## **C**ONTENTS

Preface xvii	
<b>Acknowledgments</b> xxi	
<b>About the Authors</b> xxiii	
CHAPTER 1 How Management Accounting	Information Supports Decision Making 1
What Is Management Accounting? 2  Management Accounting and Financial Accounting A Brief History of Management Accounting	ting 2
IN PRACTICE: Definition of Manage of Management Accountants 4	ement Accounting (2008), Issued by the Institute
Strategy 5 The Plan-Do-Check-Act (PDCA) Cycle 6	
<b>IN PRACTICE:</b> Company Mission Sta	itements 7
Behavioral Implications of Management A	ccounting Information 9
Summary 10	
Key Terms 10	
Assignment Materials 10	
CHAPTER 2 The Balanced Scorecard and St	rategy Map 15
The Balanced Scorecard 19	
Strategy 23	
	llanced Scorecard to Describe and Implement
Balanced Scorecard Objectives, Measures,	and Targets 24
Creating a Strategy Map 25 Financial Perspective 26 Customer Perspective 27 Process Perspective 31 Learning and Growth Perspective 35	
Strategy Map and Balanced Scorecard at P Financial Perspective 36 Customer Perspective 37 Process Perspective 39 Learning and Growth Perspective 40	ioneer Petroleum 36
Applying the Balanced Scorecard to Nonp	rofit and Government Organizations 43
	for a Nonprofit Organization 44
Managing with the Balanced Scorecard	45
Barriers to Effective Use of the Balanced So	corecard 46
Epilogue to Pioneer Petroleum 48	

Summar	49
Key Tern	ns 49
Assignm	ent Materials 50
CHAPTER 3	Using Costs in Decision Making 62
Making Pricing Produci Budgeti	Planning 63 ng 64 ance Evaluation 64
Variable Variable Fixed C	
	ume-Profit Analysis 66 ing and Using the CVP Equation 67
Analy	ACTICE: Introducing Uncertainty into Cost Volume Profit sis 68 ons on the Theme 68
	ACTICE: Breakeven on a Development Project 69 al Modeling and What-If Analysis 69
	ACTICE: Cost-Volume-Profit Analysis 69  1tiproduct Firm 70
	ACTICE: Estimating the Effect of Unit Sales on Share Price 70  **umptions Underlying CVP Analysis 72**
Mixed ( Step Va	riable Costs 73 ntal Costs 73
IN PR	ACTICE: Sunk Costs 74
IN PR	ACTICE: Overcoming the Sunk Cost Effect 75
Relevan	ınity Cost 76
Make-or-	Buy—The Outsourcing Decision 78
	ACTICE: Contracting Out 79 cturing Costs 79
The Deci	sion to Drop a Product 82
IN PR	ACTICE: Be Wary When Labeling Departments Losers 83
Costing ( Costing	Orders 85 Orders and Opportunity Cost Considerations 86
	Cost and Short-Term Product Mix Decisions 87 e Resource Constraints 89
Buildin	ACTICE: Choosing the Least Cost Materials Mix 90 g the Linear Program 90 whical Approach to Solving Linear Programs 91

Epilogue to Nolan Industries 93
IN PRACTICE: Excel's Goal Seek and Solver 96
Summary 96
Key Terms 97
Assignment Materials 97
CHAPTER 4 Accumulating and Assigning Costs to Products 121
<b>IN PRACTICE:</b> On the Importance of Understanding Costs in the Restaurant Business 122
Cost Management Systems 123
Cost Flows in Organizations 123  Manufacturing Organizations 123  Retail Organizations 124  Service Organizations 124
Some Important Cost Terms 125 Cost Object 125 Consumable Resources 125 Capacity-Related Resources 125 Direct and Indirect Costs 125
IN PRACTICE: Cost Objects 125
IN PRACTICE: Indirect Costs 126 Cost Classification and Context 127 Going Forward 127
Handling Indirect Costs in a Manufacturing Environment 128  Multiple Indirect Cost Pools 130  Cost Pool Homogeneity 132
Overhead Allocation: Further Issues 134 Using Planned Capacity Cost 134
IN PRACTICE: Why Costing Matters 135 Reconciling Actual and Applied Capacity Costs 135 Estimating Practical Capacity 138
Job Order and Process Systems 138 Job Order Costing 138 Process Costing 139 Some Process Costing Wrinkles 141 Final Comments on Process Costing 142
Epilogue to Strict's Custom Framing 144  Summary 145
Appendix 4-1 Allocating Service Department Costs 146
Key Terms 150
Assignment Materials 150
CHAPTER 5 Activity-Based Cost Systems 165
Traditional Manufacturing Costing Systems 167
Limitations of Madison's Existing Standard Cost System 170
Vanilla Factory and Multiflavor Factory 170
Activity-Based Costing 172
Calculating Resource Capacity Cost Rates 173 Calculating Resource Time Usage per Product 174

Calculating Product Cost and Profitability 175 Possible Actions as a Result of the More Accurate Costing 177	
IN PRACTICE: Using Activity-Based Costing to Increase Bank Profitability 178 Measuring the Cost of Unused Resource Capacity 179 Fixed Costs and Variable Costs in Activity-Based Cost Systems 179 Using the ABC Model to Forecast Resource Capacity 181 Updating the ABC Model 184	
IN PRACTICE: W.S. Industries Uses ABC Information for Continuous Improvement 185	
Service Companies 187  Capacity Cost Rate 188  Calculating the Time Equation for the Consumption of Broker's Capacity 189	)
Implementation Issues 189 Lack of Clear Business Purpose 190 Lack of Senior Management Commitment 190 Delegating the Project to Consultants 190 Poor ABC Model Design 191 Individual and Organizational Resistance to Change 191 People Feel Threatened 192	
Epilogue to Madison Dairy 192	
Summary 193	
Appendix 5-1 Historical Origins of Activity-Based Costing 194	
Key Terms 196	
Assignment Materials 196	
CHAPTER C. M	
CHAPTER 6 Measuring and Managing Customer Relationships 21	.8
Measuring Customer Profitability: Extending the Madison Dairy Case 220 Reporting and Displaying Customer Profitability 222	
IN PRACTICE: Building a Whale Curve of Customer	
Profitability 224 Customer Costs in Service Companies 224	
Increasing Customer Profitability 226 Process Improvements 226 Activity-Based Pricing 226 Managing Relationships 226 The Pricing Waterfall 227	
Salesperson Incentives 232	
Life-Cycle Profitability 233	
Measuring Customer Performance with Nonfinancial Metrics 235  Customer Satisfaction 236  Customer Loyalty 236  The Net Promoter Score 238	
Epilogue to Madison Dairy 239	
Summary 240	
Key Terms 240	
Assignment Materials 241	

CHAPTER 7 Measuring and Managing Process Performance 252
Process Perspective and the Balanced Scorecard 255
Facility Layout Systems 255  Process Layouts 256  Product Layouts 257
IN PRACTICE: Manufacturing a CD 258  Group Technology 259
Inventory Costs and Processing Time 259 Inventory and Processing Time 259 Inventory-Related Costs 260 Costs and Benefits of Changing to a New Layout: An Example Using Group Technology 260 Summary of Costs and Benefits 266
<b>IN PRACTICE:</b> History of Lean Manufacturing 267
Cost of Nonconformance and Quality Issues 268 Quality Standards 268 Costs of Quality Control 269
Just-in-Time Manufacturing 270 Implications of JIT Manufacturing 270 JIT Manufacturing and Management Accounting 271
IN PRACTICE: Using Lean Manufacturing in a Hospital Setting 272
Kaizen Costing 273  Comparing Traditional Cost Reduction to Kaizen Costing 273  Concerns about Kaizen Costing 274
Benchmarking 275 Stage 1: Internal Study and Preliminary Competitive Analyses 276 Stage 2: Developing Long-Term Commitment to the Benchmarking Project and Coalescing the Benchmarking Team 277 Stage 3: Identifying Benchmarking Partners 277 Stage 4: Information Gathering and Sharing Methods 278 Stage 5: Taking Action to Meet or Exceed the Benchmark 279
IN PRACTICE: Benchmarking Mobile Web Experiences 279
Epilogue to Blast from the Past Robot Company 280 Production Flows 280 Effects on Work-in-Process Inventory 281 Effect on Production Costs 281 Cost of Rework 282
Cost of Carrying Work-in-Process Inventory 283 Benefits from Increased Sales 283 Summary of Costs and Benefits 284
Summary 285
Key Terms 285
Assignment Materials 285
CHAPTER 8 Measuring and Managing Life-Cycle Costs 301
Managing Products over Their Life Cycle  Research, Development, and Engineering Stage  Manufacturing Stage 303  Postsale Service and Disposal Stage 304

Target Costing 305  A Target Costing Example 308  Concerns about Target Costing 314
IN PRACTICE: Target Costing and the Mercedes-Benz M-Class 315
Breakeven Time: A Comprehensive Metric for New Product Development 316
Innovation Measures on the Balanced Scorecard  Market Research and Generation of New Product Ideas  Design, Development, and Launch of New Products  320  320
IN PRACTICE: Life-Cycle Revenues: The Case of Motion Pictures 321
Environmental Costing 324  Controlling Environmental Costs 324
IN PRACTICE: The Cisco Take-Back and Recycle Program 328
IN PRACTICE: Scientific Progress and the Reduction of Environmental Costs: The Case of Chromium in Groundwater 328
Summary 329
Key Terms 329
Assignment Materials 329
CHAPTER 9 Behavioral and Organizational Issues in Management Accounting and Control Systems 340
What Are Management Accounting and Control Systems? 342  The Meaning of "Control" 342
Characteristics of a Well-Designed MACS 342  Technical Considerations 342  Behavioral Considerations 343
The Human Resource Management Model of Motivation 344
The Organization's Ethical Code of Conduct and MACS Design  Avoiding Ethical Dilemmas 345  Dealing with Ethical Conflicts 346
IN PRACTICE: Does Cheating at Golf Lead to Cheating
in Business? 347  The Elements of an Effective Ethical Control System 349  Steps in Making an Ethical Decision 349  Motivation and Congruence 349  Task and Results Control Methods 351
<b>IN PRACTICE:</b> Monitoring in the Workplace 351
Using a Mix of Performance Measures: A Balanced Scorecard Approach 353  The Need for Multiple Measures of Performance: Non–Goal-Congruent Behavior 353  Dysfunctional Behavior 353  Using the Balanced Scorecard to Align Employees to Corporate Goals and Business Unit Objectives 354 Change Management 355
Empowering Employees to Be Involved in MACS Design 355  Participation in Decision Making 355  Education to Understand Information 356

Behavioral Aspects of MACS Design: An Example from Budgeting  Designing the Budget Process 357  Influencing the Budget Process 359
Developing Appropriate Incentive Systems to Reward Performance 360  Choosing between Intrinsic and Extrinsic Rewards 361 Extrinsic Rewards Based on Performance 362 Effective Performance Measurement and Reward Systems 362 Conditions Favoring Incentive Compensation 364 Incentive Compensation and Employee Responsibility 364 Rewarding Outcomes 364 Managing Incentive Compensation Plans 365 Types of Incentive Compensation Plans 366 IN PRACTICE: UNIBANCO—Tying the Balanced Scorecard
to Compensation 367 Epilogue to Advanced Cellular International and Chapter
Summary 371
Key Terms 372
Assignment Materials 373
CHAPTER 10 Using Budgets for Planning and Coordination 393
Determining the Levels of Capacity-Related and Flexible Resources 394
The Budgeting Process 395  The Role of Budgets and Budgeting 395  The Elements of Budgeting 397  Behavioral Considerations in Budgeting 398  Budget Components 398  Operating Budgets 400  Financial Budgets 400
The Budgeting Process Illustrated 400  Oxford Tole Art, Buoy Division 400  Demand Forecast 403  The Production Plan 403  Developing the Spending Plans 405  Choosing the Capacity Levels 406  Handling Infeasible Production Plans 408
Interpreting the Production Plan 408  The Financial Plans 409  Understanding the Cash Flow Statement 409  Using the Financial Plans 413  Using the Projected Results 414
What-If Analysis 415 Evaluating Decision-Making Alternatives 415 Sensitivity Analysis 415
Comparing Actual and Planned Results 417  Variance Analysis 417  Basic Variance Analysis 418  Canning Cellular Services 418  First-Level Variances 420  Decomposing the Variances 420  Planning and Flexible Budget Variances 421

357

Quantity and Price Variances for Material and Labor 422 Sales Variances 428	
The Role of Budgeting in Service and Not-For-Profit Organizations 431	
Periodic and Continuous Budgeting 431	
Controlling Discretionary Expenditures 432 Incremental Budgeting 432 Zero-Based Budgeting 433 Project Funding 433	
Managing the Budgeting Process 434  Criticisms of the Traditional Budgeting Model and the "Beyond Budgeting"  Approach 434	
Epilogue to the California Budget Crisis 435	
Summary 436	
Key Terms 437	
Assignment Materials 437	
CHAPTER 11 Financial Control 462	
The Environment of Financial Control 463	
Financial Control 464	
The Motivation for Decentralization 464	
IN PRACTICE: Standard Operating Precedures at Mercedes-Benz USA 465	
IN PRACTICE: Evaluating Performance at McDonald's Corporation Restaurants 466	
Responsibility Centers and Evaluating Unit Performance 467  Coordinating Responsibility Centers 467	
IN PRACTICE: The High Cost of Coordination 468 Responsibility Centers and Financial Control 469	
IN PRACTICE: Nonfinancial Performance Measures at Federa Express: The Service Quality Indicator 469 Responsibility Center Types 470	al
IN PRACTICE: Investment Centers at General Electric in 2010 472  Evaluating Responsibility Centers 474	
IN PRACTICE: Financial Statement Business Segment Reporting 477	
Transfer Pricing 481 Approaches to Transfer Pricing 481	
IN PRACTICE: International Transfer Pricing 482 Transfer Prices Based on Equity Considerations 485	
Assigning and Valuing Assets in Investment Centers 486	
The Efficiency and Productivity Elements of Return on Investment 487  Assessing Productivity Using Financial Control 489  Questioning the Return on Investment Approach 489	

**IN PRACTICE:** Labor Productivity in a Consultancy 489 **IN PRACTICE:** Managing Productivity in Airlines 490

Using Residual Income

IN PRACTICE: Organization Adopt Economic Value Added for Different Reasons

492

The Efficacy of Financial Control 493 Epilogue to Adrian's Home Services 494

Summary 496 497 **Key Terms** 

**Assignment Materials** 497

Glossary 510

Subject Index 518

Name and Company Index 524