

GLOBAL  
EDITION



# Managerial Accounting

FOURTH EDITION

Karen Wilken Braun • Wendy M. Tietz



ALWAYS LEARNING

PEARSON

# Managerial Accounting



Global Edition

Fourth Edition

**Karen Wilken Braun, PhD, CPA, CGMA**

Case Western Reserve University

**Wendy M. Tietz, PhD, CPA, CGMA, CMA**

Kent State University

**PEARSON**

Boston Columbus Indianapolis New York San Francisco Upper Saddle River  
Amsterdam Cape Town Dubai London Madrid Milan Munich Paris Montréal Toronto  
Delhi Mexico City São Paulo Sydney Hong Kong Seoul Singapore Taipei Tokyo

# Managerial Accounting, Global Edition

## Table of Contents

Cover

Brief Contents

Contents

### Chapter 1: Introduction to Managerial Accounting

#### What is Managerial Accounting?

- Managers' Three Primary Responsibilities

- A Road Map: How Managerial Accounting Fits In

- Differences Between Managerial Accounting and Financial Accounting

#### What Role do Management Accountants Play?

- Organizational Structure

- The Changing Roles of Management Accountants

- The Skills Required of Management Accountants

- Professional Associations

- Average Salaries of Management Accountants

- Ethics

- Examples of Ethical Dilemmas

#### What Regulatory Issues Affect Management Accounting?

- Sarbanes-Oxley Act of 2002

- International Financial Reporting Standards (IFRS)

- Extensible Business Reporting Language (XBRL)

#### What Business Trends Affect Management Accounting?

- Sustainability, Social Responsibility, and the Triple Bottom Line

- Integrated Reporting

- Shifting Economy

- Global Marketplace

- Advanced Information Systems

- Lean Operations

- Total Quality Management

#### End of Chapter

- Accounting Vocabulary

- Quick Check



# **Table of Contents**

Exercises: Group A  
Exercises: Group B  
Problems: Group A  
Problems: Group B  
Critical Thinking  
Application & Analysis  
Try It Solutions

## **Chapter 2: Building Blocks of Managerial Accounting**

### **What are the Most Common Business Sectors and their Activities?**

Service, Merchandising, and Manufacturing Companies  
Which Business Activities Make up the Value Chain?  
Coordinating Activities Across the Value Chain

### **How do Companies Define Cost?**

Cost Objects, Direct Costs, and Indirect Costs  
Costs for Internal Decision Making and External Reporting  
Merchandising Companies' Inventoriable Product Costs  
Manufacturing Companies Inventoriable Product Costs  
Prime and Conversion Costs  
Additional Labor Compensation Costs  
Recap: Inventoriable Product Costs Versus Period Costs

### **How are Inventoriable Product Costs and Period Costs Shown in the Financial Statements?**

Service Companies  
Merchandising Companies  
Manufacturing Companies  
Comparing Balance Sheets  
Sustainability and Corporate Reporting

### **What Other Cost Terms are Used by Managers?**

Controllable Versus Uncontrollable Costs  
Relevant and Irrelevant Costs  
Fixed and Variable Costs  
How Manufacturing Costs Behave  
Calculating Total and Average Costs

### **End of Chapter**

Accounting Vocabulary  
Quick Check

# **Table of Contents**

Exercises: Group A

Exercises: Group B

Problems: Group A

Problems: Group B

Critical Thinking

Application & Analysis

## **Chapter 3: Job Costing**

**What Methods are Used to Determine the Cost of Manufacturing a Product?**

Process Costing

Job Costing

**How do Manufacturers Determine a Job's Cost?**

Overview: Flow of Inventory Through a Manufacturing System

Scheduling Production

Purchasing Raw Materials

Using a Job Cost Record to Accumulate Job Costs

Tracing Direct Materials Cost to a Job

Tracing Direct Labor Cost to a Job

Allocating Manufacturing Overhead to a Job

Completing the Job Cost Record and Using it to Make Business Decisions

**How Can Job Costing Information be Enhanced for Decision Making?**

Non-Manufacturing Costs

Direct or Variable Costing

**How do Managers Deal with Underallocated or Overallocated Manufacturing Overhead?**

**What Journal Entries are Needed in a Manufacturer's Job Costing System?**

**Appendix 3A**

**How do Service Firms Use Job Costing to Determine the Amount to Bill Clients?**

What Costs are Considered Direct Costs of Serving the Client?

What Costs are Considered Indirect Costs of Serving the Client?

Finding the Total Cost of the Job and Adding a Profit Markup

Invoicing the Client Using a Professional Billing Rate

What Journal Entries are Needed in a Service Firm's Job Costing System?

**End of Chapter**

Accounting Vocabulary

Quick Check

# **Table of Contents**

Exercises: Group A

Exercises: Group B

Problems: Group A

Problems: Group B

Critical Thinking

Application & Analysis

## **Chapter 4: Activity-Based Costing, Lean Operations, and the Costs of Quality**

### **Why and How do Companies Refine their Cost Allocation Systems?**

Simple Cost Allocation Systems Can Lead to Cost Distortion

Review: Using a Plantwide Overhead Rate to Allocate Indirect Costs

Using Departmental Overhead Rates to Allocate Indirect Costs

Using Activity-Based Costing to Allocate Indirect Costs

### **How do Managers Use the Refined Cost Information to Improve Operations?**

Activity-Based Management (ABM)

Passing the Cost-Benefit Test

### **What is Lean Thinking?**

The Eight Wastes of Traditional Operations

Characteristics of Lean Operations

Lean Operations in Service and Merchandising Companies

### **How do Managers Improve Quality?**

Costs of Quality (COQ)

Relationship Among Costs

Using Costs of Quality Reports to Aid Decisions

### **End of Chapter**

Accounting Vocabulary

Quick Check

Exercises: Group A

Exercises: Group B

Problems: Group A

Problems: Group B

Critical Thinking

Application & Analysis

## **Chapter 5: Process Costing**

### **Process Costing: An Overview**

Two Basic Costing Systems: Job Costing and Process Costing

How does the Flow of Costs Differ Between Job and Process Costing?

# **Table of Contents**

## **What are the Building Blocks of Process Costing?**

Conversion Costs

Equivalent Units

Inventory Flow Assumptions

## **How Does Process Costing Work in the First Processing Department?**

Step 1: Summarize the Flow of Physical Units

Step 2: Compute Output in Terms of Equivalent Units

Step 3: Summarize Total Costs to Account For

Step 4: Compute the Cost per Equivalent Unit

Step 5: Assign Total Costs to Units Completed and to Units in Ending Work in Process

Inventory

Average Unit Costs

## **What Journal Entries are Needed in a Process Costing System?**

## **How does Process Costing Work in a Second or Later Processing Department?**

Process Costing in SeaView's Insertion Department

Steps 1 and 2: Summarize the Flow of Physical Units and Compute Output in Terms of  
Equivalent Units

Steps 3 and 4: Summarize Total Costs to Account for and Compute the Cost per Equivalent  
Unit

Step 5: Assign Total Costs to Units Completed and to Units in Ending Work in Process

Inventory

Unit Costs and Gross Profit

Production Cost Reports

Journal Entries in a Second Processing Department

## **End of Chapter**

Accounting Vocabulary

Quick Check

Exercises: Group A

Exercises: Group B

Problems: Group A

Problems: Group B

Critical Thinking

Application & Analysis

## **Chapter 6: Cost Behavior**

### **Cost Behavior: How do Changes in Volume Affect Costs?**

Variable Costs

Fixed Costs

# **Table of Contents**

Mixed Costs

Relevant Range

Other Cost Behaviors

## **How do Managers Determine Cost Behavior?**

Account Analysis

Scatter Plots

High-Low Method

Regression Analysis

Data Concerns

## **What are the Roles of Variable Costing and the Contribution Margin Income Statement?**

Comparing Absorption Costing and Variable Costing

The Contribution Margin Income Statement

Comparing Operating Income: Variable Versus Absorption Costing

Reconciling Operating Income Between the Two Costing Systems

## **End of Chapter**

Accounting Vocabulary

Quick Check

ExercisesGroup A

Exercises: Group B

Problems: Group A

Problems: Group B

Critical Thinking

Application & Analysis

Try It Solutions

## **Chapter 7: Cost-Volume-Profit Analysis**

### **How Does Cost-Volume-Profit Analysis Help Managers?**

Data and Assumptions Required for CVP Analysis

The Unit Contribution Margin

The Contribution Margin Ratio

### **How do Managers Find the Breakeven Point?**

The Income Statement Approach

The Shortcut Approach Using the Unit Contribution Margin

The Shortcut Approach Using the Contribution Margin Ratio

### **How do Managers Find the Volume Needed to Earn a Target Profit?**

How Much Must we Sell to Earn a Target Profit?



# **Table of Contents**

Graphing CVP Relationships

How do Managers Use CVP to Plan for Changing Business Conditions?

Changing the Sales Price

Changing Variable Costs

Changing More Than One Factor

Changing Fixed Costs

Changing the Mix of Products Offered for Sale

What are Some Common Indicators of Risk?

Margin of Safety

Operating Leverage

Choosing a Cost Structure

End of Chapter

Accounting Vocabulary

Quick Check

Exercises: Group A

Exercises: Group B

Problems: Group A

Problems: Group B

Critical Thinking

Application & Analysis

Try It Solutions

## **Chapter 8: Relevant Costs for Short-Term Decisions**

How do Managers Make Decisions?

Relevant Information

Relevant Nonfinancial Information

Keys to Making Short-Term Special Decisions

How do Managers Make Special Order and Regular Pricing Decisions?

Special Order Decisions

Regular Pricing Decisions

How do Managers Make Other Special Business Decisions?

Decisions to Discontinue Products, Departments, or Stores

Product Mix Decisions when Resources are Constrained

Outsourcing Decisions (Make or Buy)

Decisions to Sell As Is or Process Further

End of Chapter

Accounting Vocabulary

# Table of Contents

Quick Check  
Exercises: Group A  
Exercises: Group B  
Problems: Group A  
Problems: Group B  
Critical Thinking  
Application & Analysis  
Try It Solutions

## Chapter 9: The Master Budget

### How and Why do Managers Use Budgets?

How are Budgets Used?  
How are Budgets Developed?  
What are the Benefits of Budgeting?  
What is the Master Budget?

### How are the Operating Budgets Prepared?

Sales Budget  
Production Budget  
Direct Materials Budget  
Direct Labor Budget  
Manufacturing Overhead Budget  
Operating Expenses Budget  
Budgeted Income Statement

### How are the Financial Budgets Prepared?

Capital Expenditures Budget  
Cash Collections Budget  
Cash Payments Budget  
Combined Cash Budget  
Budgeted Balance Sheet  
Sensitivity Analysis and Flexible Budgeting

### How do the Budgets for Service and Merchandising Companies Differ?

Service Companies  
Merchandising Companies  
Impact of Credit and Debit Card Sales on Budgeting

### End of Chapter

Accounting Vocabulary  
Quick Check

# **Table of Contents**

Exercises: Group A

Exercises: Group B

Problems: Group A

Problems: Group B

Critical Thinking

Application & Analysis

## **Chapter 10: Performance Evaluation**

### **How Does Decentralization Affect Performance Evaluation?**

Advantages and Disadvantages of Decentralization

Performance Evaluation Systems

### **What is Responsibility Accounting?**

Types of Responsibility Centers

Responsibility Center Performance Reports

Evaluation of Investment Centers

### **What is Transfer Pricing?**

Strategies and Mechanisms for Determining a Transfer Price

### **How do Managers Use Flexible Budgets to Evaluate Performance?**

Creating a Flexible Budget Performance Report

Underlying Causes of the Variances

### **How do Companies Incorporate Nonfinancial Performance Measurement?**

The Balanced Scorecard

### **End of Chapter**

Accounting Vocabulary

Quick Check

Exercises: Group A

Exercises: Group B

Problems: Group A

Problems: Group B

Critical Thinking

Application & Analysis

Try It Solutions

## **Chapter 11: Standard Costs and Variances**

### **What are Standard Costs?**

Types of Standards

Information Used to Develop and Update Standards

Computing Standard Costs

# **Table of Contents**

## **How do Managers Use Standard Costs to Compute DM and DL Variances?**

- Using Standard Costs to Develop the Flexible Budget
- Direct Materials Variances
- Direct Labor Variances
- Summary of Direct Materials and Direct Labor Variances
- Advantages and Disadvantages of Using Standard Costs and Variances

## **How do Managers Use Standard Costs to Compute MOH Variances?**

- Variable Manufacturing Overhead Variances
- Fixed Manufacturing Overhead Variances
- Standard Costing Systems

## **Appendix 11A**

### **Standard Costing**

- Standard Costing Income Statement

### **End of Chapter**

- Accounting Vocabulary
- Quick Check
- Exercises: Group A
- Exercises: Group B
- Problems: Group A
- Problems: Group B
- Critical Thinking
- Application & Analysis

## **Chapter 12: Capital Investment Decisions and the Time Value of Money**

### **What is Capital Budgeting?**

- Four Popular Methods of Capital Budgeting Analysis
- Focus on Cash Flows
- Capital Budgeting Process

### **How do Managers Calculate the Payback Period and Accounting Rate of Return?**

- Payback Period
- Accounting Rate of Return (ARR)

### **How do Managers Compute the Time Value of Money?**

- Factors Affecting the Time Value of Money
- Future Values and Present Values: Points Along the Time Continuum
- Future Value and Present Value Factors
- Calculating Future Values of Single Sums and Annuities Using FV Factors

# **Table of Contents**

Calculating Present Values of Single Sums and Annuities Using PV Factors

How do Managers Calculate the Net Present Value and Internal Rate of Return?

Net Present Value (NPV)

Internal Rate of Return (IRR)

How do the Capital Budgeting Methods Compare?

Appendix 12A

Present Value Tables and Future Value Tables

Table A Present Value of \$1

Table B Present Value of Annuity of \$1

Table C Future Value of \$1

Table D Future Value of Annuity of \$1

Appendix 12B

Solutions to Chapter Examples Using Microsoft Excel

Appendix 12C

Using a TI-83, TI-83 Plus, TI-84, or TI-84 Plus Calculator to Perform Time Value of Money Calculations

End of Chapter

Accounting Vocabulary

Quick Check

Exercises: Group A

Exercises: Group B

Problems: Group A

Problems: Group B

Critical Thinking

Application & Analysis

Try It Solutions

## **Chapter 13: Statement of Cash Flows**

What is the Statement of Cash Flows?

Three Types of Activities That Generate and Use Cash

Two Methods of Presenting Operating Activities

How is the Statement of Cash Flows Prepared Using the Indirect Method?

Information Needed to Prepare the Statement of Cash Flows

Preparing the Cash Flows from Operating Activities

Preparing the Cash Flows from Investing Activities

Preparing the Cash Flows from Financing Activities

Interpreting the Statement of Cash Flows



# **Table of Contents**

Recap: Steps to Preparing the Statement of Cash Flows Using the Indirect Method

How is the Statement of Cash Flows Prepared Using the Direct Method?

Overview

Determining Cash Payments and Receipts

End of Chapter

Accounting Vocabulary

Quick Check

Exercises: Group A

Exercises: Group B

Problems: Group A

Problems: Group B

Critical Thinking

Application & Analysis

Try It Solutions

## **Chapter 14: Financial Statement Analysis**

What are the Most Common Methods of Analysis?

Horizontal Analysis

Horizontal Analysis of the Income Statement

Horizontal Analysis of the Balance Sheet

Trend Percentages

Vertical Analysis

How do we Compare One Company with Another?

What are Some of the Most Common Financial Ratios?

Measuring Ability to Pay Current Liabilities

Measuring Ability to Sell Inventory and Collect Receivables

Measuring Ability to Pay Long-Term Debt

Measuring Profitability

Analyzing Stock Investments

Red Flags in Financial Statement Analysis

End of Chapter

Accounting Vocabulary

Quick Check

Exercises: Group A

Exercises: Group B

Problems: Group A

Problems: Group B

# **Table of Contents**

Critical Thinking

Application & Analysis

Try It Solutions

## **Chapter 15: Sustainability**

What is Sustainability and How Does it Create Business Value?

Historical Overview

The Business Case for Sustainability

What is Sustainability Reporting?

Current State of Sustainability Reporting

Reasons for Sustainability Reporting

Framework for Sustainability Reporting

What is Environmental Management Accounting (EMA)?

EMA Systems

Uses of Environmental Management Accounting Information

Challenges to Implementing EMA Systems

Future of Environmental Management Accounting

End of Chapter

Accounting Vocabulary

Quick Checks

Exercises: Group A

Exercises: Group B

Problems: Group A

Problems: Group B

Critical Thinking

Application & Analysis

Try It Solutions

Company Names Index

Glossary/Index