

Preface

Studying Cost Accounting is one of the best business investments a student can make. Why? Because success in any organization—from the smallest corner store to the largest multinational corporation—requires the use of cost accounting concepts and practices. Cost accounting provides key data to managers for planning and controlling, as well as costing products, services, even customers. This book focuses on how cost accounting helps managers make better decisions, as cost accountants are increasingly becoming integral members of their company’s decision-making teams. In order to emphasize this prominence in decision-making, we use the “different costs for different purposes” theme throughout this book. By focusing on basic concepts, analyses, uses, and procedures instead of procedures alone, we recognize cost accounting as a managerial tool for business strategy and implementation.

We also prepare students for the rewards and challenges they face in the professional cost accounting world of today and tomorrow. For example, we emphasize both the development of analytical skills such as Excel to leverage available information technology and the values and behaviors that make cost accountants effective in the workplace.

Hallmark Features of *Cost Accounting*

- Exceptionally strong emphasis on managerial uses of cost information
- Clarity and understandability of the text
- Excellent balance in integrating modern topics with traditional coverage
- Emphasis on human behavior aspects
- Extensive use of real-world examples
- Ability to teach chapters in different sequences
- Excellent quantity, quality, and range of assignment material

The first thirteen chapters provide the essence of a one-term (quarter or semester) course. There is ample text and assignment material in the book’s twenty-three chapters for a two-term course. This book can be used immediately after the student has had an introductory course in financial accounting. Alternatively, this book can build on an introductory course in managerial accounting.

Deciding on the sequence of chapters in a textbook is a challenge. Since every instructor has a unique way of organizing his or her course, we utilize a modular, flexible organization that permits a course to be custom tailored. *This organization facilitates diverse approaches to teaching and learning.*

As an example of the book’s flexibility, consider our treatment of process costing. Process costing is described in Chapters 17 and 18. Instructors interested in filling out a student’s perspective of costing systems can move directly from job-order costing described in Chapter 4 to Chapter 17 without interruption in the flow of material. Other instructors may want their students to delve into activity-based costing and budgeting and more decision-oriented topics early in the course. These instructors may prefer to postpone discussion of process costing.

New to This Edition

Greater Emphasis on Strategy

This edition deepens the book’s emphasis on strategy development and execution. Several chapters build on the strategy theme introduced in Chapter 1. Chapter 13 has a greater discussion of strategy maps as a useful tool to implement the balanced scorecard and a

simplified presentation of how income statements of companies can be analyzed from the strategic perspective of product differentiation or cost leadership. We also discuss strategy considerations in the design of activity-based costing systems in Chapter 5, the preparation of budgets in Chapter 6, and decision making in Chapters 11 and 12.

Deeper Consideration of Global Issues

Business is increasingly becoming more global. Even small and medium-sized companies across the manufacturing, merchandising, and service sectors are being forced to deal with the effects of globalization. Global considerations permeate many chapters. For example, Chapter 11 discusses the benefits and the challenges that arise when outsourcing products or services outside the United States. Chapter 22 examines the importance of transfer pricing in minimizing the tax burden faced by multinational companies. Several new examples of management accounting applications in companies are drawn from international settings.

Increased Focus on the Service Sector

In keeping with the shifts in the U.S. and world economy this edition makes greater use of service sector examples. For example, Chapter 2 discusses the concepts around the measurement of costs in a software development rather than a manufacturing setting. Chapter 6 provides several examples of the use of budgets and targets in service companies. Several concepts in action boxes focus on the service sector such as activity-based costing at Charles Schwab (Chapter 5) and managing wireless data bottlenecks (Chapter 19).

New Cutting Edge Topics

The pace of change in organizations continues to be rapid. The fourteenth edition of *Cost Accounting* reflects changes occurring in the role of cost accounting in organizations.

- We have introduced foreign currency and forward contract issues in the context of outsourcing decisions.
- We have added ideas based on Six Sigma to the discussion of quality.
- We have rewritten the chapter on strategy and the balanced scorecard and simplified the presentation to connect strategy development, strategy maps, balanced scorecard, and analysis of operating income.
- We discuss current trends towards Beyond Budgeting and the use of rolling forecasts.
- We develop the link between traditional forms of cost allocation and the nascent movement in Europe towards Resource Consumption Accounting.
- We focus more sharply on how companies are simplifying their costing systems with the presentation of value streams and lean accounting.

Opening Vignettes

Each chapter opens with a vignette on a real company situation. The vignettes engage the reader in a business situation, or dilemma, illustrating why and how the concepts in the chapter are relevant in business. For example, Chapter 1 describes how Apple uses cost accounting information to make decisions relating to how they price the most popular songs on iTunes. Chapter 3 explains how the band U2 paid for their extensive new stage by lowering ticket prices. Chapter 7 describes how even the NBA was forced to cut costs after over half of the league's franchises declared losses. Chapter 11 shows how JetBlue uses Twitter and e-mail to help their customers make better pricing decisions. Chapter 12 discusses how Tata Motors designed a car for the Indian masses, priced at only \$2,500. Chapter 14 shows how Best Buy boosts profits by analyzing its customers and their buying habits. Chapter 18 describes how Boeing incurred great losses as it reworked its much-anticipated Dreamliner airplane.

Concepts in Action Boxes

Found in every chapter, these boxes cover real-world cost accounting issues across a variety of industries including automobile racing, defense contracting, entertainment, manufacturing, and retailing. New examples include

- How Zipcar Helps Reduce Business Transportation Costs p. 33
- Job Costing at Cowboys Stadium p. 108
- The “Death Spiral” and the End of Landline Telephone Service p. 319
- Transfer Pricing Dispute Temporarily Stops the Flow of Fiji Water p. 793

Streamlined Presentation

We continue to try to simplify and streamline our presentation of various topics to make it as easy as possible for a student to learn the concepts, tools, and frameworks introduced in different chapters. Examples of more streamlined presentations can be found in

- Chapter 3 on the discussion of target net income
- Chapter 5 on the core issues in activity-based costing (ABC)
- Chapter 8, which uses a single comprehensive example to illustrate the use of variance analysis in ABC systems
- Chapter 13, which has a much simpler presentation of the strategic analysis of operating income
- Chapter 15, which uses a simpler, unified framework to discuss various cost-allocation methods
- Chapters 17 and 18, where the material on standard costing has been moved to the appendix, allowing for smoother transitions through the sections in the body of the chapter

Selected Chapter-by-Chapter Content Changes

Thank you for your continued support of Cost Accounting. In every new edition, we strive to update this text thoroughly. To ease your transition from the thirteenth edition, here are selected highlights of chapter changes for the fourteenth edition.

Chapter 1 has been rewritten to focus on strategy, decision-making, and learning emphasizing the managerial issues that animate modern management accounting. It now emphasizes decision making instead of problem solving, performance evaluation instead of scorekeeping and learning instead of attention directing.

Chapter 2 has been rewritten to emphasize the service sector. For example, instead of a manufacturing company context, the chapter uses the software development setting at a company like Apple Inc. to discuss cost measurement. It also develops ideas related to risk when discussing fixed versus variable costs.

Chapter 3 has been rewritten to simplify the presentation of target net income by describing how target net income can be converted to target operating income. This allows students to use the equations already developed for target operating income when discussing target net income. We deleted the section on multiple cost drivers, because it is closely related to the multi-product example discussed in the chapter. The managerial and decision-making aspects of the chapter have also been strengthened.

Chapter 4 has been reorganized to first discuss normal costing and then actual costing because normal costing is much more prevalent in practice. As a result of this change the exhibits in the early part of the chapter tie in more closely to the detailed exhibits of normal job-costing systems in manufacturing later in the chapter. The presentation of actual costing has been retained to help students understand the benefits and challenges of actual costing systems. To focus on job costing, we moved the discussion of responsibility centers and departments to Chapter 6.

Chapter 5 has been reorganized to clearly distinguish design choices, implementation challenges, and managerial applications of ABC systems. The presentation of the ideas has been simplified and streamlined to focus on the core issues.

Chapter 6 now includes ideas from relevant applied research on the usefulness of budgets and the circumstances in which they add the greatest value, as well as the challenges in administering them. It incorporates new material on the Beyond Budgeting movement, and in particular the trend towards the use of rolling forecasts.

Chapters 7 and 8 present a streamlined discussion of direct-cost and overhead variances, respectively. The separate sections on ABC and variance analysis in Chapters 7 and 8 have now been combined into a single integrated example at the end of Chapter 8. A new appendix to Chapter 7 now addresses more detailed revenue variances using the existing Webb Company example. The use of potentially confusing terms such as 2-variance analysis and 1-variance analysis has been eliminated.

We have rewritten Chapter 9 as a single integrated chapter with the same running example rather than as two distinct sub-parts on inventory costing and capacity analysis. The material on the tax and financial reporting implications of various capacity concepts has also been fully revised.

Chapter 10 has been revised to provide a more linear progression through the ideas of cost estimation and the choice of cost drivers, culminating in the use of quantitative analysis (regression analysis, in particular) for managerial decision-making.

Chapter 11 now includes more discussion of global issues such as foreign currency considerations in international outsourcing decisions. There is also greater emphasis on strategy and decision-making.

Chapter 12 has been reorganized to more sharply delineate short-run from long-run costing and pricing and to bring together the various considerations other than costs that affect pricing decisions. This reorganization has helped streamline several sections in the chapter.

Chapter 13 has been substantially rewritten. Strategy maps are presented as a way to link strategic objectives and as a useful first step in developing balanced scorecard measures. The section on strategic analysis of operating income has been significantly simplified by focusing on only one indirect cost and eliminating most of the technical details. Finally, the section on engineered and discretionary costs has been considerably shortened to focus on only the key ideas.

Chapter 14 now discusses the use of “whale curves” to depict the outcome of customer profitability analysis. The last part of the chapter has been rationalized to focus on the decomposition of sales volume variances into quantity and mix variances; and the calculation of sales mix variances has also been simplified.

Chapter 15 has been completely revised and uses a simple, unified conceptual framework to discuss various cost allocation methods (single-rate versus dual-rate, actual costs versus budgeted costs, etc.).

Chapter 16 now provides a more in-depth discussion of the rationale underlying joint cost allocation as well as the reasons why some firms *do not* allocate costs (along with real-world examples).

Chapters 17 and 18 have been reorganized, with the material on standard costing moved to the appendix in both chapters. This reorganization has made the chapters easier to navigate and fully consistent (since all sections in the body of the chapter now use actual costing). The material on multiple inspection points from the appendix to Chapter 18 has been moved into the body of the chapter, but using a variant of the existing example involving Anzio Corp.

Chapter 19 introduces the idea of Six Sigma quality. It also integrates design quality, conformance quality, and financial and nonfinancial measures of quality. The discussion of queues, delays, and costs of time has been significantly streamlined.

Chapter 20’s discussion of EOQ has been substantially revised and the ideas of lean accounting further developed. The section on backflush costing has been completely rewritten.

Chapter 21 has been revised to incorporate the payback period method with discounting, and also now includes survey evidence on the use of various capital budgeting methods. The discussion of goal congruence and performance measurement has been simplified and combined, making the latter half of the chapter easier to follow.

Chapter 22 has been fully rewritten with a new section on the use of hybrid pricing methods. The chapter also now includes a fuller description (and a variety of examples) of the use of transfer pricing for tax minimization, and incorporates such developments as the recent tax changes proposed by the Obama administration.

Chapter 23 includes a more thorough description of Residual Income and EVA, as well as a more streamlined discussion of the various choices of accounting-based performance measures.

Resources

In addition to this textbook and MyAccountingLab, the following resources are available for students:

- Student Study Guide—self study aid full of review features.
- Student Solutions Manual—solutions and assistance for even numbered problems.
- Excel Manual—workbook designed for Excel practice.
- Companion website—www.pearsonhighered.com/horngren.

The following resources are available for Instructors:

- Solutions Manual
- Test Gen
- Instructors Manual
- PowerPoint Presentations
- Image Library
- Instructors Resource Center—www.pearsonhighered.com/horngren

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To Our Families

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