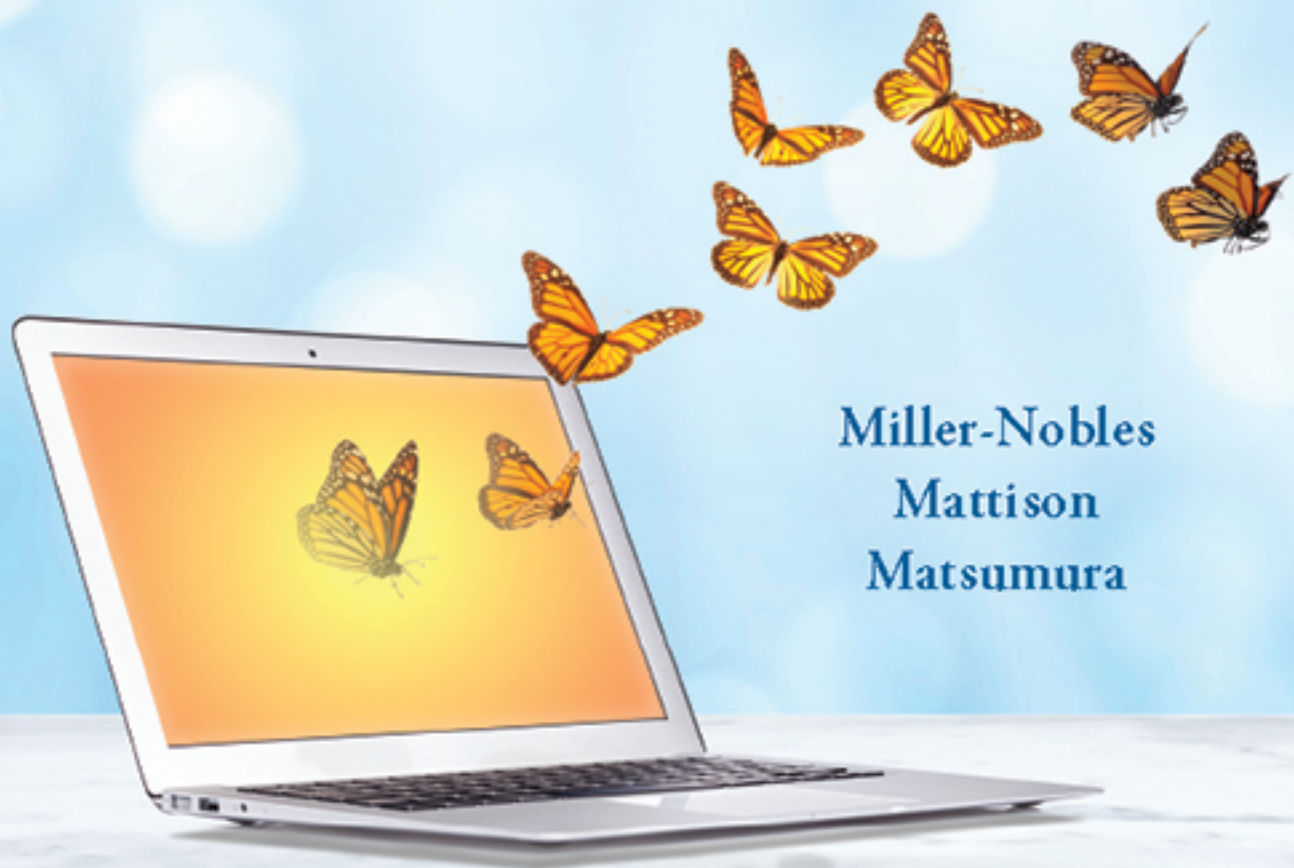


HORNGREN'S ACCOUNTING

THE MANAGERIAL CHAPTERS

TWELFTH EDITION



Miller-Nobles
Mattison
Matsumura

HORNGREN'S
Accounting
THE MANAGERIAL CHAPTERS
TWELFTH EDITION

Tracie Miller-Nobles

Austin Community College

Brenda Mattison

Tri-County Technical College

Ella Mae Matsumura

University of Wisconsin-Madison

Vice President, Business Publishing: Donna Battista
Director of Portfolio Management: Adrienne D'Ambrosio
Specialist Portfolio Management: Lacey Vitetta
Editorial Assistant: Elisa Marks
Vice President, Product Marketing: Roxanne McCarley
Director of Strategic Marketing: Brad Parkins
Strategic Marketing Manager: Deborah Strickland
Product Marketing Manager: Tricia Murphy
Field Marketing Manager: Natalie Wagner
Field Marketing Assistant: Kristen Compton
Product Marketing Assistant: Jessica Quazza
Vice President, Production and Digital Studio, Arts and Business: Etain O'Dea
Director of Production, Business: Jeff Holcomb
Managing Producer, Business: Ashley Santora
Content Producer: Mary Kate Murray
Operations Specialist: Carol Melville
Creative Director: Blair Brown

Manager, Learning Tools: Brian Surette
Digital Strategist: Sarah Peterson
Managing Producer, Digital Studio, Arts and Business: Diane Lombardo
Digital Studio Producer: Regina DaSilva
Digital Studio Producer: Alana Coles
Senior Tech Manager: James Bateman
Digital Content Team Lead: Noel Lotz
Digital Content Project Lead: Martha LaChance
Full-Service Project Management and Composition: SPi Global
Interior Designer: Jon Boylan/SPi Global
Cover Designer: Jon Boylan
Cover Art: mbbirdy/Getty Images; Lisa Thornberg/Getty Images; Serg-DAV/Shutterstock; Atstock Productions/Shutterstock
Printer/Binder: LSC Communications
Cover Printer: Phoenix Color/Hagerstown
Typeface: Garamond MT Pro

Microsoft and/or its respective suppliers make no representations about the suitability of the information contained in the documents and related graphics published as part of the services for any purpose. All such documents and related graphics are provided "as is" without warranty of any kind. Microsoft and/or its respective suppliers hereby disclaim all warranties and conditions with regard to this information, including all warranties and conditions of merchantability, whether express, implied or statutory, fitness for a particular purpose, title and non-infringement. In no event shall Microsoft and/or its respective suppliers be liable for any special, indirect or consequential damages or any damages whatsoever resulting from loss of use, data or profits, whether in an action of contract, negligence or other tortious action, arising out of or in connection with the use or performance of information available from the services.

The documents and related graphics contained herein could include technical inaccuracies or typographical errors. Changes are periodically added to the information herein. Microsoft and/or its respective suppliers may make improvements and/or changes in the product(s) and/or the program(s) described herein at any time. Partial screen shots may be viewed in full within the software version specified.

Microsoft® and Windows® are registered trademarks of the Microsoft Corporation in the U.S.A. and other countries. This book is not sponsored or endorsed by or affiliated with the Microsoft Corporation.

Copyright © 2018, 2016, 2014, Pearson Education, Inc. or its affiliates. All Rights Reserved. Manufactured in the United States of America. This publication is protected by copyright, and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise. For information regarding permissions, request forms, and the appropriate contacts within the Pearson Education Global Rights and Permissions department, please visit www.pearsoned.com/permissions/.

Acknowledgments of third-party content appear on the appropriate page within the text or on pages P-1 and P-2, which constitutes an extension of this copyright page.

PEARSON, ALWAYS LEARNING and MYACCOUNTINGLAB® are exclusive trademarks, in the U.S. and/or other countries, of Pearson Education, Inc. or its affiliates in the U.S. and/or other countries.

Unless otherwise indicated herein, any third-party trademarks that may appear in this work are the property of their respective owners, and any references to third-party trademarks, logos, or other trade dress are for demonstrative or descriptive purposes only. Such references are not intended to imply any sponsorship, endorsement, authorization, or promotion of Pearson's products by the owners of such marks, or any relationship between the owner and Pearson Education, Inc. or its affiliates, authors, licensees, or distributors.

Catalog-in-Publication Data is on file with the Library of Congress.

About the Authors



Tracie L. Miller-Nobles, CPA, received her bachelor's and master's degrees in accounting from Texas A&M University and is currently pursuing her Ph.D. in adult education also at Texas A&M University. She is an Associate Professor at Austin Community College, Austin, TX. Previously she served as a Senior Lecturer at Texas State University, San Marcos, TX, and has taught as an adjunct at University of Texas-Austin. Tracie has public accounting experience with Deloitte Tax LLP and Sample & Bailey, CPAs.

Tracie is a recipient of the following awards: American Accounting Association J. Michael and Mary Anne Cook prize, Texas Society of CPAs Rising Star TSCPA Austin Chapter CPA of the Year, TSCPA Outstanding Accounting Educator, NISOD Teaching Excellence and Aims Community College Excellence in Teaching. She is a member of the Teachers of Accounting at Two Year Colleges, the American Accounting Association, the American Institute of Certified Public Accountants, and the Texas State Society of Certified Public Accountants. She is currently serving on the Board of Directors as secretary/webmaster of Teachers of Accounting at Two Year Colleges and as a member of the American Institute of Certified Public Accountants financial literacy committee. In addition, Tracie served

on the Commission on Accounting Higher Education: Pathways to a Profession.

Tracie has spoken on such topics as using technology in the classroom, motivating non-business majors to learn accounting, and incorporating active learning in the classroom at numerous conferences. In her spare time she enjoys camping and hiking and spending time with friends and family.

Brenda L. Mattison, CMA, has a bachelor's degree in education and a master's degree in accounting, both from Clemson University. She is currently an Accounting Instructor at Tri-County Technical College in Pendleton, South Carolina. Brenda previously served as Accounting Program Coordinator at TCTC and has prior experience teaching accounting at Robeson Community College, Lumberton, North Carolina; University of South Carolina Upstate, Spartanburg, South Carolina; and Rasmussen Business College, Eagan, Minnesota. She also has accounting work experience in retail and manufacturing businesses and is a Certified Management Accountant.

Brenda is a member of the American Accounting Association, Institute of Management Accountants, South Carolina Technical Education Association, and Teachers of Accounting at Two Year Colleges. She is currently serving on the Board of Directors as Vice President of Conference Administration of Teachers of Accounting at Two Year Colleges.

Brenda previously served as Faculty Fellow at Tri-County Technical College. She has presented at state, regional, and national conferences on topics including active learning, course development, and student engagement.

In her spare time, Brenda enjoys reading and spending time with her family. She is also an active volunteer in the community, serving her church and other organizations.



Ella Mae Matsumura, Ph.D. is a professor in the Department of Accounting and Information Systems in the School of Business at the University of Wisconsin–Madison, and is affiliated with the university's Center for Quick Response Manufacturing. She received an A.B. in mathematics from the University of California, Berkeley, and M.Sc. and Ph.D. degrees from the University of British Columbia. Ella Mae has won two teaching excellence awards at the University of Wisconsin–Madison and was elected as a lifetime fellow of the university's Teaching Academy, formed to promote effective teaching. She is a member of the university team awarded an IBM Total Quality Management Partnership grant to develop curriculum for total quality management education.

Ella Mae was a co-winner of the 2010 Notable Contributions to Management Accounting Literature Award. She has served in numerous leadership positions in the American Accounting Association (AAA). She was coeditor of *Accounting Horizons* and has chaired and served on numerous AAA committees. She has been secretary-

treasurer and president of the AAA's Management Accounting Section. Her past and current research articles focus on decision making, performance evaluation, compensation, supply chain relationships, and sustainability. She coauthored a monograph on customer profitability analysis in credit unions.

This page intentionally left blank

Brief Contents

Chapter 18	Introduction to Managerial Accounting	960
Chapter 19	Job Order Costing	1008
Chapter 20	Process Costing	1061
Chapter 21	Cost-Volume-Profit Analysis	1128
Chapter 22	Master Budgets	1199
Chapter 23	Flexible Budgets and Standard Cost Systems	1281
Chapter 24	Cost Allocation and Responsibility Accounting	1340
Chapter 25	Short-Term Business Decisions	1406
Chapter 26	Capital Investment Decisions	1459
<hr/>		
APPENDIX A	—Present Value Tables and Future Value Tables	A-1
APPENDIX B	—The Statement of Cash Flows	B-1
APPENDIX C	—Financial Statement Analysis	C-1
GLOSSARY		G-1
INDEX		I-1
PHOTO CREDITS		P-1

This page intentionally left blank

Contents

CHAPTER 18

Introduction to Managerial Accounting 960

Why Is Managerial Accounting Important? 961

- Managers' Role in the Organization 962
- Managerial Accounting Functions 963
- Ethical Standards of Managers 964

How Are Costs Classified? 966

- Manufacturing Companies 966
- Direct and Indirect Costs 967
- Manufacturing Costs 967
- Prime and Conversion Costs 968
- Product and Period Costs 969

How Do Manufacturing Companies Prepare Financial Statements? 971

- Balance Sheet 971
- Income Statement 971
- Product Costs Flow Through a Manufacturing Company 972
- Calculating Cost of Goods Manufactured 973
- Calculating Cost of Goods Sold 975
- Flow of Costs Through the Inventory Accounts 976
- Using the Schedule of Cost of Goods Manufactured to Calculate Unit Product Cost 976

What Are Business Trends That Are Affecting Managerial Accounting? 978

- Shift Toward a Service Economy 978
- Global Competition 978
- Time-Based Competition 978
- Total Quality Management 978
- The Triple Bottom Line 979

How Is Managerial Accounting Used In Service and Merchandising Companies? 980

- Calculating Cost per Service 980
- Calculating Cost per Item 980

■ Review 981

■ Assess Your Progress 985

■ Critical Thinking 1004

CHAPTER 19

Job Order Costing 1008

How Do Manufacturing Companies Use Job Order and Process Costing Systems? 1009

- Job Order Costing 1009
- Process Costing 1010

How Do Materials and Labor Costs Flow Through the Job Order Costing System? 1010

- Materials 1012
- Labor 1015

How Do Overhead Costs Flow Through the Job Order Costing System? 1018

- Before the Period—Calculating the Predetermined Overhead Allocation Rate 1019
- During the Period—Allocating Overhead 1020

What Happens When Products Are Completed and Sold? 1022

- Transferring Costs to Finished Goods Inventory 1023
- Transferring Costs to Cost of Goods Sold 1023

How Is the Manufacturing Overhead Account Adjusted? 1024

- At the End of the Period—Adjusting for Overallocated and Underallocated Overhead 1024
- Summary of Journal Entries 1026
- Cost of Goods Manufactured and Cost of Goods Sold 1028

How Do Service Companies Use a Job Order Costing System? 1030

■ Review 1032

■ Assess Your Progress 1038

■ Critical Thinking 1058

CHAPTER 20

Process Costing 1061

How Do Costs Flow Through a Process Costing System? 1062

- Job Order Costing Versus Process Costing 1062
- Flow of Costs Through a Process Costing System 1063

What Are Equivalent Units of Production, and How Are They Calculated? 1066

- Equivalent Units of Production 1067

How Is a Production Cost Report Prepared For the First Department? 1068

- Production Cost Report—First Process—Assembly Department 1069

How Is a Production Cost Report Prepared for Subsequent Departments? 1075

- Production Cost Report—Second Process—Cutting Department 1075

What Journal Entries Are Required in a Process Costing System? 1082

- Transaction 1—Raw Materials Purchased 1082
- Transaction 2—Raw Materials Used in Production 1083
- Transaction 3—Labor Costs Incurred 1083
- Transaction 4—Additional Manufacturing Costs Incurred 1083
- Transaction 5—Allocation of Manufacturing Overhead 1084
- Transaction 6—Transfer from the Assembly Department to the Cutting Department 1084
- Transaction 7—Transfer from Cutting Department to Finished Goods Inventory 1084
- Transaction 8—Puzzles Sold 1084
- Transaction 9—Adjust Manufacturing Overhead 1085

How Can the Production Cost Report Be Used to Make Decisions? 1086

APPENDIX 20A: Process Costing: First-In, First-Out Method 1087

How Is a Production Cost Report Prepared Using the FIFO Method? 1088

- Comparison of Weighted-Average and FIFO Methods 1096

■ Review 1097

■ Assess Your Progress 1105

■ Critical Thinking 1125

CHAPTER 21

Cost-Volume-Profit Analysis 1128

How Do Costs Behave When There Is a Change in Volume? 1129

- Variable Costs 1129
- Fixed Costs 1130
- Mixed Costs 1132

What Is Contribution Margin, and How Is It Used to Compute Operating Income? 1136

- Contribution Margin 1136
- Unit Contribution Margin 1136
- Contribution Margin Ratio 1137
- Contribution Margin Income Statement 1137

How Is Cost-Volume-Profit (CVP) Analysis Used? 1138

- Assumptions 1138
- Breakeven Point—Three Approaches 1138
- Target Profit 1140
- CVP Graph—A Graphic Portrayal 1142

How Is CVP Analysis Used for Sensitivity Analysis? 1143

- Changes in the Sales Price 1143
- Changes in Variable Costs 1144
- Changes in Fixed Costs 1144
- Using Sensitivity Analysis 1145
- Cost Behavior Versus Management Behavior 1146

What Are Some Other Ways CVP Analysis Can Be Used? 1147

- Margin of Safety 1147
- Operating Leverage 1148
- Sales Mix 1150

APPENDIX 21A: Variable Costing 1152

How Does Variable Costing Differ from Absorption Costing? 1152

- Absorption Costing 1153
- Variable Costing 1153
- Comparison of Unit Product Costs 1154

How Does Operating Income Differ Between Variable Costing and Absorption Costing? 1155

- Units Produced Equal Units Sold 1155
- Units Produced Are More Than Units Sold 1156
- Units Produced Are Less Than Units Sold 1158
- Summary 1161

■ Review 1162

■ Assess Your Progress 1170

■ Critical Thinking 1193

■ Comprehensive Problem For Chapters 18–21 1194

CHAPTER 22

Master Budgets 1199

Why Do Managers Use Budgets? 1200

- Budgeting Objectives 1200
- Budgeting Benefits 1201
- Budgeting Procedures 1202
- Budgeting and Human Behavior 1202

What Are the Different Types of Budgets? 1203

- Strategic and Operational Budgets 1203
- Static and Flexible Budgets 1204
- Master Budgets 1204

How Are Operating Budgets Prepared for a Manufacturing Company? 1206

- Sales Budget 1207
- Production Budget 1208
- Direct Materials Budget 1209
- Direct Labor Budget 1210
- Manufacturing Overhead Budget 1211
- Cost of Goods Sold Budget 1212
- Selling and Administrative Expense Budget 1213

How Are Financial Budgets Prepared for a Manufacturing Company? 1214

- Capital Expenditures Budget 1214
- Cash Budget 1214
- Budgeted Income Statement 1222
- Budgeted Balance Sheet 1223

How Are Operating Budgets Prepared for a Merchandising Company? 1225

- Sales Budget 1225
- Inventory, Purchases, and Cost of Goods Sold Budget 1227
- Selling and Administrative Expense Budget 1227

How Are Financial Budgets Prepared for a Merchandising Company? 1228

- Capital Expenditures Budget 1228
- Cash Budget 1229
- Budgeted Income Statement 1233
- Budgeted Balance Sheet 1234

How Can Information Technology Be Used in the Budgeting Process? 1236

- Sensitivity Analysis 1236
- Budgeting Software 1236

■ Review 1237

■ Assess Your Progress 1244

■ Critical Thinking 1277

CHAPTER 23

Flexible Budgets and Standard Cost Systems 1281

How Do Managers Use Budgets to Control Business Activities? 1283

- Performance Reports Using Static Budgets 1283
- Performance Reports Using Flexible Budgets 1284

Why Do Managers Use a Standard Cost System to Control Business Activities? 1288

- Setting Standards 1289
- Standard Cost System Benefits 1291
- Variance Analysis for Product Costs 1291

How Are Standard Costs Used to Determine Direct Materials and Direct Labor Variances? 1293

- Direct Materials Variances 1294
- Direct Labor Variances 1296

How Are Standard Costs Used to Determine Manufacturing Overhead Variances? 1298

- Allocating Overhead in a Standard Cost System 1299
- Variable Overhead Variances 1299
- Fixed Overhead Variances 1301

What Is the Relationship Among the Product Cost Variances, and Who Is Responsible for Them? 1304

- Variance Relationships 1305
- Variance Responsibilities 1306

How Do Journal Entries Differ in a Standard Cost System? 1307

- Journal Entries 1307
- Standard Cost Income Statement 1311

■ Review 1313

■ Assess Your Progress 1321

■ Critical Thinking 1336

CHAPTER 24

Cost Allocation and Responsibility Accounting 1340

How Do Companies Assign and Allocate Costs? 1341

- Single Plantwide Rate 1342
- Multiple Department Rates 1344
- Activity-Based Costing 1345
- Traditional Costing Systems Compared with ABC Systems 1350

Why Do Decentralized Companies Need Responsibility Accounting? 1351

- Advantages of Decentralization 1351
- Disadvantages of Decentralization 1352
- Responsibility Accounting 1353

What Is a Performance Evaluation System, and How Is It Used? 1356

- Goals of Performance Evaluation Systems 1356
- Limitations of Financial Performance Measurement 1357
- The Balanced Scorecard 1357

How Do Companies Use Responsibility Accounting to Evaluate Performance in Cost, Revenue, and Profit Centers? 1360

- Controllable Versus Noncontrollable Costs 1360
- Responsibility Reports 1361

How Does Performance Evaluation in Investment Centers Differ From Other Centers? 1365

- Return on Investment (ROI) 1366
- Residual Income (RI) 1369
- Limitations of Financial Performance Measures 1370

APPENDIX 24A: *Transfer Pricing* 1372

How Do Transfer Prices Affect Decentralized Companies? 1372

- Objectives in Setting Transfer Prices 1372
- Setting Transfer Prices 1373

■ Review 1375

■ Assess Your Progress 1382

■ Critical Thinking 1400

■ Comprehensive Problem for Chapters 22–24 1400

CHAPTER 25

Short-Term Business Decisions 1406

How Is Relevant Information Used to Make Short-Term Decisions? 1407

- Relevant Information 1407
- Relevant Nonfinancial Information 1408
- Differential Analysis 1408

How Does Pricing Affect Short-Term Decisions? 1410

- Setting Regular Prices 1410
- Special Pricing 1414

How Do Managers Decide Which Products to Produce and Sell? 1417

- Dropping Unprofitable Products and Segments 1417
- Product Mix 1421
- Sales Mix 1424

How Do Managers Make Outsourcing and Processing Further Decisions? 1425

- Outsourcing 1425
- Sell or Process Further 1429

■ Review 1432

■ Assess Your Progress 1439

■ Critical Thinking 1455

CHAPTER 26

Capital Investment Decisions 1459

What Is Capital Budgeting? 1460

- The Capital Budgeting Process 1460
- Focus on Cash Flows 1462

How Do the Payback and Accounting Rate of Return Methods Work? 1464

- Payback 1464
- Accounting Rate of Return (ARR) 1467

What Is the Time Value of Money? 1470

- Time Value of Money Concepts 1471
- Present Value of a Lump Sum 1473
- Present Value of an Annuity 1474
- Present Value Examples 1474
- Future Value of a Lump Sum 1476
- Future Value of an Annuity 1476

How Do Discounted Cash Flow Methods Work? 1477

- Net Present Value (NPV) 1477
- Internal Rate of Return (IRR) 1482
- Comparing Capital Investment Analysis Methods 1485
- Sensitivity Analysis 1486
- Capital Rationing 1489

■ Review 1490

■ Assess Your Progress 1496

■ Critical Thinking 1509

■ Comprehensive Problem for Chapters 25 and 26 1510

APPENDIX A— Present Value Tables and Future Value Tables A-1

APPENDIX B— The Statement of Cash Flows B-1

APPENDIX C— Financial Statement Analysis C-1

GLOSSARY G-1

INDEX I-1

PHOTO CREDITS P-1

Changes to This Edition

General

Revised end-of-chapter short exercises, exercises, problems, continuing problems, comprehensive problems, and critical thinking cases.

NEW! Using Excel. This end-of-chapter problem introduces students to Excel to solve common accounting problems as they would in the business environment.

NEW! Tying It All Together feature ties together key concepts from the chapter using the company highlighted in the chapter opener. The in-chapter box feature presents scenarios and questions that the company could face and focuses on the decision-making process. The end-of-chapter business case helps students synthesize the concepts of the chapter and reinforce critical thinking.

Chapter 18

Expanded the discussion of managerial accounting to include manager's role in the organization and managerial accounting functions.

Clarified and expanded the discussion of how companies classify costs used in managerial accounting.

Revised the discussion on manufacturing cost flows, including better explanation of how cost of goods manufactured and cost of goods sold are calculated.

Expanded discussion on business trends that are affecting managerial accounting.

Chapter 19

Expanded the discussion on cost accounting systems, including why companies choose either process or job-order costing.

Clarified the discussion on the allocation and adjustment of manufacturing overhead.

Chapter 20

REVISED! For consistency throughout the chapter, all company examples now use the same company, Puzzle Me, to better understand how costs flow through a process costing system and are reflected on the production cost report.

Expanded and clarified discussion on equivalent units of production.

REVISED! The discussion on preparing a production cost report was split into two learning objectives (first department and subsequent departments) allowing faculty to omit the discussion on subsequent departments.

REVISED! Discussion on preparing a production cost report for the first department now realistically reflects beginning inventory.

Updated the discussion on how the weighted-average method is different than the FIFO method when preparing the production cost report.

Chapter 21

Moved discussion of breakeven point before coverage of target profit for better student understanding.

Clarified the high-low method when determining a company's variable and fixed costs.

NEW! Discussion on how sensitivity analysis could be used and the differences between predicted cost behavior versus actual management behavior.

Expanded discussion on the differences between absorption and variable costing and the impact on operating income.

Chapter 22

Expanded discussion benefits of budgets, including benchmarking.

NEW! Added discussion on types of budgets, including participative, zero-based, and continuous budgets.

Moved the coverage of merchandising budgets from the appendix into the chapter. This allows faculty to choose to cover both manufacturing and merchandising budgets or either. Each section is developed on a stand-alone basis.

Clarified the steps involved in the different budgets for better student understanding.

Chapter 23

Expanded the discussion on performance reports using static budgets, including advantages and disadvantages.

Chapter 26

NEW! Added discussion on future value, including determining the future value of a lump sum and of an annuity.

Appendix B

Modified the wording in Changes to Current Assets and Current Liabilities section of preparing the statement of cash flows, indirect method, to emphasize adjustments are made to net income to convert from accrual basis to cash basis.

Appendix C

Rearranged the liquidity ratios from most stringent to least stringent (cash ratio, acid-test ratio, current ratio).

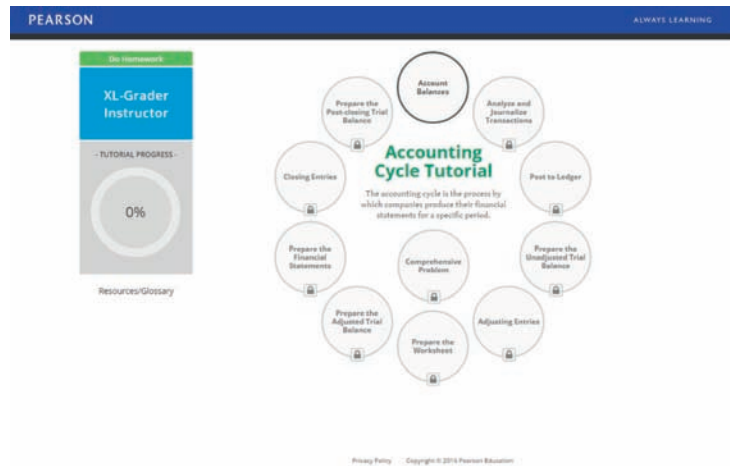
NEW! Added problem (both A and B series) that has students complete a trend analysis and ratios to analyze a company for its investment potential.

<http://www.pearsonhighered.com/Horngren>

Horngren's Accounting . . . Expanding on Proven Success

Accounting Cycle Tutorial

MyAccountingLab's interactive tutorial helps students master the Accounting Cycle for early and continued success in the Introduction to Accounting course. The tutorial, accessed by computer, smartphone, or tablet, provides students with brief explanations of each concept of the Accounting Cycle through engaging, interactive activities. Students are immediately assessed on their understanding and their performance is recorded in the MyAccountingLab Gradebook. Whether the Accounting Cycle Tutorial is used as a remediation self-study tool or course assignment, students have yet another resource within MyAccountingLab to help them be successful with the accounting cycle.



NEW! ACT Comprehensive Problem

The Accounting Cycle Tutorial now includes a comprehensive problem that allows students to work with the same set of transactions throughout the accounting cycle. The comprehensive problem, which can be assigned at the beginning or the end of the full cycle, reinforces the lessons learned in the accounting cycle tutorial activities by emphasizing the connections between the accounting cycle concepts.

Study Plan

The Study Plan acts as a tutor, providing personalized recommendations for each of your students based on his or her ability to master the learning objectives in your course. This allows students to focus their study time by pinpointing the precise areas they need to review, and allowing them to use customized practice and learning aids—such as videos, eText, tutorials, and more—to get them back on track. Using the report available in the Gradebook, you can then tailor course lectures to prioritize the content where students need the most support—offering you better insight into classroom and individual performance.

Dynamic Study Modules

Help students study effectively on their own by continuously assessing their activity and performance in real time. Here's how it works: students complete a set of questions with a unique answer format that also asks them to indicate their confidence level. Questions repeat until the student can answer them all correctly and confidently. Once completed, Dynamic Study Modules explain the concept using materials from the text. These are available as graded assignments prior to class, and accessible on smartphones, tablets, and computers. **NEW!** Instructors can now remove questions from Dynamic Study Modules to better fit their course. Available for select titles.

Learning Catalytics

Learning Catalytics helps you generate class discussion, customize your lecture, and promote peer-to-peer learning with real-time analytics. As a student response tool, Learning Catalytics uses students' smartphones, tablets, or laptops to engage them in more interactive tasks and thinking.

- **NEW!** Upload a full PowerPoint® deck for easy creation of slide questions.
- Help your students develop critical thinking skills.
- Monitor responses to find out where your students are struggling.
- Rely on real-time data to adjust your teaching strategy.
- Automatically group students for discussion, teamwork, and peer-to-peer learning.

learning catalytics™
Liamon, Martin | L103.pdf

Session 26148360
Multiple choice question

Furniture Company allocates overhead based on machine hours. Selected data for the most recent year follow:

- Estimated manufacturing overhead cost \$240,000
- Actual manufacturing overhead cost \$215,000
- Estimated machine hours 40,000
- Actual machine hours 41,500

The estimates were made as of the beginning of the year; while the actual results were for the entire year. The amount of manufacturing overhead allocated for the year based on machine hours would have been:

A. \$215,000
B. \$227,500
C. \$240,000
D. \$244,000

Hide responses / Change response

Refresh Send a message to the instructor Join another session

Depreciation

Related Account: Furniture (Normal DR balance)

Contra Account: Accumulated Depreciation—Furniture (Normal CR balance)

A business may have a separate Accumulated Depreciation account for each depreciable asset

- Accumulated Depreciation - Furniture
- Accumulated Depreciation - Building

Smart Touch Learning

Copyright ©2016 Pearson Education, Inc. PEARSON

Animated Lectures

These pre-class learning aids are available for every learning objective and are professor-narrated PowerPoint summaries that will help students prepare for class. These can be used in an online or flipped classroom experience or simply to get students ready for lecture.

Chapter Openers

Chapter openers set up the concepts to be covered in the chapter using stories students can relate to. The implications of those concepts on a company's reporting and decision making processes are then discussed.

NEW! Tying It All Together

This feature ties together key concepts from the chapter using the company highlighted in the chapter opener. The in-chapter box feature presents scenarios and questions that the company could face and focuses on the decision-making process. The end of chapter business case helps students synthesize the concepts of the chapter and reinforce critical thinking.

TYING IT ALL TOGETHER

In the chapter opener, we introduced **Winnipeg Industries, Inc.** Winnipeg is headquartered in Forest City, Iowa, and is a leading manufacturer of recreational vehicles (RVs), including motorized and towable products. The company designs, develops, manufactures, and markets RVs as well as supporting products and services. The RVs are sold to consumers through a dealer network.

On the August 29, 2015, balance sheet, Winnipeg reported total inventory of \$112 million. What type inventory accounts would Winnipeg have?
Winnipeg is a manufacturer so it would have Raw Materials, Work-in-Process, and Finished Goods Inventory accounts.

For the year ended August 29, 2015, Winnipeg reported cost of goods sold of \$871 million and operating

expenses of \$45 million. Which costs are period costs? Which costs are product costs?

The operating expenses are period costs and the cost of goods sold is a product cost.

List some examples of product costs for Winnipeg.

Product costs include direct materials, direct labor, and manufacturing overhead. For Winnipeg, direct materials would include items such as steel, aluminum, and fiberglass. Direct materials would also include tires, engines, refrigerators, sinks, washers, and dryers. Direct labor would include the costs of the men and women working on the assembly lines. Manufacturing overhead would include indirect factory costs, such as plant utilities, plant insurance, indirect materials, indirect labor, and depreciation on plant buildings and equipment.

> Tying It All Together Case 18-1

Before you begin this assignment, review the Tying It All Together feature in the chapter.

Winnipeg Industries, Inc. is a leading manufacturer of recreational vehicles (RVs), including motorized and towable products. The company designs, develops, manufactures, and markets RVs as well as supporting products and services. The RVs are sold to consumers through a dealer network. On the August 29, 2015, balance sheet, Winnipeg reported inventory of approximately \$112 million. Of this amount, approximately \$12 million, about 11%, was Finished Goods Inventory (Notes to Consolidated Financial Statements, Note 3). Suppose Winnipeg motor homes have an average sales price of \$96,000 and cost of goods sold is 89% of sales. Thor Industries, Inc., a major competitor, has an average cost of goods sold of 86% of sales. For year ending August 29, 2015, Winnipeg sold 9,097 motor homes (Form 10-K, Item 1 Business).

Requirements

1. Why would the Finished Goods Inventory be such a relatively small portion of total inventory?
2. What is the average cost of goods sold (in dollars) for a Winnipeg motor home? What is the average gross profit?
3. If Winnipeg could reduce production costs so that the average cost of goods sold is equal to their competitor's average cost of goods sold, how much more profit would Winnipeg earn on each motor home sold?
4. Based on 2015 sales, how much would operating income increase if the company reduced the average cost of goods sold to equal their competitor's average cost of goods sold?
5. How could managers at Winnipeg use managerial accounting to reduce costs and increase profits?

Effect on the Accounting Equation

Next to every journal entry in both financial and managerial chapters, these illustrations help reinforce the connections between recording transactions and the effect those transactions have on the accounting equation.

$$\left. \begin{array}{l} A \uparrow \\ RM \uparrow \end{array} \right\} = \left\{ \begin{array}{l} L \uparrow \\ A/P \uparrow \end{array} + \frac{E}{} \right.$$

Date	Accounts and Explanation	Debit	Credit
Trans. 1	Raw Materials Inventory	367,000	
	Accounts Payable		367,000

Instructor Tips & Tricks

Found throughout the text, these handwritten notes mimic the experience of having an experienced teacher walk a student through concepts on the “board.” Many include mnemonic devices or examples to help students remember the rules of accounting.

Expected increase in revenue	(250 tablets × \$275)	\$ 68,750
Expected increase in variable manufacturing costs	(250 tablets × \$245)	(61,250)
Expected increase in operating income	(250 tablets × \$ 30)	<u>\$ 7,500</u>

In differential analysis, items are shown with their effect on profits. The increase in revenues will *increase* profits, so it is shown as a positive amount. The increase in costs will *decrease* profits, so it is shown as a negative amount.

Common Questions, Answered

Our authors have spent years in the classroom answering students’ questions and have found patterns in the concepts or rules that consistently confuse students. These commonly asked questions are located in the margin of the text next to where the answer or clarification can be found highlighted in purple text.

To determine the investment’s net cash inflows, the cash inflows are *netted* against the investment’s future cash outflows, such as the investment’s ongoing cash operating costs and cash paid for refurbishment, repairs, and maintenance costs. The initial investment itself is also a significant cash outflow. However, in our calculations, *we will always consider the amount of the investment separately from all other cash flows related to the investment.* The projected net cash inflows are given in our examples and in the assignment material. In reality, much of capital investment analysis revolves around projecting these figures as accurately as possible using input from employees throughout the organization—production, marketing, and so forth—depending on the type of capital investment. Exhibit 26-2 summarizes the common cash inflows and outflows from capital investments.

What do the projected net cash inflows include?



Try It! Boxes

Found after each learning objective, Try Its! give students opportunities to apply the concept they've just learned by completing an accounting problem. Links to these exercises appear throughout the eText, allowing students to practice in MyAccountingLab without interruption.

Try It!

Record the following journal entries for Smith Company:

6. Purchased raw materials on account, \$10,000.
7. Used \$6,000 in direct materials and \$500 in indirect materials in production.
8. Incurred \$8,000 in labor costs, of which 80% was direct labor.

Check your answers online in MyAccountingLab or at <http://www.pearsonhighered.com/Horngren>.

For more practice, see Short Exercises S19-2 through S19-4. [MyAccountingLab](#)

Try It! Solution Videos

Author-recorded and accompanying Try It! Exercises, these videos walk students through the problem and the solution.

Startech Surveillance Services had the following adjustments as of the end of the year:

- a. Equipment depreciation was \$1,500. **D**
- b. \$700 of advertising expense was incurred but not paid. (Use Advertising Payable.) **A**
- c. Office Supplies on hand at the end of the year totaled \$250. The beginning balance of Office Supplies was \$600. **D**
- d. \$1,200 of rent revenue was earned but not recorded or received. **A**
- e. Unearned revenue of \$3,000 had been earned. **D**

6. For each situation, indicate which category of adjustment (deferral or accrual) is described.
7. Journalize the adjusting entry needed.

Deferral: Cash occurs before revenue or expense
Accrual: Cash occurs after revenue or expense

a. Dep. Exp.	1500	b. Adv. Exp.	700
Acc. Dep.	1500	Adv. Pay.	700

IFRS

Information on IFRS provides guidance on how IFRS differs from U.S. GAAP throughout the financial chapters.



Decision Boxes

This feature provides common questions and potential solutions business owners face. Students are asked to determine the course of action they would take based on concepts covered in the chapter and are then given potential solutions.

DECISIONS

Can we cut these costs?

The management team of Puzzle Me is looking at the production cost reports for July, and discussing opportunities for improvement. The production manager thinks the production process is very efficient, and there is little room for cost savings in conversion costs. The purchasing manager tells the team that he was recently approached by a supplier with an excellent reputation for quality. This supplier submitted a bid for cardboard that was a little thinner but would allow the company to decrease direct materials costs by 5%. What should the team do?

Solution

The production cost reports for the Assembly and Cutting Departments show direct materials costs of \$2.80 and \$0.50 per puzzle, respectively, for total direct materials cost of \$3.30 per puzzle. A decrease of 5% in direct materials costs would result in a savings

of \$0.165 per puzzle ($\$3.30 \times 5\%$) and decrease total costs from \$5.30 to \$5.135 per puzzle. Based on the completed production of 38,000 puzzles in July, the total cost savings would be \$6,270 per month ($\$0.165 \text{ per puzzle} \times 38,000 \text{ puzzles}$). The purchasing manager recommends using the new supplier.

Alternate Solution

The marketing manager has a different perspective. He points out that most of the puzzles produced are for toddlers. Based on market research, the adults who purchase these puzzles like the sturdy construction. If Puzzle Me changes materials and the puzzles do not stand up well to the treatment they receive by young children, the company could rapidly lose market share. The marketing manager does not recommend using a thinner cardboard.

> Things You Should Know

1. Why is managerial accounting important?

- Managerial accounting focuses on providing information for internal decision makers.
- Managerial accounting helps managers plan, direct, control, and make decisions about the business.

2. How are costs classified?

- Manufacturing companies track costs using three inventory accounts: Raw Materials Inventory, Work-in-Process Inventory, and Finished Goods Inventory.
- Direct costs such as direct materials and direct labor can be easily and cost-effectively traced directly to a cost object, whereas indirect costs such as indirect materials and indirect labor cannot be easily or cost-effectively traced to cost objects.
- Manufacturing companies can classify product costs into three distinct categories: direct materials, direct labor, and manufacturing overhead.
 - Prime costs are direct materials and direct labor.
 - Conversion costs are direct labor and manufacturing overhead.
- Product costs are all costs (direct materials, direct labor, and manufacturing overhead) incurred in the manufacture of final products. Product costs are first recorded as inventory and not expensed until the product is sold.
- Period costs are all costs not considered product costs, such as selling and administrative costs. Period costs are expensed in the accounting period incurred.

Things You Should Know

Provides students with a brief review of each learning objective presented in a question and answer format.

NEW! Using Excel Problems

This end of chapter problem introduces students to Excel to solve common accounting problems as they would in the business environment. Students will work from a template that will aid them in solving the problem related to accounting concepts taught in the chapter. Each chapter focuses on different Excel skills.

> Using Excel

P20-46 Using Excel to prepare a production cost report.

Download an Excel template for this problem online in MyAccountingLab or at <http://www.pearsonhighered.com/Horngren>.

Salish Craft Beers provides the following information for the Malting Department for the month of August 2018:

	UNITS	COSTS
Beginning Work-in-Process Inventory	0	\$ 0
Started in Production in August	26,000	54,000*
Total to Account For	26,000	\$ 54,000
Completed and Transferred to Packaging Department during August	21,000	?
Ending Work-in-Process Inventory (30% complete for direct materials and 60% complete for conversion work)	5,000	?
Total Accounted For	26,000	\$ 54,000

* Includes \$18,000 direct materials and \$36,000 conversion costs

Requirements

Complete a production cost report for the Malting Department for the month of August 2018 to determine the cost of the units completed and transferred out, and the cost of the ending Work-in-Process Inventory. Assume Salish Craft Beers uses the weighted-average method.

End-of-Chapter Continuing and Comprehensive Problems

> Continuing Problem

P18-42

This is the first problem in a sequence of problems for Piedmont Computer Company, a manufacturer of personal computers and tablets. During its first month of manufacturing, Piedmont Computer Company incurred the following manufacturing costs:

Balances:	Beginning	Ending
Direct Materials	\$ 10,500	\$ 9,700
Work-in-Process Inventory	0	17,000
Finished Goods Inventory	0	31,000

Other information:	
Direct materials purchases	\$ 16,000
Plant janitorial services	500
Sales salaries expense	10,000
Delivery expense	1,600
Sales revenue	1,100,000
Utilities for plant	16,000
Rent on plant	9,000
Customer service hotline costs	19,000
Direct labor	210,000

Prepare a schedule of cost of goods manufactured for Piedmont Computer Company for the month ended January 31, 2020.

NEW! **Continuing Problem**—Starts in Chapter 18 and runs through the managerial chapters, exposing students to recording entries for a service company and then moving into recording transactions for a merchandiser later in the text. The managerial chapters' continuing problem has been revised for this edition and emphasizes the relevant topics for that chapter using a continuous company.

Comprehensive Problem for Chapters 18–21—Covers fundamental managerial accounting concepts: job order costing, process costing, cost management systems, and cost-volume-profit analysis.

Comprehensive Problem for Chapters 22–24—Covers planning and control decisions for a manufacturing company, including a master budget, flexible budget, variance analysis, and performance evaluation.

Comprehensive Problem for Chapters 25–26—Covers decision making, both short-term business decisions and capital budgeting decisions.

> Comprehensive Problem for Chapters 18–21

The Jacksonville Shirt Company makes two types of T-shirts: basic and custom. Basic shirts are plain shirts without any screen printing on them. Custom shirts are created using the basic shirts and then adding a custom screen printing design.

The company buys cloth in various colors and then makes the basic shirts in two departments, Cutting and Sewing. The company uses a process costing system (weighted-average method) to determine the production cost of the basic shirts. In the Cutting Department, direct materials (cloth) are added at the beginning of the process and conversion costs are added evenly through the process. In the Sewing Department, no direct materials are added. The only additional material, thread, is considered an indirect material because it cannot be easily traced to the finished product. Conversion costs are added evenly throughout the process in the Sewing Department. The finished basic shirts are sold to retail stores or are sent to the Custom Design Department for custom screen printing.

The Custom Design Department creates custom shirts by adding screen printing to the basic shirt. The department creates a design based on the customer's request and then prints the design using up to four colors. Because these shirts have the custom printing added, which is unique for each order, the additional cost incurred is determined using job order costing, with each custom order considered a separate job.

Enhanced eText

The **Enhanced eText** keeps students engaged in learning on their own time, while helping them achieve greater conceptual understanding of course material. The worked examples, animations, and interactive tutorials bring learning to life, and algorithmic practice allows students to apply the very concepts they are reading about. Combining resources that illuminate content with accessible self-assessment, MyLab with Enhanced eText provides students with a complete digital learning experience—all in one place.

And with the **Pearson eText 2.0** mobile app (available for select titles) students can now access the Enhanced eText and all of its functionality from their computer, tablet, or mobile phone. Because students' progress is synced across all of their devices, they can stop what they're doing on one device and pick up again later on another one—without breaking their stride.

This page intentionally left blank

Dear Colleague,

Thank you for taking the time to review *Horngren's Accounting*. We are excited to share our innovations with you as we expand on the proven success of our revision to the Horngren franchise. Using what we learned from focus groups, market feedback, and our colleagues, we've designed this edition to focus on several goals.

First, we again made certain that the textbook, student resources, and instructor supplements are clear, consistent, and accurate. As authors, we reviewed each and every component to ensure a student experience free of hurdles. Next, through our ongoing conversations with our colleagues and our time engaged at professional conferences, we confirmed that our pedagogy and content represents the leading methods used in teaching our students these critical foundational topics. Lastly, we concentrated on student success and providing resources for professors to create an active and engaging classroom.

We are excited to share with you some new features and changes in this latest edition. First, we have added a new Tying It All Together feature that highlights an actual company and addresses how the concepts of the chapter apply to the business environment. A Using Excel problem has also been added to every chapter to introduce students to using Excel to solve common accounting problems as they would in the business environment. Chapter 5 (Merchandising Operations) has been updated for the newly released revenue recognition standard. The managerial chapters went through a significant review with a focus of clarifying current coverage and expanding on content areas that needed more explanation.

We trust you will find evidence of these goals throughout our text, MyAccountingLab, enhanced eText, and in our many new media enhanced resources such as the Accounting Cycle Tutorial with a new comprehensive problem and animated lectures. We welcome your feedback and comments. Please do not hesitate to contact us at HorngrensAccounting@pearson.com or through our editor, Lacey Vitetta, LaceyVitetta@pearson.com.

Tracie L. Miller-Nobles, CPA *Brenda Mattison, CMA* *Ella Mae Matsumura, PhD*

This page intentionally left blank

Instructor and Student Resources

Each supplement, including the resources in MyAccountingLab, has been reviewed by the author team to ensure accuracy and consistency with the text. Given their personal involvement, you can be assured of the high quality and accuracy of all supplements.

For Instructors

MyAccountingLab

Online Homework and Assessment Manager: <http://www.myaccountinglab.com>

Instructor Resource Center: <http://www.pearsonhighered.com/Horngren>

For the instructor's convenience, the instructor resources can be downloaded from the textbook's catalog page (<http://www.pearsonhighered.com/Horngren>) and MyAccountingLab. Available resources include the following:

Online Instructor's Resource Manual:

Course Content:

- Tips for Taking Your Course from Traditional to Hybrid, Blended, or Online
- Standard Syllabi for Financial Accounting (10-week & 16-week)
- Standard Syllabi for Managerial Accounting (10-week & 16-week)
- Sample Syllabi for 10- and 16-week courses
- "First Day of Class" student handouts include:
 - Student Walk-Through to Set-up MyAccountingLab
 - Tips on How to Get an A in This Class

Chapter Content:

- Chapter Overview
 - Contains a brief synopsis and overview of each chapter.
- Learning Objectives
- Teaching Outline with Lecture Notes
 - Combines the Teaching Outline and the Lecture Outline Topics, so instructors only have one document to review.
 - Walks instructors through what material to cover and what examples to use when addressing certain items within the chapter.
- Handout for Student Notes
 - An outline to assist students in taking notes on the chapter.
- Student Chapter Summary
 - Aids students in their comprehension of the chapter.
- Assignment Grid
 - Indicates the corresponding Learning Objective for each exercise and problem.
 - Answer Key to Chapter Quiz
- Ten-Minute Quiz
 - To quickly assess students' understanding of the chapter material.
- Extra Critical Thinking Problems and Solutions
 - Critical Thinking Problems previously found in the text were moved to the IRM so instructors can continue to use their favorite problems.
- Guide to Classroom Engagement Questions
 - Author-created element will offer tips and tricks to instructors in order to help them use the Learning Catalytic questions in class.

Online Instructor's Solutions Manual:

- Contains solutions to all end-of-chapter questions, short exercises, exercises, and problems.
- The Try It! Solutions, previously found at the end of each chapter, are now available for download with the ISM.
- Using Excel templates, solutions, and teaching tips.
- All solutions were thoroughly reviewed by the author team and other professors.

Online Test Bank:

- Includes more than 3,900 questions, including NEW multi-level questions.
- Both conceptual and computational problems are available in true/false, multiple choice, and open-ended formats.
- Algorithmic test bank is available in MyAccountingLab.

PowerPoint Presentations:

Instructor PowerPoint Presentations:

- Complete with lecture notes.
- Mirrors the organization of the text and includes key exhibits.

Student PowerPoint Presentations:

- Abridged versions of the Instructor PowerPoint Presentations.
- Can be used as a study tool or note-taking tool for students.

Demonstration Problem PowerPoint Presentations:

- Offers instructors the opportunity to review in class the exercises and problems from the chapter using different companies and numbers.

Clicker Response System (CRS) PowerPoint Presentations:

- 10 multiple-choice questions to use with a Clicker Response System.

Image Library:

- All image files from the text to assist instructors in modifying our supplied PowerPoint presentations or in creating their own PowerPoint presentations.

Working Papers and Solutions:

- Available in Excel format.
- Templates for students to use to complete exercises and problems in the text.

Data and Solutions Files:

- Select end-of-chapter problems have been set up in different software applications, including QuickBooks and General Ledger.
- Corresponding solution files are provided for QuickBooks.

For Students

MyAccountingLab

Online Homework and Assessment Manager: <http://www.myaccountinglab.com>

- Pearson eText
- Using Excel templates
- Animated Lectures
- Demo Docs
- Interactive Figures
- Working Papers
- Accounting Videos
- Student PowerPoint® Presentations
- Accounting Cycle Tutorial
- Flash Cards

Student Resource Web site: <http://www.pearsonhighered.com/Horngren>

The book's Web site contains the following:

- Data Files: Select end-of-chapter problems have been set up in QuickBooks software and the related files are available for download.
- Working Papers
- Try It! Solutions: The solutions to all in-chapter Try Its! are available for download.
- Links to Target Corporation's Annual Report and Kohl's Corporation's Annual Report

<http://www.pearsonhighered.com/Horngren>

Acknowledgments

Acknowledgments for This Edition:

Tracie Miller-Nobles would like to thank her husband, Kevin, her parents, Kipp and Sylvia, and her sister Michelle for their love and support. She would also like to express her gratitude to her many colleagues and friends. In addition, she would like to dedicate this book to her students who have shaped her teaching and love of this profession.

Brenda Mattison appreciates the loving support of her family, especially from her husband, Grant, and sons, Christopher and Dillon. Her family's faith in her, along with her faith in God, provided her the inspiration to follow her dreams. This book is dedicated to her students, who work hard to achieve their dreams, are a constant reminder of what's really important in our lives, and inspire her to continuously seek ways to improve her craft of teaching.

Ella Mae Matsumura thanks her family for their longstanding love and support in her endeavors: husband, Kam-Wab Tsui; son, David Tsui; sister and late parents, Linda, Lester, and Eda Matsumura. She would also like to express her appreciation to the numerous colleagues and friends who have encouraged her and helped her grow as a scholar and a person; the many students who have provided constructive feedback that has shaped her teaching; and her faith community for its enduring love and affirmation.

The authors would like to sincerely thank Lacey Vitetta, Roberta Sherman, Mary Kate Murray, Tricia Murphy, Natalie Wagner, Adrienne D'Ambrosio, and Donna Battista for their unwavering support of this edition. They express their extreme pleasure in working with each of them and are appreciative of their guidance, patience, and belief in the success of this project.

Advisory Panels, Focus Group Participants, and Reviewers:

Samad Adams, *Bristol Community College*

Sharon Agee, *Rollins College*

Markus Ahrens, *St. Louis Community College*

Janice Akao, *Butler County Community College*

Anna Alexander, *Caldwell Community College and Technical Institute*

Sheila Ammons, *Austin Community College*

Sidney Askew, *Borough of Manhattan Community College*

John Babich, *Kankakee Community College*

Michael Barendse, *Grossmont College*

Robert Beatty, *Anne Arundel Community College*

Lana Becker, *East Tennessee State University*

Vikki Bentz, *Yavapai College*

Jeff Brennan, *Austin Community College*

Lisa Busto, *William Rainey Harper College*

Jennifer Cainas, *University of South Florida*

Anne Cardozo, *Broward College*

Elizabeth Carlson, *University of South Florida Sarasota-Manatee*

Martha Cavalaris, *Miami Dade College*

Donna Chadwick, *Sinclair Community College*

Colleen Chung, *Miami Dade College*

Tom Clement, *University of North Dakota*

Geoffrey Danzig, *Miami Dade College–North*

Judy Daulton, *Piedmont Technical College*

Michelle Davidowitz, *Kingsborough Community College*

Annette Fisher Davis, *Glendale Community College*

Anthony Dellarte, *Luzerne County Community College*

Crystal Drum, *Guilford Technical Community College*

Mary Ewanechko, *Monroe Community College*

Elisa Fernandez, *Miami Dade College*

Julie Gilbert, *Triton College*

Lori Grady, *Bucks County Community College*

Marina Grau, *Houston Community College*

Gloria Grayless, *Sam Houston State University*

Becky Hancock, *El Paso Community College*

Dawn D. Hart, *Darton State College*

Lori Hatchell, *Aims Community College*

Shauna Hatfield, *Salt Lake Community College*

Patricia Holmes, *Des Moines Area Community College*

Cynthia Johnson, *University of Arkansas, Little Rock*

Gina Jones, *Aims Community College*

Jeffrey Jones, *The College of Southern Nevada*

Thomas K. Y. Kam, *Hawaii Pacific University*

Naomi Karolinski, *Monroe Community College*

Anne Kenner, *Brevard Community College*

Stephanie (Sam) King, *Edison State College*

Emil Koren, *Saint Leo University*

Paul Koulakov, *Nashville State Community College*

Christy Land, *Catawba Valley Community College*

Suzanne Lay, *Colorado Mesa University*

Wayne Lewis, *Hudson Valley Community College*

Mabel Machin, *Valencia College*

Mostafa Maksy, *Kutztown University*

Richard Mandau, *Piedmont Technical College*

Christina Manzo, *Queensborough Community College*

Maria C. Mari, *Miami Dade College*

Cynthia J. Miller, *University of Kentucky*

Joanne Orabone, *Community College of Rhode Island*

Kimberly Perkins, *Austin Community College*

William Quilliam, *Florida Southern College*

Marcela Raphael, *Chippewa Valley Technical College*

Ryan Rees, *Salt Lake Community College*

Katheryn Reynolds, *Front Range Community College Larimer*

Alice Rivera, *Golden West College*

Cecile Robert, *Community College of Rhode Island*

Shani Nicole Robinson, *Sam Houston State University*
Carol Rowey, *Community College of Rhode Island*
Amanda J. Salinas, *Palo Alto College*
Sayan Sarkar, *University of Texas, El Paso*
Maurice Savard, *East Stroudsburg University*
Dennis Shea, *Southern New Hampshire University*
Jaye Simpson, *Tarrant County*
John Stancil, *Florida Southern*
Diana Sullivan, *Portland Community College*
Annette Taggart, *Texas A&M University–Commerce*
Linda Tarrago, *Hillsborough Community College*
Teresa Thompson, *Chaffey College*

Accuracy Checkers:

Carolyn Streuly
James L. Baker, *Harford Community College*
Nancy Emerson, *North Dakota State University*

Supplements Authors and Reviewers:

Dave Alldredge, *Salt Lake Community College*
Sheila Ammons, *Austin Community College*
Stephanie Swaim, *North Lake College*
James L. Baker, *Salt Lake Community College*
Connie Belden, *Butler Community College*
Alisa Brink, *Virginia Commonwealth University*
Helen Brubeck, *Saint Mary-of-the-Woods College*

Judy Toland, *Bucks County Community College*
Robin D. Turner, *Rowan-Cabarrus Community College*
William Van Glabek, *Edison State College*
Stanley Walker, *Georgia Northwestern Tech*
Christine Wayne, *William Rainey Harper College*
Deb Weber, *Hawkeye Community College*
Denise A. White, *Austin Community College*
Donald R. Wilke, *Northwest Florida State College*
Wanda Wong, *Chabot College*
Angela Woodland, *Montana State University*
Judy Zander, *Grossmont College*

Gail Hoover-King, *Purdue University Calumet*
Richard Mandau, *Piedmont Technical College*
Carol Hughes, *Asheville-Buncombe Technical Community College*

Kate Demarest, *Carroll Community College*
Lori Hatchell, *Alms Community College*
Carol Hughes, *Asheville-Buncombe Technical Community College*
Brett Killion, *Lakeland College*
Diane O'Neill, *Seattle University*
Teresa Stephenson, *The University of South Dakota*

The authors would like to express their gratitude for the diligent and exemplary work of all of our contributors, reviewers, accuracy checkers, and supplement authors. Each of you played a part in making this book successful! Thank you!

HORNGREN'S
Accounting
THE MANAGERIAL CHAPTERS

18 Introduction to Managerial Accounting



Which One Will They Buy?

Gerald is enjoying working at Starwood Campers, a recreational vehicle (RV) manufacturer, as a sales representative. He has met a lot of people who are looking at the various motor homes and camping trailers on display. He met one young couple who wants to purchase an

RV to use during the summers as they explore the country while on break from their teaching jobs. He met a family looking for a way to spend quality time together on the weekends. He has also met a couple ready to retire, sell their home, and hit the road for a few years. The RV showroom

has lots of models on display to meet all of these needs. There are many choices with different designs that make the small living spaces efficient and comfortable.

Gerald realizes that these potential customers are not just interested in comfort, however. They also want quality-built RVs that can be used for many years and travel many miles. As Gerald talks to the customers, he also shares information about the construction materials and manufacturing processes his company uses. He even invites interested parties to schedule a factory tour to get a better understanding of the manufacturing process.

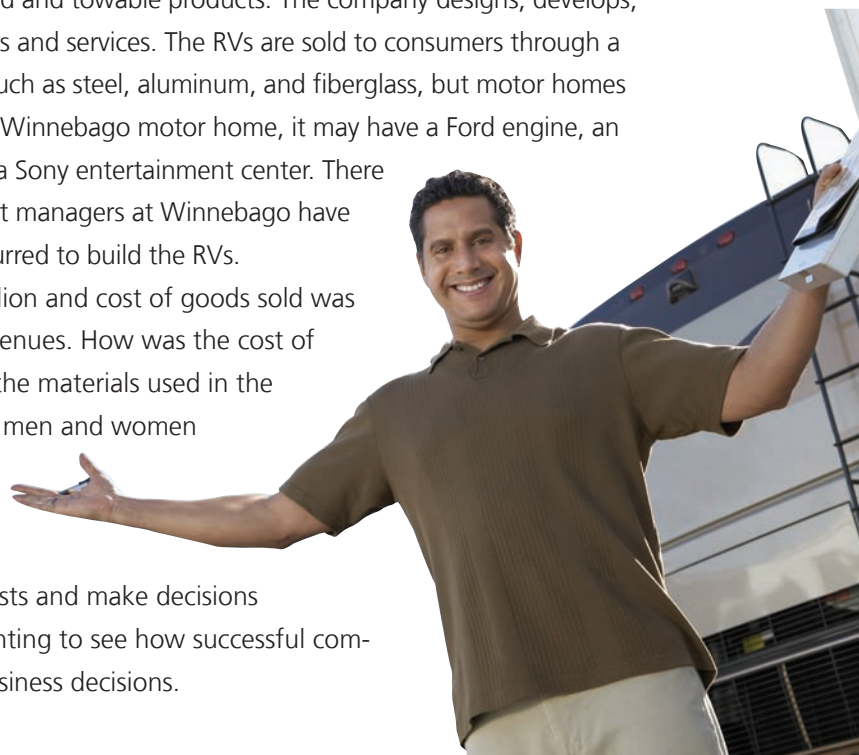


Why Managerial Accounting?

Have you ever wondered how companies like **Winnebago Industries, Inc.** make their products? Winnebago is a leading manufacturer of recreational vehicles (RVs), including motorized and towable products. The company designs, develops, manufactures, and markets RVs, as well as supporting products and services. The RVs are sold to consumers through a dealer network. RV manufacturers begin with raw materials, such as steel, aluminum, and fiberglass, but motor homes include much more than the basic structure. If you purchase a Winnebago motor home, it may have a Ford engine, an Amana refrigerator, a Select Comfort Sleep Number bed, and a Sony entertainment center. There are so many components that go into the finished product that managers at Winnebago have to keep detailed records of inventory used and other costs incurred to build the RVs.

In 2015, Winnebago reported net revenues of \$977 million and cost of goods sold was \$871 million. Cost of goods sold represented 89% of net revenues. How was the cost of goods sold calculated? Cost of goods sold includes not only the materials used in the manufacturing process, but also the costs of the labor of the men and women who built the RVs and the costs of operating the factory, such as utilities, insurance, and depreciation. Determining cost of goods sold for a manufacturer can be complicated.

These companies use *managerial accounting* to help track costs and make decisions about production. Let's begin our study of managerial accounting to see how successful companies use accounting information to make good internal business decisions.





Chapter 18 Learning Objectives



- 1 Define managerial accounting and understand how it is used
- 2 Classify costs used in managerial accounting
- 3 Prepare financial statements for a manufacturer, including a balance sheet, income statement, and schedule of cost of goods manufactured
- 4 Describe business trends affecting managerial accounting
- 5 Describe how managerial accounting is used in service and merchandising companies

WHY IS MANAGERIAL ACCOUNTING IMPORTANT?

Managerial accounting focuses on providing information for internal decision makers. This type of accounting concentrates on both financial and nonfinancial information for managers and other business users, such as supervisors, foremen, and directors. **Financial accounting** focuses on providing information for external decision makers. While managers use financial accounting to report monetary transactions and prepare financial statements, managerial accounting helps managers make decisions needed to be successful. Individuals in management roles, such as department heads, division managers, chief executive officers, and vice presidents, rely on managerial accounting to help them plan, direct, control, and make decisions about the business. Exhibit 18-1 illustrates the major differences between managerial and financial accounting.

Learning Objective 1

Define managerial accounting and understand how it is used

Managerial Accounting

The field of accounting that focuses on providing information for internal decision makers.

Financial Accounting

The field of accounting that focuses on providing information for external decision makers.

Exhibit 18-1 | Financial Accounting Versus Managerial Accounting

	Financial Accounting	Managerial Accounting
Primary users	External—investors, creditors, and government authorities	Internal—the company’s managers and employees
Purpose of information	Help investors and creditors make investment and credit decisions	Help managers and employees plan, direct, and control operations
Focus and time dimension of the information	Relevant and faithfully representative information and focus on the past Example: 2017 actual performance reported in 2018	Relevant information and focus on the future Example: 2018 budget prepared in 2017
Rules and restrictions	Required to follow Generally Accepted Accounting Principles (GAAP); public companies required to be audited by an independent CPA	Not required to follow GAAP
Scope of information	Summary reports prepared primarily on the company as a whole, usually on a quarterly or annual basis	Detailed reports prepared on parts of the company (products, departments, territories), often on a daily or weekly basis
Behavioral	Concern about adequacy of disclosures; behavioral implications are secondary	Concern about how reports will affect employee behavior