Contents

1 The Manager and Ma Accounting 24	anagement	Total Costs and Unit Costs 58 Unit Costs 58
•	ada Aus Danin	Use Unit Costs Cautiously 59
iTunes Variable Pricing: Downlo	ads are Down,	Business Sectors, Types of Inventory, Inventoriable
but Profits Are Up		Costs, and Period Costs 60
Financial Accounting, Manageme	ent Accounting,	Manufacturing-, Merchandising-, and Service-Sector
and Cost Accounting 25		Companies 60
Strategic Decisions and the Manag		Types of Inventory 60
Value-Chain and Supply-Chain A	inalysis and Key	Commonly Used Classifications of Manufacturing
Success Factors 28		Costs 60
Value-Chain Analysis 28		Inventoriable Costs 61
Supply-Chain Analysis 29		Period Costs 61
Key Success Factors 30		Illustrating the Flow of Inventoriable Costs and Period
Concepts in Action: Trader Joe	e's Recipe for Cost	Costs 62
Leadership		Manufacturing-Sector Example 62
Decision Making, Planning, and		Recap of Inventoriable Costs and Period Costs 66
Decision-Making Process		Prime Costs and Conversion Costs 67
Key Management Accounting Gu	iidelines 35	Concepts in Action: Cost Structure at Nordstrom
Cost–Benefit Approach 35		Spurs Growth
Behavioral and Technical Cons		Measuring Costs Requires Judgment 68
Different Costs for Different P		Measuring Labor Costs 68
Organization Structure and the M	Management	Overtime Premium and Idle Time 69
Accountant 36		Benefits of Defining Accounting Terms 69
Line and Staff Relationships		Different Meanings of Product Costs 70
The Chief Financial Officer and		A Framework for Cost Accounting and Cost
Management Accounting Beyo	and the Numbers 37	Management 71
Professional Ethics 38		Calculating the Cost of Products, Services, and Other
Institutional Support 39		Cost Objects 72
Typical Ethical Challenges 39)	Obtaining Information for Planning and Control and
Problem for Self-Study 41 Decis	sion Points 42	Performance Evaluation 72
Terms to Learn 43 Assignment I	•	Analyzing the Relevant Information for Making
Questions 43 Exercises 43		Decisions 72
QUESTIONS 40 EXECUSES 40	Troblems 40	Butt. 6.0 Kg/ to 70 l D 11 B1
2 An Introduction to Co	oet Torme	Problem for Self-Study 73 Decision Points 75
	Jot Icimo	Terms to Learn 76 Assignment Material 76
and Purposes 50		Questions 76 Exercises 77 Problems 81
High Fixed Costs Bankrupt Twin	<i>p</i> -3	Cook Valuma Duotit Amalusia
Costs and Cost Terminology 51		3 Cost–Volume–Profit Analysis 88
Direct Costs and Indirect Costs		How "The Biggest Rock Show Ever" Turned a Big
Cost Allocation Challenges 5.		Profit
Factors Affecting Direct/Indirect	et Cost	Essentials of CVP Analysis 89
Classifications 53		Contribution Margin 90
Cost-Behavior Patterns: Variable	Costs and Fixed	Expressing CVP Relationships 92
Costs 54		Cost-Volume-Profit Assumptions 94
Cost Drivers 56		Breakeven Point and Target Operating
Concepts in Action: Zipcar Help	ps Twitter Reduce	Income 95
Fixed Costs		Breakeven Point 95
Relevant Range 57		Target Operating Income 96
Relationships Between Types of	f Costs 58	Target Net Income and Income Taxes 98

Using CVP Analysis for Decision Making 99	5 Activity-Based Costing and
Decision to Advertise 99	Activity-Based Management 172
Decision to Reduce the Selling Price 100	LG Electronics Reduces Costs and Inefficiencies
Determining Target Prices 100	
Sensitivity Analysis and Margin of Safety 101	Through Activity-Based Costing Broad Averaging and Its Consequences 173
Cost Planning and CVP 102	Undercosting and Overcosting 173
Alternative Fixed-Cost/Variable-Cost Structures 102	Product-Cost Cross-Subsidization 174
Operating Leverage 104	
Concepts in Action: Cost-Volume-Profit Analysis	Simple Costing System at Plastim Corporation 174
Makes Megabus a Mega-Success	Design, Manufacturing, and Distribution Processes 175
Effects of Sales Mix on Income 106	
CVP Analysis in Service and Not-for-Profit	Simple Costing System Using a Single Indirect-Cost Pool 176
Organizations 108	Applying the Five-Step Decision-Making Process at
Contribution Margin Versus Gross Margin 109	Plastim 177
Problem for Self-Study 110 Decision Points 111	Refining a Costing System 179
Troblem for Sen-Study TTO Decision Politics	Reasons for Refining a Costing System 179
APPENDIX: Decision Models and Uncertainty 112	Guidelines for Refining a Costing System 179
Towns to Lawren and C. I. Assistance and Market C. L. and C. I.	Activity-Based Costing Systems 180
Terms to Learn 115 Assignment Material 115	Plastim's ABC System 180
Questions 115 Exercises 116 Problems 120	Cost Hierarchies 183
	Implementing Activity-Based Costing 184
4 Job Costing 128	Implementing ABC at Plastim 184
Job Costing and "Green" Home Construction	Comparing Alternative Costing Systems 188
Building-Block Concepts of Costing Systems 129	Considerations in Implementing Activity-Based Costing
Job-Costing and Process-Costing Systems 130	Systems 189
Job Costing: Evaluation and Implementation 132	Benefits and Costs of Activity-Based Costing
Time Period Used to Compute Indirect-Cost	Systems 189
Rates 133	Behavioral Issues in Implementing Activity-Based
Normal Costing 134	Costing Systems 190
General Approach to Job Costing Using Normal	Activity-Based Management 191
Costing 134	Pricing and Product-Mix Decisions 191
Concepts in Action: The Job Costing "Game Plan"	Cost Reduction and Process Improvement
at the New Cowboys Stadium	Decisions 191
The Role of Technology 139	Design Decisions 192
Concepts in Action: Home Depot Undergoes an	Planning and Managing Activities 192
Inventory Management "Fix-It"	Activity-Based Costing and Department Costing
Actual Costing 140	Systems 193
A Normal Job-Costing System in	ABC in Service and Merchandising Companies 194
Manufacturing 142	Concepts in Action: Pincky Inc.: Capacity Costs and
General Ledger 143	Time Driven Activity-Based Costing
Explanations of Transactions 144	Problem for Self-Study 195 Decision Points 198
Subsidiary Ledgers 145	Terms to Learn 199 Assignment Material 199
Nonmanufacturing Costs and Job Costing 149	Questions 199 Exercises 200 Problems 208
Budgeted Indirect Costs and End-of-Accounting-Year	datations for Environment and American
Adjustments 149	o Mantay Dudget and Decrepolities
Underallocated and Overallocated Indirect Costs 149	6 Master Budget and Responsibility
	Accounting 218
Adjusted Allocation-Rate Approach 150 Proration Approach 150	"Scrimping" at the Ritz: Master Budgets
Writeoff to Cost of Goods Sold Approach 152	Budgets and the Budgeting Cycle 220
Choosing Among Approaches 153	Strategic Plans and Operating Plans 220
Variations from Normal Costing: A Service-Sector	Budgeting Cycle and Master Budget 221
Example 154	Advantages and Challenges of Implementing
•	Budgets 221
Problem for Self-Study 155 Decision Points 157	Promoting Coordination and Communication 221
Terms to Learn 158 Assignment Material 158	Providing a Framework for Judging Performance
Questions 158 Exercises 159 Problems 165	and Facilitating Learning 222

	Motivating Managers and Other Employees 223 Challenges in Administering Budgets 223 Developing an Operating Budget 223 Time Coverage of Budgets 224		Continuous Improvement 288 Financial and Nonfinancial Performance Measures 288 Benchmarking and Variance Analysis 289
	Steps in Preparing an Operating Budget 224 Financial Planning Models and Sensitivity		Problem for Self-Study 290 Decision Points 292
	Analysis 235		APPENDIX: Mix and Yield Variances for Substitutable
	Concepts in Action: Web-Enabled Budgeting and Hendrick Motorsports		Inputs 292
	Budgeting and Responsibility Accounting 237 Organization Structure and Responsibility 238 Feedback 238		Terms to Learn 296 Assignment Material 296 Questions 296 Exercises 297 Problems 301
	Responsibility and Controllability 239 Human Aspects of Budgeting 240 Budgetary Slack 240 Stretch Targets 241 Kaizen Budgeting 242	8	Flexible Budgets, Overhead Cost Variances, and Management Control 310 Planning Fixed and Variable Overhead Costs at Tesla
	Budgeting in Multinational Companies 243		Motors
	Problem for Self-Study 244 Decision Points 245		Planning of Variable and Fixed Overhead Costs 311 Planning Variable Overhead Costs 311
	APPENDIX: The Cash Budget 246		Planning Fixed Overhead Costs 312
	Terms to Learn 252 Assignment Material 252 Questions 252 Exercises 252 Problems 257		Standard Costing at Webb Company 312 Developing Budgeted Variable Overhead Rates 313 Developing Budgeted Fixed Overhead Rates 313
7	Flexible Budgets, Direct-Cost Variances, and Management Control 270		Developing Budgeted Fixed Overhead Rates 313 Variable Overhead Cost Variances 315 Flexible-Budget Analysis 315 Variable Overhead Efficiency Variance 315
	SingaDeli Bakery		Variable Overhead Spending Variance 317 Journal Entries for Variable Overhead Costs and
	Static Budgets and Variances 271		Variances 318
	The Use of Variances 271 Static Budgets and Static-Budget Variances 272		Fixed Overhead Cost Variances 319 Production-Volume Variance 320
	Flexible Budgets 274		Interpreting the Production-Volume Variance 321
	Flexible-Budget Variances and Sales-Volume Variances 275 Sales-Volume Variances 275		Journal Entries for Fixed Overhead Costs and Variances 322
	Flexible-Budget Variances 276		Concepts in Action: Variance Analysis and
	Concepts in Action: Flexible Budgets		Standard Costing Help Sandoz Manage Its Overhead Costs
	at Corning Standard Costs for Variance Analysis 278		Integrated Analysis of Overhead Cost Variances 325
	Obtaining Budgeted Input Prices and Budgeted Input		4-Variance Analysis 325
	Quantities 278		Combined Variance Analysis 327 Production-Volume Variance and Sales-Volume
	Price Variances and Efficiency Variances for Direct-Cost		Variance 327
	Inputs 280 Price Variances 280		Variance Analysis and Activity-Based Costing 329
	Efficiency Variance 281		Flexible Budget and Variance Analysis for Direct Materials-Handling Labor Costs 330
	Journal Entries Using Standard Costs 283		Flexible Budget and Variance Analysis for Fixed Setup
	Implementing Standard Costing 285 Concepts in Action: Starbucks Reduces Direct-Cost		Overhead Costs 332
	Variances to Brew a Turnaround		Overhead Variances in Nonmanufacturing Settings 334
	Management's Use of Variances 286		Financial and Nonfinancial Performance
	Multiple Causes of Variances 286		Measures 334
	When to Investigate Variances 287		Problem for Self-Study 335 Decision Points 337
	Using Variances for Performance Measurement 287		Terms to Learn 338 Assignment Material 338
	Organization Learning 288		Questions 338 Exercises 338 Problems 343

9 Inventory Costing and Capacity Analysis 350	10 Determining How Costs Behave 392
Lean Manufacturing Helps Companies Reduce Inventory and Survive the	Cisco Understands Its Costs While Helping the Environment
Recession Variable and Absorption Costing 351 Variable Costing 351 Absorption Costing 352 Comparing Variable and Absorption Costing 352	Basic Assumptions and Examples of Cost Functions 393 Basic Assumptions 393 Linear Cost Functions 394 Review of Cost Classification 395 Identifying Cost Drivers 396
Variable vs. Absorption Costing: Operating Income and Income Statements 353 Comparing Income Statements for One Year 353 Comparing Income Statements for Multiple Years 355 Variable Costing and the Effect of Sales and Production on Operating Income 358	The Cause-and-Effect Criterion 396 Cost Drivers and the Decision-Making Process 397 Cost Estimation Methods 398 Industrial Engineering Method 398 Conference Method 399 Account Analysis Method 399 Quantitative Analysis Method 400
Absorption Costing and Performance Measurement 359	Concepts in Action: What Does It Cost AT&T Wireless to Send a Text
Concepts in Action: Absorption Costing and the Bankruptcy of U.S. Automakers Undesirable Buildup of Inventories 361 Proposals for Revising Performance Evaluation 362 Comparing Inventory Costing Methods 363 Throughput Costing 363 A Comparison of Alternative Inventory-Costing	Message? Estimating a Cost Function Using Quantitative Analysis 401 High-Low Method 403 Regression Analysis Method 405 Evaluating and Choosing Cost Drivers 406 Cost Drivers and Activity-Based Costing 409 Concepts in Action: Activity-Based Costing:
Methods 364 Denominator-Level Capacity Concepts and Fixed-Cost Capacity Analysis 365 Absorption Costing and Alternative Denominator- Level Capacity Concepts 365 Effect on Budgeted Fixed Manufacturing Cost Rate 366	Identifying Cost Drivers Nonlinear Cost Functions 410 Learning Curves 411 Cumulative Average-Time Learning Model 412 Incremental Unit-Time Learning Model 413 Incorporating Learning-Curve Effects into Prices and Standards 414
Choosing a Capacity Level 367 Product Costing and Capacity Management 367 Pricing Decisions and the Downward Demand	Data Collection and Adjustment Issues 415 Problem for Self-Study 417 Decision Points 419
Spiral 368	APPENDIX: Regression Analysis 420
Performance Evaluation 369 External Reporting 370 Tax Requirements 373	Terms to Learn 429 Assignment Material 429 Questions 429 Exercises 430 Problems 436
Planning and Control of Capacity Costs 373 Difficulties in Forecasting Chosen Denominator-Level Concept 373 Difficulties in Forecasting Fixed Manufacturing	11 Decision Making and Relevant Information 446
Costs 374 Nonmanufacturing Costs 374 Activity-Based Costing 374	Relevant Costs, JetBlue, and Twitter Information and the Decision Process 447 The Concept of Relevance 448 Relevant Costs and Relevant Revenues 448
Problem for Self-Study 375 Decision Points 377 APPENDIX: Breakeven Points in Variable Costing and Absorption Costing 378	Qualitative and Quantitative Relevant Information 449 One-Time-Only Special Orders 450 Potential Problems in Relevant-Cost
Terms to Learn 380 Assignment Material 380 Questions 380 Exercises 380 Problems 386	Analysis 452 Short-Run Pricing Decisions 453

	Insourcing-Versus-Outsourcing and Make-or-Buy Decisions 454 Outsourcing and Idle Facilities 454 Strategic and Qualitative Factors 456 International Outsourcing 456 The Total Alternatives Approach 457 Concepts in Action: The LEGO Group The Opportunity-Cost Approach 458 Carrying Costs of Inventory 460 Product-Mix Decisions with Capacity Constraints 462 Bottlenecks, Theory of Constraints, and Throughput-Margin Analysis 463 Customer Profitability and Relevant Costs 466 Relevant-Revenue and Relevant-Cost Analysis of Dropping a Customer 467 Relevant-Revenue and Relevant-Cost Analysis of Adding a Customer 468	I	Productivity Component of Change in Operating Income 514 Further Analysis of Growth, Price-Recovery, and Productivity Components 515 Concepts in Action: Operating Income Analysis Reveals Strategic Challenges at Best Buy Applying the Five-Step Decision-Making Framework to Strategy 517 Downsizing and the Management of Processing Capacity 518 Engineered and Discretionary Costs 518 Identifying Unused Capacity for Engineered and Discretionary Overhead Costs 519 Managing Unused Capacity 519 Problem for Self-Study 520 Decision Points 524
	Relevant-Revenue and Relevant-Cost Analysis of	ļ	APPENDIX: Productivity Measurement 525
	Closing or Adding Branch Offices or Business Divisions 469	7	Terms to Learn 527 Assignment Material 528
	Irrelevance of Past Costs and Equipment-Replacement Decisions 470	(Questions 528 Exercises 528 Problems 531
	Decisions and Performance Evaluation 472	13	Pricing Decisions and Cost
	Problem for Self-Study 473 Decision Points 475		Vlanagement 538
	APPENDIX: Linear Programming 476	F	Fair and Square: Not What J. C. Penney Customers Wanted
	Terms to Learn 480 Assignment Material 480 Questions 480 Exercises 480 Problems 486	N	Major Factors that Affect Pricing Decisions 539 Customers 539 Competitors 539
12	Strategy, Balanced Scorecard, and Strategic Profitability Analysis 494	(Costs 539 Weighing Customers, Competitors, and Costs 540 Costing and Pricing for the Long Run 540
	The Balanced Scorecard at Volkswagen do Brasil What Is Strategy? 495		Calculating Product Costs for Long-Run Pricing Decisions 541
	Building Internal Capabilities: Quality Improvement and Reengineering at Chipset 497	N	Alternative Long-Run Pricing Approaches 543 Market-Based Approach: Target Costing for Target
	Strategy Implementation and the Balanced Scorecard 498 The Balanced Scorecard 498		Pricing 544 Understanding Customers' Perceived Value 545
	Strategy Maps and the Balanced Scorecard 499		Competitor Analysis 545 Implementing Target Pricing and Target
	Implementing a Balanced Scorecard 502 Different Strategies Lead to Different		Costing 545
	Scorecards 503 Environmental and Social Performance	C	oncepts in Action: Extreme Target Pricing
	and the Balanced Scorecard 504	V	and Cost Management at IKEA alue Engineering, Cost Incurrence, and Locked-In
	Features of a Good Balanced Scorecard 507 Pitfalls in Implementing a Balanced Scorecard 508		Costs 547 Value-Chain Analysis and Cross-Functional
	Evaluating the Success of Strategy and		Teams 548
	Implementation 509 Strategic Analysis of Operating Income 509	C	Achieving the Target Cost per Unit for Provalue 548 ost-Plus Pricing 551
	Growth Component of Change in Operating		Cost-Plus Target Rate of Return on
	Income 511 Price-Recovery Component of Change in Operating		Investment 551 Alternative Cost-Plus Methods 552
	Income 513		Cost-Plus Pricing and Target Pricing 553

Life-Cycle Product Budgeting and Costing 553 Life-Cycle Budgeting and Pricing Decisions 554 Managing Environmental Costs 555	15 Allocation of Support-Department Costs, Common Costs, and Revenues 614
Customer Life-Cycle Costing 555	
Non-Cost Factors In Pricing Decisions 556	Cost Allocation and the Future of "Smart Grid"
Price Discrimination 556	Energy Infrastructure
Peak-Load Pricing 556	Allocating Support Department Costs
International Pricing 557	Using the Single-Rate and Dual-Rate
Antitrust Laws and Pricing Decisions 557	Methods 615
Problem for Self-Study 558 Decision Points 560	Single-Rate and Dual-Rate Methods 616
	Allocation Based on the Demand for (or Usage of)
Terms to Learn 561 Assignment Material 561	Materials-handling Services 617
Questions 561 Exercises 562 Problems 566	Allocation Based on the Supply of
	Capacity 618
Cost Allocation, Customer-	Advantages and Disadvantages of Single-Rate
-	Method 619
Profitability Analysis, and	Advantages and Disadvantages of Dual-Rate
Sales-Variance Analysis 572	Method 620
Globe Express Services® (Overseas Group): Analyzing	Budgeted Versus Actual Costs and the Choice of
Customers at United Arab Emirates Branch	Allocaton Base 620
Customer-Profitability Analysis 573	Budgeted Versus Actual Rates 621
Customer-Revenue Analysis 573	Budgeted Versus Actual Usage 621
Customer-Cost Analysis 574	Fixed-Cost Allocation Based on Budgeted Rates
Customer-Level Costs 575	and Budgeted Usage 621
Customer Profitability Profiles 578	Fixed-Cost Allocation Based on Budgeted Rates
Presenting Profitability Analysis 579	and Actual Usage 622
• • • • • • • • • • • • • • • • • • • •	Allocating Budgeted Fixed Costs Based on Actual
Concepts in Action: How Pandora Radio	Usage 622
Made Its Unprofitable Customers	Allocating Costs of Multiple Support
Profitable	Departments 623
Using the Five-Step Decision-Making	Direct Method 626
Process to Manage Customer	Step-Down Method 627
Profitability 581	Reciprocal Method 628
Cost Hierarchy-Based Operating Income	Overview of Methods 631
Statement 582	Calculating the Cost of Job WPP 298 632
Criteria to Guide Cost Allocations 584	Allocating Common Costs 633
Fully Allocated Customer Profitability 586	Stand-Alone Cost-Allocation Method 634
Implementing Corporate and Division Cost	Incremental Cost-Allocation Method 634
Allocations 586	Cost Allocations and Contract Disputes 635
Issues in Allocating Corporate Costs to Divisions	Contracting with the U.S. Government 635
and Customers 590	Fairness of Pricing 636
Using Fully Allocated Costs for Decision Making 591	Bundled Products and Revenue Allocation
Sales Variances 591	Methods 636
Static-Budget Variance 592	Bundling and Revenue Allocation 636
Flexible-Budget Variance and Sales-Volume	Concepts in Action: Contract Disputes over
Variance 593	Reimbursable Costs for the U.S. Department
Sales-Mix Variance 594	of Defense
Sales-Quantity Variance 594	Stand-Alone Revenue-Allocation
Market-Share and Market-Size Variances 595	Method 638
Market-Share Variance 596	Incremental Revenue-Allocation
Market-Size Variance 596	Method 639
Problem for Self-Study 598 Decision Points 599	
Terms to Learn 600 Assignment Material 600	Problem for Self-Study 641 Decision Points 643
Questions 600 Exercises 601	Terms to Learn 643 Assignment Material 644
•	Questions 644 Exercises 644 Problems 648
Problems 605	

16 Cost Allocation: Joint Products and Byproducts 654 Joint Cost Allocation and the Production of Ethanol Fuel	Concepts in Action: Hybrid Costing for Customized Shoes at Adidas Overview of Operation-Costing Systems 708 Illustrating an Operation-Costing System 709
Joint-Cost Basics 655	Journal Entries 710
Allocating Joint Costs 657	Problem for Self-Study 711 Decision Points 713
Approaches to Allocating Joint Costs 657	APPENDIX: Standard-Costing Method of Process Costing 714
Concepts in Action: Are Charitable Organizations Allocating Joint Costs in a Misleading Way? Sales Value at Splitoff Method 659	Terms to Learn 718 Assignment Material 718 Questions 718 Exercises 718 Problems 722
Physical-Measure Method 660 Net Realizable Value Method 661	18 Spoilage, Rework, and Scrap 728
Constant Gross-Margin Percentage NRV Method 663 Choosing an Allocation Method 665	Rework and Delays on the Boeing Dreamliner Defining Spoilage, Rework, and Scrap 729 Two Types of Spoilage 730 Normal Spoilage 730
Not Allocating Joint Costs 666 Why Joint Costs Are Irrelevant for Decision Making 666 Sell-or-Process-Further Decisions 666 Decision Making and Performance Evaluation 667	Abnormal Spoilage 730 Spoilage in Process Costing Using Weighted-Average and FIFO 731 Count All Spoilage 731
Pricing Decisions 667 Accounting for Byproducts 668 Production Method: Byproducts Recognized at Time Production Is Completed 669 Sales Method: Byproducts Recognized at Time of Sale 670	Five-Step Procedure for Process Costing with Spoilage 732 Weighted-Average Method and Spoilage 733 FIFO Method and Spoilage 736 Journal Entries 736 Inspection Points and Allocating Costs of Normal
Problem for Self-Study 671 Decision Points 673 Terms to Learn 674 Assignment Material 674 Questions 674 Exercises 675 Problems 679 17 Process Costing 686 ExxonMobil and Accounting Differences	Spoilage 736 Job Costing and Spoilage 739 Job Costing and Rework 740 Accounting for Scrap 741 Recognizing Scrap at the Time of Its Sale 742 Recognizing Scrap at the Time of Its Production 743 Concepts in Action: American Apparel Turns Scrap into a Product for Sale
in the Oil Patch Illustrating Process Costing 687	Problem for Self-Study 745 Decision Points 745
Case 1: Process Costing with No Beginning or Ending Work-in-Process Inventory 688	APPENDIX: Standard-Costing Method and Spoilage 746
Case 2: Process Costing with Zero Beginning and Some Ending Work-in-Process Inventory 689	Terms to Learn 748 Assignment Material 748 Questions 748 Exercises 749 Problems 752
Summarizing the Physical Units and Equivalent Units (Steps 1 and 2) 690 Calculating Product Costs (Steps 3, 4, and 5) 691	19 Balanced Scorecard: Quality and Time 756
Journal Entries 693 Case 3: Process Costing with Some Beginning and Some Ending Work-in-Process Inventory 694 Weighted-Average Method 695 First-In, First-Out Method 698 Comparing the Weighted-Average and FIFO Methods 701 Transferred-In Costs in Process Costing 703	Toyota Plans Changes After Millions of Defective Cars Are Recalled Quality as a Competitive Tool 757 The Financial Perspective: The Costs of Quality 758 Using Nonfinancial Measures to Evaluate and Improve Quality 761 The Customer Perspective: Nonfinancial Measures of Customer Satisfaction 761
Transferred-In Costs and the Weighted-Average Method 704 Transferred-In Costs and the FIFO Method 705 Points to Remember About Transferred-In Costs 706 Hybrid Costing Systems 707	The Internal-Business-Process Perspective: Analyzing Quality Problems and Improving Quality 761 Nonfinancial Measures of Internal-Business-Process Quality 764 The Learning-and-Growth Perspective: Quality Improvements 764

	Terms to Learn OTO Assignment Waterial 810
Evaluating a Company'S Quality Performance 766 Time as a Competitive Tool 767	Questions 816 Exercises 817 Problems 819
Customer-Response Time and On-Time	
Performance 767	21 Capital Budgeting and Cost
Bottlenecks and Time Drivers 768	Analysis 824
Concepts in Action: Overcoming Wireless Data Bottlenecks	Capital Budgeting Powers Decisions at the TVA
Relevant Revenues and Costs of Delays 771	Stages of Capital Budgeting 825
Balanced Scorecard and Time-Based Measures 772	Discounted Cash Flow 828
Problem for Self-Study 773 Decision Points 774	Net Present Value Method 828
Terms to Learn 775 Assignment Material 775	Internal Rate-of-Return Method 830
Questions 775 Exercises 776 Problems 781	Comparing the Net Present Value and Internal Rate-of-Return Methods 831
00 5	Sensitivity Analysis 832
20 Inventory Management,	Payback Method 833
Just-in-Time, and Simplified	Uniform Cash Flows 833
Costing Methods 786	Nonuniform Cash Flows 834
5	Accrual Accounting Rate-of-Return Method 836
Costco Aggressively Manages Its Inventory to Thrive	Relevant Cash Flows in Discounted Cash Flow
in Tough Times	Analysis 837
Inventory Management in Retail Organizations 787	Relevant After-Tax Flows 837
Costs Associated with Goods for Sale 787	Categories of Cash Flows 839
The Economic-Order-Quantity Decision	Project Management and Performance Evaluation 842
Model 788	Post-Investment Audits 843
When to Order, Assuming Certainty 791	Performance Evaluation 843
Safety Stock 791	Strategic Considerations in Capital Budgeting 844
Estimating Inventory-Related Relevant Costs and Their Effects 793	Concepts in Action: International Capital Budgeting at Disney
Cost of a Prediction Error 793	Investment in Research and Development 845
Conflicts Between the EOQ Decision Model and Managers' Performance Evaluation 794	Customer Value and Capital Budgeting 845
Just-in-Time Purchasing 795	Problem for Self-Study 846 Decision Points 848
JIT Purchasing and EOQ Model Parameters 795	APPENDIX: Capital Budgeting and Inflation 849
Relevant Costs of JIT Purchasing 795	
Supplier Evaluation and Relevant Costs of Quality	Terms to Learn 851 Assignment Material 852
and Timely Deliveries 797	Questions 852 Exercises 852 Problems 857
JIT Purchasing, Planning and Control, and Supply-Chain Analysis 799	Answers to Exercises in Compound Interest (Exercise 21-16) 860
Inventory Management, MRP, and JIT Production 799	(EXELLISE 21-10) 000
Materials Requirements Planning 799	
Just-in-Time (JIT) Production 800	22 Management Control Systems,
Features of JIT Production Systems 800	Transfer Pricing, and Multinational
Costs and Benefits of JIT Production 800	
JIT in Service Industries 801	Considerations 862
Enterprise Resource Planning (ERP) Systems 801	Transfer Pricing Disputes and Tax Issues Stop
Concepts in Action: After the Encore: Just-in-Time Live Concert Recordings	Collaborations Between Subunits of Mehr Co. Management Control Systems 863
Performance Measures and Control in JIT	Formal and Informal Systems 864
Production 802	Effective Management Control 864
Effect of JIT Systems on Product Costing 803	Decentralization 865
Backflush Costing 803	Benefits of Decentralization 865
Simplified Normal or Standard Costing	Costs of Decentralization 866
Systems 803	Comparing Benefits and Costs 867
Special Considerations in Backflush Costing 811	Decentralization in Multinational Companies 867
Lean Accounting 811	Choices About Responsibility Centers 868
	. ,

Problems for Self-Study 814 | Decision Points 815 |

Terms to Learn 816 | Assignment Material 816 |

Weighing the Costs and Benefits of Improving

Quality 765

Transfer Pricing 868
Criteria for Evaluating Transfer Prices 869
Calculating Transfer Prices 869
An Illustration of Transfer Pricing 869
Market-Based Transfer Prices 872
Perfectly-Competitive-Market Case 872
Distress Prices 873
Imperfect Competition 873
Cost-Based Transfer Prices 874
Full-Cost Bases 874
Variable-Cost Bases 875
Hybrid Transfer Prices 876
Prorating the Difference Between Maximum and
Minimum Transfer Prices 876
Negotiated Pricing 877
č č
Dual Pricing 878
A General Guideline for Transfer-Pricing Situations 878
How Multinationals Use Transfer Pricing to Minimize
their Taxes 880
Concepts in Action: Transfer Pricing Dispute
Temporarily Stops the Flow of Fiji Water
Transfer Prices Designed for Multiple
Objectives 883

Problem for Self-Study 884 | Decision Points 886 | Terms to Learn 887 | Assignment Material 887 | Questions 887 | Exercises 887 | Problems 891

23 Performance Measurement. Compensation, and Multinational Considerations 896

Misalignment Between CEO Compensation and Performance at AIG

Alternative Time Horizons 904

Financial and Nonfinancial Performance Measures 897 Accounting-Based Measures for Business Units 898 Return on Investment 899 Residual Income 901 Economic Value Added 902 Return on Sales 903 Comparing Performance Measures 904 Choosing the Details of the Performance Measures 904

Alternative Definitions of Investment 905 Alternative Asset Measurements 906 Target Levels of Performance and Feedback 908 Choosing Target Levels of Performance 908

Choosing the Timing of Feedback 909 Performance Measurement in Multinational Companies 909

Calculating a Foreign Division's ROI in the Foreign Currency 910

Calculating the Foreign Division's ROI in U.S. Dollars 910

Distinguishing the Performance of Managers From the Performance of Their Subunits 911

The Basic Tradeoff: Creating Incentives Versus Imposing Risk 912

Intensity of Incentives and Financial and Nonfinancial Measurements 913 Benchmarks and Relative Performance Evaluation 913 Performance Measures at the Individual Activity Level 914

Concepts in Action: Avoiding Performance-Measurement Silos at Staples

Executive Performance Measures and Compensation 915 Strategy and Levers of Control 916 Boundary Systems 917 Belief Systems 917 Interactive Control Systems 918

Problems for Self-Study 918 | Decision Points 920 | Terms to Learn 921 | Assignment Material 921 | Questions 921 | Exercises 921 | Problems 926

Appendix A: Notes on Compound Interest and Interest Tables 931

Appendix B: Recommended Readings—available online www.pearsonglobaleditions.com/horngren

Appendix C: Cost Accounting in Professional Examination available online www.pearsonglobaleditions.com/horngren

Glossary 939

Index 950

Photo Credits 960