

Brief Contents

Part 1	Overview	1
Chapter 1	Introduction to Cost and Management Accounting in a Global Business Environment	2
Chapter 2	Introduction to Cost Management Systems	40
Part 2	Systems and Methods of Product Costing	75
Chapter 3	Organizational Cost Flows	76
Chapter 4	Activity-Based Cost Systems for Management	130
Chapter 5	Job Order Costing	172
Chapter 6	Process Costing	218
Chapter 7	Special Production Issues: Lost Units and Accretion	260
Chapter 8	Implementing Quality Concepts	302
Chapter 9	Cost Allocation for Joint Products and By-Products	342
Chapter 10	Standard Costing	380
Part 3	Planning and Controlling	441
Chapter 11	Absorption/Variable Costing and Cost-Volume-Profit Analysis	442
Chapter 12	Relevant Costing	498
Chapter 13	The Master Budget	550
Chapter 14	Capital Budgeting	600
Chapter 15	Financial Management	660
Part 4	Decision Making	709
Chapter 16	Innovative Inventory and Production Management Techniques	710
Chapter 17	Emerging Management Practices	762
Chapter 18	Responsibility Accounting and Transfer Pricing in Decentralized Organizations	796
Part 5	Evaluating Performance	855
Chapter 19	Measuring Short-Run Organizational Performance	856
Chapter 20	Measuring Long-Run and Nonfinancial Organizational Performance	898
Chapter 21	Rewarding Performance	928
Appendix A: Present Value Tables		A-1
Glossary		G-1
Author Index		I-1
Organizational Index		I-4
Subject Index		I-8

PART 1 OVERVIEW 1**CHAPTER 1****INTRODUCTION TO COST AND MANAGEMENT ACCOUNTING IN A GLOBAL BUSINESS ENVIRONMENT 2***Learning Objectives* 2*Introducing ABN AMRO Bank* 3**Introduction to Cost Accounting** 3

Relationship of Financial and Management Accounting to Cost Accounting 5

Management and Cost Accounting Standards 7

Ethics for Management Accountant Professionals 8

The Global Environment of Business 9

E-Commerce 9

Trade Agreements 10

Globalization Considerations 10

News Note: Taking Business South 12**News Note:** Unacceptable Rebates 14**News Note:** Addressing Ethical Challenges at TI 15**Organizational Strategy** 16**News Note:** Where Are We Going? 16**Influences on Organizational Strategy** 18

Organizational Structure 18

Core Competencies 19

News Note: Finding Core Competencies 20

Organizational Constraints 20

Organizational Culture 21

Environmental Constraints 22

Responses to Competition 22**News Note:** Less Costs More?? 22**Role of Accounting in Organizations** 24**News Note:** Less Time Means More Profits 27*Revisiting ABN AMRO Bank* 28*Chapter Summary* 29*Key Terms* 30*Questions* 30*Exercises* 32*Cases* 35*Reality Check* 37**CHAPTER 2****INTRODUCTION TO COST MANAGEMENT SYSTEMS 40***Learning Objectives* 40*Introducing Motorola, Inc.* 41**Introduction to Management Information and Control Systems** 42**Defining a Cost Management System** 45**News Note:** A Little Pain Now for a (Potential) Big Gain Later 47**Designing a Cost Management System** 48

Organizational Form, Structure, and Culture 48

Organizational Mission and Core Competencies 50

Competitive Environment and Strategies 52

News Note: How Do You Raise Profits without Raising Prices? 52**News Note:** Can a David Survive Among the Goliaths? 55**Elements of a Cost Management System** 55

Motivational Elements 56

News Note: What's in It for Me? 57**News Note:** Show Me the Money! 58

Informational Elements 58

Reporting Elements 60

CMS Implementation 61*Revisiting Motorola, Inc.* 62*Chapter Summary* 63*Appendix—Cost Management System Conceptual Design**Principles* 64*Key Terms* 65*Questions* 65*Exercises* 66*Cases* 68*Reality Check* 72**PART 2 SYSTEMS AND METHODS OF PRODUCT COSTING 75****CHAPTER 3****ORGANIZATIONAL COST FLOWS 76***Learning Objectives* 76*Introducing Wisconsin Film & Bag* 77**Cost Classifications on the Financial Statements** 78**The Conversion Process** 79

Retailers versus Manufacturers/Service Companies 80

Manufacturers versus Service Companies 80

Stages of Production 82**Cost Reactions to Changes in Activity** 83

Separating Mixed Costs 87

Components of Product Cost	89
Direct Material	90
Direct Labor	90
News Note: Showing Concern for Suppliers	91
Overhead	92
News Note: Firms See High-Wage Germany in a New Light	95
News Note: Stadium Squeeze Play	94
Accumulation and Allocation of Overhead	95
Why Overhead Costs Are Allocated	95
Predetermined Overhead Rates	95
Accumulation of Product Costs—Actual Cost System	100
Cost of Goods Manufactured and Sold	102
Accumulation of Product Costs—Normal Cost System	105
<i>Revisiting Wisconsin Film & Bag</i>	105
Chapter Summary	106
Appendix—Plantwide versus Departmental Overhead Application Rates	107
Key Terms	109
Solution Strategies	110
Demonstration Problem	112
Questions	114
Exercises	115
Problems	122
Case	127
Reality Check	128
CHAPTER 4	
ACTIVITY-BASED COST SYSTEMS FOR MANAGEMENT	130
Learning Objectives	130
Introducing Carrier Corporation	131
Activity-Based Management	132
Value-Added versus Non-Value-Added Activities	132
News Note: Sorting Suppliers for Competitive Advantage	133
Manufacturing Cycle Efficiency	135
Cost Driver Analysis	136
Activity-Based Costing	141
News Note: Paying the Postman	142
Two-Step Allocation	142
Activity-Based Costing Illustrated	144
Short-Term and Long-Term Variable Costs	145
Attribute-Based Costing	146
Determining Whether ABC Is Appropriate	147
With Product Variety and Product Complexity	147
With Lack of Commonality in Overhead Costs	149
With Problems in Current Cost Allocations	149
With Changes in Business Environment	149
News Note: Measuring Customers to Manage Profits	150
Criticisms of Activity-Based Costing	150
<i>Revisiting Carrier Corporation</i>	152
Chapter Summary	152
Key Terms	153
Solution Strategies	154
Demonstration Problem	154
Questions	155
Exercises	156
Problems	160
Cases	165
Reality Check	170
CHAPTER 5	
JOB ORDER COSTING	172
Learning Objectives	172
Introducing Aker Golf Marine	173
Methods of Product Costing	174
Costing Systems	174
Valuation Methods	175
News Note: Putting around Building Golf Clubs	175
Job Order Costing System	176
Job Order Costing: Details and Documents	177
Material Requisitions	178
Job Order Cost Sheet	179
Employee Time Sheets	179
Overhead	182
News Note: High Tech Is High Overhead	182
Completion of Production	183
Job Order Costing and Technology	183
News Note: Middle Market Manufacturing Going “Soft” for GPAs	184
Job Order Costing Illustration	184
Job Order Costing Using Standard Costs	187
Job Order Costing to Assist Managers	190
Custom Systems: An Illustration of Job Costing Information	190
Monihan’s Boatworks	191
<i>Revisiting Aker Golf Marine</i>	192
Chapter Summary	193
Key Terms	194
Solution Strategies	194
Demonstration Problem	194
Questions	197
Exercises	198
Problems	204
Cases	211
Reality Check	214
CHAPTER 6	
PROCESS COSTING	218

<i>Learning Objectives</i>	218
<i>Introducing Lumina Candles & Art</i>	219
Introduction to Process Costing	220
The Numerator	220
The Denominator	221
Equivalent Units of Production	222
Weighted Average and FIFO Process Costing Methods	222
EUP Calculations and Cost Assignments	224
News Note: Costing is a Three-Step Process	225
Weighted Average Method	227
FIFO Method	229
Process Costing in a Multidepartment Setting	233
Process Costing with Standard Costs	235
Hybrid Costing Systems	238
News Note: Computer Techniques for Car Production	239
<i>Revisiting Lumina Candles & Art</i>	239
<i>Chapter Summary</i>	240
<i>Appendix—Alternative Calculations of Weighted Average and FIFO Methods</i>	241
<i>Key Terms</i>	242
<i>Solution Strategies</i>	242
<i>Demonstration Problem</i>	245
<i>Questions</i>	246
<i>Exercises</i>	246
<i>Problems</i>	251
<i>Case</i>	258
<i>Reality Check</i>	258

CHAPTER 7**SPECIAL PRODUCTION ISSUES: LOST UNITS AND ACCRETION 260**

<i>Learning Objectives</i>	260
<i>Introducing General Electric Company</i>	261
Loss of Units	262
News Note: Closing the Curtain on Contaminants	262
Types of Lost Units	263
Accounting for Lost Units	265
Illustrations of Lost Units	266
Situation 1—Normal Loss Only: Loss Occurs Throughout Production Process (Continuous)	267
Situation 2—Normal Spoilage Only: Spoilage Determined at Final Inspection Point in Production Process (Discrete)	268
Situation 3—Normal Spoilage Only: Spoilage Determined During Production Process (Discrete)	269
Situation 4—Abnormal Shrinkage (Continuous or Discrete); Some Normal Shrinkage (Continuous)	270
Defective Units	274

Defects/Spoilage in Job Order Costing	275
Generally Anticipated on All Jobs	276
Specifically Identified with a Particular Job	276
Abnormal Spoilage	277

Accretion 277**Controlling Quality to Minimize Lost Units 279**

News Note: Analyzing Root Cause	281
News Note: Keeping an "Eye" on Things	282

<i>Revisiting General Electric Company</i>	282
<i>Chapter Summary</i>	283
<i>Key Terms</i>	284
<i>Solution Strategies</i>	284
<i>Demonstration Problem</i>	285
<i>Questions</i>	287
<i>Exercises</i>	288
<i>Problems</i>	291
<i>Case</i>	297
<i>Reality Check</i>	298

CHAPTER 8**IMPLEMENTING QUALITY CONCEPTS 302**

<i>Learning Objectives</i>	302
<i>Introducing Sollectron Corporation</i>	303

What is Quality 304

News Note: Packard Bell to End Operations in the United States	305
Production View of Quality	305
Consumer View of Quality	306
News Note: Undercover with a Hotel Spy—He Checks to See If Belthops Are Hopping	308

Benchmarking 309**Total Quality Management 310**

The Quality System	311
Employee Involvement	311
Product/Service Improvement	311
News Note: Suggestions are Power	312
The Quality Goal	313

Types of Quality Costs 314

News Note: CDC Tactics Used to Attack Auto Problems	317
--	-----

Measuring the Cost of Quality 317**Obtaining Information from the Cost Management System 321****Quality as an Organizational Culture 322**

News Note: Getting It Right Produces Profits	323
---	-----

<i>Revisiting Sollectron Corporation</i>	324
<i>Chapter Summary</i>	325
<i>Appendix—International Quality Standards</i>	326
<i>Key Terms</i>	327
<i>Solution Strategies</i>	328

<i>Demonstration Problem</i>	328	Material and Labor Variance Computations	389
<i>Questions</i>	329	Material Variances	389
<i>Exercises</i>	330	Point of Purchase Material Variance Model	391
<i>Problems</i>	334	Labor Variances	392
<i>Reality Check</i>	337	Overhead Variances	392
CHAPTER 9		News Note: The Fixed Cost Challenge	393
COST ALLOCATION FOR JOINT PRODUCTS AND BY-PRODUCTS	342	Variable Overhead	394
<i>Learning Objectives</i>	342	Fixed Overhead	395
<i>Introducing Buckhead Beef Company</i>	343	Alternative Overhead Variance Approaches	396
Outputs of a Joint Process	344	Standard Cost System Journal Entries	398
News Note: Can You Believe It?	345	Why Standard Cost Systems Are Used	401
The Joint Process	345	Clerical Efficiency	401
Management Decisions Regarding Joint Processes	348	Motivation	401
Allocation of Joint Cost	350	Planning	401
Physical Measure Allocation	350	Controlling	402
Monetary Measure Allocation	351	News Note: Controlling Costs by Design	403
Accounting for By-Products and Scrap	357	Decision Making	404
Net Realizable Value Approach	357	Performance Evaluation	404
Realized Value Approach	358	News Note: Which Standard Costing System?	404
By-Products or Scrap in Job Order Costing	360	Considerations in Establishing Standards	405
News Note: Get a Load of This!	361	Appropriateness	405
Joint Costs in Service and Not-for-Profit Organizations	362	Attainability	405
<i>Revisiting Buckhead Beef Company</i>	362	Changes in Standards Usage	406
<i>Chapter Summary</i>	363	Use of Ideal Standards and Theoretical Capacity	406
<i>Key Terms</i>	363	Adjusting Standards	407
<i>Solution Strategies</i>	364	Price Variance Based on Purchases versus on Usage	408
<i>Demonstration Problem</i>	364	Decline in Direct Labor	408
<i>Questions</i>	365	Conversion Cost as an Element in Standard Costing	408
<i>Exercises</i>	366	<i>Revisiting Commerce Bancorp</i>	410
<i>Problems</i>	373	<i>Chapter Summary</i>	411
<i>Case</i>	377	<i>Appendix—Mix and Yield Variances</i>	412
<i>Reality Check</i>	377	<i>Key Terms</i>	416
CHAPTER 10		<i>Solution Strategies</i>	417
STANDARD COSTING	380	<i>Demonstration Problem</i>	420
<i>Learning Objectives</i>	380	<i>Questions</i>	421
<i>Introducing Commerce Bancorp</i>	381	<i>Exercises</i>	422
Development of a Standard Cost System	382	<i>Problems</i>	428
Material Standards	383	<i>Cases</i>	435
News Note: Chef Provides Menu for Cost Control	383	<i>Reality Check</i>	438
Labor Standards	384	PART 3 PLANNING AND CONTROLLING	441
Overhead Standards	385	CHAPTER 11	
Variance Computations	387	ABSORPTION VARIABLE COSTING AND COST-VOLUME-PROFIT ANALYSIS	442
		<i>Learning Objectives</i>	442
		<i>Introducing Torrington Supply Co.</i>	443
		An Overview of Absorption and Variable Costing	443

Absorption and Variable Costing Illustrations 446

News Note: Using Goodwill as the Vital Income Determinant 447

Comparison of the Two Approaches 450**Definition and Uses of CVP Analysis** 451**The Break-Even Point** 451

News Note: Managing CVP Information 452

News Note: It Moves 453

Formula Approach to Breakeven 454**Using Cost-Volume-Profit Analysis** 455

Fixed Amount of Profit 456

Variable Amount of Profit 458

The Income Statement Approach 460**Incremental Analysis for Short-Run Changes** 461**CVP Analysis in a Multiproduct Environment** 463

News Note: Rationale for Activity-Based Costing Analysis 464

Margin of Safety 465**Operating Leverage** 467

News Note: Bucking the Hospitality Trend 468

Underlying Assumptions of CVP Analysis 469**Quality and Costs** 470

Revisiting Torrington Supply Co. 471

Chapter Summary 472

Appendix—Graphic Approaches to Breakeven 473

Key Terms 477

Solution Strategies 478

Demonstration Problem 479

Questions 480

Exercises 481

Problems 485

Cases 491

Reality Check 495

CHAPTER 12**RELEVANT COSTING** 498

Learning Objectives 498

Introducing PricewaterhouseCoopers 499

The Concept of Relevance 500

Association with Decision 500

Importance to Decision Maker 501

Bearing on the Future 501

News Note: Health Care Accounting Systems Are Seriously Sick 502

Sunk Costs 502**Relevant Costs for Specific Decisions** 504

Outsourcing Decisions 504

Scarce Resources Decisions 508

Sales Mix Decisions 510

News Note: The A B Ps of Marketing 511

News Note: Dental Practices Satisfy Patients or Get Flogged 514

Special Order Decisions 516

Product Line Decisions 518

News Note: Firing Customers to Increase Profits 520

Revisiting PricewaterhouseCoopers 521

Chapter Summary 521

Appendix—Linear Programming 522

Key Terms 528

Solution Strategies 528

Demonstration Problem 529

Questions 530

Exercises 531

Problems 539

Cases 545

Reality Check 548

CHAPTER 13**THE MASTER BUDGET** 550

Learning Objectives 550

Introducing The HON Company 551

The Budgeting Process 552

News Note: Replacing a Whim and a Prayer with Relevant Data 553

News Note: The Balanced Scorecard and Drill-Down Software 554

The Master Budget 556**The Master Budget Illustrated** 559

Sales Budget 559

Production Budget 560

Purchases Budget 561

News Note: Primer on Production Budgets 561

Personnel Budget 562

Direct Labor Budget 562

Overhead Budget 563

Selling and Administrative Budgets 564

Capital Budget 564

Cash Budget 564

Budgeted Financial Statements 572

Concluding Comments 575

Revisiting The HON Company 577

Chapter Summary 578

Appendix—The Budget Manual 578

Key Terms 579

Solution Strategies 579

Demonstration Problem 581

Questions	582
Exercises	583
Problems	588
Cases	595
Reality Check	598

CHAPTER 14**CAPITAL BUDGETING 600**

Learning Objectives	600
Introducing Amazon.com	601

Use of Cash Flows in Capital Budgeting 602

Cash Flows Illustrated	603
Time Lines	603
Payback Period	604
News Note: Dear Uncle Sam: Please Send Money	605

Discounting Future Cash Flows 606

Discounted Cash Flow Methods	607
Net Present Value Method	607
Profitability Index	608
Internal Rate of Return	609

The Effect of Depreciation on After-Tax Cash Flows 612**Assumptions and Limitations of Methods 615**

The Investment Decision	615
Is the Activity Worthy of an Investment?	615
Which Assets Can Be Used for the Activity?	617
Of the Available Assets for Each Activity, Which Is the Best Investment?	617
News Note: Technology: What's It Worth?	617
Of the "Best Investments" for All Worthwhile Activities, in Which Ones Should the Company Invest?	618

Ranking Multiple Capital Projects	620
Multiple Projects—Equal Lives, Constant Cash Flows, Unequal Investments	620
Multiple Projects—Unequal Lives, Constant but Unequal Cash Flows, Unequal Investments	622
Multiple Projects—Equal Lives, Equal Investments, Unequal Cash Flows	623

Ranking Projects Under Capital Rationing 625**Compensating for Risk in Capital Project**

Evaluation	627
News Note: Advertising—How Much Is Enough?	628
Judgmental Method	628
Risk-Adjusted Discount Rate Method	628
Sensitivity Analysis	629

Postinvestment Audit 631

Revisiting Amazon.com	632
Chapter Summary	632
Appendix 1—Time Value of Money	634

Appendix 2—Accounting Rate of Return	635
Key Terms	636
Solution Strategies	637
Demonstration Problem	638
Questions	639
Exercises	640
Problems	648
Cases	654
Reality Check	656

CHAPTER 15**FINANCIAL MANAGEMENT 660**

Learning Objectives	660
Introducing Lucent Technologies	661

Cost Control Systems	661
Cost Understanding	663
News Note: Finding Value in Sharing	663
News Note: Real Time...Real Money	666
Cost Containment	666
News Note: Who Regulates the Cost of Regulation?	667
Cost Avoidance and Reduction	668
News Note: Accounting for the Accounting Function	669

Committed Fixed Costs 671

Discretionary Costs	672
Budgeting Discretionary Costs	673
Measuring Benefits from Discretionary Costs	674

Controlling Discretionary Costs 677

Control Using Engineered Costs	677
Control Using the Budget	679

Activity-Based Budgeting 682

Cash Management Issues	683
What Variables Influence the Optimal Level of Cash?	684
What Are the Sources of Cash?	684
What Variables Influence the Cost of Carrying Cash?	685

Revisiting Lucent Technologies	686
Chapter Summary	686
Appendix—Program and Zero-Base Budgeting	687
Key Terms	689
Solution Strategies	690
Demonstration Problem	691
Questions	691
Exercises	693
Problems	699
Cases	703
Reality Check	706

PART 4 DECISION MAKING 709**CHAPTER 16****INNOVATIVE INVENTORY AND PRODUCTION MANAGEMENT TECHNIQUES 710**

<i>Learning Objectives</i>	710
<i>Introducing Alexander Doll Co.</i>	711
Important Sets of Relationships in the Value Chain	712
Buying or Producing and Carrying Inventory	713
Purchasing Techniques	714
Information Technology and Purchasing	715
Advances in Authorizing and Empowering Purchases	716
News Note: Vendor-Managed Inventory	716
Inventory-Carrying Costs	717
Understanding and Managing Production Activities and Costs	717
Product Life Cycles	717
Just-in-Time Systems	723
News Note: Wearable Computer Gives Workers Just-in-Time Help	733
Design for Manufacturability	730
Flexible Manufacturing Systems and Computer-Integrated Manufacturing	739
Theory of Constraints	740
<i>Revisiting Alexander Doll Co.</i>	742
<i>Chapter Summary</i>	743
<i>Appendix—EOQ and Related Issues</i>	744
<i>Key Terms</i>	747
<i>Solution Strategies</i>	748
<i>Demonstration Problem</i>	749
<i>Questions</i>	750
<i>Exercises</i>	752
<i>Problems</i>	756
<i>Cases</i>	759
<i>Reality Check</i>	760
CHAPTER 17	
EMERGING MANAGEMENT PRACTICES	762
<i>Learning Objectives</i>	762
<i>Introducing CarPoint</i>	763
The Changing Workplace	764
Business Process Reengineering	764
Downsizing and Restructuring	766
News Note: In the High-Tech Market, It's Eat or Be Eaten	767
Workforce Diversity	769
News Note: Is It Just a Little White Lie?	770
Enterprise Resource Planning Systems (ERP)	771
News Note: E-Biz and ERP	774
Strategic Alliances	775
News Note: Cell Phone Competition Rings Up a New Strategy	776
Open-Book Management	777
Games People Play	778
Motivating Employees	780
News Note: Learning by Earning	781
Implementation Challenges	781
Environmental Management Systems	782
<i>Revisiting CarPoint</i>	784
<i>Chapter Summary</i>	785
<i>Key Terms</i>	786
<i>Questions</i>	786
<i>Exercises</i>	787
<i>Cases</i>	791
<i>Reality Check</i>	794
CHAPTER 18	
RESPONSIBILITY ACCOUNTING AND TRANSFER PRICING IN DECENTRALIZED ORGANIZATIONS	796
<i>Learning Objectives</i>	796
<i>Introducing Abbott Laboratories</i>	797
Decentralization	797
Advantages of Decentralization	799
Disadvantages of Decentralization	800
Responsibility Accounting Systems	801
Basic Types of Responsibility Centers	806
Cost Centers	806
Revenue Centers	808
Profit Centers	809
Investment Centers	810
Pseudo and Real Microprofit Centers	811
Service Department Cost Allocation	812
Reasons for Service Department Cost Allocations	812
Allocation Bases	814
Methods of Allocating Service Department Costs	814
Service Department Cost Allocation Illustration	816
Direct Method Allocation	817
Step Method Allocation	818
Algebraic Method Allocation	819
Transfer Pricing	823
Cost-Based Transfer Prices	824
Market-Based Transfer Prices	827
Negotiated Transfer Prices	827
Dual Pricing	828
Selecting a Transfer Pricing System	828
News Note: Dual Pricing	829
Transfer Prices for Service Departments	830
Setting Service Transfer Prices	830
Advantages and Disadvantages of Service Transfer Prices	830
Advantages of Service Transfer Prices	830
Disadvantages of Service Transfer Prices	831
Transfer Prices in Multinational Settings	832
News Note: Get the Transfer Price Right	833

<i>Revisiting Abbott Laboratories</i>	834
<i>Chapter Summary</i>	834
<i>Key Terms</i>	836
<i>Solution Strategies</i>	836
<i>Demonstration Problem</i>	837
<i>Questions</i>	838
<i>Exercises</i>	839
<i>Problems</i>	844
<i>Cases</i>	850
<i>Reality Check</i>	852

PART 5. EVALUATING PERFORMANCE 855

CHAPTER 19

MEASURING SHORT-RUN ORGANIZATIONAL PERFORMANCE 856

<i>Learning Objectives</i>	856
<i>Introducing Wachovia</i>	857

Organizational Roles of Performance Measures 858

Information for Evaluating Capital Market Performance	859
Information for Evaluating Organizational Learning and Change	860
News Note: The Bottom Side of Sears	861
Information for Evaluating Product/Subunit Performance	862

Designing a System of Performance Measurement 862

Selecting Performance Measures	862
Multiple Performance Measures	863
Awareness of and Participation in Performance Measures	863
News Note: Putting Balance into the Scorecard	865
Appropriate Tools for Performance	865
Need for Feedback	866

Traditional Short-Term Financial Performance Measures 866

Divisional Profits	868
Cash Flow	868
Return on Investment	869
Residual Income	874
Economic Value Added	875
Limitations of Return on Investment, Residual Income and Economic Value Added	876
News Note: But, If the Bird's Not in the Hand	877

<i>Revisiting Wachovia</i>	878
<i>Chapter Summary</i>	878
<i>Key Terms</i>	879
<i>Solution Strategies</i>	879
<i>Demonstration Problem</i>	880
<i>Questions</i>	881
<i>Exercises</i>	882

<i>Problems</i>	887
<i>Cases</i>	891
<i>Reality Check</i>	896

CHAPTER 20

MEASURING LONG-RUN AND NONFINANCIAL ORGANIZATIONAL PERFORMANCE 898

<i>Learning Objectives</i>	898
<i>Introducing WMC Limited</i>	899

Vision and Mission Statements 899

News Note: What a Vision Statement Does	900
--	-----

Differences in Perspectives 901

Nonfinancial Performance Measures	903
Selection of Nonfinancial Measures	903
News Note: What Grade Did I Make?	905
News Note: Measure What You Want to Manage	905
Establishment of Comparison Bases	905
Use of Multiple Measures	907

Throughput as a Nonfinancial Performance Measure 908

Activity-Based Management and Performance Evaluation 910

Performance Evaluation in Multinational Settings 912

Using a Balanced Scorecard for Measuring Performance 914

News Note: Balancing the City	916
--------------------------------------	-----

Revisiting WMC Limited 918

Chapter Summary 918

Appendix 1—Developing Comprehensive Performance Indicators 919

Appendix 2—Performance Measurement Areas and Cost Drivers 920

Key Terms 920

Solution Strategies 922

Demonstration Problem 922

Questions 923

Exercises 924

Problems 925

Reality Check 927

CHAPTER 21

REWARDING PERFORMANCE 928

<i>Learning Objectives</i>	928
<i>Introducing Meridia Health System</i>	929

Compensation Strategy 930

News Note: Should CEOs Help Set Their Own Pay?	931
---	-----

Pay-for-Performance Plans	932	Ethical Considerations of Compensation	944
News Note: New Fashion Trend in Europe: Variable Pay	932	Organizational Governance	945
Correlation with Organizational Goals	933	Role of Capital Markets	945
Appropriate Time Horizon	933	Compensation Differentials	946
Subunit Mission	933	News Note: What Would Plato Think?	947
Consideration of Employee Age	935	Global Compensation	948
Balance Group and Individual Benefits	935	<i>Revisiting Meritax Health System</i>	949
Management Ownership	935	Chapter Summary	950
Considerations in Setting Performance Measures	936	Key Terms	951
Degree of Control over Performance Output	936	Solution Strategies	951
News Note: Paying the Board of Directors	936	Questions	952
Incentives Relative to Organizational Level	937	Exercises	953
Performance: Plans and Feedback	937	Cases	957
Worker Compensation	938	Reality Check	959
Worker Pay and Performance Links	938		
Promoting Overall Success	939	APPENDIX A: PRESENT VALUE TABLES	A-1
Nonfinancial Incentives	940	GLOSSARY	G-1
Managerial Compensation	940	AUTHOR INDEX	I-1
Not-for-Profit and Governmental Compensation	942	ORGANIZATION INDEX	I-4
Tax Implications of Compensation Elements	942	SUBJECT INDEX	I-8
Fringe Benefits	943		
Deferred Compensation	944		