Brief Contents

Chapter 1  Management Accounting and Corporate Governance  2
Chapter 2  Cost Behavior, Operating Leverage, and Profitability Analysis  54
Chapter 3  Analysis of Cost, Volume, and Pricing to Increase Profitability  106
Chapter 4  Cost Accumulation, Tracing, and Allocation  150
Chapter 5  Cost Management in an Automated Business Environment: ABC, ABM, and TQM  202
Chapter 6  Relevant Information for Special Decisions  252
Chapter 7  Planning for Profit and Cost Control  304
Chapter 8  Performance Evaluation  348
Chapter 9  Responsibility Accounting  398
Chapter 10 Planning for Capital Investments  442
Chapter 11 Product Costing in Service and Manufacturing Entities  484
Chapter 12 Job-Order, Process, and Hybrid Costing Systems  534
Chapter 13 Financial Statement Analysis  586
Chapter 14 Statement of Cash Flows  636

Appendix A  Accessing the EDGAR Database through the Internet  692

Glossary  693

Credits  702

Index  703
## Contents

### Chapter 1  Management Accounting and Corporate Governance  2

**Chapter Opening** 2  
**Differences between Managerial and Financial Accounting** 4  
  - Users and Types of Information 4  
  - Level of Aggregation 4  
  - Regulation 5  
  - Information Characteristics 5  
  - Time Horizon and Reporting Frequency 5  
**Product Costing in Manufacturing Companies** 5  
  - Components of Product Costing 5  
  - Tabor Manufacturing Company 5  
  - Average Cost per Unit 6  
  - Costs Can Be Assets or Expenses 7  
  - Effect of Product Costs on Financial Statements 8  
  - Overhead Costs: A Closer Look 11  
  - Manufacturing Product Cost Summary 12  
**Upstream and Downstream Costs** 13  
**Product Costing in Service and Merchandising Companies** 13  
**Just-in-Time Inventory** 14  
  - Just-in-Time Illustration 14  
**Corporate Governance** 16  
  - The Motive to Manipulate 16  
  - Statement of Ethical Professional Practice 18  
  - The Fraud Triangle 18  
  - Sarbanes-Oxley Act of 2002 21  
**A Look Back** 23  
**A Look Forward** 24  
**Appendix** 24  
**Self-Study Review Problem** 25  
**Key Terms** 27  
**Questions** 27  
**Exercises—Series A** 28  
**Problems—Series A** 34  
**Exercises—Series B** 38  
**Problems—Series B** 44  
**Analyze, Think, Communicate** 48  
**Comprehensive Problem** 52

### Chapter 2  Cost Behavior, Operating Leverage, and Profitability Analysis  54

**Chapter Opening** 54  
**Fixed Cost Behavior** 56  
**Operating Leverage** 56  
**Variable Cost Behavior** 58  
  - Risk and Reward Assessment 58  
**Effect of Cost Structure on Profit Stability** 59  
**An Income Statement under the Contribution margin Approach** 61  
**Using Fixed Cost to Provide a Competitive Operating Advantage** 61  
**Measuring Operating Leverage Using Contribution Margin** 62  
**Cost Behavior Summarized** 63  
  - Mixed Costs (Semivariable Costs) 64  
  - The Relevant Range 65  
  - Context-Sensitive Definitions of Fixed and Variable 65  
**Cost Averaging** 66  
**Use of Estimates in Real-World Problems** 68  
  - High-Low Method of Estimating Fixed and Variable Costs 68
Chapter 3  Analysis of Cost, Volume, and Pricing to Increase Profitability  106

Chapter Opening  106
Determining the Break-Even Point  108
  Equation Method  108
  Contribution Margin per Unit Method  109
  Contribution Margin Ratio Method  110
Determining the Sales Volume Necessary to Reach a Desired Profit  111
Assessing the Pricing Strategy  112
Assessing the Effects of Changes in Variable Costs  113
Assessing the Effects of Changes in Fixed Costs  116
Using the Cost-Volume-Profit Graph  117
  The Effect of Cost Structure on the Break-Even Point  116
Calculating the Margin of Safety  119
Performing Sensitivity Analysis Using Spreadsheet Software  121
Assessing the Effect of Simultaneous Changes in CVP Variables  121
  A Decrease in Sales Price Accompanied by an Increase in Sales Volume  122
  An Increase in Fixed Cost Accompanied by an Increase in Sales Volume  122
A Simultaneous Reduction in Sales Price, Fixed Costs, Variable Costs, and Sales Volume  122
Multiproduct Cost-Volume-Profit Analysis  123
  Determining the Break-Even Point  123
  Determining the Sales Volume Necessary to Reach a Desired Profit  124
  Managing the Sales Mix  125
Cost-Volume-Profit Limitations  127
A Look Back  127
A Look Forward  128
Self-Study Review Problem  128
Key Terms  130
Questions  130
Exercises—Series A  131
Problems—Series A  134
Exercises—Series B  138
Problems—Series B  142
Analyze, Think, Communicate  145
Comprehensive Problem  149
Chapter 4  Cost Accumulation, Tracing, and Allocation  150

Chapter Opening  150
Determine the Cost of Cost Objects  152
  Estimated versus Actual Costs  152
Assignment of Costs to Objects in a Retail Business  152
Identifying Direct and Indirect Costs  153
  Cost Classifications—Independent and Context Sensitive  154
Allocating Indirect Costs to Objects  154
Selecting a Cost Driver  156
  Behavioral Implications  158
Effects of Cost Behavior on Selecting the Most Appropriate Cost Driver  160
  Using Volume Measures to Allocate Variable Overhead Costs  160
  Allocating Fixed Overhead Costs  163
Allocating costs to Solve Timing Problems  164
Aggregating and Disaggregating Individual costs into cost Pools  165
Allocating Joint Costs  165
  Relative Sales Value as the Allocation Base  166
Cost Allocation: The Human Factor  167
  Using Cost Allocations in a Budgeting Decision  167
  Using Cost Drivers to Make Allocations  167
  Choosing the Best Cost Driver  169
  Controlling Emotions  169
A Look Back  169
A Look Forward  170
Appendix: Allocating Service Center Costs  170
Self-Study Review Problem  176
Key Terms  177
Questions  177
Exercises—Series A  178
Problems—Series A  183
Exercises—Series B  187
Problems—Series B  192
Analyze, Think, Communicate  196
Comprehensive Problem  200

Chapter 5  Cost Management in an Automated Business Environment: ABC, ABM, and TQM  202

Chapter Opening  202
Development of a Single Companywide Cost Driver  204
  Effects of Automation on Selecting a Cost Driver  205
  Activity-Based Cost Drivers  205
  Activity-Based Cost Drivers Enhance Relevance  205
Activity-Based Costing  207
  Identifying Activity Centers  207
  Comparing ABC with Traditional Cost Allocation  208
  Types of Production Activities  208
  Unit-Level Activity Center  208
  Batch-Level Activity Center  209
Chapter 7  Planning for Profit and Cost Control  304

Chapter Opening  304
The Planning Process  306
Three Levels of Planning for Business Activity  306
Advantages of Budgeting  307
   Planning  307
   Coordination  307
   Performance Measurement  307
   Corrective Action  307
Budgeting and Human Behavior  307
The Master Budget  308
Hampton Hams Budgeting Illustration  309
   Sales Budget  309
   Inventory Purchases Budget  311
   Selling and Administrative Expense Budget  313
Cash Budget  314
Pro Forma Income Statement  317
Pro Forma Balance Sheet  318
Pro Forma Statement of Cash Flows  318
A Look Back  319
A Look Forward  320
Self-Study Review Problem  320
Key Terms  322
Questions  322
Exercises—Series A  323
Problems—Series A  328
Exercises—Series B  332
Problems—Series B  338
Analyze, Think, Communicate  341
Comprehensive Problem  346

Chapter 8  Performance Evaluation  348

Chapter Opening  348
Preparing Flexible Budgets  350
Determining Variances for Performance Evaluation  351
Sales and Variable Cost volume Variances  352
   Interpreting the Sales and Variable Cost Volume Variances  352
   Fixed Cost Considerations  353
Flexible Budget Variances  353
   Calculating the Sales Price Variance  354
   The Human Element Associated with Flexible Budget Variances  355
Fixed Cost Variances  355
   Fixed Cost Spending Variance  355
   Fixed Cost Volume Variance  356
Standard Cost Systems  357
   Establishing Standards  358
   Selecting Variances to Investigate  359
Avoiding Gamesmanship  359
Price and Usage Variances  361
Calculating Materials Price and Usage Variances  362
Calculating Labor Variances  364
Variable Overhead Variances  366
Selling, General, and Administrative Cost Variances  366
A Look Back  367
A Look Forward  368
Self-Study Review Problem  368
Key Terms  370
Questions  370
Exercises—Series A  371
Problems—Series A  376
Exercises—Series B  381
Problems—Series B  386
Analyze, Think, Communicate  391
Comprehensive Problem  397
## Chapter 9  Responsibility Accounting  398

- **Chapter Opening** 398
- **Decentralization Concept** 400
- **Organization Chart** 400
- **Responsibility Centers** 401
- **Responsibility Reports** 401
- **Management by Exception** 403
  - **Controllability Concept** 404
  - **Qualitative reporting Features** 404
  - **Managerial Performance Measurement** 404
- **Return on Investment** 405
  - **Qualitative Considerations** 405
  - **Measuring Operating Assets** 406
- **Factors Affecting Return on Investment** 407
- **Residual Income** 409

## Calculating Multiple ROIs and/or Rls for the Same Company  411

- **Responsibility Accounting and the Balanced Scorecard** 411
- **A Look Back** 412
- **A Look Forward** 413
- **Appendix** 413
- **Self-Study Review Problem** 416

## Key Terms 418

- **Questions** 418
- **Exercises—Series A** 419
- **Problems—Series A** 423
- **Exercises—Series B** 428
- **Problems—Series B** 432

## Analyze, Think, Communicate 437

- **Comprehensive Problem** 441

## Chapter 10  Planning for Capital Investments  442

- **Chapter Opening** 442
- **Capital Investment Decisions** 444
  - **Time Value of Money** 444
  - **Determining the Minimum Rate of Return** 444
- **Converting Future Cash Inflows to Their Equivalent Present Values** 445
  - **Present Value Table for Single-Amount Cash Inflows** 446
  - **Present Value Table for Annuities** 446
  - **Software Programs that Calculate Present Values** 447
  - **Ordinary Annuity Assumption** 448
  - **Reinvestment Assumption** 448
- **Techniques for Analyzing Capital Investment Proposals** 449
  - **Net Present Value** 449
  - **Internal Rate of Return** 450

## Techniques for Measuring Investment Cash Flows 451

- **Cash Inflows** 451
- **Cash Outflows** 452

## Techniques for comparing Alternative Capital Investment Opportunities 452

- **Net Present Value** 452
- **Internal Rate of Return** 454
- **Relevance and the Time Value of Money** 456
- **Tax Considerations** 457

## Techniques that Ignore the Time Value of Money 458

- **Payback Method** 458
- **Unadjusted Rate of Return** 459

## Real-World Reporting Practices 460

- **Postaudits** 461
Chapter 11  Product Costing in Service and Manufacturing Entities  484

A Look Back  461
A Look Forward  461
Appendix  462
Self-Study Review Problem  463
Key Terms  464
Questions  464
Exercises—Series A  465
Problems—Series A  469
Exercises—Series B  472
Problems—Series B  476
Analyse, Think, Communicate  479
Comprehensive Problem  482

Chapter Opening  484
Cost Flow in Manufacturing Companies  486
Cost Flow in Service Companies  486
Manufacturing Cost Flow Illustrated  487
Events Affecting Manufacturing Cost Flow in January  487
Flow of Overhead Costs  490
Manufacturing Overhead Account  490
Summary of January Events  494
Manufacturing Cost Flow Events for February through December  495
Analyzing Underapplied Overhead  496
Preparing the Schedule of cost of goods Manufactured and Sold  498
Financial Statements  499
Motive to Overproduce  500
Absorption Costing versus Variable Costing  500
Variable Costing  501
A Look Back  502
A Look Forward  503
Self-Study Review Problem  503
Key Terms  505
Questions  505
Exercises—Series A  506
Problems—Series A  511
Exercises—Series B  517
Problems—Series B  522
Analyze, Think, Communicate  529
Comprehensive Problem  532

Chapter 12  Job-Order, Process, and Hybrid Costing Systems  534

A Look Back  558
A Look Forward  558
Self-Study Review Problem  559
Key Terms  560
Questions  560
Exercises—Series A  561
Problems—Series A  566
Exercises—Series B  570
Problems—Series B  575
Analyze, Think, Communicate  579
Comprehensive Problem  584
Chapter 13  Financial Statement Analysis  586

Chapter Opening  586  
Factors in Communicating Useful Information  588  
   The Users  588  
   The Types of Decisions  588  
   Information Analysis  588  
Methods of Analysis  588  
   Horizontal Analysis  589  
   Vertical Analysis  592  
Ratio Analysis  592  
   Objectives of Ratio Analysis  593  
Measures of Debt-Paying Ability  593  
   Liquidity Ratios  593  
   Solvency Ratios  597  
Measures of Profitability  599  
   Measures of Managerial Effectiveness  599  
   Stock Market Ratios  601  
Limitations of Financial Statement Analysis  604  
   Different Industries  604  
   Changing Economic Environment  605  
   Accounting Principles  605  
A Look Back  606  
A Look Forward  606  
Self-Study Review Problem  607  
Key Terms  609  
Questions  609  
Exercises—Series A  609  
Problems—Series A  615  
Exercises—Series B  621  
Problems—Series B  626  
Analyze, Think, Communicate  632  

Chapter 14  Statement of Cash Flows  636

Chapter Opening  636  
An Overview of the Statement of Cash Flows  638  
   Operating Activities  638  
   Investing Activities  639  
   Financing Activities  639  
   Noncash Investing and Financing Activities  640  
   Reporting Format for the Statement of Cash Flows  640  
Preparing a Statement of Cash Flows  641  
Preparing the Operating Activities Section of a Statement of Cash Flows Using the Indirect Method  642  
   Indirect Method—Reconciliation Approach  644  
   Indirect Method—Rule-Based Approach  648  
Preparing the Operating Activities Section of a Statement of Cash Flows Using the Direct Method  651  
Preparing the Investing Activities Section of a Statement of Cash Flows  652  
   Reconciliation of Investment Securities  652  
   Reconciliation of Store Fixtures  653  
   Reconciliation of Land  653  
Preparing the Financing Activities Section of a Statement of Cash Flows  654  
   Reconciliation of Mortgage Payable  655  
   Reconciliation of Bonds Payable  655  
   Reconciliation of Common Stock  656
Reconciliation of Retained Earnings 656
Reconciliation of Treasury Stock 656
Preparing the Schedule of Noncash Investing and Financing Activities 659
Real-World Data 659
A Look Back 661
Self-Study Review Problem 662

Key Terms 664
Questions 664
Exercises—Series A 665
Problems—Series A 670
Exercises—Series B 676
Problems—Series B 680
Analyze, Think, Communicate 686

Appendix A Accessing the EDGAR Database through the Internet 692
Glossary 693
Credits 702
Index 703