

# Brief Contents

## **Module I: INTRODUCTION AND FRAMEWORK**

---

- Chapter 1** Accounting: Information for Decision Making 2  
**Chapter 2** Identifying and Estimating Costs and Benefits 40  
**Chapter 3** Cost Flows and Cost Terminology 74

## **Module II: SHORT-TERM PLANNING AND CONTROL: MAXIMIZING CONTRIBUTION** 108

---

- Chapter 4** Techniques for Estimating Fixed and Variable Costs 110  
**Chapter 5** Cost-Volume-Profit Analysis 154  
**Chapter 6** Decision Making in the Short Term 200  
**Chapter 7** Operating Budgets: Bridging Planning and Control 252  
**Chapter 8** Budgetary Control and Variance Analysis 304

## **Module III: PLANNING AND CONTROL OVER THE LONG TERM: MAXIMIZING PROFIT** 352

---

- Chapter 9** Cost Allocations: Theory and Applications 354  
**Chapter 10** Activity-Based Costing and Management 400  
**Chapter 11** Managing Long-Lived Resources: Capital Budgeting 446  
**Chapter 12** Performance Evaluation in Decentralized Organizations 488  
**Chapter 13** Strategic Planning and Control 532

## **Module IV: COST ACCOUNTING SYSTEMS** 575

---

- Chapter 14** Job Costing 576  
**Chapter 15** Process Costing 612  
**Chapter 16** Support Activity and Dual-Rate Allocations 634

# Contents

## Module I: INTRODUCTION AND FRAMEWORK

### Chapter 1

#### **Accounting: Information for Decision Making** 2

LEARNING OBJECTIVES 3

#### **The Four-Step Framework for Decision Making** 4

- Step 1: Specify the Decision Problem,  
Including the Decision Maker's Goals 4
- Step 2: Identify Options 5
- Step 3: Measure Benefits and Costs to  
Determine the Value of Each Option 6
- Step 4: Make the Decision 7

#### **Decision Making In Organizations** 8

- Organizational Goals 8
- Aligning Individual Goals With  
Organizational Goals 9

#### **The Planning and Control Cycle** 10

#### **Accounting and Decision Making** 12

- Characteristics of Financial  
Accounting Information 12
- Characteristics of Managerial  
Accounting Information 13

#### **Ethics and Decision Making** 15

- SUMMARY 17
- RAPID REVIEW 17

#### **APPENDIX A: THE PROFESSIONAL ACCOUNTING ENVIRONMENT** 19

#### **APPENDIX B: The Institute of Management Accountants' (IMA) Code of Ethics** 22

- ANSWERS TO CHECK-IT! EXERCISES 24
- SELF-STUDY PROBLEMS 24
- GLOSSARY 26
- REVIEW QUESTIONS/DISCUSSION QUESTIONS/  
EXERCISES/PROBLEMS/CASES 26

### Chapter 2

#### **Identifying and Estimating Costs and Benefits** 40

LEARNING OBJECTIVES 41

#### **Knowing What to Measure** 42

- Controllability 42
- Relevance 42
- Comparing Controllability and Relevance 44
- Sunk Costs 45

#### **Time and Controllability** 46

- Categorizing Decisions Based on Time 46

#### **How to Estimate Costs and Benefits** 49

- Variability 50
- Traceability 52

#### **Hierarchical Cost Structure** 53

- SUMMARY 57
- RAPID REVIEW 57
- ANSWERS TO CHECK-IT! EXERCISES 58
- SELF-STUDY PROBLEMS 58
- GLOSSARY 61
- REVIEW QUESTIONS/DISCUSSION QUESTIONS/  
EXERCISES/PROBLEMS/CASES 61

**Chapter 3**  
**Cost Flows and Cost Terminology 74**

LEARNING OBJECTIVES 75

**Product and Period Costs 76**

**Cost Flows In Service Organizations 77**

**Cost Flows In Merchandising Organizations 78**

Inventory Equation 79

Income Statement 80

**Cost Flows In Manufacturing Organizations 81**

Cost Terminology 82

Typical Production Process 83

Income Statement 85

**Cost Allocations 88**

Beware of Allocated Costs When Making Decisions 91

Wrapping It Up 92

SUMMARY 93

RAPID REVIEW 93

ANSWERS TO CHECK-IT! EXERCISES 94

SELF-STUDY PROBLEMS 95

GLOSSARY 97

REVIEW QUESTIONS/DISCUSSION QUESTIONS/  
EXERCISES/PROBLEMS/CASES 98

**Module II:**  
**SHORT-TERM PLANNING AND CONTROL:**  
**MAXIMIZING CONTRIBUTION**

**Part Opener 108**

**Chapter 4**  
**Techniques for Estimating Fixed and Variable Costs 110**

LEARNING OBJECTIVES 111

**Contribution Margin Statement 112**

Organizing Information to Help Make Decisions 112

Using the Contribution Margin Statement 113

Estimating Cost Structure 114

**Account Classification Method 116**

Evaluation of the Account Classification Method 118

**High-Low Method 118**

Mechanics of the High-Low Method 120

Evaluation of the High-Low Method 122

**Regression Analysis 123**

Evaluation of the Regression Method 125

Choosing An Appropriate Method 126

**Segmented Contribution Margin Statements 128**

Product-Level Contribution Margin Statement 128

Region- and Customer-Level Contribution Margin Statements 129

SUMMARY 130

RAPID REVIEW 130

**APPENDIX: LEARNING CURVES AND COST ESTIMATION 132**

ANSWERS TO CHECK-IT! EXERCISES 133

SELF-STUDY PROBLEMS 134

GLOSSARY 137

REVIEW QUESTIONS/DISCUSSION QUESTIONS/  
EXERCISES/PROBLEMS/CASES 138

**Chapter 5**  
**Cost-Volume-Profit Analysis 154**

LEARNING OBJECTIVES 155

**The Cost-Volume-Profit (CVP) Relation 156**

How Firms Use the CVP Relation 157

**The CVP Relation and Profit Planning 158**

Breakeven Volume 158

Breakeven Revenues 161

Target Profit 162

**Using the CVP Relation to Make Short-Term Decisions 164**

Using the CVP Relation to Evaluate Price Changes 164

**Using the CVP Relation to Evaluate Operating Risk 166**

Margin of Safety 167

Operating Leverage 169

**Multiproduct CVP Analysis 171**

Profit Planning With Multiple Products 172

Making Decisions Using CVP Analysis 175

**CVP Analysis—A Critical Evaluation 177**

SUMMARY	178
RAPID REVIEW	178
ANSWERS TO CHECK-IT! EXERCISES	179
SELF-STUDY PROBLEMS	180
GLOSSARY	183
REVIEW QUESTIONS/DISCUSSION QUESTIONS/ EXERCISES/PROBLEMS/CASES	183

## Chapter 6

### Decision Making in the Short Term 200

---

LEARNING OBJECTIVES	201
---------------------	-----

#### Characteristics of Short-Term Decisions 202

Fixed Supply of Capacity	202
Demand Changes Frequently	202
Closing the Gap between Demand and Supply	203
Contexts for Short-Term Decision Making	204

#### Evaluating Options 205

Relevant Cost Analysis	209
An Alternate Approach	210
Comparing the Methods	211

#### Additional Examples of Short-Term Decisions 211

Evaluating Short-Term Promotion Decisions	211
Make-Versus-Buy Decisions	212

#### Determining the Best Use of a Scarce Resource 214

#### Qualitative Considerations 218

SUMMARY	220
RAPID REVIEW	220

#### APPENDIX A: DECISIONS INVOLVING JOINT COSTS 222

#### APPENDIX B: Adding/Dropping Product Lines 224

ANSWERS TO CHECK-IT! EXERCISES	225
SELF-STUDY PROBLEMS	226
GLOSSARY	229
REVIEW QUESTIONS/DISCUSSION QUESTIONS/ EXERCISES/PROBLEMS/CASES	229

## Chapter 7

### Operating Budgets: Bridging Planning and Control 252

---

LEARNING OBJECTIVES	253
---------------------	-----

#### What is a Budget? 254

Why Do Firms Use Budgets?	254
---------------------------	-----

#### Preparing a Master Budget 258

Revenue Budget	258
Production Budget	258
Direct Materials Usage Budget	260
Direct Labor Budget	262
Manufacturing Overhead Cost Budget	263
Variable Cost of Goods Manufactured Budget	264
Variable Cost of Goods Sold Budget	265
Budgeted Income Statement	268
Iterative Nature of the Budgeting Process	269

#### Cash Budget 270

Cash Inflows from Operations	271
Cash Outflows from Operations	272
Net Cash Flow from Operations	274
Pulling It All Together	274

#### Factors Influencing the Budgeting Process 276

Organizational Structure	276
Management Styles	278
Past Performance and the Budgeting Process	280

#### SUMMARY 280

#### RAPID REVIEW 280

#### APPENDIX: BUDGETING AND COST FLOW

#### ASSUMPTIONS 282

ANSWERS TO CHECK-IT! EXERCISES	284
SELF-STUDY PROBLEMS	285
GLOSSARY	286
REVIEW QUESTIONS/DISCUSSION QUESTIONS/ EXERCISES/PROBLEMS/CASES	287

## Chapter 8

### Budgetary Control and Variance Analysis 304

---

LEARNING OBJECTIVES	305
---------------------	-----

#### Budgets as the Basis for Control 306

#### How to Calculate Variances 308

Breaking Down the Total Profit Variance	309
Flexible Budget	310
Components of the Flexible Budget Variance	313
Input Quantity and Price Variances	315

#### Interpreting and Using Variances 319

General Rules for Analyzing Variances	320
Making Control Decisions in Response to Variances	322

#### Nonfinancial Controls 323

Nonfinancial Measures and Process Control	324
Nonfinancial Measures and Aligning Goals	326

#### SUMMARY 326

#### RAPID REVIEW 327

**APPENDIX A: Purchase Price Variance** 328

**APPENDIX B: Market Size and Market Share Variances** 329

**APPENDIX C: Sales Variances in a Multi-Product Firm** 331

**ANSWERS TO CHECK-IT! EXERCISES** 334

**SELF-STUDY PROBLEMS** 334

**GLOSSARY** 337

**REVIEW QUESTIONS/DISCUSSION QUESTIONS/EXERCISES/PROBLEMS/CASES** 337

**Module III:  
PLANNING AND CONTROL OVER  
THE LONG TERM: MAXIMIZING PROFIT**

**Part Opener** 352

**Chapter 9**  
**Cost Allocations: Theory and Applications** 354

**LEARNING OBJECTIVES** 355

**Long-Term Decisions and Cost Allocations** 356

Direct Estimation 357

Cost Allocations 358

Refining the Allocation 361

Pulling It All Together 363

**Cost Allocations for Reporting Income** 364

**Incentives and Cost Allocations** 368

Using Allocations to Justify Costs and Reimbursements 368

Using Cost Allocations to Influence Behavior 371

Controllability and Alternate Demands for Cost Allocations 373

**SUMMARY** 374

**RAPID REVIEW** 375

**APPENDIX: Variable and Absorption Costing** 376

**ANSWERS TO CHECK-IT! EXERCISES** 379

**SELF-STUDY PROBLEMS** 380

**GLOSSARY** 383

**REVIEW QUESTIONS/DISCUSSION QUESTIONS/EXERCISES/PROBLEMS/CASES** 383

**Chapter 10**  
**Activity-Based Costing and Management** 400

**LEARNING OBJECTIVES** 401

**Elements of Activity-Based Costing (ABC) Systems** 402

Step 1: Forming Cost Pools 404

Step 2: Deciding Which Costs to Allocate 407

Step 3: Identifying Cost Drivers 408

Step 4: Measuring Denominator Volume 409

**Decision Usefulness of ABC Systems** 410

Computing Product Costs 410

Reporting Activity-Based Costing Data 412

Decisions at MKC 414

Implementing Activity Based Costing 416

**Activity-Based Management** 416

Product Planning 416

Customer Planning 416

Resource Planning 419

**SUMMARY** 421

**RAPID REVIEW** 421

**APPENDIX: Accounting for the Cost of Unused Capacity** 422

**ANSWERS TO CHECK-IT! EXERCISES** 423

**SELF-STUDY PROBLEMS** 424

**GLOSSARY** 428

**REVIEW QUESTIONS/DISCUSSION QUESTIONS/EXERCISES/PROBLEMS/CASES** 428

**Chapter 11**  
**Managing Long-Lived Resources: Capital Budgeting** 446

**LEARNING OBJECTIVES** 447

**Roles of Capital Budgets** 448

Capital Budgeting and Cost Allocations 448

Capital Budgets and Budgeting 449

**Elements of Project Cash Flows** 450

Initial Outlay 451

Estimated Life and Salvage Value	451		
Timing and Amounts of Operating Cash Inflows	452		
Cost of Capital	453		
Methods for Evaluating Project Profitability	454		
<b>Discounted Cash Flow Techniques in Capital Budgeting</b>	<b>454</b>		
Net Present Value	454		
Internal Rate of Return	458		
Comparing NPV and IRR	459		
<b>Other Evaluation Criteria for Capital Budgeting</b>	<b>459</b>		
Payback Method	459		
Modified Payback	461		
Accounting Rate of Return	462		
Popularity of Discounted Cash Flow Techniques	462		
<b>Taxes and Capital Budgeting</b>	<b>463</b>		
Depreciation Tax Shield	464		
Salvage Value and Taxes	465		
<b>Allocating Capital Among Projects</b>	<b>466</b>		
Nonfinancial Costs and Benefits	467		
Flexibility and Real Options	468		
SUMMARY	469		
RAPID REVIEW	470		
<b>APPENDIX A: PRESENT AND FUTURE VALUE CALCULATIONS</b>	<b>471</b>		
<b>APPENDIX B: Present and Future Value Tables</b>	<b>474</b>		
ANSWERS TO CHECK-IT! EXERCISES	476		
SELF-STUDY PROBLEMS	476		
GLOSSARY	478		
REVIEW QUESTIONS/DISCUSSION QUESTIONS/EXERCISES/PROBLEMS/CASES	478		
<b>Chapter 12</b>			
<b>Performance Evaluation in Decentralized Organizations</b>	<b>488</b>		
<hr/>			
LEARNING OBJECTIVES	489		
<b>Decentralization of Decision Making</b>	<b>490</b>		
Benefits and Costs of Decentralization	491		
Responsibility Centers	492		
<b>Principles of Performance Measurement</b>	<b>494</b>		
Characteristics of Effective Performance Measures	495		
<b>Evaluating Cost and Profit Centers</b>	<b>495</b>		
Performance Evaluation in Profit Centers	496		
<b>Performance Measurement in Investment Centers</b>	<b>498</b>		
Return on Investment	498		
Residual Income	502		
Economic Value Added	503		
Measuring Long-Term Performance	505		
<b>Transfer Pricing</b>	<b>506</b>		
Demand for Transfer Prices	506		
Conflict in Setting Transfer Prices	507		
Practice Patterns	508		
International Transfer Pricing	509		
SUMMARY	510		
RAPID REVIEW	510		
<b>APPENDIX: Economically Optimal Transfer Prices</b>	<b>512</b>		
ANSWERS TO CHECK-IT! EXERCISES	516		
SELF-STUDY PROBLEMS	516		
GLOSSARY	517		
REVIEW QUESTIONS/DISCUSSION QUESTIONS/EXERCISES/PROBLEMS/CASES	518		
<b>Chapter 13</b>			
<b>Strategic Planning and Control</b>	<b>532</b>		
<hr/>			
LEARNING OBJECTIVES	533		
<b>Formulating a Strategy</b>	<b>534</b>		
Determinants of Business Strategy	534		
Types of Business Strategies	536		
Management Accounting and Business Strategy	537		
<b>The Value Chain</b>	<b>539</b>		
Building a Value Chain	539		
Management Accounting and the Value Chain	540		
<b>Strategic Cost Planning</b>	<b>542</b>		
Life-Cycle Analysis	542		
Target Costing	544		
<b>Implementing Strategy</b>	<b>546</b>		
Critical Success Factors	547		
<b>Monitoring Strategy Implementation</b>	<b>551</b>		
Components of a Balanced Scorecard	552		
SUMMARY	555		
RAPID REVIEW	555		
<b>APPENDIX: TARGET COSTING: AN OVERVIEW</b>	<b>557</b>		
ANSWERS TO CHECK-IT! EXERCISES	559		
SELF-STUDY PROBLEMS	559		
GLOSSARY	561		
REVIEW QUESTIONS/DISCUSSION QUESTIONS/EXERCISES/PROBLEMS/CASES	562		

## Module IV: COST ACCOUNTING SYSTEMS

<p><b>Part Opener</b> 575</p> <p><b>Chapter 14</b></p> <p><b>Job Costing</b> 576</p> <hr style="border: 0.5px solid black; margin-top: 10px;"/> <p>LEARNING OBJECTIVES 577</p> <p><b>Types of Production Environments</b> 578</p> <p style="padding-left: 20px;">Traceability of Costs 580</p> <p><b>Job-Costing Systems</b> 580</p> <p style="padding-left: 20px;">Cost Flows in a Job-Shop 581</p> <p style="padding-left: 20px;">Operations at Magna 581</p> <p><b>Predetermined Overhead Rates</b> 587</p> <p style="padding-left: 20px;">Determining Cost of Goods Manufactured 588</p> <p style="padding-left: 20px;">Determining Cost of Goods Sold 589</p> <p><b>End-of-Period Adjustments for Overhead</b> 591</p> <p style="padding-left: 20px;">Calculating the Amount in the Control Accounts 591</p> <p style="padding-left: 20px;">Correct Rates at Year-End 592</p> <p style="padding-left: 20px;">Write Off to Cost of Goods Sold 592</p> <p style="padding-left: 20px;">Prorate among Inventory Accounts and COGS 594</p> <p style="padding-left: 20px;">Comparing the Methods 594</p> <p style="padding-left: 20px;">SUMMARY 594</p> <p style="padding-left: 20px;">RAPID REVIEW 595</p> <p style="padding-left: 20px;">ANSWERS TO CHECK-IT! EXERCISES 595</p> <p style="padding-left: 20px;">SELF-STUDY PROBLEMS 596</p> <p style="padding-left: 20px;">GLOSSARY 597</p> <p style="padding-left: 20px;">REVIEW QUESTIONS/DISCUSSION QUESTIONS/EXERCISES/PROBLEMS/CASES 597</p> <p><b>Chapter 15</b></p> <p><b>Process Costing</b> 612</p> <hr style="border: 0.5px solid black; margin-top: 10px;"/> <p>LEARNING OBJECTIVES 613</p> <p><b>Mechanics of Process Costing</b> 614</p> <p><b>Process Costing with Many Cost Pools and Beginning Inventory</b> 616</p> <p style="padding-left: 20px;">Process Costing with Many Pools 616</p> <p style="padding-left: 20px;">Considering Beginning Inventory 619</p>	<p><b>Standard Process Costing</b> 620</p> <p>SUMMARY 623</p> <p>RAPID REVIEW 623</p> <p>ANSWERS TO CHECK-IT! EXERCISES 624</p> <p>SELF-STUDY PROBLEMS 624</p> <p>GLOSSARY 625</p> <p>REVIEW QUESTIONS/DISCUSSION QUESTIONS/EXERCISES/PROBLEMS/CASES 625</p> <p><b>Chapter 16</b></p> <p><b>Support Activity and Dual-Rate Allocations</b> 634</p> <hr style="border: 0.5px solid black; margin-top: 10px;"/> <p>LEARNING OBJECTIVES 635</p> <p><b>Line and Support Activities</b> 636</p> <p><b>Methods for Allocating Support Activity Costs</b> 638</p> <p style="padding-left: 20px;">Direct Method 639</p> <p style="padding-left: 20px;">Step-Down Method 641</p> <p style="padding-left: 20px;">Reciprocal Method 643</p> <p style="padding-left: 20px;">Integration with Predetermined Overhead Rates 645</p> <p><b>Dual-Rate Allocations</b> 646</p> <p>SUMMARY 648</p> <p>RAPID REVIEW 648</p> <p>ANSWERS TO CHECK-IT! EXERCISES 649</p> <p>SELF-STUDY PROBLEMS 649</p> <p>GLOSSARY 651</p> <p>REVIEW QUESTIONS/DISCUSSION QUESTIONS/EXERCISES/PROBLEMS/CASES 652</p> <p><b>Glossary</b> 661</p> <p><b>Index</b> 667</p>
--	--