

PREFACE

Intended Audience

The sixth edition of *Management Accounting* targets undergraduate and MBA courses in managerial accounting with a major redesign and several new topics. It integrates state-of-the-art thinking on recent innovations in management accounting including:

- the Balanced Scorecard,
- strategy maps,
- time-driven activity-based costing for product and customer profitability analysis,
- target costing,
- environmental costing, and
- the design of management control systems.

The author team consists of top scholars who have served as advisers to small, medium-sized, and large enterprises in the private, nonprofit, and public sectors. They present a conceptually sound and practically relevant perspective on the role of management accounting information in informing important decisions made by business managers, aligning employees and organizational units with strategic objectives, driving continuous process improvements, and influencing the design of products and services. The sixth edition provides problems and cases drawn from the authors' practical experience including cases from Harvard Business School and the Institute of Management Accountants (IMA) that engage students in strategic and organizational analyses. This action orientation makes the text an excellent fit for management accounting courses taught from a managerial perspective. Although this text is primarily intended for business and accounting students, it will also be useful to practicing managers who would benefit from understanding how to mobilize management accounting to drive value in their organizations.

All Enterprises Need Management Accounting

Management accounting information creates value for all types of organizations: private sector companies attempting to deliver superior and sustainable returns to shareholders, nonprofit and nongovernmental organizations (NGOs) striving to deliver positive social impact to targeted constituents, and public-sector agencies that are empowered to improve the lives of citizens. The common thread across all of these diverse enterprises is how to implement a strategy that delivers long-term value to their stakeholders. Strategy implementation requires decision making that is aligned with strategic goals, continuous improvement of critical processes, motivation and alignment of employees with organizational objectives, and innovation that develops new products and services. This book is the only management accounting book that explains in detail how to use measurement and management systems for sustainable value creation.

New to This Edition

- Chapter 1 introduces the plan–do–check–act cycle as an organizing framework for embedding multiple management accounting processes.
- Chapter 2 is an updated and repositioned chapter on the Balanced Scorecard and strategy maps. It uses an extended example, drawn from an actual company’s experience, to illustrate how to develop a Balanced Scorecard and strategy map for a company’s new strategy. Placing this chapter at the front of the book helps students to understand the strategic context for the measurement, decision-making, and control topics discussed in subsequent chapters.
- Chapter 3 is an entirely rewritten chapter for introducing students to fundamental cost concepts. Variable, fixed, incremental, relevant, sunk, avoidable, and opportunity costs are explained and illustrated. Students’ understanding of the concepts is highlighted through decision-making examples on make versus buy, product abandonment, financial modeling for what-if analyses, and product mix optimization with constrained resources. The chapter ends with several numerical examples that enable students to test their ability to apply fundamental cost concepts in diverse settings. In addition, the chapter contains a new case on product costing and decision analysis in the wine industry.
- Chapter 4, also a major update for the sixth edition, provides the foundation for understanding how cost systems can be designed to assign direct and indirect costs to cost objects, such as products, services, and operating departments. It features an explicit and extensive treatment of capacity measurement and costing that sets the stage for the activity-based costing material that follows in subsequent chapters.
- Chapter 5 covers the measurement and management of product costs through the framework of time-driven activity-based costing. This recent innovation helps product costing to be done in a simple, transparent, accurate, and flexible manner. The chapter features the many ways managers can eliminate losses and improve product profitability once they understand the fundamental economics of their products and services.
- Chapter 6, measuring and managing customer relationships, is an entirely new chapter for the sixth edition. The chapter is new not only to the text but also to most management accounting courses. It features the strategic importance of understanding and transforming customer profitability through decisions on product features, product mix, order pricing, and customer relationships. Entirely new material in this chapter includes the pricing waterfall for measuring customer discounts, promotions, and allowances, and an extended treatment of how to derive customer satisfaction and loyalty metrics for a business unit’s Balanced Scorecard.
- Chapter 7 features the role for management accounting information to drive strategy execution through enhanced continuous improvement activities, including lean management, kaizen costing, theory of constraints, cost of quality, six sigma, just-in-time, and benchmarking techniques. As in Chapter 6, new material illustrates how to derive process improvement performance measures for the organization’s Balanced Scorecard.
- Chapter 8 introduces students to the total life-cycle costing concept. At the front end, the chapter shows how target costing can inform decisions made during the product design and development stages. Target costing helps companies to develop products that meet customers’ functionality requirements at a cost that yields targeted profit margins. New material in the chapter introduces the breakeven time concept for measuring the performance of the product

development process, and the selection of other innovation metrics that companies can incorporate into their Balanced Scorecards. The chapter concludes by examining processes and metrics at the back end of the product life cycle, when consumers dispose of or return their used products.

- The sixth edition drops two topics, capital budgeting and financial ratio analysis, that our research shows are now usually covered in other courses. It retains and updates chapters from the fifth edition on the behavioral and organizational aspects of management accounting, budgeting, and financial and managerial control of decentralized operations.
- Also retained are the valuable HBS cases, first introduced in the fifth edition:
 - * Sippican (A) and (B) (integrating time-driven activity-based costing, budgeting, and the Balanced Scorecard),
 - * Midwest Office Products (time-driven ABC in a service setting),
 - * Chadwick, Inc. (designing a Balanced Scorecard for a pharmaceutical company), and
 - * Domestic Auto Parts (building a Balanced Scorecard).
- An additional HBS case is new to the sixth edition:
 - * Citibank: Performance Evaluation (the costs and benefits of using multiple performance measures to evaluate performance).

All of these cases are brief for preparation ease and are accompanied by Instructor Case Notes found in the instructor resources.

- The sixth edition also retains the following Institute of Management Accountants cases:
 - * How Mercedes-Benz used target costing to develop its new SUV and
 - * Precision Systems, Inc.: Improving processes in order entry, with linkages to value-chain ideas (effects on customers, sales representatives, manufacturing, and other internal uses of the order entry information).
- ***Readings in Management Accounting, Sixth Edition, by S. Mark Young***
This supplement contains 53 recent and classic business press and academic articles that correlate with the chapter coverage in *Management Accounting, Sixth Edition*. Ideal for additional content reinforcement and for any case-based course, this supplement includes articles from a variety of sources to show the application of management accounting in diverse organizational settings.

Instructor Materials

The following supplements are available to adopting instructors. For detailed descriptions, please visit www.pearsonhighered.com.

- **Instructor's Manual**—teaching tips and additional resources for each chapter.
- **Test Bank**—over 1,200 test questions.
- **Solutions Manual**—solutions for every question, exercise, problem, and HBS case study.
- **PowerPoint slides**—presentations for every chapter.