

ACCOUNTING FOR MANAGEMENT

Planning and Control

Richard M. Lynch

Professor of Accountancy
University of Notre Dame

Robert W. Williamson

Associate Professor of Accountancy
University of Notre Dame

SECOND EDITION

TECHNISCHE HOCHSCHULE DARMSTADT	
Fachbereich 1	
Gesamtbibliothek	
Betriebswirtschaftslehre	
Inventar-Nr. :	32.477
Abstell-Nr. :	A 20/825
Sachgebiete:	2.4.
	00197670

McGRAW-HILL BOOK COMPANY

New York St. Louis San Francisco Auckland
Düsseldorf Johannesburg Kuala Lumpur London
Mexico Montreal New Delhi Panama Paris
São Paulo Singapore Sydney Tokyo Toronto

CONTENTS

Preface

ix

SECTION 1: INTRODUCTION

1. Accounting Analysis and Management Decision Making

3

The Plan of This Chapter / Economic Function / Administrative Function / Accounting Provides Economic Information / Controller and Certified Public Accountant / Role of the Controller / *Planning; Control; Other Information* / Role of Cost Accounting / *Elements of Cost; Relevant Costs* / Illustrative Examples / *Inventory Valuation; Profit Planning; Cost Control; Return on Capital; Special Order* / Art versus Science in Management / Summary / Key Words and Phrases / Discussion Questions.

2. Cost Determination and Flow

21

The Plan of This Chapter / Merchandising and Manufacturing Compared / Cost Elements for Product Costing / Flow of Costs / *Input-Output Analysis* / Sources of Cost Information / *Accumulation in Accounting Records* / Problems in Accounting for Factory Overhead / *Pre-determined Overhead Rates* / Departmentalization of Costs / *Meaning of "Direct"; Distribution of Overhead; Determination of Departmental Overhead Rates* / Plantwide versus Departmental Overhead Rates / Non-manufacturing Costs / Summary / Key Words and Phrases / Discussion Questions / Problems.

3. Job Order Cost and Process Cost Accumulation

57

The Plan of This Chapter / Applications of Job Order Costing and Process Costing / Illustrative Problem Using Job Order Costing: The Customcraft Boat Company / Reasons for Using Predetermined

Rates / Accounting Treatment of Underapplied Overhead / Predetermined Overhead Rates: Job Order and Process Costing / Illustrative Problem Using Process Costing: Dynaplastics, Inc. / Assumption 1; Assumption 2; Assumption 3; Step 1. *Physical Flow of Units*; Step 2. *Equivalent Units*; Step 3. *Accumulation of Costs in Process*; Step 4. *Cost per Equivalent Unit* / Illustrative Problem Using Process Costing: The Kookie Kola Bottling Company / Summary / Key Words and Phrases / Discussion Questions / Problems.

SECTION 2: PLANNING

4. Cost-Volume-Profit Analysis

97

The Plan of This Chapter / Profit Planning / Behavior of Expenses in Relation to Volume / Break-even Point / Calculation of the Break-even Point / Changes in Underlying Factors / Change in Selling Price; Change in Variable Costs; Change in Fixed Costs; Change in Volume / Assumptions and Limitations / Management Uses of Cost-Volume-Profit Analysis / Summary / Key Words and Phrases / Discussion Questions / Problems.

5. The Use of Budgets in Planning

131

The Plan of This Chapter / Planning / The Role of Management Planning and Control Systems; The Budget in Management Planning and Control / Forecast of Sales / Steps in Budget Preparation / Illustrative Example / Problem; Gathering of Information; Schedules; Acceptance / Summary / Key Words and Phrases / Discussion Questions / Problems.

SECTION 3: CONTROL

6. Standard Costs: Material and Labor

181

The Plan of This Chapter / Need for Standards / Development of Standards / Who Sets Standards? / Standards: Tight, Realistic, or Loose? / Using Standard Costs: Variance Analysis / Illustrative Example: Material Variances / Material Price Variance; Material Usage Variance / Control through Variance Analysis / Accounting Treatment: Material / Analyzing the Labor Cost Variance / Accounting Treatment: Labor / Treatment on Income Statement / Revising Standards / Summary / Key Words and Phrases / Discussion Questions / Problems.

7. Flexible Budgeting and Overhead Variance Analysis

207

The Plan of This Chapter / Planning Budgets Are Fixed / Cost Control as Volume Changes / Prime Cost; Factory Overhead / Flexible Budgeting Formula / Cost Control through Flexible Budgeting / Evaluating Performance / Volume Base / Analysis of Variances / Capacity / Theoretical Capacity; Practical Capacity; Normal Capacity; Estimated Annual Volume / Development of the Standard Overhead Rate / Standard Overhead Rate versus Flexible Budgeting / Analysis of Three Overhead Variances / Capacity Variance / Investigation of Variances / Accounting

Treatment / Summary / Key Words and Phrases / Discussion Questions / Problems.

8. Human Relations and Responsibility Accounting 241

The Plan of This Chapter / Delegation and Accountability / Approach to Control / Human Relations in Budgeting / Meaning of Control / Company Objectives / Personal Needs and Objectives / Failure of Control by Domination / *Symptoms; Effect on Subordinates; Top Management at Fault* / Control through Objectives / Motivation / Cost, Profit, and Investment Centers / Why Responsibility Accounting? / Responsibility Accounting / *Organization Chart; "Anchor" Chart; Responsibility Report; Summary Report* / Summary / Key Words and Phrases / Discussion Questions / Problems.

SECTION 4: TECHNIQUES FOR SPECIAL MANAGEMENT DECISIONS

9. Variable Costing 285

The Plan of This Chapter / Meaning of Variable Costing / Variable and Absorption Costing Compared / Differences in Volume of Sales and Production / Variable and Absorption Costing Compared: An Illustration / *Sales Equal Production; Production Exceeds Sales; Sales Exceed Production; Other Comparisons* / Future Cost Avoidance: *The Test* / Advantages to Management of Variable Costing / *Less Confusing; Net Income Fluctuates with Sales; Built-in Break-even Analysis; Product-Line Profit Performance; Pricing; Compatibility with Standard Cost Accounting* / Controversy / Compromise / Summary / Key Words and Phrases / Discussion Questions / Problems.

10. Return on Capital Used 317

The Plan of This Chapter / Concept / Investors' Ratio / The Ratio of Earnings to Capital Used / Distinction Illustrated / Expansion of the Formula / Graphic Analysis / Application of Return on Capital Used / Problems of Segment Rates of Return / *Motivation and Management; Asset Allocation; Cost Allocation; Transfer Pricing; Fixed-Asset Valuation* / Measurement of Changes / Residual Income / Summary / Key Words and Phrases / Discussion Questions / Problems.

11. Decisions Involving Alternative Choices 351

The Plan of This Chapter / Relevant Costs: A Closer Look / *Futurity; Difference* / Differential Costs / Types of Decisions / *Equipment-Replacement Decision; Decision to Process Joint Products; Decision to Drop a Product Line; Decision to Accept a Special Order; Decision to Make or Buy* / Summary / Key Words and Phrases / Discussion Questions / Problems.

12. Pricing Policies 391

The Plan of This Chapter / Objectives of Pricing Policies / Marginal Analysis and Pricing / *Demand Functions; Marginal Cost; Economic*

Theory of Pricing; Limitations of Marginal Analysis / Full Cost Pricing / ROI Pricing; Full Cost Pricing and Government Regulation / Contribution Approach to Pricing / Differential Costs and Pricing; Relationship of Full-Cost and Contribution Pricing / Transfer Prices / Economics of Transfer Pricing; Transfer Price with an Outside Market; Transfer Price with No Outside Market; Dilemma of Transfer Pricing / Summary / Key Words and Phrases / Discussion Questions / Problems.

13. Capital Expenditure Decisions

419

The Plan of This Chapter / Budgeting with a Difference / Classes of Projects / Methods of Evaluation / *Payback Period; Accounting Method; Discounted Cash Flow* / Depreciation and the "Tax Shield" / Limitations in Capital Budgeting Techniques / Cost of Capital / Summary / Appendix: Illustrative Example; Ranking of Proposals in Exhibits 13-1 to 13-4 / Key Words and Phrases / Discussion Questions / Problems / Comprehensive Review Problem.

Glossary

459

Solutions to Selected Problems

469

Index

503