# **Brief Contents**

#### **Cost Concepts for Decision-Makers**

- 1 Managerial Accounting 1-1
- 2 Job Order Costing 2-1
- 3 Process Costing 3-1
- 4 Activity-Based Costing 4-1

#### **Decision-Making Concepts**

- 5 Cost-Volume-Profit 5-1
- 6 Cost-Volume-Profit Analysis: Additional Issues 6-1
- 7 Incremental Analysis 7-1
- 8 Pricing 8-1

#### **Planning and Control Concepts**

- 9 Budgetary Planning 9-1
- **10** Budgetary Control and Responsibility Accounting **10-1**
- 11 Standard Costs and Balanced Scorecard 11-1
- 12 Planning for Capital Investments 12-1

#### **Performance Evaluation Concepts**

- 13 Statement of Cash Flows 13-1
- 14 Financial Analysis: The Big Picture 14-1
- APPENDIX A Time Value of Money A-1

COMPANY INDEX I-1

SUBJECT INDEX I-3

**RAPID REVIEW: CHAPTER CONTENT** 

# 1 Managerial Accounting 1-1

Just Add Water ... and Paddle: Current Designs 1-1 Managerial Accounting Basics 1-3 Comparing Managerial and Financial Accounting 1-3 Management Functions 1-3 Organizational Structure 1-5 Managerial Cost Concepts 1-7 Manufacturing Costs 1-7 Product versus Period Costs 1-9 Illustration of Cost Concepts 1-9 Manufacturing Costs in Financial Statements 1-12 Balance Sheet 1-12 Income Statement 1-12 Cost of Goods Manufactured 1-14 Cost of Goods Manufactured Schedule 1-15 Managerial Accounting Trends 1-16 Service Industries 1-16 Focus on the Value Chain 1-17 Balanced Scorecard 1-18 Business Ethics 1-19 Corporate Social Responsibility 1-20 The Value of Data Analytics 1-21 Data Analytics Insight: Using Data in Its Own World 1-21 Data Analytics in Action 1-43

## 2 Job Order Costing 2-1

*Profiting from the Silver Screen:* Disney **2-1** Cost Accounting Systems 2-3 Process Cost System 2-3 Job Order Cost System 2-3 Data Analytics Insight: Providing Service Through the Cloud 2-4 Job Order Cost Flow 2-5 Accumulating Manufacturing Costs 2-5 Assigning Manufacturing Costs 2-7 Raw Materials Costs 2-8 Factory Labor Costs 2-10 Predetermined Overhead Rates 2-13 Entries for Jobs Completed and Sold 2-16 Assigning Costs to Finished Goods 2-16 Assigning Costs to Cost of Goods Sold 2-17 Summary of Job Order Cost Flows 2-18 Job Order Costing for Service Companies 2-19 Advantages and Disadvantages of Job Order Costing 2-20 Applied Manufacturing Overhead 2-22

Under- or Overapplied Manufacturing Overhead 2-22 Data Analytics in Action 2-41

# 3 Process Costing 3-1

Famed Soft Drink in the Outback: Back o' Bourke Cordials 3-1 Overview of Process Cost Systems 3-3 Uses of Process Cost Systems 3-3 Process Costing for Service Companies 3-3 Similarities and Differences Between Job Order Cost and Process Cost Systems 3-4 Recording Costs 3-6 Process Cost Flow 3-6 Assigning Manufacturing Costs—Journal Entries 3-6 Equivalent Units 3-9 Weighted-Average Method 3-10 Refinements on the Weighted-Average Method 3-10 The Production Cost Report 3-12 Compute the Physical Unit Flow (Step 1) 3-13 Compute the Equivalent Units of Production (Step 2) 3-14 Compute Unit Production Costs (Step 3) 3-14 Prepare a Cost Reconciliation Schedule (Step 4) 3-15 Preparing the Production Cost Report 3-16 Costing Systems—Final Comments 3-17 Appendix 3A: FIFO Method for Equivalent Units 3-20 Equivalent Units Under FIFO 3-20 Comprehensive Example 3-21 FIFO and Weighted-Average 3-25

## 4 Activity-Based Costing 4-1

Wellness for Customers and the Company: Technogym SpA 4-1 Traditional vs. Activity-Based Costing 4-3 Traditional Costing Systems 4-3 Illustration of a Traditional Costing System 4-3 The Need for a New Approach 4-4 Activity-Based Costing 4-5 ABC and Manufacturers 4-7 Identify and Classify Activities and Allocate Overhead to Cost Pools (Step 1) 4-8 Identify Cost Drivers (Step 2) 4-8 Compute Activity-Based Overhead Rates (Step 3) 4-9 Assign Overhead Costs to Products (Step 4) 4-9 Comparing Unit Costs 4-10 ABC Benefits and Limitations 4-13 The Advantage of Multiple Cost Pools 4-13

The Advantage of Enhanced Cost Control 4-15 The Advantage of Better Management Decisions 4-18 Some Limitations and Knowing When to Use ABC 4-18 *Data Analytics Insight: Delivering People and* 

#### Packages 4-19

ABC and Service Industries 4-20 Traditional Costing Example 4-20 Activity-Based Costing Example 4-21 Appendix 4A: Just-in-Time Processing 4-24 Objective of JIT Processing 4-25 Elements of JIT Processing 4-25 Benefits of JIT Processing 4-26

## 5 Cost-Volume-Profit 5-1

Don't Worry—Just Get Big: Amazon.com 5-1 Cost Behavior Analysis 5-3 Variable Costs 5-3 Fixed Costs 5-4 Relevant Range 5-5 Mixed Costs 5-7 Mixed Costs Analysis 5-8 High-Low Method 5-8 Importance of Identifying Variable and Fixed Costs 5-10 CVP Analysis 5-11 Basic Components 5-11 CVP Income Statement 5-12 Break-Even Analysis 5-16 Mathematical Equation 5-16 Contribution Margin Techniques 5-17 Graphic Presentation 5-19 Target Net Income and Margin of Safety 5-20 Target Net Income 5-20 Margin of Safety 5-22 CVP and Data Analytics 5-23 Appendix 5A: Regression Analysis 5-25 Data Analytics in Action 5-45

6 Cost-Volume-Profit Analysis: Additional Issues 6-1

The Secret to Supermarket Profitability: Aldi 6-1Basic CVP Concepts6-2Basic Concepts6-2CVP and Changes in the Business Environment6-4Sales Mix and Break-Even Sales6-7Break-Even Sales in Units6-7Data Analytics Insight: Taking No Chances with Its<br/>Profits6-9Break-Even Sales in Euros6-9Sales Mix with Limited Resources6-12Operating Leverage and Profitability6-14Effect on Contribution Margin Ratio6-15

Effect on Break-Even Point 6-16 Effect on Margin of Safety Ratio 6-16 Operating Leverage 6-16 Appendix 6A: Absorption Costing versus Variable Costing 6-19 Example Comparing Absorption Costing with Variable Costing 6-20 Net Income Effects 6-22 Decision-Making Concerns 6-26 Potential Advantages of Variable Costing 6-28 Data Analytics in Action 6-47

## 7 Incremental Analysis 7-1

Keeping It Clean: Method Products 7-1 Decision-Making and Incremental Analysis 7-3 Incremental Analysis Approach 7-3 How Incremental Analysis Works 7-4 Qualitative Factors 7-5 Relationship of Incremental Analysis and Activity-Based Costing 7-5 Types of Incremental Analysis 7-6 Special Orders 7-6 Make or Buy 7-8 Opportunity Cost 7-9 Sell or Process Further 7-11 Single-Product Case 7-11 Multiple-Product Case 7-12 Repair, Retain, or Replace Equipment 7-14 Eliminate Unprofitable Segment or Product 7-16

#### 8 Pricing 8-1

They've Got Your Size—and Color: Zappos.com 8-1 Target Costing 8-3 Establishing a Target Cost 8-4 Cost-Plus and Variable-Cost Pricing 8-5 Cost-Plus Pricing 8-5 Limitations of Cost-Plus Pricing 8-7 Variable-Cost Pricing 8-8 Time-and-Material Pricing 8-9 Transfer Prices 8-13 Negotiated Transfer Prices 8-14 Cost-Based Transfer Prices 8-17 Market-Based Transfer Prices 8-19 Effect of Outsourcing on Transfer Pricing 8-19 Transfers Between Divisions in Different Countries 8-19 Data Analytics Insight: Setting the Optimal Price 8-20 Appendix 8A: Absorption-Cost and Variable-Cost Pricing 8-22 Absorption-Cost Pricing 8-22 Variable-Cost Pricing 8-24 Appendix 8B: Transfers Between Divisions in Different Countries 8-25 Data Analytics in Action 8-43

## 9 Budgetary Planning 9-1

#### *What's in Your Cupcake?:* Erin McKenna's Bakery NYC 9-1

Effective Budgeting and the Master Budget 9-3 Budgeting and Accounting 9-3 The Benefits of Budgeting 9-3 Essentials of Effective Budgeting 9-4 The Master Budget 9-7 Sales, Production, and Direct Materials Budgets 9-8 Sales Budget 9-8 Production Budget 9-10 Direct Materials Budget 9-11 Direct Labor, Manufacturing Overhead, and S&A Expense Budgets 9-14 Direct Labor Budget 9-14 Manufacturing Overhead Budget 9-15 Selling and Administrative Expense Budget 9-16 Budgeted Income Statement 9-17 Data Analytics Insight: That's Some Tasty Data! 9-18 Cash Budget and Budgeted Balance Sheet 9-19 Cash Budget 9-19 Budgeted Balance Sheet 9-22 Budgeting in Nonmanufacturing Companies 9-24 Merchandisers 9-24 Service Companies 9-25 Not-for-Profit Organizations 9-26 Data Analytics in Action 9-47

### **10** Budgetary Control and Responsibility Accounting 10-1

Pumpkin Madeleines and a Movie: The Roxy Hotel Tribeca 10-1 Budgetary Control and Static Budget Reports 10-3 Budgetary Control 10-3 Static Budget Reports 10-4 Flexible Budget Reports 10-7 Why Flexible Budgets? 10-7 Developing the Flexible Budget 10-9 Flexible Budget—A Case Study 10-10 Flexible Budget Reports 10-12 Data Analytics Insight: These Forecasts Move with the *Times!* 10-13 Responsibility Accounting and Responsibility Centers 10-14 Controllable versus Noncontrollable Revenues and Costs 10-16 Principles of Performance Evaluation 10-16 Data Analytics Insight: Hitting the Road with Zero-Based Budgeting 10-18 Responsibility Reporting System 10-18 Types of Responsibility Centers 10-19 Investment Centers 10-24 Return on Investment (ROI) 10-24

Responsibility Report 10-25 Alternative Measures of ROI Inputs 10-26 Improving ROI 10-26 Appendix 10A: ROI versus Residual Income 10-30 Residual Income Compared to ROI 10-30 Residual Income Weakness 10-31 Data Analytics in Action 10-50

#### 11 Standard Costs and Balanced Scorecard 11-1

80.000 Different Caffeinated Combinations: Starbucks 11-2 Standard Costs 11-3 Distinguishing Between Standards and Budgets 11-4 Setting Standard Costs 11-4 Direct Materials Variances 11-8 Analyzing and Reporting Variances 11-8 Calculating Direct Materials Variances 11-10 **Direct Labor and Manufacturing** Overhead Variances 11-13 Direct Labor Variances 11-13 Data Analytics Insight: Speedy Data to the *Rescue!* 11-16 Manufacturing Overhead Variances 11-16 Variance Reports and Balanced Scorecards 11-18 Reporting Variances 11-18 Income Statement Presentation of Variances 11-19 Balanced Scorecard 11-20 Appendix 11A: Standard Cost Accounting System 11-24 Journal Entries 11-24 Ledger Accounts 11-26 Appendix 11B: Overhead Controllable and Volume Variances 11-26 Overhead Controllable Variance 11-26 Overhead Volume Variance 11-28 Data Analytics in Action 11-46

#### 12 Planning for Capital Investments 12-1

*Floating Hotels:* Holland America Line **12-2 Capital Budgeting and Cash Payback 12-3** Cash Flow Information 12-3 Illustrative Data 12-4 Cash Payback 12-4 **Net Present Value Method 12-6** Equal Annual Cash Flows 12-7 Unequal Annual Cash Flows 12-7 Unequal Annual Cash Flows 12-8 Choosing a Discount Rate 12-9 Simplifying Assumptions 12-10 Comprehensive Example 12-10

#### **XX CONTENTS**

Capital Budgeting Challenges and Refinements 12-12
Intangible Benefits 12-12
Profitability Index for Mutually Exclusive Projects 12-14
Risk Analysis 12-15
Post-Audit of Investment Projects 12-16
Internal Rate of Return 12-17
Comparing Discounted Cash Flow Methods 12-18
Annual Rate of Return 12-19
Data Analytics Insight: Increasing the Chances of Gaming Wins 12-21
Data Analytics in Action 12-35

## **13** Statement of Cash Flows 13-1

Got Cash?: Microsoft 13-1 Statement of Cash Flows: Usefulness and Format 13-3 Usefulness of the Statement of Cash Flows 13-3 Classification of Cash Flows 13-3 Significant Noncash Activities 13-4 Format of the Statement of Cash Flows 13-5 Preparing the Statement of Cash Flows—Indirect Method 13-6 Indirect and Direct Methods 13-7 Indirect Method—Computer Services International 13-7 Step 1: Operating Activities 13-9 Summary of Conversion to Net Cash Provided by Operating Activities—Indirect Method 13-12 Step 2: Investing and Financing Activities 13-14 Step 3: Net Change in Cash 13-15 Analyzing the Statement of Cash Flows 13-17 Free Cash Flow 13-17 Appendix 13A: Statement of Cash Flows—Direct Method 13-20 Step 1: Operating Activities 13-20 Step 2: Investing and Financing Activities 13-26 Step 3: Net Change in Cash 13-27 Appendix 13B: Statement of Cash Flows—T-Account Approach 13-27

14 Financial Analysis: The Big Picture 14-1

Making Money the Old-Fashioned Way 14-2 Sustainable Income 14-3 Discontinued Operations 14-3 Comprehensive Income 14-4 Changes in Accounting Principle 14-6 **Horizontal Analysis and Vertical Analysis 14-8** Horizontal Analysis 14-8 Vertical Analysis 14-11 **Ratio Analysis 14-14** Liquidity Ratios 14-15 Solvency Ratios 14-16 Profitability Ratios 14-16 Financial Analysis and Data Analytics 14-17 Comprehensive Example of Ratio Analysis 14-17

### Appendix A Time Value of Money A-1

Interest and Future Values A-2 Nature of Interest A-2 Future Value of a Single Amount A-3 Future Value of an Annuity A-5 Present Values A-8 Present Value Variables A-8 Present Value of a Single Amount A-8 Present Value of an Annuity A-11 Time Periods and Discounting A-13 Present Value of a Long-Term Note or Bond A-13 Capital Budgeting Situations A-15 Using Financial Calculators A-17 Present Value of a Single Sum A-18 Present Value of an Annuity A-19 Future Value of a Single Sum A-19 Future Value of an Annuity A-20 Internal Rate of Return A-20 Useful Applications of the Financial Calculator A-21

COMPANY INDEX I-1

SUBJECT INDEX I-3

**RAPID REVIEW: CHAPTER CONTENT**