290
Key Terms	290
Appendix 7-1	291
Quantity Decision	291
Pricing Decision	292
Long-Term Benchmark Prices	292
Competitive Analysis	293
Assignment Materials	294

Chapter 8

Capital Budgeting 318

Long-Term (Capital) Assets 320

Investment and Return 320

Time Value of Money 321

 Some Standard Notation 321

- The Technological Edge: Can a Return on Human Knowledge Be Calculated? 322

 Future Value 323

 Multiple Periods 323

 Computing Future Values for Multiple Periods 324

 Compound Growth of Interest 325

 Present Value 325

 Decay of a Present Value 328

 Present Value and Future Value of Annuities 328

Computing the Annuity Required to Repay a Loan 332

 Cost of Capital 334

Capital Budgeting 334

 Shirley's Doughnut Hole 335

 Payback Criterion 335

 Accounting Rate of Return Criterion 336

 Net Present Value Criterion 337

 Internal Rate of Return Criterion 339

Profitability Index	340
Economic Value Added Criterion	341
Effect of Taxes	342

Summary Example 344

Payback Criterion	345
Accounting Rate of Return Criterion	345
Net Present Value Criterion	346
Internal Rate of Return Criterion	346

Uncertainty in Cash Flows 346

What-If and Sensitivity Analysis 347

Strategic Considerations 349

Post-Implementation Audits and Capital Budgeting 350

Budgeting Other Spending Proposals 351

Summary 352

Key Terms 352

Appendix 8-1 353

Appendix 8-2 353

Assignment Materials 354

Chapter 9

**Management Accounting and Control Systems for Strategic Purposes:
Assessing Performance over the Entire Value Chain 364**

What Are Management Accounting and Control Systems? 366

The Meaning of “Control” in Management Accounting and Control Systems	366
---	-----

Characteristics of Well-Designed Management Accounting and Control Systems 368

Technical Considerations	368
The Value Chain	369
Total-Life-Cycle Costing	370
■ The Technological Edge: Aligning IT with the Value Chain in Financial Services	370

Target Costing 373

Comparing Traditional Cost Reduction to Target Costing 373

Traditional Costing	373
Concerns about Target Costing	376
■ In Practice: Cost Savings on Boeing Aircraft Using Target Costing and Value Engineering	377

Kaizen Costing 378

Comparing Traditional Cost Reduction to Kaizen Costing	378
Concerns about Kaizen Costing	379

Environmental Costing 380

Controlling Environmental Costs	380
---------------------------------	-----

Benchmarking 381

■ In Practice: Union Carbide Corporation’s Responsible Care Policy	382
--	-----

Stage 1: Internal Study and Preliminary Competitive Analyses	383
Stage 2: Developing Long-Term Commitment to the Benchmarking Project and Coalescing the Benchmarking Team	383
Stage 3: Identifying Benchmarking Partners	385
■ In Practice: Benchmarking Speed to Market of Automobile Manufacturers	385
Stage 4: Information Gathering and Sharing Methods	386
Stage 5: Taking Action to Meet or Exceed the Benchmark	387
Summary	387
Key Terms	388
Assignment Materials	388

Chapter 10

Motivating Behavior in Management Accounting and Control Systems 394

Management Accounting and Control Systems 396

The Human Resource Management Model of Motivation 396

The Organization's Ethical Code of Conduct and MACS Design 397

Avoiding Ethical Dilemmas 397

Dealing with Ethical Conflicts 398

Conflicts between Individual and Organizational Values 398

 ■ In Practice: Cheats on the Links Are Cheats at the Job 399

Conflicts between the Organization's Stated and Practiced Values 399

The Elements of an Effective Ethical Control System 400

 ■ In Practice: The Wall Street Journal Workplace-Ethics Quiz 401

Steps in Making an Ethical Decision 401

 ■ In Practice: Answers to the Ethics Quiz 402

Motivation and Goal Congruence 402

 ■ The Technological Edge: Big Brother at Work? 405

Using a Mix of Performance Measures—The Balanced Scorecard Approach 406

The Need for Multiple Measures of Performance 406

Using a Mix of Quantitative Performance Measures 407

The Balanced Scorecard 408

Empowering Employees to Be Involved in MACS Design 409

Participation in Decision Making 409

 ■ In Practice: Does the Balanced Scorecard Work? 410

Education to Understand Information 411

Developing Appropriate Incentive Systems to Reward Performance 412

Intrinsic Rewards 412

Extrinsic Rewards 413

Choosing between Intrinsic and Extrinsic Rewards 413

Extrinsic Rewards Based on Performance 413

Effective Performance Measurement and Reward Systems 414

Conditions Favoring Incentive Compensation 415

Incentive Compensation and Employee Responsibility 416

■ In Practice: Long-Term Performance Incentives	416
Rewarding Outcomes	417
Managing Incentive Compensation Plans	418
Types of Incentive Compensation Plans	418
Summary	423
Key Terms	424
Assignment Materials	424
Chapter 11	
Using Budgets to Achieve Organizational Objectives	436
Determining the Levels of Capacity-Related and Flexible Resources	438
The Budgeting Process	438
Master Budget Outputs	442
Operating Budgets	442
Financial Budgets	443
The Budgeting Process Illustrated	446
Ontario Tole Art, Buoy Division	446
■ In Practice: Budgeting in Government	447
Demand Forecast	449
The Production Plan	449
Aggregate Planning	450
Developing the Spending Plan	451
Choosing the Capacity Levels	452
Handling Infeasible Production Plans	454
Interpreting the Production Plan	454
The Financial Plans	455
Understanding the Cash Flow Statement	457
Using the Financial Plans	460
Using the Projected Results	460
Cost-Volume-Profit Analysis	461
Extending Cost-Volume-Profit Analysis for Multiproduct Organizations	463
What-If Analysis	466
Evaluating Decision-Making Alternatives	467
Sensitivity Analysis	467
■ In Practice: Budgeting in High-Technology Organizations	467
Comparing Actual and Planned Results	468
The Role of Budgeting in Service and Not-for-Profit Organizations	468
Periodic and Continuous Budgeting	470
■ In Practice: Ethics in Budgeting	470
Controlling Discretionary Expenditures	471
Incremental Budgeting	471
Zero-Based Budgeting	472
Activity-Based Budgeting	472
Project Funding	473

■ The Technological Edge: The Benefits of E-Budgeting	474
Managing the Budgeting Process	474
Behavioral Aspects of Budgeting	475
Designing the Budget Process	475
■ In Practice: Five Ways to Manage People Facing Stretch Targets	477
Influencing the Budget Process	477
■ In Practice: “Oh the (Budgeting) Games People Play Now, Every Night and Every Day Now, Never Meaning What They Say, Never Saying What They Mean” (with apologies to Joe South; Capital Records, 1969)	478
Summary	482
Key Terms	483
Assignment Materials	483
Chapter 12	
Responsibility Centers and Financial Control	504
■ In Practice: Focusing on Cash Flow	506
Financial Control	506
■ In Practice: Financial Control at Ford Motor Corporation	506
Variance Analysis	507
■ In Practice: Using Other Performance Indicators for Cost Centers	507
■ The Technological Edge: Another Kind of Variance Analysis:	
Meeting Expectations	508
Basic Variance Analysis	508
Canning Cellular Services	509
First-Level Variances	510
Decomposing the Variances	511
Planning and Flexible Budget Variances	512
Use and Price Variances for Material and Labor	513
Decentralization	517
Controlling Operations Using Financial Control	518
■ In Practice: Improving Performance at Liz Claiborne	519
■ In Practice: Choosing Between Operations and Financial Control	519
Responsibility Centers	520
Coordinating Responsibility Centers	520
Accounting for Responsibility Centers	521
Responsibility Center Types	522
Evaluating Responsibility Centers	529
■ In Practice: Segment Margins and Financial Control	531
Transfer Pricing	535
Approaches to Transfer Pricing	536
Assigning and Valuing Assets in Investment Centers	542
Efficiency and Productivity Elements of Return on Investment	542
Assessing Organization Efficiency Using Financial Control	544
Assessing Productivity Using Financial Control	544
Assessing Return on Investment	545

Using Ratio Trends	545
Time Series Comparisons	546
Cross-Sectional Comparisons	546
Questioning the Return on Investment Approach	548
Using Economic Value Added	549
■ In Practice: Economic Value Added at Coca-Cola	550
■ In Practice: Trade Loading at R. J. Reynolds	551
■ In Practice: Financial Versus Operations Control	552

The Efficacy of Financial Control 552

Summary 554

Key Terms 555

Assignment Materials 555

Glossary 573

Subject Index 583

Company Index 594