

seventh edition

Fundamental Managerial Accounting Concepts

Thomas P. Edmonds

University of Alabama—Birmingham

Christopher T. Edmonds

University of Alabama—Birmingham

Bor-Yi Tsay

Southern Polytechnic State University

Philip R. Olds

Virginia Commonwealth University

**Mc
Graw
Hill**
Education



FUNDAMENTAL MANAGERIAL ACCOUNTING CONCEPTS, SEVENTH EDITION
Published by McGraw-Hill Education, 2 Penn Plaza, New York, NY 10121. Copyright © 2014
by McGraw-Hill Education. All rights reserved. Printed in the United States of America. Previous
editions © 2011, 2009, and 2008. 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
McGraw-Hill Education, including, but not limited to, in any network or other electronic storage or
transmission, or broadcast for distance learning.

Some ancillaries, including electronic and print components, may not be available to customers outside
the United States.

This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 0 DOW/DOW 1 0 9 8 7 6 5 4 3

ISBN 978-0-07-802565-5

MHID 0-07-802565-6

Senior Vice President, Products & Markets: *Kurt L. Strand*

Vice President, Content Production & Technology Services: *Kimberly Meriwether David*

Director: *Tim Vertovec*

Brand Manager: *Donna M. Dillon*

Executive Director of Development: *Ann Torbert*

Development Editor II: *Katie Jones*

Director of Digital Content: *Patricia Plumb*

Digital Development Editor: *Julie Hankins*

Senior Marketing Manager: *Kathleen Klehr*

Senior Project Manager: *Diane L. Nowaczyk*

Senior Buyer: *Carol A. Bielski*

Design: *Jana Singer*

Cover Image: © *Rocco Fasanol/Getty Images*

Senior Content Licensing Specialist: *Jeremy Cheshareck*

Lead Media Project Manager: *Brian Nacik*

Typeface: *10.5/12 Times New Roman MT Regular*

Compositor: *Aptara[®], Inc.*

Printer: *R. R. Donnelley*

All credits appearing on page or at the end of the book are considered to be an extension of the
copyright page.

Library of Congress Cataloging-in-Publication Data

Edmonds, Thomas P.

Fundamental managerial accounting concepts / Thomas P. Edmonds, University of Alabama,
Birmingham, Christopher T. Edmonds, University of Alabama, Birmingham, Bor-Yi Tsay, Southern
Polytechnic State University, Philip R. Olds, Virginia Commonwealth University.—Seventh edition.
pages cm.

Includes index.

ISBN-13: 978-0-07-802565-5 (alk. paper)

ISBN-10: 0-07-802565-6 (alk. paper)

1. Managerial accounting. I. Title.

HF5657.4.E35 2014

658.15'11—dc23

2013018769

The Internet addresses listed in the text were accurate at the time of publication. The inclusion of a
website does not indicate an endorsement by the authors or McGraw-Hill Education, and McGraw-Hill
Education does not guarantee the accuracy of the information presented at these sites.

This book is dedicated to our students, whose questions have so frequently caused us to reevaluate our method of presentation that they have, in fact, become major contributors to the development of this text.

NOTE FROM THE AUTHORS



● LECTURE VIDEOS: A SEA CHANGE IN INSTRUCTIONAL METHODOLOGY

We are excited to announce the availability of instructional videos that explain the content associated with every learning objective introduced throughout the text. ***These videos have been developed by a member of the author team and are available when assigned through McGraw-Hill Connect Accounting.*** They have the touch and feel of a live lecture as opposed to a canned PowerPoint presentation. The benefits are enormous. Videos allow students to pause for contemplation and note-taking. They permit students to repeat difficult concepts or fast-forward through content they have mastered. In other words, videos enable self-paced learning. No longer is the lecture too fast for some and too slow for others. Now the lecture satisfies the needs of each individual student.

Many accounting educators have taught in professional exam prep courses that make extensive use of video lectures. Now you can bring that prep course learning approach into your everyday classroom. You can use the videos we provide to transform the traditional classroom from a passive listening exercise into an active learning experience. Here are some examples of how you can use instructional videos to improve the classroom environment.

Flip Courses

Instructional videos enable instructors to flip the traditional teaching model. Specifically, instead of providing a lecture in class and then assigning homework, ***flip courses*** deliver the lecture at home and use the classroom as a place for students to work problems and ask questions. The teacher's function moves from lecturer to coach and tutor. Without a requirement to deliver a lecture, the instructor is free to tutor students in small groups or individually. Instruction becomes more focused and individualized. Indeed, when coupled with *Connect*[®] technology, instructors can obtain real-time feedback that allows them to identify and approach specific students who are having difficulty without disturbing those students who are able to digest the material independently.

Competency-Based Learning Courses

Video instruction enables the implementation of a competency-based grading system. Since learning is self-paced, grades can be assigned on the basis of how deep students go into the content as opposed to an averaging approach. For example, content could be divided into modules. Grades could be assigned based on the number of modules completed successfully. Weaker students could repeat lower-level modules, while stronger students move on to more advanced topics. When you are no longer forced to move students through your class in a lock-step fashion, the potential for improving the learning environment is virtually limitless.

There are many different competency-based models that can be applied to introductory accounting. At this point, our objective is to introduce the general possibilities for improving learning. If you are interested in developing a specific competency-based approach for your classroom, you can speak directly with a member of the author team who has used videos in a variety of settings (contact information is provided on the following page). Standardized lesson plans that can be adapted for use in your individual classroom are available upon request.

Mass Section Courses

Many schools deliver live lectures to mass section classes. Students then break into small groups that are led by teaching assistants or adjunct faculty. While this approach is cost effective, it frequently results in dissatisfaction. Students often find it difficult to see and hear in large lecture halls. Also, the lecture must be set at an average pace which by its nature is too fast for many students and too slow for others. Prerecorded video lectures resolve these issues. They enable students to study the lecture before class. They can then bring questions about the lecture to the breakout sessions. Since videos eliminate the need for mass lectures, there is more time for students to meet in small groups where they are able to receive more individualized attention.

Distance Learning Courses

One of the fastest-growing markets in higher education today is Internet-based courses. Many students struggle with these courses. Generally, they would prefer to learn from a lecture but due to timing or location are unable to attend class. Prerecorded video lectures solve this problem by allowing students to access lectures on demand. Until now, the only way to provide video coverage was for the instructor to make personal recordings. Anyone who has tried this knows it is a time-consuming activity. We offer a standardized turn-key course that is composed of prerecorded instructional videos, self-assessment quizzes, and instructor-generated evaluative exams. The instructor simply selects the learning objectives to be covered. There is no simpler way to develop a distance learning course.

Supplement Your Traditional Lecture-Based Course

You do not have to change the way you teach your class to reap many of the benefits available from video instruction. Students who have to miss class or who have trouble comprehending certain concepts can benefit from watching video lectures. Also, many students who attend class will be able to build confidence by watching videos that reinforce the concepts presented in class. Since the videos are tied directly to the learning objectives, you can develop a specific plan for students who are struggling with specific topics. Alternatively, you may offer video instruction to enable advanced students to cover additional topics.

These are only a few opportunities made possible by video lectures. If you would like to discuss these or other possible applications, please contact Chris Edmonds at cedmonds@gmail.com.

ABOUT THE AUTHORS



Thomas P. Edmonds

Thomas P. Edmonds, Ph.D., is Professor Emeritus in the Department of Accounting at the University of Alabama at Birmingham (UAB). He has been actively involved in teaching accounting principles throughout his academic career. Dr. Edmonds has coordinated the accounting principles courses at the University of Houston and UAB. He has taught introductory accounting in mass sections and in distance learning programs. He has received five prestigious teaching awards, including the Alabama Society of CPAs Outstanding Educator Award, the UAB President's Excellence in Teaching Award, and the distinguished Ellen Gregg Ingalls Award for excellence in classroom teaching. He has written numerous articles that have appeared in many publications, including *Issues in Accounting*, the *Journal of Accounting Education*, *Advances in Accounting Education*, *Accounting Education: A Journal of Theory, Practice and Research*, the *Accounting Review*, *Advances in Accounting*, the *Journal of Accountancy*, *Management Accounting*, the *Journal of Commercial Bank Lending*, the *Banker's Magazine*, and the *Journal of Accounting, Auditing, and Finance*. Dr. Edmonds has served as a member of the editorial board for *Advances in Accounting: Teaching and Curriculum Innovations* and *Issues in Accounting Education*. He has published five textbooks, five practice problems (including two computerized problems), and a variety of supplemental materials including study guides, work papers, and solutions manuals. Dr. Edmonds' writing is influenced by a wide range of business experience. He is a successful entrepreneur. He has worked as a management accountant for Refrigerated Transport, a trucking company. Dr. Edmonds also worked in the not-for-profit sector as a commercial lending officer for the Federal Home Loan Bank. In addition, he has acted as a consultant to major corporations, including First City Bank of Houston (now Citi Bank), AmSouth Bank in Birmingham (now Wachovia Bank), Texaco, and Cortland Chemicals. Dr. Edmonds began his academic training at Young Harris Community College in Young Harris, Georgia. He received a B.B.A. degree with a major in finance from Georgia State University in Atlanta, Georgia. He obtained an M.B.A. degree with a concentration in finance from St. Mary's University in San Antonio, Texas. His Ph.D. degree with a major in accounting was awarded by Georgia State University. Dr. Edmonds' work experience and academic training have enabled him to bring a unique user perspective to this textbook.



Christopher T. Edmonds

Christopher T. Edmonds is an Assistant Professor of Accounting at the University of Alabama at Birmingham (UAB). His focus is on new teaching pedagogies such as "flipping the classroom," competency learning, and online education. In his classes, students watch lectures at home and come to class to work with others and practice skills. Although early in his career, Dr. Edmonds has received multiple teaching awards and published several articles in the area of accounting education. He has written articles that appeared in *Issues in Accounting Education*, *Advances in Accounting Education*, *AIS Educators Journal*, and *Advances in Accounting*.

Bor-Yi Tsay

Bor-Yi Tsay, Ph.D., CPA, is Professor of Accounting at Southern Polytechnic State University (SPSU). He has taught principles of accounting courses at the University of Houston and University of Alabama at Birmingham. He currently teaches a graduate managerial accounting course for SPSU's MBA program and an advanced management accounting course for the Master of Science in Accounting program. Dr. Tsay received the 1996 Loudell Ellis Robinson Excellence in Teaching Award. He has also received numerous awards for his writing and publications, including the John L. Rhoads Manuscripts Award, John Pugsley Manuscripts Award, Van Pelt Manuscripts Award, and three certificates of merit from the Institute of Management Accountants. His articles have appeared in *Journal of Accounting Education*, *Management Accounting*, *Journal of Managerial Issues*, *CPA Journal*, *CMA Magazine*, *Journal of Systems Management*, and *Journal of Medical Systems*. Dr. Tsay received a B.S. degree in Agricultural Economics from National Taiwan University, an M.B.A. degree from Eastern Washington University, and a Ph.D. degree in Accounting from the University of Houston.



Philip R. Olds

Philip R. Olds is Associate Professor of Accounting at Virginia Commonwealth University (VCU). He has served as the coordinator of the introduction to accounting courses at VCU. Dr. Olds has also received the Distinguished Service Award and the Distinguished Teaching Award from VCU School of Business. Dr. Olds received his A.S. degree from Brunswick Junior College in Brunswick, Georgia (now Coastal Georgia—Community College). He received a B.B.A. in Accounting from Georgia Southern College (now Georgia Southern University) and his M.P.A. and Ph.D. degrees from Georgia State University. After graduating from Georgia Southern, he worked as an auditor with the U.S. Department of Labor in Atlanta, Georgia, and is a former CPA in Virginia. Dr. Olds has published articles in various academic and professional journals and presented papers at national and regional conferences. He also served as the faculty adviser to the VCU chapter of Beta Alpha Psi for five years and was recognized with an Outstanding Faculty Vice-President Award by the national Beta Alpha Psi organization.



HOW DOES EDMONDS HELP



“Crisp chapters that cover the material without wasted pages. [Also, the text emphasizes] decision making and includes coverage of accountability.”

ANNE WILLIAMS,
GATEWAY COMMUNITY
COLLEGE

“This book is excellent for the non-accounting major because it is user-oriented. This book actually interests non-accounting majors. I have seen many students actually get excited about what they are learning because they can relate the information to the real world.”

JACQUELINE BURKE,
HOFSTRA UNIVERSITY

● PRINCIPAL FEATURES

Our goal in writing this text is to teach students managerial accounting concepts that will improve their ability to make sound business decisions. The text differs from traditional managerial accounting books in the following ways:

Decision-Making Skills Emphasized

Notice that the table of contents places decision making up front. Procedural topics like manufacturing cost flow, job order, and process costing are placed at the end of our text, while traditional books discuss these topics early. We put decision making front and center because we believe it is important. Beyond placement, we introduce topics within a decision-making context. For example, in Chapter 2 we introduce “cost behavior” within the context of operating leverage. We focus on how cost behavior affects decisions such as “Am I sure enough that volume will be high that I want to employ a fixed cost structure or do I want to reduce operating leverage risk by building a variable cost structure?” Further, notice that Chapter 3 is written around a realistic business scenario where a management team is using CVP data to evaluate decision alternatives. Indeed,

STUDENTS SEE THE BIG PICTURE?

all chapters are written in a narrative style with content focused on decision-making scenarios. This makes the text easy to read and interesting as well as informative.

Service Companies Emphasized

For example, our budgeting chapter uses a merchandising business while most traditional texts use a manufacturing company. Using a service company is not only more relevant but also simplifies the learning environment, thereby making it easier for students to focus on budgeting concepts rather than procedural details. This is only one example of our efforts to place greater emphasis on service companies.

Isolating Concepts

How do you promote student understanding of concepts? We believe new concepts should be isolated and introduced individually in decision-making contexts. For example, we do not include a chapter covering cost terminology (usually Chapter 2 in traditional approaches). We believe introducing a plethora of detached cost terms in a single chapter is ineffective, as students have no conceptual framework for the new vocabulary.

Interrelationships between Concepts

Although introducing concepts in isolation enhances student comprehension of them, students must ultimately understand how business concepts interrelate. The text is designed to build knowledge progressively, leading students to integrate the concepts they have learned independently. For example, see how the concept of relevance is compared on page 255 of Chapter 6 to the concept of cost behavior (which is explained in Chapter 2) and how the definitions of direct costs are contrasted on page 154 of Chapter 4 with the earlier introduced concepts of cost behavior. Also, Chapters 1 through 12 include a comprehensive problem designed to integrate concepts across chapters. The problem builds in each successive chapter with the same company experiencing new conditions that require the application of concepts across chapters.

Context-Sensitive Nature of Terminology

Students can be confused when they discover the exact same cost can be classified as fixed, variable, direct, indirect, relevant, or not relevant. For example, the cost of a store manager's salary is fixed regardless of the number of customers that shop in the store. The cost of store manager salaries, however, is variable relative to the number of stores a company operates. The salary costs are directly traceable to particular stores but not to particular sales made in a store. The salary cost is relevant when deciding whether to eliminate a given store but not relevant when deciding whether to eliminate a department within a store. Students must learn to identify the circumstances that determine the classification

“A great book that covers all the fundamentals but doesn’t overwhelm the non-accounting major. Students really like the course and much of the credit goes to the quality of your book.”

WALTER AUSTIN,
MERCER UNIVERSITY

“I like that the authors used service companies for the budgeting process.”

ALANA FERGUSON,
MOTT COMMUNITY
COLLEGE

“I think Edmonds’ approach to introducing concepts, and his flow of topics is the best of any accounting textbook I have used. His approach allows me to emphasize a piece of the puzzle at a time [while] building to the whole picture.”

GARY REYNOLDS,
OZARK TECHNICAL
COMMUNITY COLLEGE

“This is an informative and accessible text that addresses both the students’ need for relevant coverage and instructors’ need for efficient delivery. A truly user-friendly text.”

CHIAO CHANG,
MONTCLAIR STATE
UNIVERSITY

of costs. The chapter material, exercises, and problems in this text are designed to encourage students to analyze the decision-making context rather than to memorize definitions. ATC 4-1 in Chapter 4 illustrates how the text teaches students to interpret different decision-making environments.

ANALYZE, THINK, COMMUNICATE

ATC 4-1 Business Applications Case *Allocating fixed costs at HealthSouth Corporation*



HealthSouth Corporation claims to be “. . . the nation’s largest owner and operator of inpatient rehabilitation hospitals in terms of revenues, number of hospitals, and patients treated and discharged.” As of December 31, 2011, the company derived 92 percent of its revenues from inpatient services. During 2011 it treated and discharged 118,354 patients, and the average length of a patient’s stay was 13.5 days. If one patient occupying one bed for one day represents a “patient-day,” then HealthSouth produced 1,597,779 patient-days of output during 2011 ($118,354 \times 13.5 = 1,597,779$). During this period, HealthSouth incurred depreciation costs of \$52,500,000. For the purpose of this problem, assume that all of this depreciation related to the property, plant, and equipment of inpatient hospitals.

Required

- a. Indicate whether the depreciation cost is a:
 - (1) Product (i.e., patient) cost or a general, selling, and administrative cost.
 - (2) Fixed or variable cost relative to the volume of production.
 - (3) Direct or indirect cost if the cost object is the cost of patient services provided in 2011.
- b. Assume that HealthSouth incurred depreciation of \$4,375,000 during each month of the 2011 fiscal year, but that it produced 140,000 patient-days of service during February and 120,000 patient-days of service during March. Based on monthly costs and service levels, what was the average amount of depreciation cost per patient-day of service provided during each of these two months, assuming each patient-day of service was charged the same amount of depreciation?

“Given the current economic environment, [Edmonds’] extensive coverage of corporate governance is critical to accounting.”

PATRICK STEGMAN,
COLLEGE OF LAKE
COUNTY

Corporate Governance

Accountants have always recognized the importance of ethical conduct. However, the enactment of Sarbanes–Oxley (SOX) has signaled the need for educators to expand the subject of ethics to a broader concept of corporate governance. We focus our expanded coverage on four specific areas, including:

- **Quality of Earnings**—We explain how financial statements can be manipulated.
- **The Statement of Ethical Professional Practice for Management Accountants**—Our coverage focuses on the policies and practices promulgated by the Institute of Management Accountants.
- **The Fraud Triangle**—We discuss the three common features of criminal and ethical misconduct, including opportunity, pressure, and rationalization.
- **Specified Features of Sarbanes–Oxley (SOX)**—We cover four key provisions of SOX that are applicable to managerial accountants.

Corporate governance is introduced in Chapter 1. This chapter includes four exercises, two problems, and one case that relate to the subject. Thereafter, a corporate governance case is included in every chapter, thereby enabling continuing coverage of this critically important topic.

Excel Spreadsheets

Spreadsheet applications are essential to contemporary accounting practice. Students must recognize the power of spreadsheet software and know how accounting data are presented in spreadsheets. We discuss Microsoft Excel spreadsheet applications where appropriate throughout the text. In most instances, the text illustrates actual spreadsheets. End-of-chapter materials include problems students can complete using spreadsheet software. A sample of the logo used to identify problems suitable for Excel spreadsheet solutions is shown here.

“[The text is] easy to read and it is innovative for including Excel spreadsheets and the accounting template.”

WEDE ELLIOTT-
BROWNELL, SOUTHERN
UNIVERSITY/A&M
COLLEGE

Problem 1-22A *Service versus manufacturing companies*

Lang Company began operations on January 1, 2014, by issuing common stock for \$64,000 cash. During 2014, Lang received \$95,000 cash from revenue and incurred costs that required \$75,000 of cash payments.

Required

Prepare an income statement and a balance sheet for Lang Company for 2014, under each of the following independent scenarios.

- a. Lang is a promoter of rock concerts. The \$75,000 was paid to provide a rock concert that produced the revenue.
- b. Lang is in the car rental business. The \$75,000 was paid to purchase automobiles. The automobiles were purchased on January 1, 2014, and have five-year useful lives, with no expected salvage value. Lang uses straight-line depreciation. The revenue was generated by leasing the automobiles.
- c. Lang is a manufacturing company. The \$75,000 was paid to purchase the following items:
 - (1) Paid \$12,000 cash to purchase materials that were used to make products during the year.
 - (2) Paid \$22,000 cash for wages of factory workers who made products during the year.
 - (3) Paid \$5,000 cash for salaries of sales and administrative employees.
 - (4) Paid \$36,000 cash to purchase manufacturing equipment. The equipment was used solely to make products. It had a three-year life and a \$6,000 salvage value. The company uses straightline depreciation.

LO 1-2

Excel



CHECK FIGURES

- a. Net income: \$20,000
- b. Total assets: \$144,000
- c. Net income: \$57,000

HOW DOES EDMONDS

The Curious Accountant

In the first course of accounting, you learned how retailers, such as **Target**, account for the cost of equipment that lasts more than one year. Recall that the equipment was recorded as an asset when purchased, and then it was depreciated over its expected useful life. The depreciation charge reduced the company's assets and increased its expenses. This approach was justified under the matching principle, which seeks to recognize costs as expenses in the same period that the cost (resource) is used to generate revenue.

Is depreciation always shown as an expense on the income statement? The answer may surprise you. Consider the following scenario. **Bose Corporation** manufactures the headphones that it sells to Target. In order to produce the headphones, Bose had to purchase a robotic machine that it expects can be used to produce 100,000 headphones.



Answers to The Curious Accountant

As you have seen, accounting for depreciation related to manufacturing assets

is different from accounting for depreciation for nonmanufacturing assets. Depreciation on the checkout equipment at **Target** is recorded as depreciation expense. Depreciation on manufacturing equipment at **Bose** is considered a product cost. It is included first as a part of the cost of inventory and eventually as a part of the expense, cost of goods sold. Recording depreciation on manufacturing equipment as an inventory cost is simply another example of the matching principle, because the cost does not become an expense until revenue from the product sale is recognized.

FOCUS ON INTERNATIONAL ISSUES

FINANCIAL ACCOUNTING VERSUS MANAGERIAL ACCOUNTING—AN INTERNATIONAL PERSPECTIVE

This chapter has already explained some of the conceptual differences between financial and managerial accounting, but these differences have implications for international businesses as well. With respect to financial accounting, publicly traded companies in most countries must follow the generally accepted accounting principles (GAAP) for their country, but these rules can vary from country to country. Generally, companies that are audited under the auditing standards of the United States follow the standards established by the Financial Accounting Standards Board. Most companies located outside of the United States follow the standards established by the International Accounting Standards Board (IASB). For example, the United States is one of very few countries whose GAAP allow the use of the LIFO inventory cost flow assumption.

Conversely, most of the managerial accounting concepts introduced in this course can be used by businesses in any country. For example, *activity-based costing (ABC)* is a topic addressed in Chapter 5 and is used by many companies in the United States. Additionally, while accrual-based earnings can differ depending on whether a company uses U.S. GAAP or IFRS, cash flow will not. As you will learn in this course, managerial accounting decisions often focus on cash flow versus accrual-based income. Therefore, managerial accounting concepts are more universal than financial accounting rules.



✓ CHECK YOURSELF 1.1

All boxes of **General Mills** Total Raisin Bran cereal are priced at exactly the same amount in your local grocery store. Does this mean that the actual cost of making each box of cereal was exactly the same?

Answer No, making each box would not cost exactly the same amount. For example, some boxes contain slightly more or less cereal than other boxes. Accordingly, some boxes cost slightly more or less to make than others do. General Mills uses average cost rather than actual cost to develop its pricing strategy.

Real-World Examples

The Edmonds' text provides a variety of thought-provoking, real-world examples of managerial accounting as an essential part of the management process.

The Curious Accountant

Each chapter opens with a short vignette that sets the stage and helps pique student interest. These vignettes pose a question about a real-world accounting issue related to the topic of the chapter. The answer to the question appears in a separate sidebar a few pages further into the chapter.

Focus on International Issues

These boxed inserts expose students to international issues in accounting.

Check Yourself

These short question/answer features occur at the end of each main topic and ask students to stop and think about the material just covered. The answer is then given to provide immediate feedback before students go on to a new topic.

"I especially like the Check Yourself and A Look Back/A Look Forward features because they help students to review and refresh topics as they progress through the chapter."

ANNA L. LUSHER, SLIPPERY ROCK UNIVERSITY

"The Curious Accountant, the real-world examples, and the Check Yourself boxes are unique features."

RONALD REED, UNIVERSITY OF NORTHERN COLORADO

"This is a strong textbook, well-written and [the] illustrations are strong. Use of colors adds to the presentation."

CHERYL CORKE, GENESEE COMMUNITY COLLEGE

MOTIVATE STUDENTS?

Reality Bytes

Real-world applications related to specific chapter topics are introduced through this feature. *Reality Bytes* may offer survey results, graphics, quotations from business leaders, and other supplemental topics that enhance opportunities for students to connect the text material to actual accounting practice.

Chapter Focus Company

Each chapter introduces important managerial accounting topics within the context of a realistic company. Students see the impact of managerial accounting decisions on the company as they work through the chapter. When the Focus Company is presented in the chapter, its logo is shown so the students see its application to the text topics.

“By following one company through several situations as the chapter progresses, more of a ‘real world’ decision-making process is obtained.”

ALEECCIA HIBBETS, UNIVERSITY OF LOUISIANA AT MONROE

“I like the different approaches to have real-world examples and the problems within the chapter that show how to do things.”

CHRISTINA WILLIAMS, NORTHEASTERN UNIVERSITY

A Look Back/A Look Forward

Students need a roadmap to make sense of where the chapter topics fit into the “whole” picture. *A Look Back* reviews the chapter material and *A Look Forward* introduces students to what is to come.

REALITY BYTES

Unethical behavior occurs in all types of organizations. In its *2011 National Business Ethics Survey*, the Ethics Resource Center reported its findings of the occurrences and reporting of unethical behavior in American corporations based on a survey of over 4,600 employees.

Forty-five percent of those surveyed reported having observed unethical conduct during the past year. This was the lowest level reported in the 17 years the survey has been conducted. Sixty-five percent of those who said they had observed misconduct went on to report it to their employer. However, fear of retaliation for reporting misconduct was a concern. Of respondents who said they had reported misconduct at their companies, 22 percent said they had experienced some form of retaliation, such as being excluded from decision making.

The definition of ethical misconduct used in the study was quite broad. The five most frequently reported types of misconduct were: misuse of company time, abusive behavior, abusing company resources, lying to employees, and violating the company's policies for using the Internet.

For the complete *2011 National Business Ethics Survey*, go to www.ethics.org.



Name and Type of Company Used as Main Chapter Example

Chapter Title	Company Used as Main Chapter Example	Company Logo	Type of Company
1. Management Accounting and Corporate Governance	Pattilo Manufacturing Company		Manufactures ceramic pottery
2. Cost Behavior, Operating Leverage, and Profitability Analysis	Star Productions, Inc. (SPI)		Promotes rock concerts
3. Analysis of Cost, Volume, and Pricing to Increase Profitability	Bright Day Distributors		Sells nonprescription health food supplements
4. Cost Accumulation, Tracing, and Allocation	In Style, Inc. (ISI)		Retail clothing store
5. Cost Management in an Automated Business Environment: ABC, ABM, and TQM	Unterman Shirt Company		Produces dress and casual shirts
6. Relevant Information for Special Decisions	Premier Office Products		Manufactures printers
7. Planning for Profit and Cost Control	Hampton Hams (HH)		Sells cured hams nationwide through retail outlets
8. Performance Evaluation	Melrose Manufacturing Company		Makes small, high-quality statues used in award ceremonies
9. Responsibility Accounting	Panther Holding Company		Furniture Manufacturing Division
10. Planning for Capital Investments	EZ Rentals		Rents computers, monitors, and projection equipment
11. Product Costing in Service and Manufacturing Entities	Ventra Manufacturing Company		Constructs mahogany jewelry boxes
12. Job-Order, Process, and Hybrid Costing Systems	Benchmark Boat Company		Manufactures boats
	Janis Juice Company		Makes fruit juice

<< A Look Back


To plan and control business operations effectively, managers need to understand how different costs behave in relation to changes in the volume of activity. Total *fixed cost* remains constant when activity changes. Fixed cost per unit decreases with increases in activity and increases with decreases in activity. In contrast, total *variable cost* increases proportionately with increases in activity and decreases proportionately with decreases in activity. Variable cost per unit remains constant regardless of activity levels. The definitions of fixed and variable costs have meaning only within the context of a specified range of activity (the relevant range) for a defined period of time. In addition, cost be-

>> A Look Forward

The next chapter will show you how changes in cost, volume, and pricing affect profitability. You will learn to determine the number of units of product that must be produced and sold in order to break even (the number of units that will produce an amount of revenue that is exactly equal to total cost). You will learn to establish the price of a product using a cost-plus pricing approach and to establish the cost of a product using

HOW ARE CHAPTER CONCEPTS

Regardless of the instructional approach, there is no shortcut to learning accounting. Students must practice to master basic accounting concepts. The text includes an ample supply of practice materials, exercises, and problems.


 Video lectures and accompanying self-assessment quizzes are available for all learning objectives through McGraw-Hill Connect® Accounting.

SELF-STUDY REVIEW PROBLEM

Tuscan Manufacturing Company makes a unique headset for use with mobile phones. During 2014, its first year of operations, Tuscan experienced the following accounting events. Other than the adjusting entries for depreciation, assume that all transactions are cash transactions.

1. Acquired \$850,000 cash from the issue of common stock.
2. Paid \$50,000 of research and development costs to develop the headset.
3. Paid \$140,000 for the materials used to make headsets, all of which were started and completed during the year.
4. Paid salaries of \$82,200 to selling and administrative employees.
5. Paid wages of \$224,000 to production workers.
6. Paid \$48,000 to purchase furniture used in selling and administrative offices.
7. Recognized depreciation on the office furniture. The furniture, acquired January 1, had an \$8,000 estimated salvage value and a four-year useful life. The amount of depreciation is computed as $[(\text{Cost} - \text{Salvage}) \div \text{Useful life}]$. Specifically, $[(\$48,000 - \$8,000) \div 4 = \$10,000]$.
8. Paid \$65,000 to purchase manufacturing equipment.
9. Recognized depreciation on the manufacturing equipment. The equipment, acquired January 1, had a \$5,000 estimated salvage value and a three-year useful life. The amount of depreciation is computed as $[(\text{Cost} - \text{Salvage}) \div \text{Useful life}]$. Specifically, $[(\$65,000 - \$5,000) \div 3 = \$20,000]$.
10. Paid \$136,000 for rent and utility costs on the manufacturing facility.
11. Paid \$41,000 for inventory holding expenses for completed headsets (rental of warehouse space, salaries of warehouse personnel, and other general storage costs).
12. Tuscan started and completed 20,000 headset units during 2014. The company sold 18,400 headsets at a price of \$38 per unit.
13. Compute the average product cost per unit and recognize the appropriate amount of cost of goods sold.

PROBLEMS—SERIES A

 All applicable Problems in Series A are available with McGraw-Hill Connect® Accounting.

LO 1-2

CHECK FIGURES
a. Average cost per unit: \$7.00
f. \$120,800


Problem 1-19A Product versus selling, general, and administrative costs

Issa Manufacturing Company was started on January 1, 2014, when it acquired \$78,000 cash by issuing common stock. Issa immediately purchased office furniture and manufacturing equipment costing \$21,000 and \$49,000, respectively. The office furniture had a seven-year useful life and a zero salvage value. The manufacturing equipment had a \$4,000 salvage value and an expected useful life of five years. The company paid \$12,000 for salaries of administrative personnel and \$21,000 for wages to production personnel. Finally, the company paid \$26,000 for raw materials that were used to make inventory. All inventory was started and completed during the year. Issa completed production on 8,000 units of product and sold 7,200 units at a price of \$15 each in 2014. (Assume that all transactions are cash transactions.)

Required

- a. Determine the total product cost and the average cost per unit of the inventory produced in 2014.
- b. Determine the amount of cost of goods sold that would appear on the 2014 income statement.
- c. Determine the amount of the ending inventory balance that would appear on the December 31, 2014, balance sheet.
- d. Determine the amount of net income that would appear on the 2014 income statement.
- e. Determine the amount of retained earnings that would appear on the December 31, 2014, balance sheet.
- f. Determine the amount of total assets that would appear on the December 31, 2014, balance sheet.

LO 1-2



CHECK FIGURES
Cash balance: \$67,400
Net income: \$14,200

Problem 1-20A Effect of product versus period costs on financial statements

Gunn Manufacturing Company experienced the following accounting events during its first year of operation. With the exception of the adjusting entries for depreciation, assume that all transactions are cash transactions.

1. Acquired \$80,000 cash by issuing common stock.
2. Paid \$9,200 for the materials used to make its products, all of which were started and completed during the year.
3. Paid salaries of \$3,800 to selling and administrative employees.
4. Paid wages of \$12,000 to production workers.
5. Paid \$9,600 for furniture used in selling and administrative offices. The furniture was acquired on January 1. It had a \$1,600 estimated salvage value and a four-year useful life.

Self-Study Review Problem

These representative example problems include a detailed, worked-out solution and provide another level of support for students before they work problems on their own. These review problems are included as animated audio presentations available on the Online Learning Center.

“End-of-chapter exercise and problem materials are varied and first rate.”

DARLENE COARTS, UNIVERSITY OF NORTHERN IOWA

Exercise Series A & B and Problem Series A & B

There are two sets of problems and exercises, Series A and B. Instructors can assign one set for homework and use the other set for in-class work.

Check Figures

The figures provide a quick reference for students to check their progress in solving the problem. These are included for all problems in Series A.

Excel

Many exercises and problems can be solved using the Excel spreadsheet templates located on the text's Online Learning Center. A logo appears in the margins next to these exercises and problems for easy identification.

The end-of-chapter problems provide a lot of practice for students, and I like having the companion A and B problems.

KENNETH BRONSTEIN, WESTERN WASHINGTON UNIVERSITY

REINFORCED?

Analyze, Think, Communicate (ATC)

Each chapter includes an innovative section called Analyze, Think, Communicate (ATC). This section contains:

- Writing Assignments



- Group Exercises



- Ethics Cases



- Internet Assignments



- Real Company Examples



“The students also seem to like the ATC group assignments. These work very well as an in-class activity.”

CASSIE BRADLEY, DALTON STATE COLLEGE

Mastering Excel and Using Excel

The Excel applications are used to make students comfortable with this analytical tool and to show its use in accounting.

“The innovative end-of-chapter materials are especially on target as an aid to improving student critical thinking and writing skills. The Excel spreadsheet applications are also excellent real-world activities.”

DAN R. WARD, UNIVERSITY OF LOUISIANA, LAFAYETTE

ANALYZE, THINK, COMMUNICATE

ATC 1-1 Business Applications Case Financial versus managerial accounting

The following information was taken from Starbucks Corporation's 2011 and 2012 Form 10-Ks.

	Fiscal Year Ended	
	September 30, 2012	October 2, 2011
Number of global employees	160,000	149,000
Number of employees in the U.S.	120,000	112,000
Revenues (in millions)	\$13,300	\$11,700
Properties used for roasting warehouse and distribution	2,171,000 square feet	2,396,000 square feet
Total assets (in millions)	\$8,219	\$7,360
Company-owned stores	9,045	9,007
Net earnings (in millions)	\$1,384	\$1,246

Required

- Explain whether each line of information in the table above would best be described as being primarily financial accounting or managerial accounting in nature.
- Provide some additional examples of managerial and financial accounting information that could apply to Starbucks.
- If you analyze only the data you identified as financial in nature, does it appear that Starbucks' 2012 fiscal year was better or worse than its 2011 fiscal year? Explain.
- If you analyze only the data you identified as managerial in nature, does it appear that Starbucks' 2012 fiscal year was better or worse than its 2011 fiscal year? Explain.
- Did Starbucks appear to be using its roasting and distribution facilities more efficiently or less efficiently in 2012 than in 2011?

ATC 1-2 Group Assignment Product versus upstream and downstream costs

Victor Holt, the accounting manager of Sexton, Inc., gathered the following information for 2014. Some of it can be used to construct an income statement for 2014. Ignore items that do not appear on an income statement. Some computation may be required. For example, the cost of manufacturing equipment would not appear on the income statement. However, the cost of manufacturing equipment is needed to compute the amount of depreciation. All units of product were started and completed in 2014.

- Issued \$864,000 of common stock.
- Paid engineers in the product design department \$10,000 for salaries that were accrued at the end of the previous year.
- Incurred advertising expenses of \$70,000.
- Paid \$720,000 for materials used to manufacture the company's product.

“I really appreciate the Analyze, Think, Communicate section, especially since we emphasize use of information and communicating results to management.”

LISA BANKS, CHARLES S. MOTT COMMUNITY COLLEGE

ATC 3-6 Spreadsheet Assignment Using Excel

Bishop Company has provided the estimated data that appear in rows 4 to 8 of the following spreadsheet:

Bishop Company Forecast for December, 2013	
Selling price per unit	\$ 18.00
Variable costs per unit	\$ 12.00
Fixed costs	\$ 60,000
Units sold	20,000

Bishop Company Income Statement For the month of December, 2013	
Sales	\$360,000
Variable costs	240,000
Contribution margin	120,000
Fixed costs	60,000
Net income	\$ 60,000

Break-even in units	10,000
Operating leverage	2.00

Required

Using the spreadsheet tips that follow, construct a spreadsheet that allows you to determine net income, break-even in units, and operating leverage for the estimates at the top of the spreadsheet and see the effects of changes to the estimates. Set up this spreadsheet so that any change in the estimates will automatically be reflected in the calculation of net income, break-even, and operating leverage.

Spreadsheet Tips

To center a heading across several columns, such as the Income Statement title, highlight the area to be centered (Columns B, C, and D), choose Format, then choose Cells, and click on the tab titled Alignment. Near the bottom of the alignment window, place a check mark in the box titled Merge cells.

WHAT WE DID TO MAKE IT BETTER!

● WHAT'S NEW IN THIS EDITION?

We thank our reviewers and focus group participants for their suggestions for the seventh edition. Many of these suggestions motivated the changes described below:

Chapter 1 Management Accounting and Corporate Governance

- Added video lectures and self-assessment quizzes for each learning objective.
- Revised learning objectives.
- New *Curious Accountant* feature.
- Updated *Focus on International Issues* feature.
- Updated *Self-Study Review Problem*.
- Updated exercises, problems, and ATC cases.

Chapter 2 Cost Behavior, Operating Leverage, and Profitability Analysis

- Added video lectures and self-assessment quizzes for each learning objective.
- Revised learning objectives.
- New *Curious Accountant* feature.
- New *Reality Bytes* feature.
- Updated *Focus on International Issues* feature.
- Updated *Self-Study Review Problem*.
- Updated exercises, problems, and ATC cases.

Chapter 3 Analysis of Cost, Volume, and Pricing to Increase Profitability

- Added video lectures and self-assessment quizzes for each learning objective.
- Revised learning objectives.
- Reorganized chapter content.
- New *Curious Accountant* feature.
- Reorganized exercises and problems to match the order in which learning objectives are presented in the text.
- Updated exercises, problems, and ATC cases.

Chapter 4 Cost Accumulation, Tracing, and Allocation

- Added video lectures and self-assessment quizzes for each learning objective.
- Revised learning objectives.
- Reorganized chapter content.

- Revised *Curious Accountant* feature.
- Reorganized exercises and problems to match the order in which learning objectives are presented in the text.
- Updated exercises, problems, and ATC cases.

Chapter 5 Cost Management in an Automated Environment: ABC, ABM, and TQM

- Added video lectures and self-assessment quizzes for each learning objective.
- Revised learning objectives.
- Revised *Curious Accountant* feature.
- New *Reality Bytes* feature.
- New *Focus on International Issues* feature.
- Updated exercises, problems, and ATC cases.

Chapter 6 Relevant Information for Special Decisions

- Added video lectures and self-assessment quizzes for each learning objective.
- Revised learning objectives.
- Revised *Curious Accountant* feature.
- New *Reality Bytes* feature.
- Updated *Focus on International Issues* feature.
- Reorganized exercises and problems to match the order in which learning objectives are presented in the text.
- Updated exercises, problems, and ATC cases.

Chapter 7 Planning for Profit and Cost Control

- Added video lectures and self-assessment quizzes for each learning objective.
- Revised learning objectives.
- Revised *Curious Accountant* feature.
- New *Reality Bytes* feature.
- Revised *Focus on International Issues* feature.
- Reorganized exercises and problems to match the order in which learning objectives are presented in the text.
- Updated exercises, problems, and ATC cases.

Chapter 8 Performance Evaluation

- Added video lectures and self-assessment quizzes for each learning objective.
- Revised learning objectives.
- New *Curious Accountant* feature.
- Revised *Reality Bytes* feature.
- Reorganized exercises and problems to match the order in which learning objectives are presented in the text.
- Updated exercises, problems, and ATC cases.

Chapter 9 Responsibility Accounting

- Added video lectures and self-assessment quizzes for each learning objective.
- Revised learning objectives.
- Revised *Curious Accountant* feature.
- New *Reality Bytes* feature.
- Reorganized exercises and problems to match the order in which learning objectives are presented in the text.
- Updated exercises, problems, and ATC cases.

Chapter 10 Planning for Capital Investments

- Added video lectures and self-assessment quizzes for each learning objective.
- Revised learning objectives.
- Revised *Curious Accountant* feature.
- Revised *Reality Bytes* feature.
- Reorganized exercises and problems to match the order in which learning objectives are presented in the text.
- Updated exercises, problems, and ATC cases.

Chapter 11 Product Costing in Service and Manufacturing Entities

- Added video lectures and self-assessment quizzes for each learning objective.
- Revised *Curious Accountant* feature.

- Revised *Reality Bytes* feature.
- Reorganized exercises and problems to match the order in which learning objectives are presented in the text.
- Updated exercises, problems, and ATC cases.

Chapter 12 Job-Order, Process, and Hybrid Costing Systems

- Added video lectures and self-assessment quizzes for each learning objective.
- Revised learning objectives.
- New *Curious Accountant* feature.
- New *Focus on International Issues* feature.
- Reorganized exercises and problems to match the order in which learning objectives are presented in the text.
- Updated exercises, problems, and ATC cases.

Chapter 13 Financial Statement Analysis

- Added video lectures and self-assessment quizzes for each learning objective.
- Revised learning objectives.
- New *Curious Accountant* feature.
- Reorganized exercises and problems to match the order in which learning objectives are presented in the text.
- Updated exercises, problems, and ATC cases.

Chapter 14 Statement of Cash Flows

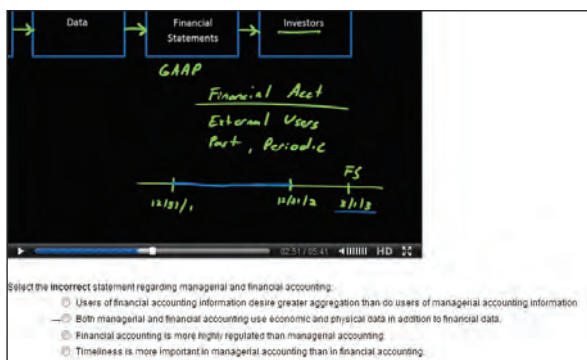
- Added video lectures and self-assessment quizzes for each learning objective.
- New *Curious Accountant* feature.
- Updated *Reality Bytes* feature.
- Reorganized exercises and problems to match the order in which learning objectives are presented in the text.
- Updated exercises, problems, and ATC cases.

HOW CAN TECHNOLOGY HELP



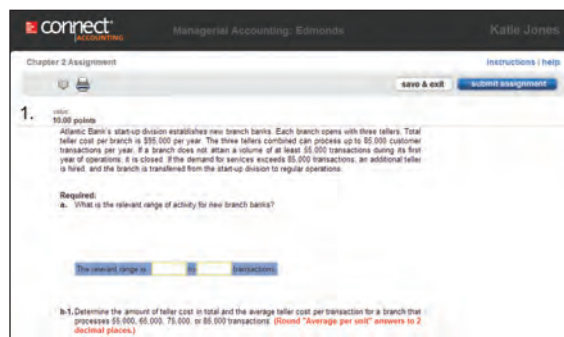
● McGRAW-HILL *CONNECT*[®] ACCOUNTING

McGraw-Hill *Connect*[®] Accounting is an online assignment and assessment solution that connects you with the tools and resources necessary to achieve success through faster learning, more efficient studying, and higher retention of knowledge.



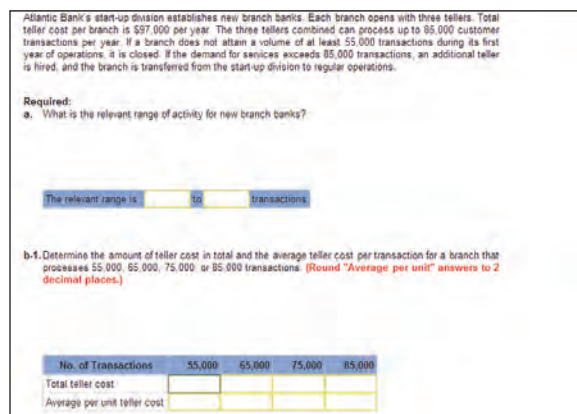
Lecture Videos

One or more lecture videos are available for every learning objective introduced throughout the text. The videos have been developed by a member of the author team and have the touch and feel of a live lecture. The videos are accompanied by a set of self-assessment quizzes. Students can watch the videos and then test themselves to determine if they understand the material presented in the video. Students can repeat the process, switching back and forth between the video and self-assessment quizzes, until they are satisfied that they understand the material.



Online Assignments

McGraw-Hill *Connect*[®] Accounting helps students learn more efficiently by providing feedback and practice material when and where they need it. *Connect*[®] Accounting grades homework automatically and students benefit from the immediate feedback that they receive, particularly on any questions they may have missed. Furthermore, algorithmic questions provide students with unlimited opportunities for practice.



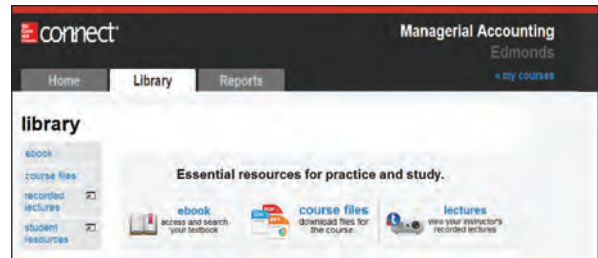
Intelligent Response Technology (IRT)

IRT is a redesigned student interface for our end-of-chapter assessment content. The benefits include improved answer acceptance to reduce students' frustration with formatting issues (such as rounding) and a general journal application that looks and feels more like what you would find in a general ledger software package. Also, select questions have been redesigned to test students' knowledge more fully. They now include tables for students to work through rather than requiring that all calculations be done offline.

IMPROVE STUDENT SUCCESS?

Student Library

The *Connect*[®] *Accounting* Student Library gives students access to additional resources such as recorded lectures, online practice materials, and a searchable, media-rich eBook, which students can use to highlight, take, and share notes and study assets from the Online Learning Center—all from one convenient location.



● MCGRAW-HILL *CONNECT*[®] *ACCOUNTING* FEATURES

Less Managing. More Teaching. Greater Learning.

McGraw-Hill *Connect*[®] *Accounting* offers a number of powerful tools and features to make managing assignments easier, so faculty can spend more time teaching. With *Connect*[®] *Accounting*, students can engage with their coursework anytime, anywhere, making the learning process more accessible and efficient.

McGraw-Hill *Connect*[®] *Accounting* for Instructors

Simple Assignment Management and Smart Grading

Connect[®] *Accounting* enables you to:

- Create and deliver assignments easily with selectable end-of-chapter questions and test bank items.
- Go paperless with the eBook and online submission and grading of student assignments.
- Have assignments scored automatically, giving students immediate feedback on their work and side-by-side comparisons with correct answers.
- Access and review each response; manually change grades or leave comments for students to review.
- Reinforce classroom concepts with practice tests and instant quizzes.

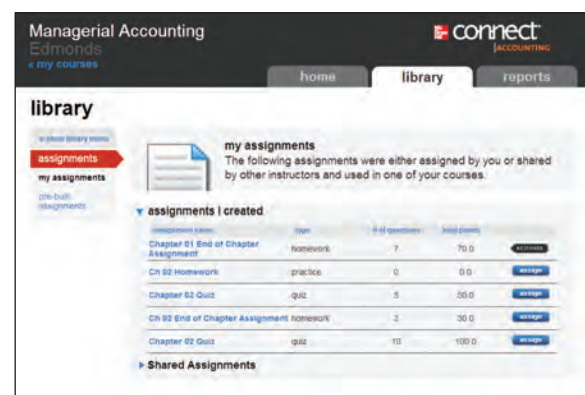
Instructor Library

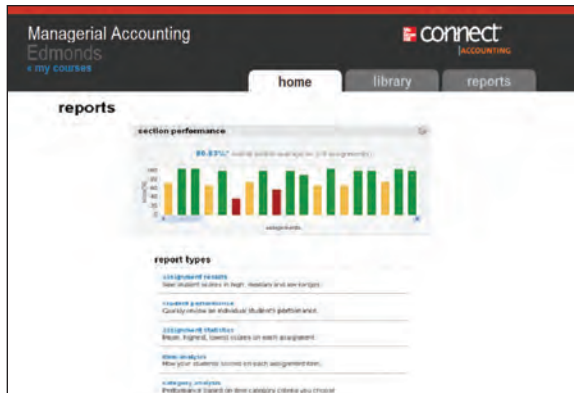
The *Connect*[®] *Accounting* Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture. The *Connect*[®] *Accounting* Instructor Library includes access to the textbook's:

- Solutions Manual
- Test Bank
- Instructor PowerPoint slides
- Instructor's Manual
- Solutions to Excel
- Text exhibits
- Media-rich eBook

“A well-designed textbook with a variety of in-class and online activities and practice problems. Also has a nice accompanying website that students can access. Clear examples, good Excel practice exercises, nice structure. The Instructor's Manual and the text are tightly integrated and well laid out (the instructor can easily and quickly choose practice activities for in-class assignments and homework).

KRISTEN BALL, DODGE CITY COMMUNITY COLLEGE

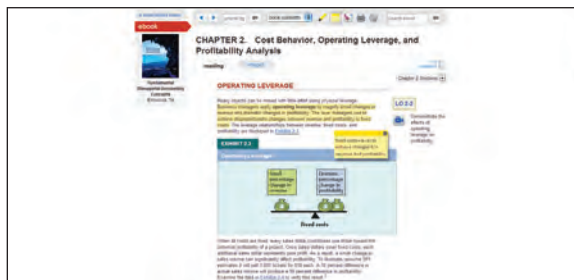




Student Reports

McGraw-Hill *Connect*[®] *Accounting* keeps instructors informed about how each student, section, and class is performing, allowing for more productive use of lecture and office hours. The Reports tab enables you to:

- View scored work immediately and track individual or group performance with assignment and grade reports.
- Access an instant view of student or class performance relative to learning objectives.
- Collect data and generate reports required by many accreditation organizations, such as the AACSB and AICPA.



McGraw-Hill *Connect*[®] *Plus Accounting*

McGraw-Hill reinvents the textbook learning experience for the modern student with *Connect*[®] *Plus Accounting*, which provides a seamless integration of the eBook and *Connect*[®] *Accounting*. *Connect*[®] *Plus Accounting* provides all of the *Connect*[®] *Accounting* features, as well as:

- An integrated eBook, allowing for anytime, anywhere access to the textbook.
- Dynamic links between the problems or questions you assign to your students and the location in the eBook where the concept related to that problem or question is covered.
- A powerful search function to pinpoint and connect key concepts in a snap.
- Highlighting, note-taking, and sharing, and other media-rich capabilities.

For more information about *Connect*[®] *Accounting*, go to www.mcgrawhillconnect.com, or contact your local McGraw-Hill sales representative.

● TEGRITY CAMPUS: LECTURES 24/7



Tegrity Campus, a new McGraw-Hill company, provides a service that makes class time available 24/7 by automatically capturing every lecture.

With a simple one-click start-and-stop process, you capture all computer screens and corresponding audio in a format that is easily searchable, frame by frame. Students can replay any part of any class with easy-to-use browser-based viewing on a PC or Mac, an iPod, or other mobile device. Educators know that the more students can see, hear, and experience class resources, the better they learn. In fact, studies prove it. Tegrity Campus' unique search feature helps students efficiently find what they need, when they need it, across an entire semester of class recordings. Help turn your students' study time into learning moments immediately supported by your lecture. With Tegrity Campus, you also increase intent

listening and class participation by easing students' concerns about note-taking. Lecture Capture will make it more likely you will see students' faces, not the tops of their heads.

To learn more about Tegrity, watch a two-minute Flash demo at <http://tegritycampus.mhhe.com>.

● **McGRAW-HILL CAMPUS™**

McGraw-Hill Campus™ is a new one-stop teaching and learning experience available to users of any learning management system. This institutional service allows faculty and students to enjoy single sign-on (SSO) access to all McGraw-Hill Higher Education materials, including the award-winning McGraw-Hill *Connect*® platform, from directly within the institution's website. McGraw-Hill Campus™ provides faculty with instant access to all McGraw-Hill Higher Education teaching materials (e.g., eTextbooks, test banks, PowerPoint slides, animations, and learning objects), allowing them to browse, search, and use any instructor ancillary content in our vast library. Students enjoy SSO access to a variety of free (e.g., quizzes) and subscription-based products (e.g., McGraw-Hill *Connect*®). With McGraw-Hill Campus™, faculty and students will never need to create another account to access McGraw-Hill products and services.

● **McGRAW-HILL CUSTOMER EXPERIENCE**

At McGraw-Hill, we understand that getting the most from new technology can be challenging. That's why our services don't stop after you purchase our book. You can e-mail our product specialists 24 hours a day, get product training online, or search our knowledge bank of Frequently Asked Questions on our support website. For Customer Support, call 800-331-5094 or visit www.mhhe.com/support. One of our Technical Support Analysts will assist you in a timely fashion. You also can take advantage of the new "Contact Publisher" link within *Connect*® Accounting.

● **McGRAW-HILL CREATE™**

Your course evolves over time. Shouldn't your course material? Customize your own high-quality, well-designed, full-color textbook in print or eBook format in a few simple steps at <http://create.mcgraw-hill.com>. Search thousands of textbooks, articles, and cases to rearrange, add, and/or remove content to better match the way you teach your course. You even can add your own material, such as a syllabus or handout. Personalize your book's appearance by selecting the cover and adding your name, school, and course information. Order a *Create*™ book and you'll receive a complimentary print review copy in three to five business days or a complimentary electronic review copy (eComp) via e-mail in about one hour.

INSTRUCTOR SUPPLEMENTS

Assurance of Learning Ready

Many educational institutions today are focused on the notion of assurance of learning, an important element of some accreditation standards. *Fundamental Managerial Accounting Concepts, 7e*, is designed specifically to support your assurance of learning initiatives with a simple, yet powerful, solution. Each test bank question for *Fundamental Managerial Accounting Concepts, 7e*, maps to a specific chapter learning outcome/objective listed in the text. You can use our test bank software, EZ Test, and *Connect*[®] to easily query for learning outcomes/objectives that directly relate to the learning objectives for your course. You can then use the reporting features of EZ Test and *Connect*[®] to aggregate student results in similar fashion, making the collection and presentation of assurance of learning data simple and easy.

AACSB Statement

The McGraw-Hill Companies, Inc., is a proud corporate member of AACSB International. Recognizing the importance and value of AACSB accreditation, we have sought to recognize the curricula guidelines detailed in AACSB standards for business accreditation by connecting selected questions in Edmonds 7e with the general knowledge and skill guidelines found in the AACSB standards. The statements contained in Edmonds 7e are provided only as a guide for the users of this text. The AACSB leaves content coverage and assessment clearly within the realm and control of individual schools, the mission of the school, and the faculty. The AACSB does also charge schools with the obligation of doing assessment against their own content and learning goals. While Edmonds 7e and its teaching package make no claim of any specific AACSB qualification or evaluation, we have labeled selected questions according to the six general knowledge and skills areas. The labels or tags within Edmonds 7e are as indicated. There are, of course, many more within the test bank, the text, and the teaching package which might be used as a “standard” for your course. However, the labeled questions are suggested for your consideration.

McGraw-Hill *Connect*[®] Accounting



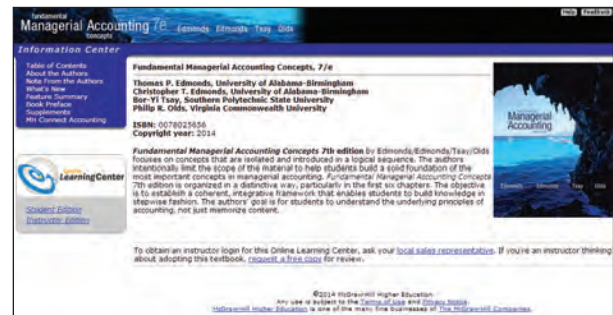
McGraw-Hill *Connect*[®] Accounting offers a number of powerful tools and features to make managing your classroom easier. *Connect*[®] Accounting with Edmonds 7e offers enhanced features and technology to help both you and your students make the most of your time inside and outside the classroom. See page xviii for more details.

Online Learning Center (www.mhhe.com/edmonds2014)

The password-protected instructor side of the book's Online Learning Center (OLC) houses all the instructor resources you need to administer your course, including:

- Solutions Manual
- Test Bank
- Instructor PowerPoint[®] slides
- Instructor's Manual
- Solutions to Excel
- Text exhibits
- Sample syllabus

If you choose to use *Connect*[®] Accounting with Edmonds 7e, you will have access to these same resources via the Instructor Library.



Instructor's Manual

This comprehensive manual includes step-by-step, explicit instructions on how the text can be used to implement teaching methods. The guide includes lesson plans and demonstration problems with student work papers, as well as solutions. Available on the password-protected Instructor side of the Online Learning Center and the *Connect*[®] Instructor Library.

STUDENT SUPPLEMENTS

Solutions Manual

Prepared by the authors, the solutions manual contains complete solutions to all the text's end-of-chapter review questions, exercises, problems, and cases. Available on the password-protected Instructor side of the Online Learning Center and the *Connect*[®] Instructor Library.

Excel Spreadsheet Templates

This resource includes solutions to spreadsheet problems found in the text end-of-chapter material.

Available on the password-protected Instructor side of the Online Learning Center and the *Connect*[®] Instructor Library.

PowerPoint Presentations

This resource includes a complete set of Instructor PowerPoints, following the chapter-by-chapter content.

Available on the password-protected Instructor side of the Online Learning Center and the *Connect*[®] Instructor Library.

Test Bank

This test bank contains multiple-choice questions, essay questions, and short problems. Each test item is coded for level of difficulty, learning objective, AACSB, AICPA, and Bloom's.

EZ Test Online

McGraw-Hill's EZ Test is a flexible electronic testing program. The program allows instructors to create tests from book-specific items. It accommodates a wide range of question types.



McGraw-Hill *Connect*[®] Accounting and *Connect*[®] Plus Accounting

McGraw-Hill *Connect*[®] Accounting helps prepare you for your future by enabling faster learning, more efficient studying, and higher retention of knowledge. See page xviii for more details.

CourseSmart



CourseSmart is a new way to find and buy eTextbooks. At Course-

Smart you can save up to 60 percent off the cost of a print textbook, reduce your impact on the environment, and gain access to powerful web tools for learning. CourseSmart has the largest selection of eTextbooks available anywhere, offering thousands of the most commonly adopted textbooks from a wide variety of higher education publishers. CourseSmart eTextbooks are available in one standard online reader with full text search, notes and highlighting, and e-mail tools for sharing notes between classmates.

Online Learning Center and *Connect*[®] Student Library

www.mhhe.com/edmonds2014

The Online Learning Center (OLC) and *Connect*[®] Student Library follow *Managerial Accounting* chapter by chapter, offering all kinds of supplementary help for you as you read. The following resources are available to help you study more efficiently:

- Online quizzes
- Student PowerPoint presentations
- Excel templates
- Check figures
- Review problems

Student PowerPoint Presentations

Presentation slides are located on the text's Online Learning Center and the *Connect*[®] Library.

Excel Templates

These templates are tied to selected end-of-chapter material and are designated in the text by the Excel icon.

McGraw-Hill's *Connect*[®] Accounting

See page xviii for details.

ACKNOWLEDGMENTS

Special thanks to the talented people who prepared the supplements. These take a great deal of time and effort to write and we appreciate their efforts. Molly Brown of James Madison University prepared the Test Bank. LuAnn Bean of Florida Institute of Technology prepared the PowerPoint presentations and the Instructor's Manual. Jack Terry of ComSource Associates prepared the Excel templates. We also thank our accuracy checkers, Kristine Palmer of Longwood University and Beth Woods of Accuracy Counts, for checking the text manuscript and solutions manual. We also thank Kristine Palmer for accuracy checking the PowerPoints, Instructor's Manual, and Test Bank.

We are deeply indebted to our brand manager, Donna Dillion. Her direction and guidance have added clarity and quality to the text. We especially appreciate the efforts of our developmental editor, Katie Jones. Katie has coordinated the exchange of ideas among our class testers, reviewers, and error checkers; she has done far more than simply pass along ideas. Our editors have certainly facilitated our efforts to prepare a book that will promote a meaningful understanding of accounting. Even so, their contributions are to no avail unless the text reaches its intended audience. We are most grateful to Kathleen Klehr and the sales staff for providing the informative marketing that has so accurately communicated the unique features of the concepts approach to accounting educators. Many others at McGraw-Hill/Irwin at a moment's notice redirected their attention to focus their efforts on the development of this text. We extend our sincere appreciation to Tim Vertovec, Diane Nowaczyk, Carol Bielski, Jana Singer, Pam Verros, Jeremy Cheshareck, Brian Nacik, and Ron Nelms. We deeply appreciate the long hours that you committed to the formation of a high-quality text.

Thomas P. Edmonds • Christopher T. Edmonds • Bor-Yi Tsay • Philip R. Olds

We express our sincere thanks to the following individuals who provided extensive reviews for the seventh edition:

Reviewers

Walter Austin, *Mercer University*

Kristen Ball, *Dodge City Community College*

Rebecca Barta, *Blinn College*

Kenneth Bronstein, *Western Washington University*

Georgia Buckles, *Manchester Community College*

Ron Collins, *Miami University*

Cheryl Corke, *Genesee Community College*

Wede Elliott-Brownell, *Southern University and A&M College*

Diane Eure, *Texas State University, San Marcos*

Bob Linn, *Western Washington University*

Mary Malina, *University of Colorado Denver*

Christina Williams, *Northeastern University*

Our appreciation to those who reviewed previous editions:

Jed Ashley, *Grossmont College*

Lisa Banks, *Mott Community College*

James Bates, *Mountain Empire Community College*

Frank Beigbeder, *Rancho Santiago College*

Daniel Benco, *Southeastern Oklahoma University*

Dorcas Berg, *Wingate College*

Ashton Bishop, *James Madison University*

Amy Bourne, *Tarrant County College*

Cassie Bradley, *Dalton State College*

Amy Browning, *Ivy Tech Community College*

Steve Buchheit, *Texas Tech University*

Jacqueline Burke, *Hofstra University*

Alan Campbell, *Troy University-Montgomery Campus*

Dennis Caplan, *Iowa State University*

Eric Carlsen, *Kean University*

Chiaho Chang, *Montclair State University*

Julie Chenier, *Louisiana State University*

Chak-Tong Chau, *University of Houston—Downtown*

Darlene Coarts, *University of Northern Iowa*

Sue Counte, *Jefferson College*

Rich Criscione, *Morehead State University*

Jill D'Aquila, *Iona College*

David Deeds, *University of Northern Iowa*

Naman Desai, *Florida State University—Tallahassee*

Walt Doehring, *Genesee Community College*

Patricia Douglas, *Loyola Marymount University*

Jan Duffy, *Iowa State University*

Dean Edmiston, *Emporia State University*

Terry Elliot, *Morehead State University*

Robert Elmore, *Tennessee Technological University*

James Emig, *Villanova University*

Robert Fahnestock, *University of West Florida*

Alana Ferguson, *Mott Community College*

Jeffrey Galbreath, *Greenfield Community College*

William Geary, *College of William and Mary*

Nashwa George, *Montclair State University*

John Goetz, *University of Texas Arlington*

Dinah Gottschalk, *James Madison University*

Donald Gribbin, *Southern Illinois University*

Richard Griffin, *The University of Tennessee at Martin*

Judith Harris, *Nova Southeastern University*

Larry Hegstad, *Pacific Lutheran University*

Aleecia Hibbets, *University of Louisiana at Monroe*

Lyle Hicks, *Danville Area Community College*

Jay Holmen, *University of Wisconsin at Eau Claire*

Robyn Jarnagin, *Montana State University—Bozeman*

Fred Jex, *Macomb Community College*

Shondra Johnson, *Bradley University*

Sheila Johnston, *University of Louisville, Louisville*

Marrk Kaiser, *SUNY at Plattsburg*

Thomas Klammer, *University of North Texas*

Lawrence Klein, *Bentley College*

Mehmet Kocakulah, *University of Southern Indiana*

Lynn Krausse, *Bakersfield College*

Robert Landry, *Massasoit Community College*

Chor Lau, *California State University at Los Angeles*

Mark Lawrence, *University of Alabama at Birmingham*

Deborah Lee, *Northeastern State University*

Chuo-Hsuan Lee, *SUNY Plattsburgh*

Minwoo Lee, *Western Kentucky University*

Elliott Levy, *Bentley College*

Bruce Lindsey, *Genesee Community College*

Philip Little, *Western Carolina University*

Julie Lockhart, *Western Washington University*

Cathy Lumbattis, *Southern Illinois University*

Anna L. Lusher, *Slippery Rock University*

Nancy Lynch, *West Virginia University—Morgantown*

Jeanette Maier-Lytle, *University of Southern Indiana*

Suneel Maheshwari, *Marshall University*

Lois Mahoney, *University of Central Florida*

David McIntyre, *Clemson University*

Pat McMahan, *Palm Beach Community College*

Florence McGovern, *Bergen Community College*

Brian McGuire, *University of Southern Indiana*

Pam Meyer, *University of Louisiana at Lafayette*

Michael Meyer, *Ohio University*

John Moore, *Virginia State University*

Arabian Morgan, *Orange Coast College*

Michelle Moshier, *SUNY at Albany*

Lisa Murawa, *Mott Community College*

Irvin Nelson, *Utah State University*

Bruce Neumann, *University of Colorado*

Hossein Nouri, *College of New Jersey*

Ashton Oravetz, *Tyler Junior College*

Chei Paik, *George Washington University*

Thomas Phillips, *Louisiana Tech University*

Marjorie Platt, <i>Northeastern University</i>	Nancy Ruhe, <i>West Virginia University, Morgantown</i>	Holly Sudano, <i>Florida State University</i>
Letitia Pleis, <i>Metropolitan State College of Denver</i>	Charles Russo, <i>Bloomsburg University of Pennsylvania</i>	Bill Talbot, <i>Montgomery College</i>
Emil Radosevich, <i>Albuquerque TVI Community College</i>	Marilyn Salter, <i>University of Central Florida</i>	Pavani Tallapally, <i>Slippery Rock University</i>
Ronald Reed, <i>University of Northern Colorado</i>	Angela Sandberg, <i>Jacksonville State University</i>	Suneel Udpa, <i>St. Mary's College</i>
Roy Regel, <i>University of Montana at Missoula</i>	Kathryn Savage, <i>Northern Arizona University</i>	Michael VanBreda, <i>Southern Methodist University</i>
Jane Reimers, <i>Florida State University</i>	John Shaver, <i>Louisiana Tech University</i>	Sharon T. Walters, <i>Morehead State University</i>
Celia Renner, <i>Boise State University</i>	Bob Smith, <i>Florida State University</i>	Scott Wandler, <i>University of New Orleans</i>
Gary Reynolds, <i>Ozark Technical Community College</i>	Walter Smith, <i>Siena College</i>	Dan Ward, <i>University of Louisiana, Lafayette</i>
Diane Riordan, <i>James Madison University</i>	John Sneed, <i>Jacksonville State University</i>	Anne Williams, <i>Gateway Community College</i>
Tom Robinson, <i>University of Alaska</i>	John Stancil, <i>Florida Southern College</i>	Sean Wright, <i>DeVry Institute of Technology, Phoenix</i>
Luther Ross, <i>Central Piedmont Community College</i>	Scott Steinkamp, <i>College of Lake County</i>	Allan Young, <i>DeVry Institute of Technology, Atlanta</i>
Harold Royer, <i>Miami-Dade College</i>	Patrick Stegman, <i>College of Lake County</i>	Ronald Zhao, <i>Monmouth University</i>
	Scott Stroher, <i>Glendale Community College</i>	Nan Zhou, <i>Binghamton University</i>

Many others have contributed directly or indirectly to the development of the text. Participants in workshops and focus groups have provided useful feedback. Colleagues and friends have extended encouragement and support. Among these individuals our sincere appreciation is extended to Lowell Broom, Samford University; Bill Schwartz, Home School of Technology Management; Ed Spede, Virginia Commonwealth University; Doug Cloud, Pepperdine University—Malibu; Charles Bailey, University of Memphis; Bob Holtfreter, Central Washington University; Kimberly Temme, Maryville University; Beth Vogel, Mount Mary College; Robert Minnear, Emory University; Shirish Seth, California State University at Fullerton; Richard Emery, Linfield College; Gail Hoover, Rockhurst; Bruce Robertson, Lock Haven University; Jeannie Folk, College of Dupage; Marvelyn Burnette, Wichita State University; Ron Mannino, University of Massachusetts; John Reisch, Florida Atlantic University; Rosalie Hallbauer, Florida International University; Lynne H. Shoaf, Belmont Abbey College; Jayne Maas, Towson University; Ahmed Goma, Manhattan College; John Rude, Bloomsburg University; Jack Paul, Lehigh University; Terri Gutierrez, University of Northern Colorado; Khondkar Karim, Monmouth University; Carol Lawrence, University of Richmond; Jeffrey Power, Saint Mary's University; Joanne Sheridan, Montana State University; and George Dow.

BRIEF CONTENTS

Chapter 1	Management Accounting and Corporate Governance 2
Chapter 2	Cost Behavior, Operating Leverage, and Profitability Analysis 54
Chapter 3	Analysis of Cost, Volume, and Pricing to Increase Profitability 106
Chapter 4	Cost Accumulation, Tracing, and Allocation 150
Chapter 5	Cost Management in an Automated Business Environment: ABC, ABM, and TQM 202
Chapter 6	Relevant Information for Special Decisions 252
Chapter 7	Planning for Profit and Cost Control 304
Chapter 8	Performance Evaluation 348
Chapter 9	Responsibility Accounting 398
Chapter 10	Planning for Capital Investments 442
Chapter 11	Product Costing in Service and Manufacturing Entities 484
Chapter 12	Job-Order, Process, and Hybrid Costing Systems 534
Chapter 13	Financial Statement Analysis 586
Chapter 14	Statement of Cash Flows 636
	<i>Appendix A Accessing the EDGAR Database through the Internet 692</i>
	<i>Glossary 693</i>
	<i>Photo Credits 701</i>
	<i>Index 702</i>

CONTENTS

Note from the Authors iv

Chapter 1 Management Accounting and Corporate Governance 2



Chapter Opening 2
Differences between Managerial and Financial Accounting 4

Users and Types of Information 4
Level of Aggregation 4
Regulation 5
Information Characteristics 5
Time Horizon and Reporting Frequency 5

Product Costing in Manufacturing Companies 5

Components of Product Cost 5
Tabor Manufacturing Company 6
Average Cost per Unit 6
Costs Can Be Assets or Expenses 7
Effect of Product Costs on Financial Statements 8
Overhead Costs: A Closer Look 11
Manufacturing Product Cost Summary 12

Upstream and Downstream Costs 13
Product Costing in Service and Merchandising Companies 13

Just-in-Time Inventory 14
Just-in-Time Illustration 14

Corporate Governance 16
The Motive to Manipulate 16
Statement of Ethical Professional Practice 18
The Fraud Triangle 18
Sarbanes–Oxley Act 20

A Look Back 22
A Look Forward 23
Appendix: Emerging Trends in Managerial Accounting 23
Self-Study Review Problem 25
Key Terms 27
Questions 27
Exercises—Series A 28
Problems—Series A 34
Exercises—Series B 38
Problems—Series B 44
Analyze, Think, Communicate 48
Comprehensive Problem 52

Chapter 2 Cost Behavior, Operating Leverage, and Profitability Analysis 54



Chapter Opening 54
Fixed Cost Behavior 56
Operating Leverage 56
Calculating Percentage Change 57
Risk and Reward Assessment 58
Variable Cost Behavior 58
Risk and Reward Assessment 58

Effect of Cost Structure on Profit Stability 59

An Income Statement under the Contribution Margin Approach 61

Using Fixed Cost to Provide a Competitive Operating Advantage 61

Measuring Operating Leverage Using Contribution Margin 62**Cost Behavior Summarized 63***Mixed Costs (Semivariable Costs) 64**The Relevant Range 65**Context-Sensitive Definitions of Fixed and Variable 65***Cost Averaging 66****Use of Estimates in Real-World Problems 68***High-Low Method of Estimating Fixed and Variable Costs 68**Scattergraph Method of Estimating Fixed and Variable Costs 69**Regression Method of Cost Estimation 72**Multiple Regression Analysis 73*

A Look Back 74

A Look Forward 74

Self-Study Review Problem 75

Key Terms 77

Questions 77

Exercises—Series A 77

Problems—Series A 83

Exercises—Series B 89

Problems—Series B 94

Analyze, Think, Communicate 101

Comprehensive Problem 105

**Chapter 3 Analysis of Cost, Volume, and Pricing to Increase Profitability 106****Chapter Opening 106****Determining the Break-Even Point 108***Equation Method 108**Contribution Margin per Unit Method 109**Contribution Margin Ratio Method 110**Determining the Sales Volume Necessary to Reach a Desired Profit 111***Cost-Volume-Profit Variables: How Independent Changes Impact Profitability 112***Assessing the Effects of Changes in Sales Price or Volume 112**Assessing the Effects of Changes in Variable Costs 113**Assessing the Effects of Changes in Fixed Costs 116**The Effect of Cost Structure on the Break-Even Point 116***Using the Cost-Volume-Profit Graph 117***Procedures for Drawing the CVP Graph 117***Calculating the Margin of Safety 118****Using Sensitivity Analysis to Examine How Simultaneous Changes among Cost-Volume-Profit Variables Impact Profitability 121***Perform Sensitivity Analysis Using Spreadsheet Software 121**Perform Sensitivity Analysis Using the Equation Method 122***Multiproduct Cost-Volume-Profit Analysis 123***Determining the Break-Even Point 123**Determining the Sales Volume Necessary to Reach a Desired Profit 124**Managing the Sales Mix 125*



Cost-Volume-Profit Limitations 127

- A Look Back 127
- A Look Forward 128
- Self-Study Review Problem 128
- Key Terms 130
- Questions 130

- Exercises—Series A 131
- Problems—Series A 134
- Exercises—Series B 138
- Problems—Series B 142
- Analyze, Think, Communicate 145
- Comprehensive Problem 149



Chapter 4 Cost Accumulation, Tracing, and Allocation 150

Chapter Opening 150

Determine the Cost of Cost Objects 152

- Estimated versus Actual Cost 152*
- Assignment of Costs to Objects in a Retail Business 152*
- Identifying Direct and Indirect Costs 153*
- Cost Classifications—Independent and Context Sensitive 154*

Allocating Indirect Costs to Objects 154

- Determining the Cost to Be Allocated Using Cost Pools 156*

Selecting the Cost Driver 157

- Cause and Effect versus Availability of Information 157*
- Behavioral Implications 159*
- Cost Drivers for Variable Overhead Costs 161*
- Cost Drivers for Fixed Overhead Costs 163*

Allocating Joint Costs 165

- Relative Sales Value as the Allocation Base 166*

The Human Factor: A Comprehensive Example 167

- Using Cost Allocations in a Budgeting Decision 167*
- Using Cost Drivers to Make Allocations 167*
- Choosing the Best Cost Driver 169*
- Controlling Emotions 169*

- A Look Back 169
- A Look Forward 170
- Appendix: Allocating Service Center Costs 170
- Self-Study Review Problem 176
- Key Terms 177
- Questions 177
- Exercises—Series A 178
- Problems—Series A 183
- Exercises—Series B 187
- Problems—Series B 192
- Analyze, Think, Communicate 196
- Comprehensive Problem 200



Chapter 5 Cost Management in an Automated Business Environment: ABC, ABM, and TQM 202

- Chapter Opening 202**
- Development of a Single Companywide Cost Driver 204**

- Effects of Automation on Selecting a Cost Driver 205*
- Activity-Based Cost Drivers 205*

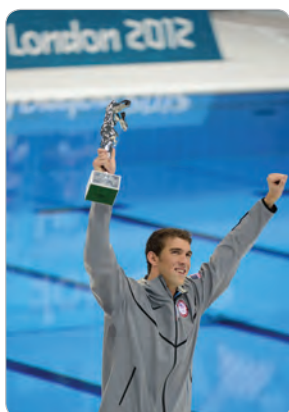
<i>Activity-Based Cost Drivers Enhance Relevance</i>	206	<i>Downstream Costs and Upstream Costs</i>	214
Activity-Based Costing	207	<i>Employee Attitudes and the Availability of Data</i>	216
<i>Identifying Activity Centers</i>	207	Total Quality Management	216
<i>Comparing ABC with Traditional Cost Allocation</i>	207	<i>Minimizing Total Quality Cost</i>	216
<i>Types of Production Activities</i>	208	<i>Quality Cost Reports</i>	218
<i>Unit-Level Activity Center</i>	208	A Look Back	219
<i>Batch-Level Activity Center</i>	209	A Look Forward	220
<i>Product-Level Activity Center</i>	210	Self-Study Review Problem	221
<i>Facility-Level Activity Center</i>	211	Key Terms	223
<i>Classification of Activities Not Limited to Four Categories</i>	212	Questions	223
<i>Context-Sensitive Classification of Activities</i>	212	Exercises—Series A	224
<i>Selecting Cost Drivers</i>	212	Problems—Series A	229
Using ABC Information to Trace Costs to Product Lines	213	Exercises—Series B	235
<i>Under- and Overcosting</i>	214	Problems—Series B	240
		Analyze, Think, Communicate	245
		Comprehensive Problem	251



Chapter 6 Relevant Information for Special Decisions 252

Chapter Opening	252	Relevant Information and Special Decisions	257
Relevant Information	254	<i>Special Order Decisions</i>	258
<i>Sunk Cost</i>	254	<i>Outsourcing Decisions</i>	260
<i>Opportunity Costs</i>	254	<i>Segment Elimination Decisions</i>	263
<i>Relevance Is an Independent Concept</i>	255	<i>Summary of Relationships between Avoidable Costs and the Hierarchy of Business Activity</i>	266
<i>Relevance Is Context Sensitive</i>	255	<i>Equipment Replacement Decisions</i>	266
<i>Relationship between Relevance and Accuracy</i>	255	A Look Back	267
<i>Quantitative versus Qualitative Characteristics of Decision Making</i>	256	A Look Forward	268
<i>Differential Revenue and Avoidable Cost</i>	256	Appendix: Short-Term versus Long-Term Goals	268
<i>Relationship of Cost Avoidance to a Cost Hierarchy</i>	256	Self-Study Review Problem	271
		Key Terms	274

Questions	274	Problems—Series B	293
Exercises—Series A	275	Analyze, Think, Communicate	298
Problems—Series A	281	Comprehensive Problem	303
Exercises—Series B	287		



Chapter 7 Planning for Profit and Cost Control 304

Chapter Opening	304	Pro Forma Financial Statements	317
The Planning Process	306	<i>Pro Forma Income Statement</i>	317
<i>Three Levels of Planning for Business Activity</i>	306	<i>Pro Forma Balance Sheet</i>	318
<i>Advantages of Budgeting</i>	307	<i>Pro Forma Statement of Cash Flows</i>	318
<i>Budgeting and Human Behavior</i>	307	A Look Back	319
<i>The Master Budget</i>	308	A Look Forward	320
Hampton Hams Budgeting Illustration	309	Self-Study Review Problem	320
<i>Sales Budget</i>	309	Key Terms	322
<i>Inventory Purchases Budget</i>	311	Questions	322
<i>Selling and Administrative Expense Budget</i>	313	Exercises—Series A	323
<i>Cash Budget</i>	315	Problems—Series A	328
		Exercises—Series B	332
		Problems—Series B	338
		Analyze, Think, Communicate	341
		Comprehensive Problem	346



Chapter 8 Performance Evaluation 348

Chapter Opening	348	<i>The Human Element Associated with Flexible Budget Variances</i>	355
Preparing Flexible Budgets	350	Fixed Cost Variances	355
Determining Variances for Performance Evaluation	351	<i>Fixed Cost Spending Variance</i>	355
Sales and Variable Cost Volume Variances	352	<i>Fixed Cost Volume Variance</i>	356
<i>Interpreting the Sales and Variable Cost Volume Variances</i>	352	Standard Cost Systems	357
<i>Fixed Cost Considerations</i>	353	<i>Establishing Standards</i>	358
Flexible Budget Variances	353	<i>Selecting Variances to Investigate</i>	359
<i>Calculating the Sales Price Variance</i>	354	<i>Avoiding Gamesmanship</i>	360

Price and Usage Variances 361*Calculating Materials Price and Usage Variances 362**Calculating Labor Variances 364**Variable Overhead Variances 366**Selling, General, and Administrative Cost Variances 366*

A Look Back 367

A Look Forward 368

Self-Study Review Problem 368

Key Terms 370

Questions 370

Exercises—Series A 371

Problems—Series A 376

Exercises—Series B 381

Problems—Series B 386

Analyze, Think, Communicate 391

Comprehensive Problem 397

**Chapter 9 Responsibility Accounting 398**

Chapter Opening 398

Decentralization Concept 400

*Organization Chart 400**Responsibility Centers 400**Responsibility Reports 401**Management by Exception 401*

Return on Investment 405

*Qualitative Considerations 405**Measuring Operating Assets 406**Factors Affecting Return on Investment 407*

Residual Income 409

*Calculating Multiple ROIs and/or RIs for the Same Company 411**Responsibility Accounting and the Balanced Scorecard 411*

A Look Back 412

A Look Forward 413

Appendix: Transfer Pricing 413

Self-Study Review Problem 416

Key Terms 418

Questions 418

Exercises—Series A 419

Problems—Series A 423

Exercises—Series B 428

Problems—Series B 432

Analyze, Think, Communicate 437

Comprehensive Problem 441

**Chapter 10 Planning for Capital Investments 442**

Chapter Opening 442

Capital Investment

Decisions 444

*Time Value of Money 444**Determining the Minimum Rate of Return 444**Converting Future Cash Inflows to Their Equivalent Present Values 445*

Techniques for Analyzing Capital Investment Proposals 449

*Net Present Value 449**Internal Rate of Return 450*

Techniques for Measuring Investment Cash Flows 451

*Cash Inflows 451**Cash Outflows 452*

Techniques for Comparing Alternative Capital Investment Opportunities 452

Net Present Value 452
Internal Rate of Return 454
Relevance and the Time Value of Money 456
Tax Considerations 457

Techniques that Ignore the Time Value of Money 458

Payback Method 458
Unadjusted Rate of Return 459

Real-World Reporting Practices 460**Postaudits 461**

A Look Back 461
 A Look Forward 462
 Appendix 462
 Self-Study Review Problem 463
 Key Terms 464
 Questions 464
 Exercises—Series A 465
 Problems—Series A 469
 Exercises—Series B 472
 Problems—Series B 476
 Analyze, Think, Communicate 479
 Comprehensive Problem 483

**Chapter 11 Product Costing in Service and Manufacturing Entities 484****Chapter Opening 484****Cost Flow in Manufacturing Companies 486****Cost Flow in Service Companies 486****Manufacturing Cost Flow Illustrated 487**

Events Affecting Manufacturing Cost Flow in January 487
Flow of Overhead Costs 490
Manufacturing Overhead Account 490
Summary of January Events 494
Manufacturing Cost Flow Events for February through December 495
Analyzing Underapplied Overhead 496

Preparing the Schedule of Cost of Goods Manufactured and Sold 498**Financial Statements 499****Motive to Overproduce 500**

Absorption Costing versus Variable Costing 500
Variable Costing 501

A Look Back 502**A Look Forward 503****Self-Study Review Problem 503****Key Terms 504****Questions 505****Exercises—Series A 505****Problems—Series A 511****Exercises—Series B 517****Problems—Series B 523****Analyze, Think, Communicate 529****Comprehensive Problem 533**



Chapter 12 Job-Order, Process, and Hybrid Costing Systems 534

Chapter Opening 534

Costing Systems 536

Costing Systems and Type of Product 536

Job-Order Cost Flow 536

Process Cost Flow 537

Hybrid Accounting Systems 538

Documentation in a Job-Order Costing System 538

Job-Order Costing System Illustrated 540

Process Costing System Illustrated 547

A Look Back 558

A Look Forward 558

Self-Study Review Problems 558

Key Terms 560

Questions 560

Exercises—Series A 561

Problems—Series A 565

Exercises—Series B 570

Problems—Series B 575

Analyze, Think, Communicate 579

Comprehensive Problem 584



Chapter 13 Financial Statement Analysis 586

Chapter Opening 586

Factors in Communicating Useful Information 588

The Users 588

The Types of Decisions 588

Information Analysis 588

Methods of Analysis 588

Horizontal Analysis 589

Vertical Analysis 591

Ratio Analysis 592

Objectives of Ratio Analysis 592

Measures of Debt-Paying Ability 593

Liquidity Ratios 593

Solvency Ratios 597

Measures of Profitability 599

Measures of Managerial Effectiveness 599

Stock Market Ratios 601

Limitations of Financial Statement Analysis 604

Different Industries 604

Changing Economic Environment 605

Accounting Principles 605

A Look Back 606

A Look Forward 606

Self-Study Review Problem 607

Key Terms 609

Questions 609

Exercises—Series A 609

Problems—Series A 614

Exercises—Series B 620

Problems—Series B 625

Analyze, Think, Communicate 631





Chapter 14 Statement of Cash Flows 636

Chapter Opening 636

An Overview of the Statement
of Cash Flows 638

Operating Activities 638

Investing Activities 639

Financing Activities 639

*Noncash Investing and Financing
Activities* 640

*Reporting Format for the
Statement of Cash Flows* 640

Preparing a Statement of Cash
Flows 641

Preparing the Operating Activities
Section of a Statement of Cash Flows
Using the Indirect Method 642

*Indirect Method—Reconciliation
Approach* 644

*Indirect Method—Rule-Based
Approach* 648

Preparing the Operating Activities
Section of a Statement of Cash Flows
Using the Direct Method 651

Preparing the Investing Activities
Section of a Statement of Cash
Flows 652

*Reconciliation of Investment
Securities* 652

*Reconciliation of Store
Fixtures* 653

Reconciliation of Land 653

Preparing the Financing Activities
Section of a Statement of Cash
Flows 654

*Reconciliation of Mortgage
Payable* 655

*Reconciliation of Bonds
Payable* 655

*Reconciliation of Common
Stock* 656

*Reconciliation of Retained
Earnings* 656

*Reconciliation of Treasury
Stock* 656

Preparing the Schedule of
Noncash Investing and Financing
Activities 659

Cash Flow versus Net Income in
Real-World Companies 659

A Look Back 662

Self-Study Review Problem 662

Key Terms 664

Questions 665

Exercises—Series A 665

Problems—Series A 670

Exercises—Series B 676

Problems—Series B 680

Analyze, Think, Communicate 686

Appendix A Accessing the EDGAR Database
through the Internet 692

Glossary 693

Photo Credits 701

Index 702