1 The Accountant's Role in the Organization 1

Management Accounting, Financial Accounting, and Cost Accounting 2

Strategic Decisions and the Management Accountant 3

The Management Accountant's Role in Implementing

Strategy 4

Value-Chain Analysis 4

Supply-Chain Analysis 5

Key Success Factors 6

Planning and Control Systems 7

Feedback: Linking Planning and Control 7

CONCEPTS IN ACTION: E-Business Strategies and the Management Accountant 8

An Example: Planning and Control and the Management Accountant 9

Problem-Solving, Scorekeeping, and Attention-Directing Roles 10

Key Management Accounting Guidelines 11

Cost-Benefit Approach 11

Behavioral and Technical Considerations 11

GLOBAL SURVEYS OF COMPANY PRACTICE: Today's Management Accountant 12

Different Costs for Different Purposes 13

Organization Structure and the Management Accountant 13

Line and Staff Relationships 13

The Chief Financial Officer and the Controller 13

F@CUS ON VALUES AND BEHAVIORS 15 Management Accounting Beyond the Numbers

Professional Ethics 15
Ethical Guidelines 16

Typical Ethical Challenges 17

Problem for Self-Study 18 • Decision Points 18 • Terms to Learn 19 • Assignment Material 19 • Video Case: Regal Marine 24

2 An Introduction to Cost Terms and Purposes 26

Costs and Cost Terminology 27
Direct Costs and Indirect Costs 27
Cost Tracing and Cost Allocation 27

F©CUS ON VALUES AND BEHAVIORS 29 Overcharging the U.S. Government

Factors Affecting Direct/Indirect Cost Classifications 29 Cost-Behavior Patterns; Variable Costs and Fixed Costs 30

GLOBAL SURVEYS OF COMPANY PRACTICE: Distinguishing Between Variable Costs and Fixed Costs 31

Cost Drivers 32

CONCEPTS IN ACTION: How Application Service Providers (ASPs) Influence Cost Structures 33

Relevant Range 33

Relationships of Types of Costs 34

Total Costs and Unit Costs 34

Unit Costs 34

Use Unit Costs Cautiously 36

Manufacturing-, Merchandising-, and Service-Sector

Companies 36

Financial Statements, Inventoriable Costs,

and Period Costs 36

Types of Inventory 37

Commonly Used Classifications of Manufacturing Costs 37

Inventoriable Costs 37

Period Costs 38

Illustrating the Flow of Inventoriable Costs

and Period Costs 38

Manufacturing-Sector Example 38

Recap of Inventoriable Costs and Period Costs 40

Prime Costs and Conversion Costs 42

Measuring Costs Requires Judgment 42

Measuring Labor Costs 42

Overtime Premium and Idle Time 43

Benefits of Defining Accounting Terms 44

Different Meanings of Product Costs 44

A Framework For Cost Accounting and Cost Management 46

Problem for Self-Study 47 • Decision Points 49 • Terms to Learn 49 • Assignment Material 50 • Video Case: Three Dog Bakery 58

3 Cost-Volume-Profit Analysis 60

Cost-Volume-Profit Assumptions and Terminology 61

Essentials of CVP Analysis 62

Equation Method 63

Contribution Margin Method 64

Graph Method 64

Breakeven Point and Target Operating Income 65

Target Operating Income 66

Target Net Income and Income Taxes 67

Using CVP Analysis for Decision Making 68

Decision to Advertise 68

Decision to Reduce Selling Price 69

Cost Planning and CVP 71 Alternative Fixed-Cost/Variable-Cost Structures 71 Operating Leverage 72
FOCUS ON VALUES AND BEHAVIORS 74 Worldcom: Simply a Matter of Poor Planning? Effects of Sales Mix on Income 74
CONCEPTS IN ACTION: Influencing Cost Structures to Manage the Risk-Return Trade-Off at Amazon.com 75
Multiple Cost Drivers 77 CVP Analysis in Service and Nonprofit Organizations 78 Contribution Margin Versus Gross Margin 78 Merchandising Sector 79 Manufacturing Sector 79
Problem for Self-Study 79 • Decision Points 80
APPENDIX: Decision Models and Uncertainty 81 Terms to Learn 84 • Assignment Material 84 • Video Case: Store 24 95
Job Costing 97 Building-Block Concepts of Costing Systems 98 Job-Costing and Process-Costing Systems 99 Actual Costing in Manufacturing 100 General Approach to Job Costing 101
GLOBAL SURVEYS OF COMPANY PRACTICE: Cost-Allocation Bases Used for Manufacturing Overhead 103 The Role of Technology 105
CONCEPTS IN ACTION: Job Costing on the Joint Strike Fighter Project 106
Time Period Used to Compute Indirect-Cost Rates 106
F@CUS ON VALUES AND BEHAVIORS 107
Enron's Catastrophic Mistakes Normal Costing 108 A Normal Job-Costing System in Manufacturing 109 General Ledger and Subsidiary Ledgers 109 Explanations of Transactions 111 Nonmanufacturing Costs and Job Costing 118 Budgeted Indirect Costs and End-of-Accounting-Year Adjustments 118 Adjusted Allocation-Rate Approach 119 Proration Approach 119 Write-Off to Cost of Goods Sold Approach 121 Choice Among Approaches 121 Multiple Overhead Costs Pools 122 Variations From Normal Costing: A Service-Sector Example 122
Problem for Self-Study 123 • Decision Points 125 • Terms to Learn 126 • Assignment Material 126 • Video Case: Wheeled Coach 137

Sensitivity Analysis and Uncertainty 69

5 Activity-Based Costing and Activity-Based Management 138

Broad Averaging and Its Consequences 139 Undercosting and Overcosting 139 Product-Cost Cross-Subsidization 140 Simple Costing System at Plastim Corporation 140 Design, Manufacturing, and Distribution Processes 140 Simple Costing System Using a Single Indirect-Cost Pool 141 Refining a Costing System 143 Activity-Based Costing Systems 144 Plastim's ABC System 145 Cost Hierarchies 147 Implementing Activity-Based Costing at Plastim 148 Comparing Alternative Costing Systems 152 Using ABC Systems for Improving Cost Management and Profitability 152 Activity-Based Costing and Department-Costing Systems 155 Implementing ABC systems 156 ABC in Service and Merchandising Companies 157

GLOBAL SURVEYS OF COMPANY PRACTICE: Varying Interest in Activity-Based Costing 158

F©CUS ON VALUES AND BEHAVIORS 159 Successfully Championing ABC

CONCEPTS IN ACTION: Analyzing and Managing Multichannel Banking with Activity-Based Costing 160

Problem for Self-Study 161 • Decision Points 163 • Terms to Learn 164 • Assignment Material 164 • Case: Activity-Based Costing: Columbo Frozen Yogurt 179

Part Two Tools for Planning and Control 180

6 Master Budget and Responsibility Accounting 180

Budgets and the Budgeting Cycle 181

Strategic Plans and Operating Plans 181

Budgeting Cycle and Master Budget 182

Advantages of Budgets 182

Coordination and Communication 182

Framework for Judging Performance 183

Motivating Managers and Other Employees 183

Challenges in Administering Budgets 183

Time Coverage of Budgets 184

Steps in Developing an Operating Budget 184

GLOBAL SURVEYS OF COMPANY PRACTICE: Budget Practices Around the Globe 185

Computer-Based Financial Planning Models 193

CONCEPTS IN ACTION: Web-Enabled Budgeting and Hendrick Motorsports 194

Kaizen Budgeting 195 Activity-Based Budgeting 196 Budgeting and Responsibility Accounting
Organization Structure and Responsibility
197
Feedback 198
Responsibility and Controllability 198
Human Aspects of Budgeting 199
Budgeting in Multinational Companies 200

F@CUS ON VALUES AND BEHAVIORS 20' Management Accountants: The Heart of the Budgeting Process

Problem for Self-Study 202 • Decision Points 203

APPENDIX: The Cash Budget 203

The Advisor of April 200 • Wide Problem for Self-Study 200 • Decision Points 200 • Problem for Self-Study 200 • Decision Points 200 • Problem for Self-Study 200 • Decision Points 200 • Problem for Self-Study 200 • Problem for Self-Study 200 • Decision Points 200 • Problem for Self-Study 200 • Problem for

Terms to Learn 207 • Assignment Material 208 • Video Case: Ritz-Carlton Hotels 220

7 Flexible Budgets, Direct-Cost Variances, and Management Control 221

The Use of Variances 222
Static Budgets and Static-Budget Variances 222
Flexible Budgets 224
Flexible-Budget Variances and Sales-Volume Variances 225
Sales-Volume Variances 225
Flexible-Budget Variances 226
Price Variances and Efficiency Variances For Direct-Cost
Inputs 227
Obtaining Budgeted Input Prices and Budgeted Input

GLOBAL SURVEYS OF COMPANY PRACTICE: The Widespread Use of Standard Costs 229

Data for Calculating Webb's Price Variances and Efficiency Variances 229 Price Variances 230 Efficiency Variance 231

Ouantities 227

CONCEPTS IN ACTION: Weapons Against Waste: Variance Analysis at Sandoz 232

Summary of Variances 233
Journal Entries Using Standard Costs 234
Implementing Standard Costing 235
Standard Costing and Information Technology 235
Wide Applicability of Standard Costing 235
Management Uses of Variances 236
Multiple Causes of Variances 236
When to Investigate Variances 236
Performance Measurement Using Variances 236
Organization Learning 237
Continuous Improvement 237

F@CUS ON VALUES AND BEHAVIORS 238 Starbucks, McDonald's, and Johnson & Johnson: Making Good Use of Variances

Financial and Nonfinancial Performance Measures 238
Variance Analysis and Activity-Based Costing 239
Relating Batch Costs to Product Output 239
Price and Efficiency Variances 240
Focus on Hierarchy 240

Benchmarking and Variance Analysis 241

Problem for Self-Study 242 • Decision Points 243 • Terms to Learn 244 • Assignment Material 244 • Case: Management Control at Starbucks 255

8 Flexible Budgets, Overhead Cost Variances, and Management Control 256

Planning of Variable and Fixed Overhead Costs 257
Planning Variable Overhead Costs 257
Planning Fixed Overhead Costs 257
Standard Costing at Webb Company 257
Developing Budgeted Variable Overhead Cost Rates 258
Variable Overhead Cost Variances 259
Flexible-Budget Analysis 259
Variable Overhead Efficiency Variance 260
Variable Overhead Spending Variance 261
Journal Entries for Variable Manufacturing Overhead Costs and Variances 263
Developing Budgeted Fixed Overhead Rates 263
Fixed Overhead Cost Variances 264
Production-Volume Variance 265

CONCEPTS IN ACTION: Variance Analysis and Standard Costing: Helping Sandoz Manage Overhead Costs 269

F©CUS ON VALUES AND BEHAVIORS 270 The Challenges of Overhead Variances

Computing the Production-Volume Variance 266

Interpreting the Production-Volume Variance 267

and Variances 268

Journal Entries for Fixed Manufacturing Overhead Costs

Integrated Analysis of Overhead Cost Variances 271
4-, 3-, 2-, and 1-Variance Analysis 271
Production-Volume Variance and Sales-Volume Variance 273

GLOBAL SURVEYS OF COMPANY PRACTICE: Variance Analysis and Control Decisions 274

Financial and Nonfinancial Performance Measures 275 Overhead Cost Variances in Nonmanufacturing and Service Settings 276

Activity-Based Costing and Variance Analysis 276 Flexible Budget and Variance Analysis for Variable Setup Overhead Costs 277

Flexible Budget and Variance Analysis for Fixed Setup Overhead Costs 279

Problem for Self-Study 280 • Decision Points 282 • Terms to Learn 283 • Assignment Material 283 • Case: Teva Sport Sandals 292

9 Inventory Costing and Capacity Analysis 294

Part One: Inventory Costing for Manufacturing Companies 295

Variable Costing and Absorption Costing 295

Data for Stassen Company for 2006 295

Comparing Income Statements over One Year 297

Explaining Differences in Operating Income 298

Data for Stassen Company for 2006, 2007, and 2008 298

Comparing Income Statements over Three Years 299

Effect of Sales and Production on Operating Income 301

Performance Measures and Absorption Costing 302

Undesirable Buildup of Inventories 303

F@CUS on VALUES AND BEHAVIORS 303 Bristol-Myers-Squibb's Questionable Inventory Strategy

GLOBAL SURVEYS OF COMPANY PRACTICE: Usage of Variable Costing and Absorption Costing by Companies 304

Proposals for Revising Performance Evaluation 304 Throughput Costing 305

CONCEPTS IN ACTION: Yield Improvements and the Production-Volume Variance at Analog Devices 306

Comparison of Alternative Inventory-Costing Methods 307 Problem for Self-Study 308

Part Two: Denominator-Level Capacity Concepts and Fixed-Cost Capacity Analysis 309

Alternative Denominator-Level Capacity Concepts

for Absorption Costing 309

Theoretical Capacity and Practical Capacity 309

Normal Capacity Utilization and Master-Budget Capacity Utilization 310

Effect on Budgeted Fixed Manufacturing Cost Rate 310

Choosing a Capacity Level 311

Product Costing and Capacity Management 311

Pricing Decisions and the Downward Demand Spiral 312

Performance Evaluation 313

External Reporting 314

Regulatory Requirements 316

Difficulties in Forecasting Chosen Denominator-Level

Concept 316

Capacity Costs and Denominator-Level Issues 317

Problem for Self-Study 318 • Decision Points 318

APPENDIX: Breakeven Points in Variable Costing and Absorption Costing 319

Terms to Learn 320 • Assignment Material 320 • Video Case: Cavco Industries 331

Part Three Cost Information for Decisions 332

10 Determining How Costs Behave 332

General Issues in Estimating Cost Functions 333

Basic Assumptions and Examples of Cost Functions 333

Brief Review of Cost Classification 335

Cost Estimation 336

The Cause-and-Effect Criterion in Choosing Cost Drivers 336 Cost Estimation Methods 336

GLOBAL SURVEYS OF COMPANY PRACTICE: International Comparison of Cost Classification by Companies 337 Industrial Engineering Method 337
Conference Method 337
Account Analysis Method 338
Quantitative Analysis Methods 338
Steps in Estimating a Cost Function Using Quantitative
Analysis 338
High-Low Method 341
Regression Analysis Method 342
Evaluating Cost Drivers of the Estimated Cost Function 344

F@CUS ON VALUES AND BEHAVIORS 345

Boeing's Management Accountants: Embracing Opportunities and Taking Challenges

Cost Drivers and Activity-Based Costing 347 Nonlinearity and Cost Functions 347

CONCEPTS IN ACTION: Activity-Based Costing: Identifying Cost and Revenue Drivers 348

Learning Curves and Nonlinear Cost Functions

Cumulative Average-Time Learning Model 350

Incremental Unit-Time Learning Model 350

Setting Prices, Budgets, and Standards 352

Data Collection and Adjustment Issues 353

Problem for Self-Study 354 • Decision Points 356

APPENDIX: Regression Analysis 356

Terms to Learn 363 • Assignment Material 364 • Case:
U.S. Brewing Industry 377

11 Decision Making and Relevant

Information and the Decision Process 379

The Concept of Relevance 380

Relevant Costs and Relevant Revenues 380

Qualitative and Quantitative Relevant Information 381

An Illustration of Relevance: Choosing Output Levels 381

One-Time-Only Special Orders 381

Potential Problems in Relevant-Cost Analysis 383

Insourcing-versus-Outsourcing and Make-versus-Buy

Decisions 384

Outsourcing and Idle Facilities 384

Strategic and Qualitative Factors 386

Opportunity Costs and Outsourcing 386

CONCEPTS IN ACTION: The Benefits and Costs of "Offshoring" 387

The Opportunity Cost Approach 388

CONCEPTS IN ACTION: Delta Airlines, the Internet, and Opportunity Costs 389

Carrying Costs of Inventory 390
Product-Mix Decisions Under Capacity Constraints 391
Customer Profitability, Activity-Based Costing,
and Relevant Costs 393
Relevant-Revenue and Relevant-Cost Analysis
of Dropping a Customer 394

Relevant-Revenue and Relevant-Cost Analysis of Adding a Customer 395 Relevant-Revenue and Relevant-Cost Analysis of Closing or Adding Branches or Segments 395 Irrelevance of Past Costs and Equipment-Replacement Decisions 396

F©CUS ON VALUES AND BEHAVIORS 399 Beyond the Walls of the Accounting Department

Problem for Self-Study 399 • Decision Points 401 APPENDIX: Linear Programming 401

Decisions and Performance Evaluation 398

Terms to Learn 404 • Assignment Material 404 • Video Case: Store 24 417

12 Pricing Decisions and Cost Management 419

Major Influences on Pricing Decisions 420 Customers, Competitors, and Costs 420 Time Horizon of Pricing Decisions 420 Costing and Pricing for the Short Run 421 Relevant Costs for Short-Run Pricing Decisions 421 Strategic and Other Factors in Short-Run Pricing 421 Costing and Pricing for the Long Run 422 Calculating Product Costs for Long-Run Pricing Decisions 422 Alternative Long-Run Pricing Approaches 424 Target Costing for Target Pricing 425 Understanding Customers Perceived Value 425 Doing Competitor Analysis 425 Implementing Target Pricing and Target Costing 425 Value Engineering, Cost Incurrence, and Locked-In Costs 426

CONCEPTS IN ACTION: Extreme Target Pricing and Cost Management at IKEA 427

Value - Chain Analysis and Cross-Functional Teams 428

F©CUS ON VALUES AND BEHAVIORS 429 Pricing Decisions Are Never Arbitrary

Achieving the Target Cost per Unit for Provalue 430
Cost-Based (Cost-Plus) Pricing 432
Cost-Plus Target Rate of Return on Investment 432
Alternative Cost-Plus Methods 433
Cost-Plus Pricing and Target Pricing 434

GLOBAL SURVEYS OF COMPANY PRACTICE: Differences in Pricing Practices and Cost Management Methods in Various Countries 435

Life-Cycle Product Budgeting and Costing 436
Life-Cycle Budgeting and Pricing Decisions 436
Customer Life-Cycle Costing 438
Considerations Other than Costs in Pricing Decisions 438
Effects of Antitrust Laws on Pricing 439

Problem for Self-Study 441 • Decision Points 442 • Terms to Learn 443 • Assignment Material 443 • Video Case: Grand Canyon Railway 454

13 Strategy, Balanced Scorecard, and Strategic Profitability Analysis 455

What Is Strategy? 456
Strategy Implementation and the Balanced Scorecard 457
The Balanced Scorecard 457
Quality Improvement and Reengineering at Chipset 458
Four Perspectives of the Balanced Scorecard 459
Implementing a Balanced Scorecard 461
Aligning the Balanced Scorecard to Strategy 461

F©CUS ON VALUES AND BEHAVIORS 462 The New Wave of Accounting: Contributing to Strategy

Features of a Good Balanced Scorecard 462
Pitfalls in Implementing a Balanced Scorecard 463

GLOBAL SURVEYS OF COMPANY PRACTICE: Widening the Performance-Measurement Lens Using the Balanced Scorecard 464

Evaluating the Success of Strategy and Implementation 465
Strategic Analysis of Operating Income 465
Growth Component of Change in Operating Income 467
Price-Recovery Component of Change in Operating
Income 468
Productivity Component of Change in Operating Income 469

Further Analysis of Growth, Price-Recovery, and Productivity

Components 471

Downsizing and the Management of Capacity 472

CONCEPTS IN ACTION: Growthversus-Profitability Choices of Dot-Com Companies 473

Identifying Unused Capacity for Engineered and Discretionary
Overhead Costs 474

Managing Unused Capacity 475

Problem for Self-Study 476 • Decision Points 479 APPENDIX: Productivity Measurement 480

Terms to Learn 482 • Assignment Material 482 • Video Case: McDonald's Corporation 490

14 Cost Allocation, Customer-Profitability Analysis, and Sales-Variance Analysis 492

Purposes of Cost Allocation 493
Criteria to Guide Cost-Allocation Decisions 494
Cost Allocation and Costing Systems 496
Allocating Corporate Costs to Divisions and Products 498

GLOBAL SURVEYS OF COMPANY PRACTICE: Allocation of Corporate and Other Support Costs to Divisions and Departments 499

Implementing Corporate Cost Allocations 500
Customer Revenues and Customer Costs 501
Customer Revenue Analysis 502
Customer Cost Analysis 502
Customer-Level Costs 503

F©CUS ON VALUES AND BEHAVIORS 505 So Is the Customer Always Right?

CONCEPTS IN ACTION: Customer Profitability at Nextel 506

Customer-Profitability Profiles 506

Sales Variances 508

Static-Budget Variance 509

Flexible-Budget Variance and Sales-Volume Variance 509

Sales-Mix and Sales-Ouantity Variances 510

Sales-Mix Variance 510

Sales-Ouantity Variance 511

Market-Share and Market-Size Variances 512

Market-Share Variance 512

Market-Size Variance 513

Problem for Self-Study 514 • Decision Points 515

APPENDIX: Mix and Yield Variances for Substitutable
Inputs 516

Terms to Learn 519 • Assignment Material 519 • Video Case:

Part Five Quality and JIT 531

1 5 Allocation of Support-Department Costs, Common Costs, and Revenues 531

Allocating Costs of a Support Department to Operating
Departments 532

Single-Rate and Dual-Rate Methods 532

Allocation Based on the Demand for or Usage

of Computer Services 533

Allocation Based on the Supply of Capacity 534

Budgeted versus Actual Rates 535

Budgeted Usage, Actual Usage, and Capacity-Level

Allocation Bases 535

FOCUS ON VALUES AND BEHAVIORS 536

Finance Executives at Boeing: Setting the Wrong Example

Allocating Costs of Multiple Support Departments 537

Direct Method 538

Step-Down Method 539

Reciprocal Method 540

Overview of Methods 542

GLOBAL SURVEYS OF COMPANY PRACTICE: Allocation of Support-Department Costs 544

Allocating Common Costs 544

Stand-Alone Cost-Allocation Method 544

Incremental Cost-Allocation Method 545

Cost Allocations and Contracts 546

Contracting with the U.S. Government 546

Fairness of Pricing 546

Revenue Allocation and Bundled Products 547

CONCEPTS IN ACTION: Contract Disputes over Reimbursable Costs for U.S. Government Agencies 548

Revenue-Allocation Methods 548

Stand-Alone Revenue-Allocation Method 549

Incremental Revenue-Allocation Method 549

Other Revenue-Allocation Methods 551

Problem for Self-Study 552 • Decision Points 553 • Terms to Learn 554 • Assignment Material 554 • Case:

Stanford University 564

16 Cost Allocation: Joint Products and Byproducts 565

Joint-Cost Basics 566

Main Products, Joint Products, and Byproducts 566

Why Allocate Joint Costs? 567

Approaches to Allocating Joint Costs 567

Sales Value at Splitoff Method 569

Physical-Measure Method 570

Net Realizable Value (NRV) Method 571

Constant Gross-Margin Percentage NRV Method 572

Choosing a Method 573

Not Allocating Joint Costs 574

GLOBAL SURVEYS OF COMPANY PRACTICE: Joint-Cost Allocation in the Oil Patch 575

Irrelevance of Joint Costs for Decision Making 575

Sell-or-Process-Further Decisions 575

Joint-Cost Allocation and Performance Evaluation 576

F@CUS on VALUES AND BEHAVIORS 577

Management Accountants: Overcoming the Pitfalls of Allocating Joint Costs

Pricing Decisions 577

Accounting for Byproducts 577

Production Method: Byproducts Recognized at Time Production

Is Completed 578

Sales Method: Byproducts Recognized at Time of Sale 579

CONCEPTS IN ACTION: Chicken Processing: Costing of Joint Products and Byproducts 580

Problem for Self-Study 580 • Decision Points 582 • Terms to Learn 583 • Assignment Material 583 • Case:

Memory Manufacturing Company 593

17 Process Costing 594

Illustrating Process Costing 595

Case 1: Process Costing with Zero Beginning and Zero Ending

Work-in-Process Inventory 596

Case 2: Process Costing with Zero Beginning but Some Ending

Work-In-Process Inventory 597

Physical Units and Equivalent Units (Steps 1 and 2) 598

Calculation of Product Costs (Steps 3, 4, and 5) 599

Journal Entries 600

GLOBAL SURVEYS OF COMPANY PRACTICE: Process Costing in Different Industries 600

Case 3: Process Costing with Some Beginning and Some Ending Work-in-Process Inventory 601

Weighted-Average Method 602

First-in, First-out Method 604

F@CUS ON VALUES AND BEHAVIORS 60

Royal Dutch/Shell: Making Estimations for All the Wrong Reasons

Comparison of Weighted-Average and FIFO Methods 608 Standard-Costing Method of Process Costing 609 Computations Under Standard Costing 610 Accounting for Variances 612

Transferred-In Costs in Process Costing 612
Transferred-In Costs and the Weighted-Average Method 614
Transferred-In Costs and the FIFO Method 615
Points to Remember about Transferred-In Costs 617

Hybrid-Costing Systems 617

CONCEPTS IN ACTION: Hybrid Costing for Customized Shoes at Adidas 618

Problem for Self-Study 618 • Decision Points 619 APPENDIX: Operation Costing 620

Terms to Learn 623 • Assignment Material 623 • Video Case: Nantucket Nectors 631

18 Spoilage, Rework, and Scrap 632

Terminology 633
Different Types of Spoilage 633
Normal Spoilage 633
Abnormal Spoilage 634
Process Costing and Spoilage 634
Count All Spoilage 634
The Five-Step Procedure for Process Costing with Spoilage 635
Weighted-Average Method and Spoilage 637

GLOBAL SURVEYS OF COMPANY PRACTICE: Rejection in the Electronics Industry 638

FIFO Method and Spoilage 638
Standard-Costing Method and Spoilage 640
Journal Entries 640
Inspection Points and Allocating Costs
of Normal Spoilage 642
Job Costing and Spoilage 642
Job Costing and Rework 644
Accounting for Scrap 645
Recognizing Scrap at the Time of Its Sale 645
Recognizing Scrap at the Time of Its Production 646

CONCEPTS IN ACTION: Managing Waste and Environmental Costs at Toyota 647

Problem for Self-Study 648 • Decision Points 648

APPENDIX: Inspection and Spoilage at Various Stages
of Completion in Process Costing 649

Terms to Learn 651 • Assignment Material 651 • Case: The United Libbey-Nippon Plant 658

19 Balanced Scorecard: Quality, Time, and the Theory of Constraints 659

Part One: Quality as a Competitive Tool 660
The Financial Perspective: Costs of Quality 661

The Customer Perspective: Nonfinancial Measures of Customer Satisfaction 663

The Internal-Business-Process Perspective: Analyzing Quality Problems and Improving Quality 664

Control Charts 664
Pareto Diagrams 665
Cause-and-Effect Diagrams 665
Relevant Costs and Benefits of Evaluating Quality
Improvement 666

F@CUS ON VALUES AND BEHAVIORS 668

The Cost of Quality Failure at Firestone

Nonfinancial Measures of Internal-Business-Process Quality 668

The Learning-and-Growth Perspective for Quality Improvements 669

Evaluating Quality Performance 669

Advantages of COQ Measures 669

Advantages of Nonfinancial Measures of Quality 669

Part Two: Time as a Competitive Tool 670

Customer-Response Time and On-Time Performance 670 Time Drivers and Costs of Time 671

Uncertainty and Bottlenecks as Drivers of Time 671

CONCEPTS IN ACTION: Overcoming Bottlenecks on the Internet 672

Relevant Revenues and Costs of Time 673

Part Three: Theory of Constraints and Throughput-Contribution Analysis 675

Managing Bottlenecks 675

Balanced Scorecard and Time-Related Measures 678

Problem for Self-Study 678 • Decision Points 679 • Terms to Learn 680 • Assignment Material 680 • Video Case: Ritz-Carlton Hotel Company 690

20 Inventory Management, Just-in-Time, and Backflush Costing 691

Inventory Management in Retail Organizations 691
Costs Associated with Goods for Sale 692
Economic-Order-Quantity Decision Model 692
When to Order, Assuming Certainty 694
Safety Stock 695

Estimating Inventory-Related Relevant Costs and Their Effects 697

Considerations in Obtaining Estimates of Relevant Costs 697

Cost of a Production Error 697
Conflict Between the EOQ Decision Model and Managers'

onflict Between the EOQ Decision Model and Managers' Performance Evaluation 698

Just-in-Time Purchasing 698

JIT Purchasing and EOQ Model Parameters 699

Relevant Costs of JIT Purchasing 699

Supplier Evaluation and Relevant Costs of Quality and Timely Deliveries 700

JIT Purchasing, Planning and Control, and Supply-Chain Analysis 701

Inventory Management and MRP 702

GLOBAL SURVEYS OF COMPANY PRACTICE: Challenges in Securing the Benefits of Supply-Chain Management 703

Inventory Management and JIT Production 703

Effect of JIT Systems on Product Costing 704

Financial Benefits of JIT and Relevant Costs 704

CONCEPTS IN ACTION: After the Encore: Just-in-Time Live Concert CDs 705

Enterprise Resource Planning (ERP) Systems 706
Performance Measures and Control in JIT Production 706

F@CUS ON VALUES AND BEHAVIORS 707 Challenges of Inventory Valuation and JIT Implementation

Backflush Costing 707
Simplified Normal or Standard Costing 707
Accounting for Variances 710
Special Considerations in Backflush Costing 713

Problem for Self-Study 714 • Decision Points 715 • Terms to Learn 716 • Assignment Material 716 • Video Case: Regal Marine 723

Part Six Investment Decisions and Management Control Systems 724

21 Capital Budgeting and Cost Analysis 724

Two Dimensions of Cost Analysis 724
Stages of Capital Budgeting 725
Discounted Cash Flow 726
Net Present Value Method 727
Internal Rate-of-Return Method 728
Comparison of Net Present Value and Internal
Rate-of-Return Methods 730

Sensitivity Analysis 730

Payback Method 731 Uniform Cash Flows 731

Nonuniform Cash Flows 732

Accrual Accounting Rate-of Return Method 732

Evaluating Managers and Goal Congruence Issues 733
Relevant Cash Flows in Discounted Cash Flow Analysis 734

GLOBAL SURVEYS OF COMPANY PRACTICE: Comparison of Capital Budgeting Methods 735

Relevant After-Tax Flows 736 Categories of Cash Flows 737 Managing the Project 740

F©CUS ON VALUES AND BEHAVIORS 741 Long-Term Contracts and Performance Evaluation

Strategic Considerations in Capital Budgeting 741

GLOBAL SURVEYS OF COMPANY PRACTICE: Global Budgeting at AES Corporation 742

Customer Value and Capital Budgeting 743
Investment in Research and Development 743

Problem for Self-Study 743 • Decision Points 745

APPENDIX: Capital Budgeting and Inflation 746

Terms to Learn 748 • Assignment Material 748 • Video Case: Capital Budgeting at Pearson Education 758

22 Management Control Systems, Transfer Pricing, and Multinational Considerations 759

Management Control Systems 760
Evaluating Management Control Systems 760
Organization Structure and Decentralization 761

Benefits of Decentralization 762

Costs of Decentralization 762

Comparison of Benefits and Costs 763

Decentralization in Multinational Companies 763

Choices About Responsibility Centers 764

Transfer Pricing 764

An Illustration of Transfer Pricing 765

Market-Based Transfer Prices 768

Perfectly Competitive Market Case 768

Distress Prices 768

Cost-Based Transfer Prices 769

Full-Cost Bases 769

Variable Cost Bases 771

Prorating the Difference Between Maximum and Minimum

Transfer Prices 771

Dual Pricing 772

Negotiated Transfer Prices 772

A General Guideline for Transfer-Pricing Situations 773

GLOBAL SURVEYS OF COMPANY PRACTICE: Domestic and Multinational Transfer-Pricing Practices 774

Multinational Transfer-Pricing and Tax Considerations 776

CONCEPTS IN ACTION: U.S. Internal Revenue Service, Japanese National Tax Agency, and Transfer-Pricing Games 777

F@CUS ON VALUES AND BEHAVIORS 779 Transfer Pricing Pressures

Problem for Self-Study 779 • Decision Points 781 • Terms to Learn 781 • Assignment Material 782 • Case: Information Systems Corporation 790

23 Performance Measurement, Compensation, and Multinational Considerations 791

Financial and Nonfinancial Performance Measures 792 Choosing Among Different Performance Measures:

Step 1 793

Return on Investment 793

Residual Income 795

Economic Value Added 796

Return on Sales 797

Comparing Performance Measures 798

Choosing the Time Horizon of the Performance Measures:

Step 2 798

GLOBAL SURVEYS OF COMPANY PRACTICE: Key Financial Performance Measures Used Around the Globe 799

Choosing Alternative Definitions for Performance Measures: Step 3 800

Choosing Measurement Alternatives for Performance Measures: Step 4 800

Current Cost 800

Long-Term Assets: Gross or Net Book Value? 801
Choosing Target Levels of Performance: Step 5 803
Choosing the Timing of Feedback: Step 6 803

Performance Measurement in Multinational Companies 804

Calculating the Foreign Division's ROI in the Foreign

Currency 804

Calculating the Foreign Division's ROI in U.S. Dollars 805
Distinction Between Managers and Organization Units 805
The Basic Trade-Off: Creating Incentives versus
Imposing Risk 806

Intensity of Incentives and Financial and Nonfinancial
Measurements 807

Prochagable and Polyting Performance Finalization 80

Measurements 807
Benchmarks and Relative Performance Evaluation 807
Performance Measures at the Individual Activity Level 808
Performing Multiple Tasks 808
Team-Based Compensation Arrangements 808
Executive Performance Measures and Compensation 809

CONCEPTS IN ACTION: CEO Compensation and Company Performance 810

Strategy and Levers of Control 811

F@CUS ON VALUES AND BEHAVIORS 811 The Courage to Say No

Problem for Self-Study 813 • Decision Points 814 • Terms to Learn 815 • Assignment Material 815 • Video Case: McDonald's Corporation 824

Appendix A: Global Surveys of Company Practice 825

Appendix B: Recommended Readings 829

Appendix C: Notes on Compound Interest and Interest Tables 833

Appendix D: Cost Accounting in Professional Examinations 841

Glossary 845

Author Index 857

Company Index 859

Subject Index 861

7