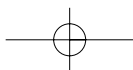
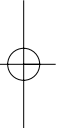
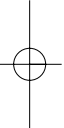
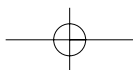
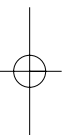
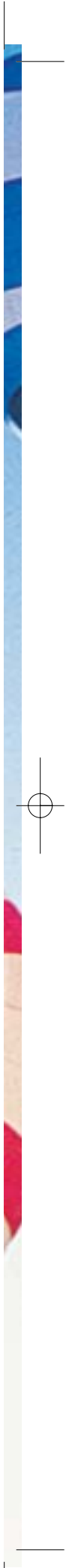
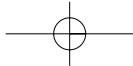


Management Accounting







Management Accounting

Willie Seal
Ray H. Garrison
Eric W. Noreen

The McGraw-Hill Companies

London Boston Burr Ridge, IL Dubuque, IA Madison, WI New York San Francisco
St. Louis Bangkok Bogotá Caracas Kuala Lumpur Lisbon Madrid Mexico City
Milan Montreal New Delhi Santiago Seoul Singapore Sydney Taipei Toronto



Management Accounting

Willie Seal, Ray H. Garrison, Eric W. Noreen

ISBN-13 9-78-100077010-0

ISBN-10 0-07-7010776-4



Published by McGraw-Hill Education

Shoppenhangers Road

Maidenhead

Berkshire

SL6 2QL

Telephone: 44 (0) 1628 502 500

Fax: 44 (0) 1628 770 224

Website: www.mcgraw-hill.co.uk

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

Library of Congress Cataloguing in Publication Data

The Library of Congress data for this book has been applied for from the Library of Congress

Acquisitions Editor: Mark Kavanagh/Kirsty Reade

Development Editor: Rachel Crookes

Marketing Manager: Marca Wosoba

Senior Production Editor: Beverley Shields

Text Design by [insert design company]

Cover design by [insert design company]

Printed and bound in [country] by [insert printer, City]

Published by McGraw-Hill Education (UK) Limited an imprint of The McGraw-Hill Companies, Inc., 1221 Avenue of the Americas, New York, NY 10020. Copyright © 2003 by McGraw-Hill Education (UK) Limited. All rights reserved. No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written consent of The McGraw-Hill Companies, Inc., including, but not limited to, in any network or other electronic storage or transmission, or broadcast for distance learning.

ISBN-13 9-78-100077010-0

ISBN-10 0-07-7010776-4

© 2006. Exclusive rights by The McGraw-Hill Companies, Inc. for manufacture and export. This book cannot be re-exported from the country to which it is sold by McGraw-Hill.



Brief Table of Contents

Detailed contents	<i>vi</i>
Preface	<i>xvi</i>
Guided tour	<i>xviii</i>
Acknowledgements	<i>xxii</i>
1 Management accounting and the business environment	1
2 Cost terms, concepts and classifications	21
3 Systems design: job-order costing	65
4 Systems design: process costing	129
5 Cost behaviour: analysis and use	169
6 Profit reporting under variable costing and absorption costing	215
7 Cost–volume–profit relationships	247
8 Activity-based costing	297
9 Relevant costs for decision making	349
10 Capital investment decisions	401
11 Managerial decision making under risk and uncertainty	469
12 Profit planning and the role of budgeting	493
13 Standard costs and variance analysis	537
14 Flexible budgets and overhead analysis	587
15 Segment reporting and decentralization	647
16 Pricing, target costing and intra-company transfers	705
17 Strategic management accounting and the balanced scorecard	753
18 Performance management, management control and corporate governance	797
19 Stock management: EOQ, JIT, ERP and e-commerce	831
20 Quality and business processes: measurement and management	859
21 Cost management and the impact of constraints: supply chain management, corporate unbundling and shared service centres	891
22 Management accounting change in its organizational and institutional context: a case study perspective	923
Glossary	943
Bibliography	963
Index	975



Detailed Table of Contents

Preface	<i>xvi</i>	Management accounting as a profession and the role of business ethics	<i>13</i>
Guided tour	<i>xviii</i>	Summary	<i>14</i>
Technology to enhance teaching and learning	<i>xx</i>	Key terms for review	<i>15</i>
Acknowledgements	<i>xxii</i>	Questions	<i>16</i>
1 Management accounting and the business environment	<i>1</i>	Exercises	<i>16</i>
The work of management and the need for management accounting information	<i>2</i>	Problems	<i>17</i>
Planning	<i>2</i>	Group exercise	<i>18</i>
Directing and motivating	<i>3</i>	Internet exercise	<i>18</i>
Controlling	<i>3</i>	Cases	<i>18</i>
The end results of managers' activities	<i>4</i>	Endnotes	<i>19</i>
The planning and control cycle	<i>4</i>	2 Cost terms, concepts and classifications	<i>21</i>
Comparison of financial and management accounting	<i>5</i>	General cost classifications	<i>22</i>
Emphasis on the future	<i>6</i>	Manufacturing costs	<i>23</i>
Relevance and flexibility of data	<i>6</i>	Non-manufacturing costs	<i>24</i>
Less emphasis on precision	<i>6</i>	Product costs versus period costs	<i>24</i>
Segments of an organization	<i>6</i>	Cost classifications on financial statements	<i>25</i>
Generally Accepted Accounting Principles (GAAP)	<i>6</i>	The balance sheet	<i>25</i>
Management accounting – not mandatory	<i>7</i>	The profit and loss account	<i>27</i>
Basic organizational structure	<i>7</i>	Schedule of cost of goods manufactured	<i>29</i>
Decentralization	<i>7</i>	Product costs – a closer look	<i>31</i>
Line and staff relationships	<i>8</i>	Stock-related costs	<i>32</i>
Expanding and changing role of management accounting	<i>9</i>	An example of cost flows	<i>33</i>
International diversity in management accounting traditions	<i>10</i>	Cost classifications for predicting cost behaviour	<i>34</i>
Changes in the business environment and management accounting	<i>10</i>	Variable cost	<i>34</i>
New business processes and technologies	<i>10</i>	Fixed cost	<i>36</i>
Enterprise resource planning systems	<i>11</i>	Cost classifications for assigning costs to cost objects	<i>37</i>
Deregulation and privatization	<i>11</i>	Direct cost	<i>37</i>
The increased importance of service industries and changing approaches to public sector management	<i>12</i>	Indirect cost	<i>37</i>
International competition	<i>12</i>	Cost classifications for decision making	<i>37</i>
		Differential cost and revenue	<i>37</i>
		Opportunity cost	<i>39</i>
		Sunk cost	<i>39</i>
		Summary	<i>39</i>
		Key terms for review	<i>40</i>

Further reading	42	Key terms for review	95
Review problem 1: cost terms	42	Review problem: job-order costing	96
Solution to review problem 1	43	Solution to review problem	97
Review problem 2: schedule of cost of goods manufactured and profit and loss account	44	Appendix 3A: Service department costing	100
Solution to review problem 2	45	Allocations using the direct and step methods	100
Questions	46	Selecting allocation bases	100
Exercises	47	Interdepartmental services	101
Problems	50	Effect of allocations on operating departments	105
Cases	60	Some cautions in allocating service department costs	106
Endnotes	63	Key terms for review (Appendix 3A)	108
3 Systems design: job-order costing	65	Questions	109
Process and job-order costing	66	Exercises	110
Process costing	67	Problems	115
Job-order costing	67	Cases	122
Job-order costing – an overview	68	Further reading	126
Measuring direct materials cost	69	Endnotes	127
Job cost sheet	69	4 Systems design: process costing	129
Measuring direct labour cost	70	Comparison of job-order and process costing	130
Application of manufacturing overhead	71	Similarities between job-order and process costing	130
Choice of an allocation base for overhead cost	74	Differences between job-order and process costing	131
Computation of unit costs	75	A perspective of process cost flows	132
Summary of document flows	75	Processing departments	132
Job-order costing – the flow of costs	75	The flow of materials, labour and overhead costs	133
The purchase and issue of materials	76	Materials, labour and overhead cost entries	134
Labour cost	77	Equivalent units of production	136
Manufacturing overhead costs	78	Weighted-average method	137
The application of manufacturing overhead	79	Production report – weighted-average method	140
Non-manufacturing costs	81	Step 1: prepare a quantity schedule and compute the equivalent units	141
Cost of goods manufactured	82	Step 2: compute costs per equivalent unit	142
Cost of goods sold	83	Step 3: prepare a cost reconciliation	143
Summary of cost flows	83	A comment about rounding errors	146
Problems of overhead application	85	Operation costing	146
Underapplied and overapplied overhead	86	Summary	147
Disposition of under- or overapplied overhead balances	88	Key terms for review	147
A general model of product cost flows	90	Appendix 4A: FIFO method	148
Multiple predetermined overhead rates	90	Equivalent units – FIFO method	148
Job-order costing in service companies	91		
Use of bar code technology	92		
The predetermined overhead rate and capacity	93		
Summary	95		

- Comparison of equivalent units of production under the weighted-average and FIFO methods 149
- Production report – FIFO method 150
- A comparison of costing methods 153
- Review problem: process cost flows and reports 155
 - Solution to review problem 156
- Questions 158
- Exercises 159
- Problems 163
- Cases 166
- Endnotes 167
- 5 Cost behaviour: analysis and use 169**
 - Types of cost behaviour patterns 170
 - Variable costs 170
 - True variable versus step-variable costs 173
 - The linearity assumption and the relevant range 174
 - Fixed costs 175
 - Types of fixed costs 175
 - Committed fixed costs 176
 - Discretionary fixed costs 176
 - The trend towards fixed costs 177
 - Is labour a variable or a fixed cost? 177
 - Fixed costs and the relevant range 178
 - Mixed costs 179
 - The analysis of mixed costs 180
 - The high–low method 183
 - The scattergraph method 185
 - The least-squares regression method 187
 - Multiple regression analysis 189
 - The contribution format 189
 - Why a new profit and loss statement format? 189
 - The contribution approach 190
 - Key terms for review 191
 - Appendix 5A: Least-squares regression calculations 193
 - Appendix 5B: Non-linear cost functions and the learning curve 195
 - Review problem 1: cost behaviour 197
 - Solution to review problem 1 197
 - Review problem 2: high-low method 198
 - Solution to review problem 2 199
 - Questions 199
 - Exercises 200
 - Problems 205
- Cases 211
- Endnotes 214
- 6 Profit reporting under variable costing and absorption costing 215**
 - Overview of absorption and variable costing 216
 - Absorption costing 216
 - Variable costing 216
 - Unit cost computations 217
 - Profit comparison of absorption and variable costing 218
 - Extended comparison of profit data 221
 - Effect of changes in production on profit 226
 - Variable costing 226
 - Absorption costing 226
 - The impact on the manager 230
 - Choosing a costing method 231
 - Decision making 231
 - External reporting 231
 - Advantages of variable costing and the contribution approach 232
 - Impact of JIT methods 232
 - Summary 233
 - Key terms for review 234
 - Review problem 234
 - Solution to review problem 235
 - Questions 237
 - Exercises 237
 - Problems 238
 - Cases 244
 - Endnotes 246
- 7 Cost–volume–profit relationships 247**
 - The basics of cost–volume–profit (CVP) analysis 249
 - Contribution margin 250
 - Contribution margin ratio (CN ratio) 252
 - Some applications of CVP concepts 253
 - Importance of the contribution margin 257
 - Break-even analysis 257
 - Break-even computations 257
 - CVP relationships in graphic form 259
 - Target profit analysis 261
 - The CVP equation 261
 - The contribution margin approach 262

The margin of safety	262	Product margins computed using the traditional cost system	315
CVP considerations in choosing a cost structure	263	The differences between ABC and traditional product costs	315
Cost structure and profit stability	263	ABC product costs – an action analysis	318
Operating leverage	265	Ease of adjustment codes	318
Automation: risks and rewards from a CVP perspective	267	The action analysis view of the ABC data	319
Structuring sales commissions	267	Service costing and management: the benefits of an ABC approach	323
The concept of sales mix	269	Activity-based costing and external reports	324
The definition of sales mix	269	A simplified approach to activity-based costing	325
Sales mix and break-even analysis	269		
Assumptions of CVP analysis	271		
Summary	272		
Key terms for review	272		
Review problem: CVP relationships	273		
Solution to review problem	273		
Questions	276		
Exercises	277		
Problems	281		
Cases	290		
Endnotes	295		
8 Activity-based costing	297	9 Relevant costs for decision making	349
How costs are treated under activity-based costing	299	Cost concepts for decision making	350
Non-manufacturing costs and activity-based costing	299	Identifying relevant costs and benefits	350
Manufacturing costs and activity-based costing	299	Different costs for different purposes	351
The costs of idle capacity in activity-based costing	299	Sunk costs are not relevant costs	351
Designing an activity-based costing (ABC) system	300	Book value of old equipment	352
Identifying activities to include in the ABC system	304	Future costs that do not differ are not relevant costs	355
The mechanics of activity-based costing	304	An example of irrelevant future costs	355
Tracing overhead costs to activities and cost objects	306	Why isolate relevant costs?	357
Assigning costs to activity cost pools	306	Adding and dropping product lines and other segments	357
Computation of activity rates	309	An illustration of cost analysis	357
Targeting process improvements	311	A comparative format	360
Assigning costs to cost objects	312	Beware of allocated fixed costs	360
Overhead costs computed using the ABC system	313	The make or buy decision	362
Product margins computed using the ABC system	315	An example of make or buy	362
Comparison of traditional and ABC product costs	315	The matter of opportunity cost	363
		Special orders	364
		Utilization of a constrained resource	365
		Contribution in relation to a constrained resource	365
		Joint product costs and the contribution approach	367
		The pitfalls of allocation	367
		Sell or process further decisions	368
		Activity-based costing and relevant costs	370
		Summary	370
		Key terms for review	370
		Review problem: relevant costs	371
		Solution to review problem	372
		Questions	373
		Exercises	374

X

Management accounting

Problems 381

Cases 394

Further reading 399

Endnotes 399

10 Capital investment decisions 401

Capital budgeting – planning investments 402

Typical capital budgeting decisions 402

The time value of money 403

Discounted cash flows – the net present value method 403

The net present value method illustrated 403

Emphasis on cash flows 405

Recovery of the original investment 406

Simplifying assumptions 406

Choosing a discount rate 407

An extended example of the net present value method 407

Discounted cash flows – the internal rate of return method 408

The internal rate of return method illustrated 409

Salvage value and other cash flows 410

The process of interpolation 410

Using the internal rate of return 410

The cost of capital as a screening tool 411

Comparison of the net present value and the internal rate of return methods 412

Expanding the net present value method 413

The total-cost approach 413

The incremental-cost approach 415

Least-cost decisions 415

Capital budgeting and non-profit organizations 416

Investments in automated equipment 417

Benefits from automation 417

Decision framework for intangible benefits 418

Preference decisions – the ranking of investment projects 419

Internal rate of return method 419

Net present value method 420

Other approaches to capital budgeting decisions 421

The payback method 421

The simple rate of return method 425

Post audit of investment projects 427

Summary 427

Key terms for review 428

Review problem 1: basic present value computations 429

Solution to review problem 1 429

Review problem 2: comparison of capital budgeting methods 430

Solution to review problem 2 431

Appendix 10A: The concept of present value 432

The theory of interest 432

Computation of present value 433

Present value of a series of cash flows 435

Key terms for review (Appendix 10A) 436

Appendix 10B: Inflation and capital budgeting 437

Appendix 10C: Future value and present value tables 439

Appendix 10D: The impact of corporate taxation 441

Questions 444

Exercises 445

Problems 449

Cases 465

Endnotes 467

11 Managerial decision making under risk and uncertainty 469

Risk and uncertainty 470

Investment decision making and risk 471

Attitudes to risk 473

Inter-related risks: the decision tree 475

The value of extra information 475

Pay-off strategies 476

Some recent innovations in the formal analysis of risk 478

The real options approach to risk 478

The fuzzy mathematics approach 480

Some problems with mathematical modelling 481

Behavioural and organizational responses to uncertainty 481

Diversification 482

Summary 483

Key terms for review 483

Questions 484

Exercises 484

Problems 486

Cases	489	Setting standard costs	540
Endnotes	492	Ideal versus practical standards	540
12 Profit planning and the role of budgeting	493	Setting direct materials standards	541
The basic framework of budgeting	494	Setting direct labour standards	542
Definition of budgeting	494	Setting variable manufacturing overhead standards	543
Personal budgets	494	Are standards the same as budgets?	544
Differences between planning and control	495	A general model for variance analysis	544
Advantages of budgeting	495	Price and quantity variances	545
Responsibility accounting	496	Using standard costs – direct materials variances	545
Choosing a budget period	497	Materials price variances – a closer look	548
The self-imposed or participative budget	497	Materials quantity variance – a closer look	549
The matter of human relations	499	Using standard costs – direct labour variances	550
The budget committee	500	Labour rate variance – a closer look	551
The master budget inter-relationships	500	Labour efficiency variance – a closer look	552
Sales forecasting – a critical step	502	Using standard costs – variable manufacturing overhead variances	553
Preparing the master budget	502	Manufacturing overhead variances – a closer look	554
The sales budget	504	Structure of performance reports	556
The production budget	505	Variance analysis and management by exception	556
The direct materials budget	506	Evaluation of controls based on standard costs	558
The direct labour budget	507	Advantages of standard costs	558
The manufacturing overhead budget	507	Potential problems with the use of standard costs	558
The ending finished goods stock budget	510	Summary	560
The selling and administrative expense budget	510	Key terms for review	560
The cash budget	511	Review problem: standard costs	562
The budgeted profit and loss account	514	Solution to review problem	562
The budgeted balance sheet	514	Appendix 13A: General ledger entries to record variances	564
Expanding the budgeted profit and loss account	517	Direct materials variances	564
Summary	518	Direct labour variances	565
Key terms for review	518	Variable manufacturing overhead variances	565
Review problem: budget schedules	520	Cost flows in a standard cost system	566
Solution to review problem	521	Questions	566
Questions	523	Exercises	567
Exercises	523	Problems	570
Problems	525	Cases	584
Cases	531	Endnotes	586
Further reading	535	14 Flexible budgets and overhead analysis	587
Endnotes	536		
13 Standard costs and variance analysis	537		
Standard costs – management by exception	539		
Who uses standard costs?	539		

- Flexible budgets 558**
 - Characteristics of a flexible budget 588
 - Deficiencies of the static budget 589
 - How a flexible budget works 591
 - Using flexible budgeting concept in performance evaluation 591
 - The measure of activity – a critical choice 594
- Variable overhead variances – a closer look 595**
 - The problem of actual versus standard hours 595
 - Spending variance alone 596
 - Both spending and efficiency variances 597
 - Overhead rates and fixed overhead analysis 599
- Flexible budgets and overhead rates 600**
 - Overhead application in a standard cost system 602
 - The fixed overhead variances 603
 - The budget variance – a closer look 603
 - The volume variance – a closer look 605
 - Graphic analysis of fixed overhead variances 605
 - Cautions in fixed overhead analysis 606
 - Overhead variances and under- or overapplied overhead cost 607
- Activity-based budgeting 607**
- Summary 609**
- Key terms for review 609**
- Review problem: overhead analysis 610**
 - Solution to review problem 611
- Questions 613**
- Exercises 614**
- Problems 619**
- Cases 640**
- Further reading 645**
- Endnotes 645**
- 15 Segment reporting and decentralization 647**
 - Decentralization in organizations 648**
 - Advantages and disadvantages of decentralization 648
 - Decentralization and segment reporting 649
 - Cost, profit and investment centres 649
 - Responsibility centres 650
 - Segment reporting and profitability analysis 650**
 - Levels of segmented statements 654
 - Sales and contribution margin 655
 - Traceable and common fixed costs 655
 - Traceable costs can become common costs 657
 - Segment margin 658
 - There is more than one way to segment a company 659
- Hindrances to proper cost assignment 660**
 - Omission of costs 661
 - Inappropriate methods for allocating costs among segments 661
 - Arbitrarily dividing common costs among segments 662
- Rate of return for measuring managerial performance 662**
 - The return on investment (ROI) formula 663
 - Net operating profit and operating assets defined 663
 - Plant and equipment: net book value or gross cost? 663
- Controlling the rate of return 664**
 - Increase sales 667
 - Reduce expenses 667
 - Reduce operating assets 667
 - Criticisms of ROI 668
- Residual income – another measure of performance 668**
 - Motivation and residual income 669
 - Divisional comparison and residual income 671
 - ROI, RI and the balanced scorecard 671
 - The problem of single period metrics: the bonus bank approach 672
- Summary 672**
- Key terms for review 672**
- Review problem 1: segmented statements 673**
 - Solution to review problem 1 674
- Review problem 2: return on investment (RDI) and residual income 675**
 - Solution to review problem 2 675
- Questions 676**
- Exercises 676**
- Problems 680**
- Cases 694**
- Endnotes 703**
- 16 Pricing, target costing and intra-company transfers 705**
 - The economists' approach to pricing 706

Elasticity of demand	706		
The profit-maximizing price	707		
The absorption costing approach to cost-plus pricing	709		
Setting a target selling price using the absorption costing approach	710		
Determining the mark-up percentage	711		
Problems with the absorption costing approach	712		
Target costing	713		
Reasons for using target costing	713		
An example of target costing	714		
Service companies – time and material pricing	714		
Time component	714		
Material component	714		
An example of time and material pricing	714		
Transfer pricing	717		
Negotiated transfer prices	717		
Transfers at the cost to the selling division	722		
Transfers at market price	722		
Divisional autonomy and sub-optimization	723		
International aspects of transfer pricing	723		
Summary	724		
Key terms for review	725		
Review problem: transfer pricing	726		
Situation A	726		
Solution to situation A	726		
Situation B	727		
Solution to situation B	727		
Questions	728		
Exercises	728		
Problems	732		
Cases	749		
Endnotes	752		
17 Strategic management accounting and the balanced scorecard	753		
What is strategic management accounting?	754		
Some basic techniques of strategic management accounting	755		
Forward-looking decisions: SMA and net present value (NPV)	755		
SMA as strategic intelligence: Stopylton	756		
SMA and the impact of corporate strategy literature	757		
Strategic cost management	759		
The Mavis Machines case	760		
NPV and strategic decision making: an iterative model	761		
Strategy as collision: lean enterprises and business process re-engineering	763		
Modelling and monitoring strategy: the BSC and other non-financial measures	763		
Common characteristics of balanced scorecards	764		
Strategy as an emergent process: interactive control systems and the learning organization	772		
Some obstacles to SMA	773		
Summary	773		
Key terms for review	774		
Questions	775		
Exercises	775		
Problems	776		
Cases	783		
Endnotes	795		
18 Performance management, management control and corporate governance	797		
Some criticisms of budgeting as a performance management system	799		
Reform or abandon budgeting?	800		
General models of performance measurement and management control	800		
The levers of control approach to strategy implementation	801		
Corporate governance: a financial perspective	802		
Management accounting and the integrity of financial information	805		
Management accounting and regulatory approaches to corporate governance	805		
Corporate governance and risk management	807		
Wealth creation and good corporate governance: the role of boundary systems	807		
Enterprise governance	807		
A broader view on corporate governance: stakeholders, business ethics and social responsiveness	810		

The Performance Prism 810
 Business ethics in action: an example of environmental costing 813
 Informal versus formal control systems 813

Organizational control and service delivery in the public sector: beyond incrementalism? 814

New political and management structures 815
 The introduction of policy-led budgeting 815

Summary 818

Key terms for review 818

Problems 819

Cases 822

Internet exercises 829

Endnotes 829

19 Stock management: EOQ, JIT, ERP and e-commerce 831

Economic order quantity (EOQ) and the reorder point 832

Costs associated with stock 832
 Computing the economic order quantity (EOQ) 833

Just-in-time (JIT) and the economic order quantity (EOQ) 835

Production lot size 836
 Reorder point and safety stock 838

Just-in-time (JIT) 839

The JIT concept 840
 Benefits of a JIT system 844

Stock control and enterprise resource planning (ERP) 844

E-commerce: new challenges for management accounting 845

Summary 846

Key terms for review 847

Questions 847

Exercises 848

Problems 849

Cases 853

Endnotes 857

20 Quality and business processes: measurement and management 859

The cost of quality model 860

Quality of conformance 860
 Prevention costs 862
 Appraisal costs 862
 Internal failure costs 863
 External failure costs 863
 Distribution of quality costs 863
 Quality cost reports 864
 From modelling the costs of quality to quality management 867

Total quality management (TQM) 867

The plan-do-check-act cycle 867
 An example of TQM in practice 868
 International aspects of quality 869
 Some criticisms of TQM 869

Benchmarking 870

Benchmarking in the public sector 871
 Some problems with benchmarking 871

Business process re-engineering (BPR) 873

What does a re-engineered process look like? 873
 Some criticisms of re-engineering 874

BPR and management accounting: activity-based management 874

Some problems with ABM 875

Obstacles to organizational change and the advantages of a fresh start 876

Summary 876

Key terms for review 877

Questions 877

Exercises 878

Problems 879

Endnotes 889

21 Cost management and the impact of constraints: supply chain management, corporate unbundling and shared service centres 891

The problem of multiple constraints in the short run: linear programming 892

Sensitivity analysis 894
 Shadow prices 895

The limitations of the linear programming model as a management accounting technique 895

Managing constraints 896

The theory of constraints 897

TOC and continuous improvement	897	The perception of ABC by middle managers	927
An example of TOC	897	The perception of ABC by operational managers and shop-floor workers	927
The impact of TOC on management accounting	898	HRE and the emerging dominance of ABC	927
Throughput accounting	898	Some effects of the ABC project	927
Cost management in the long run: life-cycle costing and the supply chain	899	Case study 2: It takes two to tango	928
Life-cycle costing	899	The Assembler's supply chain management philosophy	929
Target costing and design	900	A draft alliance agreement	929
Some problems with target and life-cycle costing	901	The Strategic Supplier	929
The make or buy decision from a strategic perspective: supply chain management	901	The development of the relationship	930
Integration versus sub-contracting	902	The evolution of the agreement	930
Traditional supply relationships	903	Case study 3: GEC/Marconi	931
Strategic partnering	904	Key players	931
The implications for management accounting of strategic approaches to make or buy	904	Accounting ratios and control routines in GEC	932
Corporate unbundling: shared service centres and service outsourcing	905	The pressures for more strategic focus	932
The shared service centre model	906	The performance of GEC (1980–1996)	932
Service outsourcing	908	Marconi (1996–2001) boom ...	933
Summary	910	... and bust!	934
Key terms for review	910	Management accounting and organizational change: an institutional interpretation	934
Questions	911	What is being changed or left unchanged?	934
Exercises	912	Management accounting change as an evolutionary process	935
Problems	913	What sort of changes?	935
Cases	918	The basic model	935
Endnotes	921	International diversity in management accounting traditions: the role of the profession revisited	936
22 Management accounting change in its organizational and institutional context: a case study perspective	923	The case study as narrative	937
Management accounting in its organizational and institutional context: case studies as research tools	924	The case study as a teaching and learning device	938
Case Study 1: Trafalgar bank: ABC and organizational change	925	Summary	938
The former management control approach in the bank	925	Key terms for review	938
Cheque clearing as a work process	926	Cases	939
Why ABC?	926	Further reading	941
The change agents	926	Endnotes	942
Data collection and processing: the technology of ABC	926	Glossary	943
		Bibliography	000
		Index	000



Preface

This book builds on the excellent foundations laid by the first European edition of *Management Accounting* by Willie Seal. In building on these foundations and developing this brand new second edition we have focused on the key strengths of the previous edition while also integrating new coverage of emerging topics and new features designed to make using and teaching with this text easier than ever.

The main changes and developments to this edition are:

- A brand new chapter (18) that links the topics of *management control* and *performance management* to emerging issues in *corporate governance*, *corporate social responsibility* and *public sector management accounting*
- Existing chapters have been supplemented with new material on *service department costing*, *activity-based budgeting*, *customer profitability analysis*, and *shared service centres*
- The chapter on case study analysis now includes a discussion on the use of *narrative theory* in management accounting
- There are new case studies and more end-of-chapter questions, many of which are from recent professional exam papers
- The main currency employed in the book is the pound sterling but there are more examples based on the euro
- Each chapter now starts with a **Concepts in Context** box which locates the main themes of the chapter in a practical setting
- Many of the end of chapter self-assessment questions, problems and cases now have suggested timings so that students know how long they should be spending on them, and lecturers can use them to set as examination practice.

Other key features

Superior pedagogy

The book includes a full suite of pedagogical learning tools designed to make teaching and learning stimulating and efficient, all presented in a visually impressive format. In each chapter you will find: **Learning Objectives**, **Focus on Current Practice** vignettes, **Key Terms**, **Summaries**, **Questions**, **Exercises**, **Problems** and **Cases**. There are also **Management Accounting in Action** vignettes, worked **Examples**, **Group Exercises** and **Internet Exercises**. At the back of the book you will find a full **Bibliography** to make reading around the subject easy.

Comprehensive coverage

With complete coverage of core technical material and emerging issues, this text perfectly balances the need to combine practical understanding with deeper explanations of how management accounting remains relevant and compelling in an ever-changing world.

Accessible style

Written in a style that makes learning interesting and understanding easy, *Management Accounting* takes a highly refreshing approach to its subject ensuring its popularity with lecturers and students alike.

Online resources

The book is supported by an excellent **online learning centre** with self-test questions for the students and tutor downloads including lecturer's notes, a test bank of multiple choice questions, power-point slides and solutions to all questions and cases. A brand new feature for this edition's Online Learning Centre is Excel based problems, which give students the opportunity to solve problems from the book using excel worksheets – thus developing practical computing and accountancy skills in tandem.



Guided tour



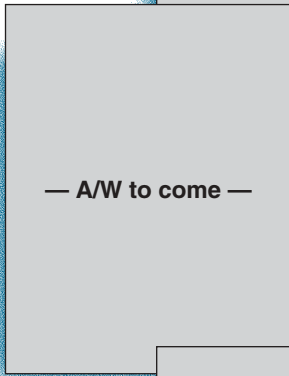
Learning Objectives

Each chapter opens with a set of learning objectives, summarizing what readers should learn from each chapter.



Concepts in Context

Each chapter opens with a concepts in context box, introducing you to the topic to follow and grounding the chapter concepts in real life terms.



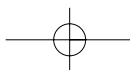
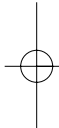
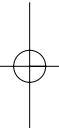
Focus on Current Practice

These lively mini-examples illustrate precisely how management accounting theory affects companies.



Exhibits

Each chapter includes a host of 4-colour exhibits, illustrating the concepts you need to know and the techniques you need to learn.



— A/W to come —

Key Terms

These are highlighted throughout the chapter, and definitions are provided at the end of each chapter. A full glossary also features at the back of the book.

— A/W to come —

Summary

This briefly reviews and reinforces the main topics you will have covered in each chapter to ensure you have acquired a solid understanding of the key topics.

— A/W to come —

End of Chapter Assessment Material

Each chapter has a wealth of assessment material designed to make learning and self-testing easy and fun. You will find the following features in most chapters:

- Review problems
- Review solutions
- Questions
- Exercises
- Problems
- Cases



Technology to enhance teaching and learning

Online Learning Centre

Visit www.mcgraw-hill.co.uk/textbooks/seal today!

After completing each chapter, log on to the supporting Online Learning Centre website. Take advantage of the study tools offered to reinforce the material you have read in the text, and to develop your knowledge of management accounting in a fun and effective way.

Resources for students include:

- Self-test questions
- Internet exercises
- Excel exercises
- Case studies
- Glossary
- Web links



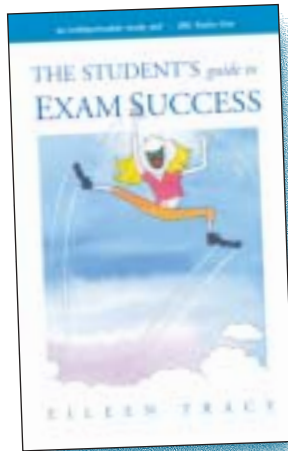
Also available for lecturers:

- Powerpoint slides
- Exercise solutions
- Lecture Manual
- Group Exercises
- Artwork
- Case solutions



For lecturers: Primis Content Centre

If you need to supplement your course with additional cases or content, create a personalized e-Book for your students. Visit www.primiscontentcenter.com or e-mail primis_euro@mcgraw-hill.com for more information.



Study Skills

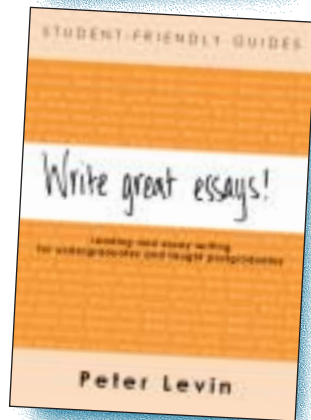
We publish guides to help you study, research, pass exams and write essays, all the way through your university studies.

Visit www.openup.co.uk/ss/ to see the full selection and get £2 discount by entering promotional code study when buying online!

Computing Skills

If you'd like to brush up on your computing skills, we have a range of titles covering MS Office applications such as Word, Excel, PowerPoint, Access and more.

Get a £2 discount off these titles by entering the promotional code app when ordering online at www.mcgraw-hill.co.uk/app





Acknowledgements

Our thanks go to the following reviewers for their comments at various stages in the text's development:

- Alexandra Charles
- James Rattenbury
- Jonathan Rooks
- Ian Herbert
- Peter Friis
- Dila Agrizi
- John Currie
- Samuel Idowu
- Peter Casson
- Jan Renauld
- Rennie Tjekstra
- Martin Broad

We'd also like to thank the following individuals for contributing case material for this edition:

- Bill Hughill