

Financial and Managerial Accounting ^{14e}

Carl S. Warren

Professor Emeritus of Accounting
University of Georgia, Athens

James M. Reeve

Professor Emeritus of Accounting
University of Tennessee, Knoxville

Jonathan E. Duchac

Professor of Accounting
Wake Forest University



Australia • Brazil • Japan • Korea • Mexico • Singapore • Spain • United Kingdom • United States

About the Authors

Carl S. Warren

Dr. Carl S. Warren is Professor Emeritus of Accounting at the University of Georgia, Athens. Dr. Warren has taught classes at the University of Georgia, University of Iowa, Michigan State University, and University of Chicago. He focused his teaching efforts on principles of accounting and auditing. Dr. Warren received his PhD from Michigan State University and his BBA and MA from the University of Iowa. During his career, Dr. Warren published numerous articles in professional journals, including *The Accounting Review*, *Journal of Accounting Research*, *Journal of Accountancy*, *The CPA Journal*, and *Auditing: A Journal of Practice and Theory*. Dr. Warren has served on numerous committees of the American Accounting Association, the American Institute of Certified Public Accountants, and the Institute of Internal Auditors. He also has consulted with numerous companies and public accounting firms. His outside interests include handball, golfing, skiing, backpacking, motorcycling, and fly-fishing.



Terry R. Spray / InHismage Studios

James M. Reeve

Dr. James M. Reeve is Professor Emeritus of Accounting and Information Management at the University of Tennessee. Professor Reeve taught full time as part of the accounting faculty for twenty-five years after graduating with his PhD from Oklahoma State University. He presently teaches part time at UT. His teaching efforts focused on Senior Executive MBA programs. Beyond this, Professor Reeve is very active in the Supply Chain Certification program, which is a major executive education and research effort of the college. His research interests are varied and include work in managerial accounting, supply chain management, lean manufacturing, and information management. He has published over forty articles in academic and professional journals, including *Journal of Cost Management*, *Journal of Management Accounting Research*, *Accounting Review*, *Management Accounting Quarterly*, *Supply Chain Management Review*, and *Accounting Horizons*. He has consulted or provided training around the world for a variety of organizations, including Boeing, Procter & Gamble, Norfolk Southern, Hershey Foods, Coca-Cola, and Sony. When not writing books, Professor Reeve plays golf and is involved in faith-based activities.



Charles J. Garvey III / Garvey Photography

Jonathan Duchac

Dr. Jonathan Duchac is the Wayne Calloway Professor of Accounting and Acting Associate Dean of Accounting Programs at Wake Forest University. He earned his PhD in accounting from the University of Georgia and currently teaches introductory and advanced courses in financial accounting. Dr. Duchac has received a number of awards during his career, including the Wake Forest University Outstanding Graduate Professor Award, the T.B. Rose Award for Instructional Innovation, and the University of Georgia Outstanding Teaching Assistant Award. In addition to his teaching responsibilities, Dr. Duchac has served as Accounting Advisor to Merrill Lynch Equity Research, where he worked with research analysts in reviewing and evaluating the financial reporting practices of public companies. He has testified before the U.S. House of Representatives, the Financial Accounting Standards Board, and the Securities and Exchange Commission and has worked with a number of major public companies on financial reporting and accounting policy issues. In addition to his professional interests, Dr. Duchac is an avid runner, mountain biker, and snow skier.



© Ken Bennett

Brief Contents

| | | |
|-------------------|---|------|
| 1 | Introduction to Accounting and Business | 2 |
| 2 | Analyzing Transactions | 52 |
| 3 | The Adjusting Process | 104 |
| 4 | Completing the Accounting Cycle | 154 |
| 5 | Accounting for Merchandising Businesses | 226 |
| 6 | Inventories | 286 |
| 7 | Internal Control and Cash | 334 |
| 8 | Receivables | 380 |
| 9 | Long-Term Assets: Fixed and Intangible | 424 |
| 10 | Liabilities: Current, Installment Notes, Contingencies | 476 |
| 11 | Liabilities: Bonds Payable | 522 |
| 12 | Corporations: Organization, Stock Transactions, and Dividends | 560 |
| 13 | Statement of Cash Flows | 606 |
| 14 | Financial Statement Analysis | 664 |
| | Financial Statements for Mornin' Joe | 728 |
| | Financial Statements for Mornin' Joe International | 731 |
| 15 | Introduction to Managerial Accounting | 740 |
| 16 | Job Order Costing | 784 |
| 17 | Process Cost Systems | 830 |
| 18 | Activity-Based Costing | 886 |
| 19 | Cost-Volume-Profit Analysis | 940 |
| 20 | Variable Costing for Management Analysis | 994 |
| 21 | Budgeting | 1052 |
| 22 | Evaluating Variances from Standard Costs | 1106 |
| 23 | Evaluating Decentralized Operations | 1156 |
| 24 | Differential Analysis and Product Pricing | 1208 |
| 25 | Capital Investment Analysis | 1260 |
| 26 | Lean Manufacturing and Activity Analysis | 1304 |
| Appendix A | Interest Tables | A-2 |
| Appendix B | Revenue Recognition | B-1 |
| Appendix C | International Financial Reporting Standards (IFRS) | C-2 |
| Appendix D | Investments | D-2 |
| Appendix E | Nike Inc., Form 10-K for the Fiscal Year Ended May 31, 2015 | E-1 |
| Appendix F | Special Journals and Subsidiary Ledgers (online) | F-1 |
| Glossary | | G-1 |
| Index | | I-1 |

1 Introduction to Accounting and Business 2

Nature of Business and Accounting 4

- Types of Businesses 4
- Role of Accounting in Business 5
- Role of Ethics in Accounting and Business 6
- Opportunities for Accountants 7

Generally Accepted Accounting Principles (GAAP) 9

- Characteristics of Financial Information 9
- Assumptions 9
- Principles 11

The Accounting Equation 11

Business Transactions and the Accounting Equation 12

- Summary 16
- Classifications of Stockholders' Equity 17

Financial Statements 18

- Income Statement 20
- Retained Earnings Statement 20
- Balance Sheet 20
- Statement of Cash Flows 21
- Interrelationships Among Financial Statements 22

Analysis for Decision Making 24

- Make a Decision 25**
- Analysis for Decision Making 50**
- Take It Further 51**

2 Analyzing Transactions 52

Using Accounts to Record Transactions 54

- Chart of Accounts 55

Double-Entry Accounting System 57

- Balance Sheet Accounts 57
- Income Statement Accounts 57
- Retained Earnings Statement Accounts (Dividends) 58
- Normal Balances 58
- Journalizing 59

Posting Journal Entries to Accounts 63

Trial Balance 72

- Errors Affecting the Trial Balance 73
- Errors Not Affecting the Trial Balance 74

Analysis for Decision Making 75

- Make a Decision 77**
- Analysis for Decision Making 100**
- Take It Further 103**

3 The Adjusting Process 104

Nature of the Adjusting Process 107

- Accrual and Cash Basis of Accounting 107
- Revenue and Expense Recognition 108
- The Adjusting Process 108
- Types of Accounts Requiring Adjustment 109

Adjusting Entries for Accruals 110

- Accrued Revenues 110
- Accrued Expenses 111

Adjusting Entries for Deferrals 114

- Unearned Revenues 114
- Prepaid Expenses 115

Adjusting Entries for Depreciation 118

Summary of Adjusting Process 120

Adjusted Trial Balance 124

Analysis for Decision Making 125

- Make a Decision 127**
- Analysis for Decision Making 150**
- Take It Further 152**

4 Completing the Accounting Cycle 154

Flow of Accounting Information 157

Financial Statements 159

- Income Statement 159
- Retained Earnings Statement 159
- Balance Sheet 161

Closing Entries 164

Journalizing and Posting Closing Entries 166

Post-Closing Trial Balance 170

Accounting Cycle 171**Illustration of the Accounting Cycle 171**

- Step 1. Analyzing and Recording Transactions in the Journal 173
- Step 2. Posting Transactions to the Ledger 175
- Step 3. Preparing an Unadjusted Trial Balance 175
- Step 4. Assembling and Analyzing Adjustment Data 175
- Step 5. Preparing an Optional End-of-Period Spreadsheet 176
- Step 6. Journalizing and Posting Adjusting Entries 177
- Step 7. Preparing an Adjusted Trial Balance 177
- Step 8. Preparing the Financial Statements 177
- Step 9. Journalizing and Posting Closing Entries 179
- Step 10. Preparing a Post-Closing Trial Balance 180

Fiscal Year 182**Analysis for Decision Making 184****Make a Decision 185****Appendix 1 End-of-Period Spreadsheet 186**

- Step 1. Enter the Title 186
 - Step 2. Enter the Unadjusted Trial Balance 186
 - Step 3. Enter the Adjustments 187
 - Step 4. Enter the Adjusted Trial Balance 188
 - Step 5. Extend the Accounts to the Income Statement and Balance Sheet Columns 189
 - Step 6. Total the Income Statement and Balance Sheet Columns, Compute the Net Income or Net Loss, and Complete the Spreadsheet 190
- Preparing the Financial Statements from the Spreadsheet 191

Appendix 2 Reversing Entries 191**Comprehensive Problem 1 222****Analysis for Decision Making 223****Take It Further 224**

5 Accounting for Merchandising Businesses 226

Nature of Merchandising Businesses 228

Operating Cycle 228

Financial Statements 229

Merchandising Transactions 230

Purchases Transactions 230

Sales Transactions 235

Freight 239

Summary: Recording Inventory Transactions 241

Dual Nature of Merchandise Transactions 242

Chart of Accounts for a Merchandising Business 242

Sales Taxes and Trade Discounts 242

Financial Statements for**a Merchandising Business 245**

Multiple-Step Income Statement 245

Single-Step Income Statement 247

Retained Earnings Statement 248

Balance Sheet 248

The Adjusting and Closing Process 248

Adjusting Entries for Customer Returns and Allowances 249

Adjusting Entry for Inventory Shrinkage 250

Closing Entries 251

Analysis for Decision Making 252**Make a Decision 253****Appendix The Periodic Inventory System 254**

Chart of Accounts Under the Periodic Inventory System 254

Recording Merchandise Transactions Under the Periodic Inventory System 254

Adjusting Process Under the Periodic Inventory System 256

Financial Statements Under the Periodic Inventory System 256

Closing Entries Under the Periodic Inventory System 256

Comprehensive Problem 2 280**Analysis for Decision Making 282****Take It Further 283****Practice Set: Lawn Ranger Landscaping**

This set is a service business operated as a proprietorship. It includes a narrative of transactions and instructions for an optional solution with no debits and credits. This set can be solved manually or with the General Ledger software.

6 Inventories 286

Control of Inventory 288

Safeguarding Inventory 288

Reporting Inventory 289

Inventory Cost Flow Assumptions 289**Inventory Costing Methods Under a Perpetual Inventory System 291**

First-In, First-Out Method 291

Last-In, First-Out Method 293

Weighted Average Cost Method 295

Inventory Costing Methods Under a Periodic Inventory System 296

First-In, First-Out Method 296

Last-In, First-Out Method 297

Weighted Average Cost Method 297

Comparing Inventory Costing Methods 299

Reporting Inventory in the Financial Statements 300

- Valuation at Lower of Cost or Market 300
- Inventory on the Balance Sheet 302
- Effect of Inventory Errors on the Financial Statements 303

Analysis for Decision Making 306

Make a Decision 308

Appendix Estimating Inventory Cost 309

- Retail Method of Inventory Costing 309
- Gross Profit Method of Inventory Costing 309

Analysis for Decision Making 330

Take It Further 332

7 Internal Control and Cash 334

Sarbanes-Oxley Act 336

Internal Control 338

- Objectives of Internal Control 338
- Elements of Internal Control 338
- Control Environment 339
- Risk Assessment 340
- Control Procedures 340
- Monitoring 342
- Information and Communication 342
- Limitations of Internal Control 343

Cash Controls over Receipts and Payments 344

- Control of Cash Receipts 344
- Control of Cash Payments 346

Bank Accounts 347

- Bank Statement 347
- Using the Bank Statement as a Control over Cash 349

Bank Reconciliation 350

Special-Purpose Cash Funds 355

Financial Statement Reporting of Cash 356

Analysis for Decision Making 357

Make a Decision 358

Analysis for Decision Making 377

Take It Further 379

8 Receivables 380

Classification of Receivables 382

- Accounts Receivable 382
- Notes Receivable 382
- Other Receivables 383

Uncollectible Receivables 383

Direct Write-Off Method for Uncollectible Accounts 384

Allowance Method for Uncollectible Accounts 384

- Write-Offs to the Allowance Account 385
- Estimating Uncollectibles 387

Comparing Direct Write-Off and Allowance Methods 393

Notes Receivable 394

- Characteristics of Notes Receivable 394
- Accounting for Notes Receivable 396

Reporting Receivables on the Balance Sheet 398

Analysis for Decision Making 399

Make a Decision 401

Analysis for Decision Making 421

Take It Further 423

9 Long-Term Assets: Fixed and Intangible 424

Nature of Fixed Assets 426

- Classifying Costs 426
- The Cost of Fixed Assets 428
- Leasing Fixed Assets 429

Accounting for Depreciation 430

- Factors in Computing Depreciation Expense 430
- Straight-Line Method 431
- Units-of-Activity Method 433
- Double-Declining-Balance Method 435
- Comparing Depreciation Methods 436
- Partial-Year Depreciation 437
- Revising Depreciation Estimates 438
- Repair and Improvements 439

Disposal of Fixed Assets 441

- Discarding Fixed Assets 441
- Selling Fixed Assets 442

Natural Resources 445

Intangible Assets 446

- Patents 446
- Copyrights and Trademarks 447
- Goodwill 447

Financial Reporting for Long-Term Assets: Fixed and Intangible 450**Analysis for Decision Making 450****Make a Decision 452****Appendix Exchanging Similar Fixed Assets 453**

- Gain on Exchange 453
- Loss on Exchange 454

Analysis for Decision Making 472**Take It Further 473**

10

Liabilities: Current, Installment Notes, Contingencies 476

Current Liabilities 478

- Accounts Payable and Accruals 478
- Short-Term Notes Payable 479
- Current Portion of Long-Term Debt 480

Payroll Liabilities 481

- Liability for Employee Earnings 481
- Deductions from Employee Earnings 482
- Computing Employee Net Pay 483
- Employer's Payroll Taxes 483
- Recording Payroll 484
- Paying Payroll 486
- Internal Controls for Payroll 486

Employees' Fringe Benefits 486

- Vacation Pay 486
- Pensions 487
- Postretirement Benefits Other than Pensions 488

Installment Notes 489

- Issuance 489
- Periodic Payments 489

Contingent Liabilities 492

- Probable and Estimable 492
- Probable and Not Estimable 492
- Reasonably Possible 493
- Remote 493

Reporting Liabilities 494**Analysis for Decision Making 495****Make a Decision 496****Comprehensive Problem 3 516****Analysis for Decision Making 519****Take It Further 521****Practice Set: Fit & Fashionable**

This set is a merchandising business operated as a proprietorship. It includes business documents, and it can be solved manually or with the General Ledger software.

Practice Set: Chic Events by Jada

This set is a merchandising business operated as a proprietorship. It includes business documents, and it can be solved manually or with the General Ledger software.

11

Liabilities: Bonds Payable 522

Nature of Bonds Payable 524

- Bond Characteristics and Terminology 524
- Proceeds from Issuing Bonds 524

Accounting for Bonds Payable 527

- Bonds Issued at Face Amount 527
- Bonds Issued at a Discount 527
- Amortizing a Bond Discount 528
- Bonds Issued at a Premium 530
- Amortizing a Bond Premium 531
- Bond Redemption 532

Reporting Bonds Payable 533**Analysis for Decision Making 534****Make a Decision 535****Appendix 1 Present Value Concepts and Pricing Bonds Payable 536**

- Present Value Concepts 536
- Pricing Bonds 539

Appendix 2 Effective Interest Rate Method of Amortization 540

- Amortization of Discount by the Interest Method 540
- Amortization of Premium by the Interest Method 541

Analysis for Decision Making 557**Take It Further 558**

12 Corporations: Organization, Stock Transactions, and Dividends 560

Nature of a Corporation 562

- Characteristics of a Corporation 562
- Forming a Corporation 563

Paid-In Capital from Stock 565

- Characteristics of Stock 565
- Types of Stock 566
- Issuing Stock 568
- Premium on Stock 568
- No-Par Stock 569

Accounting for Dividends 571

- Cash Dividends 571
- Stock Dividends 572

Stock Splits 574

Treasury Stock Transactions 575

Reporting Stockholders' Equity 577

- Stockholders' Equity on the Balance Sheet 577
- Reporting Retained Earnings 578
- Statement of Stockholders' Equity 579
- Reporting Stockholders' Equity for Mornin' Joe 580

Analysis for Decision Making 581

Make a Decision 582

Comprehensive Problem 4 600

Analysis for Decision Making 602

Take It Further 603

Practice Set: My Place, House of Décor

This set is a service and merchandising business operated as a corporation. It includes narrative for six months of transactions, which are to be recorded in a general journal. The set can be solved manually or with the General Ledger software.

Practice Set: JP's Tech Solutions

This set is a departmentalized merchandising business operated as a corporation. It includes a narrative of transactions, which are to be recorded in special journals. The set can be solved manually or with the General Ledger software.

13 Statement of Cash Flows 606

Reporting Cash Flows 608

- Cash Flows from Operating Activities 609
- Cash Flows from Investing Activities 611

- Cash Flows from Financing Activities 611
- Noncash Investing and Financing Activities 612
- Format of the Statement of Cash Flows 612
- No Cash Flow per Share 613

Cash Flows from Operating Activities—The Indirect Method 613

- Net Income 615
- Adjustments to Net Income 615

Cash Flows from Investing Activities 618

- Land 618
- Building and Accumulated Depreciation—Building 619

Cash Flows from Financing Activities 620

- Bonds Payable 620
- Common Stock 620
- Dividends and Dividends Payable 621
- Preparing the Statement of Cash Flows 622

Analysis for Decision Making 623

Make a Decision 624

Appendix 1 Spreadsheet (Work Sheet) for Statement of Cash Flows—The Indirect Method 625

- Analyzing Accounts 626
- Retained Earnings 627
- Other Accounts 627
- Preparing the Statement of Cash Flows 628

Appendix 2 Preparing the Statement of Cash Flows—The Direct Method 628

- Cash Received from Customers 629
- Cash Payments for Merchandise 629
- Cash Payments for Operating Expenses 630
- Gain on Sale of Land 630
- Interest Expense 630
- Cash Payments for Income Taxes 631
- Reporting Cash Flows from Operating Activities—Direct Method 631

Analysis for Decision Making 660

Take It Further 662

14 Financial Statement Analysis 664

Analyzing and Interpreting Financial Statements 666

- The Value of Financial Statement Information 666
- Techniques for Analyzing Financial Statements 667

Analytical Methods 667

- Horizontal Analysis 667
- Vertical Analysis 669
- Common-Sized Statements 671

Analyzing Liquidity 672

- Current Position Analysis 673

Accounts Receivable Analysis 674

Inventory Analysis 675

Analyzing Solvency 678

Ratio of Fixed Assets to Long-Term Liabilities 678

Ratio of Liabilities to Stockholders' Equity 678

Times Interest Earned 679

Analyzing Profitability 680

Asset Turnover 681

Return on Total Assets 681

Return on Stockholders' Equity 682

Return on Common Stockholders' Equity 683

Earnings per Share on Common Stock 684

Price-Earnings Ratio 685

Dividends per Share 685

Dividend Yield 686

Summary of Analytical Measures 687

Corporate Annual Reports 689

Management Discussion and Analysis 689

Report on Internal Control 689

Report on Fairness of the Financial Statements 690

Analysis for Decision Making 690

Make a Decision 690

Appendix 1 Unusual Items on the Income Statement 691

Unusual Items Affecting the Current Period's
Income Statement 691

Unusual Items Affecting the Prior Period's
Income Statement 692

Appendix 2 Fair Value and Comprehensive Income 692

Fair Value 693

Comprehensive Income 693

Analysis for Decision Making 723

Take It Further 725

Mornin' Joe 727

Financial Statements for Mornin' Joe 728

Financial Statements for Mornin' Joe
International 731

15 Introduction to Managerial Accounting 740

Managerial Accounting 742

Differences Between Managerial and
Financial Accounting 743

Managerial Accounting in the Organization 744

The Management Process 745

Uses of Managerial Accounting Information 747

Manufacturing Operations 748

Nature of Manufacturing 748

Direct and Indirect Costs 749

Manufacturing Costs 750

Sustainability and Accounting 754

Sustainability 754

Eco-Efficiency Measures in Managerial Accounting 755

Financial Statements for a Manufacturing Business 756

Balance Sheet 756

Income Statement 757

Analysis for Decision Making 760

Make a Decision 762

Analysis for Decision Making 781

Take It Further 782

16 Job Order Costing 784

Cost Accounting Systems Overview 786

Job Order Cost Systems 786

Process Cost Systems 786

Job Order Cost Systems for Manufacturing Businesses 787

Materials 788

Factory Labor 790

Factory Overhead 792

Work in Process 797

Finished Goods 798

Sales and Cost of Goods Sold 799

Period Costs 799

Summary of Cost Flows for Legend Guitars 801

Job Order Cost Systems for Service Businesses 801

Types of Service Businesses 801

Flow of Costs in a Service Job Order Cost System 802

Analysis for Decision Making 803

Make a Decision 804

Analysis for Decision Making 826

Take It Further 828

17 Process Cost Systems 830

Accounting for Process Manufacturers 832

Comparing Job Order and Process Cost Systems 833

Cost Flows for a Process Manufacturer 834

Cost of Production Report 837

Step 1: Determine the Units to Be Assigned Costs 838

- Step 2: Compute Equivalent Units of Production 838
- Step 3: Determine the Cost per Equivalent Unit 842
- Step 4: Allocate Costs to Units Transferred
Out and Partially Completed Units 843
- Preparing the Cost of Production Report 845

Journal Entries for a Process Cost System 848

Using the Cost of Production Report 851

Lean Manufacturing 852

- Traditional Production Process 852
- Lean Manufacturing 853

Analysis for Decision Making 854

Make a Decision 855

Appendix Average Cost Method 856

- Determining Costs Using the Average Cost Method 856
- The Cost of Production Report 858

Analysis for Decision Making 882

Take It Further 883

18 Activity-Based Costing 886

Product Costing Allocation Methods 888

Single Plantwide Factory Overhead Rate Method 889

Multiple Production Department Factory Overhead Rate Method 891

- Department Overhead Rates and Allocation 892
- Distortion of Product Costs 893

Activity-Based Costing Method 896

- Activity Rates 898
- Allocating Costs 899
- Distortion in Product Costs 901
- Dangers of Product Cost Distortion 901

Activity-Based Costing for Selling and Administrative Expenses 903

Activity-Based Costing in Service Businesses 904

Analysis for Decision Making 908

Make a Decision 909

Analysis for Decision Making 936

Take It Further 937

19 Cost-Volume-Profit Analysis 940

Cost Behavior 942

- Variable Costs 943
- Fixed Costs 944

Mixed Costs 946

Summary of Cost Behavior Concepts 948

Cost-Volume-Profit Relationships 950

- Contribution Margin 950
- Contribution Margin Ratio 950
- Unit Contribution Margin 951

Mathematical Approach to Cost-Volume-Profit Analysis 953

- Break-Even Point 953
- Target Profit 957

Graphic Approach to Cost-Volume-Profit Analysis 958

- Cost-Volume-Profit (Break-Even) Chart 958
- Profit-Volume Chart 960
- Use of Computers in Cost-Volume-Profit Analysis 961
- Assumptions of Cost-Volume-Profit Analysis 962

Special Cost-Volume-Profit Relationships 964

- Sales Mix Considerations 964
- Operating Leverage 966
- Margin of Safety 967

Analysis for Decision Making 969

Make a Decision 970

Analysis for Decision Making 991

Take It Further 993

20 Variable Costing for Management Analysis 994

Income from Operations: Absorption and Variable Costing 996

- Absorption Costing 996
- Variable Costing 997
- Effects of Inventory 999

Analyzing Income Using Absorption and Variable Costing 1002

Using Absorption and Variable Costing 1006

- Controlling Costs 1007
- Pricing Products 1007
- Planning Production 1007
- Analyzing Contribution Margins 1008
- Analyzing Market Segments 1008

Analyzing Market Segments 1008

- Sales Territory Profitability Analysis 1010
- Product Profitability Analysis 1011
- Salesperson Profitability Analysis 1011

Contribution Margin Analysis 1013

Variable Costing for Service Businesses 1016

- Reporting Income 1017
- Analyzing Segments 1017

Analyzing Contribution Margin 1019

Analysis for Decision Making 1020

Make a Decision 1021

Analysis for Decision Making 1047

Take It Further 1049

21 Budgeting 1052

Nature and Objectives of Budgeting 1054

Objectives of Budgeting 1054

Human Behavior and Budgeting 1055

Budgeting Systems 1056

Static Budget 1057

Flexible Budget 1058

Computerized Budgeting Systems 1059

Master Budget 1060

Operating Budgets 1061

Sales Budget 1061

Production Budget 1062

Direct Materials Purchases Budget 1063

Direct Labor Cost Budget 1064

Factory Overhead Cost Budget 1066

Cost of Goods Sold Budget 1066

Selling and Administrative Expenses Budget 1068

Budgeted Income Statement 1069

Financial Budgets 1070

Cash Budget 1070

Capital Expenditures Budget 1074

Budgeted Balance Sheet 1075

Analysis for Decision Making 1075

Make a Decision 1076

Analysis for Decision Making 1102

Take It Further 1103

22 Evaluating Variances from Standard Costs 1106

Standards 1108

Setting Standards 1108

Types of Standards 1109

Reviewing and Revising Standards 1109

Criticisms of Standard Costs 1109

Budgetary Performance Evaluation 1110

Budget Performance Report 1110

Manufacturing Cost Variances 1111

Direct Materials and Direct Labor Variances 1112

Direct Materials Variances 1112

Direct Labor Variances 1114

Factory Overhead Variances 1118

The Factory Overhead Flexible Budget 1118

Variable Factory Overhead Controllable Variance 1119

Fixed Factory Overhead Volume Variance 1120

Reporting Factory Overhead Variances 1122

Factory Overhead Account 1123

Recording and Reporting Variances from Standards 1126

Nonfinancial Performance Measures 1128

Analysis for Decision Making 1130

Make a Decision 1131

Comprehensive Problem 5 1150

Analysis for Decision Making 1152

Take It Further 1154

23 Evaluating Decentralized Operations 1156

Centralized and Decentralized Operations 1158

Advantages of Decentralization 1158

Disadvantages of Decentralization 1159

Responsibility Accounting 1159

Responsibility Accounting for Cost Centers 1160

Responsibility Accounting for Profit Centers 1163

Service Department Charges 1163

Profit Center Reporting 1165

Responsibility Accounting for Investment Centers 1167

Return on Investment 1167

Residual Income 1171

The Balanced Scorecard 1174

Transfer Pricing 1175

Market Price Approach 1177

Negotiated Price Approach 1177

Cost Price Approach 1180

Analysis for Decision Making 1180

Make a Decision 1182

Analysis for Decision Making 1204

Take It Further 1206

24 Differential Analysis and Product Pricing 1208

Differential Analysis 1210

- Lease or Sell 1212
- Discontinue a Segment or Product 1213
- Make or Buy 1214
- Replace Equipment 1215
- Process or Sell 1216
- Accept Business at a Special Price 1217

Setting Normal Product Selling Prices 1221

- Cost-Plus Methods 1222
- Product Cost Method 1222
- Illustration 1223
- Target Costing Method 1224

Production Bottlenecks 1226

- Managing Bottlenecks 1226
- Pricing Bottleneck Products 1227

Analysis for Decision Making 1228

Make a Decision 1229

Appendix Total and Variable Cost Methods to Setting Normal Price 1230

- Total Cost Method 1231
- Variable Cost Method 1233

Analysis for Decision Making 1257

Take It Further 1259

25 Capital Investment Analysis 1260

Nature of Capital Investment Analysis 1262

Methods Not Using Present Values 1263

- Average Rate of Return Method 1263
- Cash Payback Method 1264

Methods Using Present Values 1266

- Present Value Concepts 1267
- Net Present Value Method and Index 1269
- Internal Rate of Return Method 1271

Factors That Complicate Capital Investment Analysis 1275

- Income Tax 1275
- Unequal Proposal Lives 1275
- Lease Versus Capital Investment 1277
- Uncertainty 1277
- Changes in Price Levels 1278
- Qualitative Considerations 1279

Capital Rationing 1279

Analysis for Decision Making 1281

Make a Decision 1282

Analysis for Decision Making 1301

Take It Further 1302

26 Lean Manufacturing and Activity Analysis 1304

Lean Principles 1306

- Reducing Inventory 1307
- Reducing Lead Times 1307
- Reducing Setup Time 1309
- Emphasizing Product-Oriented Layout 1311
- Emphasizing Employee Involvement 1311
- Emphasizing Pull Manufacturing 1311
- Emphasizing Zero Defects 1311
- Emphasizing Supply Chain Management 1312

Lean Accounting 1314

- Fewer Transactions 1314
- Combined Accounts 1314
- Nonfinancial Performance Measures 1315
- Direct Tracing of Overhead 1316

Activity Analysis 1317

- Costs of Quality 1317
- Quality Activity Analysis 1318
- Value-Added Activity Analysis 1320
- Process Activity Analysis 1321

Analysis for Decision Making 1323

Make a Decision 1323

Analysis for Decision Making 1341

Take It Further 1342

Appendix A: Interest Tables A-3

Appendix B: Revenue Recognition B-1

Appendix C: International Financial Reporting Standards (IFRS) C-2

Appendix D: Investments D-2

Appendix E: Nike Inc., Form 10-K for the Fiscal Year Ended May 31, 2015 E-1

Appendix F: Special Journals and Subsidiary Ledgers (online) F-1

Glossary G-1

Index I-1