

Analyzing Cost Data for Management

Table of Contents

| | |
|--|-----------|
| Chapter 1 – Introduction to Management Accounting..... | 1 |
| Learning Objectives | 1 |
| Nature and Scope of Management Accounting..... | 1 |
| Financial vs. Management Accounting | 1 |
| Cost vs. Management Accounting..... | 2 |
| Management Function | 2 |
| Cost Accounting Standards Board | 4 |
| Management Accounting Philosophies..... | 5 |
| Total Quality Management..... | 5 |
| Continuous Improvement..... | 6 |
| Business Process Reengineering..... | 6 |
| Corporate Balanced Scorecard | 6 |
| Theory of Constraints..... | 6 |
| Professional Certifications..... | 6 |
| Certified Management Accountant | 6 |
| Certified in Strategy and Competitive Analysis | 7 |
| Summary | 8 |
| Review Questions..... | 9 |
| Review Answers | 10 |
| Chapter 2 – Cost Classifications and Profit Concepts..... | 13 |
| Learning Objectives | 13 |
| Introduction..... | 13 |
| Cost Classifications..... | 13 |
| Management Function | 14 |
| Timing of Charge Against Revenue..... | 14 |
| Ease of Traceability | 15 |
| You Should Remember..... | 15 |
| Behavior Patterns | 17 |
| Degree of Averaging | 17 |
| Relevance to Planning, Control, and Decision Making..... | 18 |
| Merchandising vs. Manufacturing Organizations | 20 |
| Contribution Income Statement..... | 23 |
| Summary | 24 |
| Review Questions..... | 25 |
| Review Answers | 27 |
| Chapter 3 – Job Order Costing | 29 |
| Learning Objectives | 29 |
| Introduction..... | 29 |
| Job Order vs. Process Costing..... | 29 |
| Overhead Application..... | 32 |
| Key Concepts | 32 |
| Plant-Wide vs. Departmental Overhead Rates | 34 |
| Comprehensive Illustration..... | 37 |
| Summary | 41 |
| Review Questions..... | 42 |
| Review Answers | 43 |
| Chapter 4 – Overhead Allocation..... | 45 |
| Learning Objectives | 45 |
| Introduction..... | 45 |
| Weakness in Traditional Methods | 45 |
| Impact of Technological Change | 45 |
| Single-Product vs. Multiple-Product Situation | 46 |

Table of Contents

| | |
|---|-----------|
| Case Study: Limitation of Traditional Methods..... | 46 |
| Activity-Based Costing | 50 |
| Practices and Process | 50 |
| Cost Drivers Selection | 53 |
| Activity-Based Management..... | 56 |
| Process Value Analysis..... | 56 |
| Activity Categories and Drivers | 57 |
| The Value Chain of the Business Functions | 58 |
| Summary..... | 59 |
| Review Questions..... | 60 |
| Review Answers | 61 |
| Chapter 5 – Cost-Volume-Profit Analysis..... | 63 |
| Learning Objectives | 63 |
| Introduction..... | 63 |
| Fundamentals..... | 63 |
| Contribution Margin | 63 |
| Break-Even Point..... | 64 |
| Break-Even and Profit-Volume Chart | 65 |
| Sales Determination..... | 66 |
| Margin of Safety..... | 68 |
| What-If Analysis..... | 68 |
| Sales Mix..... | 70 |
| Summary..... | 72 |
| Review Questions..... | 73 |
| Review Answers | 74 |
| Chapter 6 – Cost Behavior Analysis..... | 75 |
| Learning Objectives | 75 |
| Introduction..... | 75 |
| Types of Cost by Behavior | 75 |
| Variable and Fixed Costs | 75 |
| Mixed Costs..... | 76 |
| Cost Estimation Methods | 77 |
| Engineering Analysis | 77 |
| Account Analysis | 77 |
| High-Low Method..... | 78 |
| Regression Analysis | 80 |
| Summary..... | 84 |
| Review Questions..... | 85 |
| Review Answers | 86 |
| Chapter 7 – Budgeting System..... | 87 |
| Learning Objectives | 87 |
| Introduction..... | 87 |
| Types of Budgets..... | 87 |
| Operating Budget..... | 88 |
| Sales Budget | 88 |
| Production Budget | 90 |
| Direct Materials Budget..... | 90 |
| Direct Labor Budget..... | 92 |
| Factory Overhead Budget..... | 92 |
| Selling and Administrative Expense Budget | 93 |
| Budgeted Income Statement..... | 94 |
| Financial Budget..... | 94 |
| Cash Budget..... | 94 |
| Budgeted Balance Sheet | 96 |

Table of Contents

| | |
|--|------------|
| Summary | 98 |
| Review Questions | 99 |
| Review Answers | 100 |
| Chapter 8 – Control of Cost Center | 101 |
| Learning Objectives | 101 |
| Introduction..... | 101 |
| Responsibility Accounting | 101 |
| Key Concepts | 101 |
| Types of Responsibility Centers | 101 |
| Standard Cost System | 102 |
| Variance Analysis | 103 |
| Materials Variances | 104 |
| Labor Variances..... | 106 |
| Variable Overhead Variances | 107 |
| Use of Flexible Budgets | 108 |
| Key Concepts | 108 |
| Fixed Overhead Variances..... | 110 |
| Nonfinancial Performance Measures..... | 113 |
| Summary | 113 |
| Review Questions | 114 |
| Review Answers | 116 |
| Chapter 9 – Evaluation of Investment Centers..... | 119 |
| Learning Objectives | 119 |
| Introduction..... | 119 |
| Rate of Return on Investment | 119 |
| Du Pont Formula..... | 119 |
| Profit Planning | 121 |
| Residual Income | 123 |
| Investment Decisions: ROI vs. RI | 124 |
| Other Matters..... | 125 |
| Use of Corporate Balanced Scorecard | 125 |
| Transfer Prices | 125 |
| Summary | 128 |
| Review Questions | 129 |
| Review Answers | 130 |
| Chapter 10 – Making Short-Term Decisions..... | 133 |
| Learning Objectives | 133 |
| Introduction..... | 133 |
| Relevant Costs Determination..... | 133 |
| Types of Short-Term Decisions | 135 |
| Special Order..... | 135 |
| Make or Buy | 137 |
| Sell or Process Further | 138 |
| Closing a Segment | 139 |
| Scarce Resources | 140 |
| Other Matters..... | 141 |
| Summary | 141 |
| Review Questions | 142 |
| Review Answers | 143 |
| Chapter 11 – Making Long-Term Decisions | 145 |
| Learning Objectives | 145 |
| Introduction..... | 145 |
| Features of Long-Term Investment | 145 |
| The Concept of Time Value of Money | 145 |

Table of Contents

| | |
|--|------------|
| Future Values: How Money Grows | 146 |
| Present Value: How Much Money Is Worth Now | 147 |
| Methods of Evaluating Investment Projects | 149 |
| Payback Period | 149 |
| Accounting Rate of Return | 150 |
| Internal Rate of Return | 151 |
| Net Present Value | 152 |
| Profitability Index | 153 |
| Summary | 154 |
| Review Questions | 155 |
| Review Answers | 156 |
| Chapter 12 – The Effect of Income Tax on Investment Decisions | 157 |
| Learning Objectives | 157 |
| Introduction | 157 |
| After-Tax Cash Inflows Determination | 157 |
| Key Concepts | 157 |
| Initial Investment | 160 |
| Differential Flows Over the Project's Life | 162 |
| Terminal Cash Flow | 163 |
| Traditional Depreciation Methods | 163 |
| Straight-Line Method | 163 |
| Accelerated Methods | 164 |
| Double-Declining-Balance Method | 165 |
| Units of Production Method | 165 |
| Modified Accelerated Cost Recovery System | 166 |
| Summary | 168 |
| Review Questions | 169 |
| Review Answers | 170 |
| Appendix | 171 |
| Glossary | 175 |
| Index | 181 |