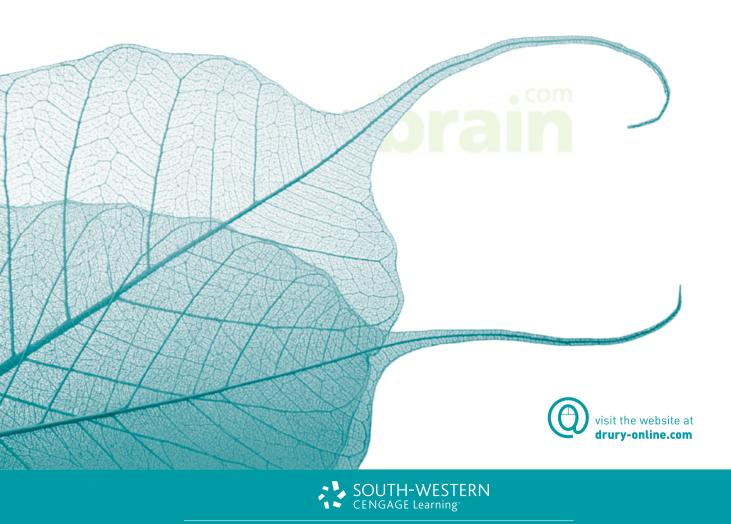
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COST AND MANAGEMENT ACCOUNTING 7TH EDITION AN INTRODUCTION CENGAGE

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PREFACE AND ACKNOWLEDGEMENTS



The aim of the seventh edition of this book is to provide an introduction to the theory and practice of cost and management accounting. A cost accounting system is concerned with accumulating costs for inventory valuation to meet external financial accounting and internal monthly or quarterly profit measurement requirements. A management accounting system accumulates, classifies, summarizes and reports information that will assist employees within an organization in their decision-making, planning, control and performance measurement activities. This book is concerned with both cost and management accounting, with similar emphasis being placed on both systems.

Intended primarily for students who are pursuing a one-year cost and management accounting course, the book is ideal for those approaching this subject for the first time. The more advanced topics contained in the final stages of the cost and management accounting syllabuses of the professional accountancy bodies and final year degree courses are not included. These topics are included in the author's successful *Management and Cost Accounting*, the seventh edition of which is also published by Cengage Learning EMEA.

Feedback from instructors in a large number of universities indicated that they had found the content, structure and presentation of *Management and Cost Accounting* extremely satisfactory and most appropriate for students pursuing a two-year management accounting course at an advanced professional or degree level. They also indicated that there was a need for a book (based on *Management and Cost Accounting*) tailored to meet the requirements of a one-year introductory course in cost and management accounting. Many lecturers, in particular those running introductory courses, felt there was a need for an introductory text which covered the required ground in an academically sound manner and which was also appropriate for students on non-advanced courses. This book is aimed specifically at students who are pursuing a one-year non-advanced cost and management accountancy course and is particularly suitable for the following courses:

- Foundation/introductory professional accountancy (e.g. Chartered Association of Certified Accountants, Chartered Institute of Management Accountants and one-year college foundation courses).
- Association of Accounting Technicians.
- Higher National Certificate and Diploma in Business and Finance.
- A first-level course for undergraduate accounting and finance or business students.

An introductory course in financial accounting is not a prerequisite, although many students will have undertaken such a course. The flexibility provided by modular courses can result in introductory classes consisting of a group of students not studying management accounting beyond an intermediate level and a further group continuing their studies beyond the intermediate level. *Cost and Management Accounting: An Introduction* is appropriate for the

former group and *Management and Cost Accounting* can be adopted by the latter. Because much of the content and assessment material in *Cost and Management Accounting: An Introduction* has been extracted from *Management and Cost Accounting*, lecturers can assign identical reading and assessment and also recommend two separate books that are geared to the specific requirements of the students.

STRUCTURE AND PLAN OF THE BOOK

In writing this book I have adopted the same structure as that in *Management and Cost Accounting.* The major theme is that different financial information is required for different purposes. The framework is based on the principle that there are three ways of constructing accounting information. The first is cost accounting with its emphasis on producing product costs for allocating costs between cost of goods sold and inventories to meet external and internal financial accounting inventory valuation and profit measurement requirements. The second is the notion of decision-relevant costs with the emphasis on providing information to help managers to make good decisions. The third is responsibility accounting and performance measurement which focuses on both financial and non-financial information, in particular the assignment of costs and revenues to responsibility centres.

This book has 15 chapters divided into four parts. Part 1 consists of two chapters and provides an introduction to cost and management accounting and a framework for studying the remaining chapters. The following three parts reflect the three different ways of constructing accounting information. Part 2 consists of six chapters and is entitled 'Cost Accumulation for Inventory Valuation and Profit Measurement'. This section focuses mainly on assigning costs to products to separate the costs incurred during a period between costs of goods sold and the closing inventory valuation for internal and external profit measurement. The extent to which product costs accumulated for inventory valuation and profit measurement should be adjusted for meeting decision-making, cost control and performance measurement requirements is also considered briefly. Part 3 consists of four chapters and is entitled 'Information for Decision-making'. Here the focus is on measuring and identifying those costs which are relevant for different types of decisions. The title of Part 4 is 'Information for Planning, Control and Performance Measurement'. It consists of three chapters and concentrates on the process of translating goals and objectives into specific activities and the resources that are required, via the short-term (budgeting) and long-term planning processes, to achieve the goals and objectives. In addition, the management control systems that organizations use are described and the role that management accounting control systems play within the overall control process is examined. The emphasis here is on the accounting process as a means of providing information to help managers control the activities for which they are responsible.

In devising a framework around the three methods of constructing financial information there is a risk that the student will not appreciate that the three categories use many common elements, that they overlap, and that they constitute a single overall management accounting system, rather than three independent systems. I have taken steps to minimize this risk in each section by emphasizing why financial information for one purpose should or should not be adjusted for another purpose. In short, each section of the book is not presented in isolation and an integrative approach has been taken.

MAJOR CHANGES IN THE CONTENT OF THE SEVENTH EDITION

Feedback from a lecturers' survey from users of the sixth edition indicated that many students found cost and management accounting to be a complex subject and there was a need for a simplified and more accessible text. The major objective in writing the seventh edition has therefore been to produce a less complex and more accessible text. This objective created the need to thoroughly review the entire content of the sixth edition and to rewrite, simplify and improve the presentation of much of the existing material. Most of the chapters have been rewritten. The end result has been the most extensive rewrite of the text since the book was first published.

Feedback from the lecturers' survey indicated that some of the more advanced and complex topics in the sixth edition were not included in their teaching programmes whereas a minority of respondents indicated that the same topics were included in their teaching programmes. In order to meet the different requirements of lecturers, some of the advanced and more complex topics from the sixth edition have been transferred from the text to learning notes that can be accessed by students and lecturers on the companion website. Examples of topics that are now incorporated as learning notes within the seventh edition include the application of linear programming to management accounting, decision-making under conditions of risk and uncertainty and responsibility accounting in profit and investment centres. All learning notes are appropriately referenced within the text. For example, at appropriate points within specific chapters the reader's attention is drawn to the fact that, for a particular topic, more complex issues exist and that a discussion of these issues can be found by referring to a specific learning note on the open access website.

The feedback relating to the structure and content of the previous editions has been extremely favourable and therefore only minor changes have been made to the existing structure, while incorporating the extensive changes that have been made to the content of the new edition. The sixth edition included the application of linear programming to management accounting (Chapter 12), decision-making under conditions of risk and uncertainty (Chapter 14) and a chapter on capital investment appraisal (Chapter 15). In response to feedback from lecturers and examination of the syllabuses of the professional management accounting bodies, these chapters have been deleted from the seventh edition and the content relating to chapters 12 and 14 (sixth edition) can now be accessed on the open access dedicated website. No other changes have been made to the structure of the text.

Finally, much of the assessment material has been extensively changed and new assessment material added. In addition, many 'Real World Views' that provide examples of the practical application of management accounting have been replaced by more recent examples that provide better illustrations of the practical applications. Questions have been added to the 'Real World Views' to encourage readers to think about the issues involved.

Case studies

Over 20 case studies are available on the dedicated website for this book. A list of these case studies is provided in a separate section immediately following the final chapter. Both lecturers and students can download these case studies from the open access section of the website. Teaching notes for the case studies can be downloaded only by lecturers from the password-protected lecturers' section of the website. The cases generally cover the content of several

chapters and contain questions to which there is no ideal answer. They are intended to encourage independent thought and initiative and to relate and apply your understanding of the content of this book in more uncertain situations. They are also intended to develop your critical thinking and analytical skills.

International focus

The book has now become an established text in many different countries throughout the world. Because of this a more international focus has been adopted. A major feature is the presentation of boxed exhibits of surveys and practical applications of management accounting in companies in many different countries, particularly the European mainland. To simplify the presentation, however, the UK pound monetary unit has mostly been used throughout the book. Most of the assessment material has incorporated questions set by the UK professional accountancy bodies. These questions are, however, appropriate for worldwide use.

Assessment material

Throughout this book simple illustrations have been provided. You can check your understanding of each chapter by answering the review questions. Each question is followed by page numbers within parentheses that indicate where in the text the answers to specific questions can be found. More complex review problems are also set at the end of each chapter to enable students to pursue certain topics in more depth. Fully worked solutions to the review problems are provided in a separate section at the end of the book.

This book is part of an integrated educational package. A *Students' Manual* that includes additional review problems and accompanying answers is available to download from the accompanying website. Additional review problems and case studies are available for students and lecturers to access on the accompanying website www.drury-online.com. Solutions to the review problems and case study teaching notes are only available to lecturers on the lecturer's password-protected section of the website.

Also available for adopting lecturers to download from the companion website is an Examview® testbank, offering over 1000 questions tailored to the content of the book, for use in classroom assessment.

In recognition of the increasing need for the integration of IT teaching into the curriculum, this book is accompanied by an online *Spreadsheet Applications Manual*, which has been written by Dr Alicia Gazely. This explains basic spreadsheet techniques and then builds up ten spreadsheet models which illustrate, and allow students to explore, examples in the main text. The spreadsheets, guidance notes and online access are available to teachers on adoption. Further details of this package are given in the section covering the dedicated website below.

SUPPLEMENTARY MATERIAL

Dedicated website

The dedicated website can be found at www.drury-online.com. The lecturer section is password-protected and the password is available free to lecturers who confirm their

adoption of the seventh edition. Lecturers should complete the registration form on the website to apply for their password, which will then be sent to them by e-mail. The following range of material is available:

For students and lecturers (open access):

Learning notes

The learning notes relate to either specific topics that may be only applicable to the curriculum for a minority of the readers, or a discussion of topics where more complex issues are involved that not all readers may wish to pursue. All learning notes are appropriately cross-referenced within the text to the website. For example, at appropriate points within specific chapters the reader's attention is drawn to the fact that, for a particular topic, more complex issues exist and that a discussion of these issues can be found by referring to a specific learning note on the student resources section of the website.

Case studies

Internationally focused case studies. (Teaching notes to accompany the cases are available in the password-protected lecturer area of the website.)

Examview® interactive self-test questions

(compiled by Wayne Fiddler of Huddersfield University)

Interactive multiple choice questions to accompany each chapter. The student takes the test online to check their grasp of the key points in each chapter. Detailed feedback is provided for each question if the student chooses the wrong answer.

PowerPoint[™] slides

PowerPoint presentations to accompany each chapter.

Guide to Excel

(written by Steve Rickaby)

A PDF guide to Microsoft Excel giving you all the information you need to train yourself in basic Excel skills.

Links to accounting and finance sites on the web

Including links to the main accounting firms, accounting magazines and journals, and careers and job search pages.

Definitions of accounting and finance terms

A handy introduction to accounting and finance techniques, disciplines and concepts

Students' manual and extra review problems

The *students' manual* is now provided free from the site in PDF (Portable Document Format), the *students' manual* contains further questions for students which are accompanied by the supporting answers.

Extra review problems are also provided and solutions to these appear in the *instructor's manual* on the lecturer's password-protected section of the website.

For lecturers only (password protected)

ExamView®

This testbank and test generator provides a huge amount of different types of questions, allowing lecturers to create online, paper and local area network (LAN) tests.

Instructor's manual

Available to download free from the site in PDF (Portable Document Format), the manual includes answers to the extra review problems on the open access website.

Teaching notes to the case studies

To accompany the case studies available in the student area of the website.

Spreadsheet exercises

(compiled and designed by Alicia Gazely of Nottingham Trent University)

Created in Excel to accompany the self assessment exercises in the book, the exercises can be saved by the lecturer to their own directories and distributed to students as each topic is covered. Each exercise explains a basic spreadsheet technique which illustrates, and allows the student to explore, examples in the main text.

PowerPointTM slides

PowerPoint presentations to accompany each chapter.

Overhead transparencies

Available to download as pdf files.

ACKNOWLEDGEMENTS

I am indebted to many individuals for their ideas and assistance in preparing this and previous editions of the book.

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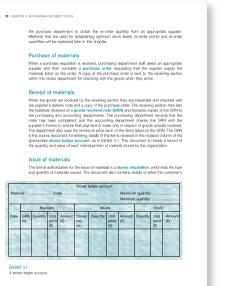
Shirley Venzke, Vaal University of Technology

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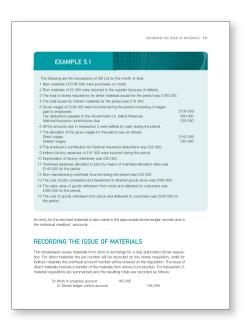
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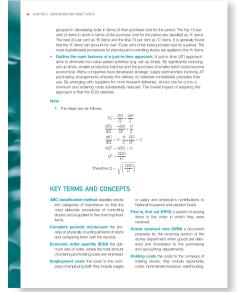
IN	HAPTER 1 TRODUCTION TO ANAGEMENT ACCOUNTING
	LEARNING OBJECTIVES
	After studying this chapter, you should be able to:
	 distinguish between management accounting and financial accounting;
	 identify and describe the elements involved in the decision-making, planning and control process;
	and control process; • justify the view that a major objective of commercial organizations is to broadly seek to maximize future profits;
	 explain the factors that have influenced the changes in the competitive environment;
	outline and describe the key success factors that directly affect customer
	satisfaction;
	 identify and describe the functions of a cost and management accounting system.
	There are many definitions of accounting, but the one that captures the theme of this book is the definition formulated by the American Accounting Association. It describes accounting as:
	the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information.
	In other words, accounting is concerned with providing both financial and non- financial information that will help decision-makers to make good decisions. In order to understand accounting, you need to know something about the decision-

Learning objectives Listed at the start of each chapter, highlighting the core coverage that you should acquire after studying each chapter.



Exhibits Illustrations of accounting techniques and information are presented throughout the text.





Examples Worked accounting examples are shown throughout the text.

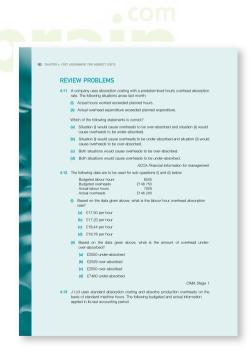
Key terms and concepts Highlighted throughout the text where they first appear alerting the student to the core concepts and techniques.



Real world views Real world cases are provided throughout the text, they help to demonstrate the theory in practice and practical application of accounting in real companies internationally.

Key examination points Important examination tips are presented at the end of each chapter. They show the main concepts to be learnt from the chapter when studying for your examinations.

ASSESSMENT MATERIAL
The review questions are short questions that enable you to assess your understanding of the
main topics included in the chapter. The numbers in parentheses provide you with the page numbers to refer to if you cannot answer a specific question.
The review problems are more complex and regize you to mails and apply the chapter comment to various to unknown. The chapter of the second se
REVIEW QUESTIONS
3.1 Explain the accounting treatment for holiday pay, overtime payments and employment costs. (pp. 48–49)
3.2 Describe the materials recording procedure. (pp. 49-51)
3.3 Explain the purpose of a stores ledger account. (p. 50)
3.4 Describe the first in, first out (FFO), last in, first out (LFO) and average cost methods of stores pricing, (pp. 51-55)
3.5 Explain the accounting treatment of stores losses and materials handling costs. (pp. 55-57)
3.6 What are holding costs? Provide some examples. (pp. 57-58)
3.7 What are ordering costs? Provide some examples. (p. 58)
3.8 What determines which holding and ordering costs should be included in the eco- nomic order quantity calculation? (op. 58–60)
3.9 What are the assumptions underlying the economic order quantity? (p. 61)
3.10 Define lead time. (p. 62)
3.11 Explain what is meant by the re-order point. (pp. 61–62)
3.12 Describe the ABC classification method. What purposes does it serve? (pp. 62–64)
3.13 What are the main features of the just-in-time approach? (p. 64)



Review questions Review questions allow revision of the main issues and concepts learnt within the chapter. Page numbers next to the questions show where the answers can be found. **Review problems** Review problems allow you to relate and apply the chapter content to various business problems. Fully worked solutions are found in the back of the text.

ABOUT THE WEBSITE

A companion website accompanies

COST AND MANAGEMENT ACCOUNTING 7TH EDITION COLIN DRURY

Visit the *Cost and Management Accounting*, 7th edition companion website at www.drury-online.com to find further teaching and learning material including:

FOR STUDENTS

- Learning notes for more complex and advanced topics
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- Multiple-choice self-test questions for each chapter
- Case studies with accompanying questions
- Related weblinks
- Extra review questions answers are provided on the lecturer's side of the site
- Student's manual including additional questions and accompanying answers, now available free to download from the website

Virtual learning environment

FOR LECTURERS

- Instructor's manual including suggested answers to extra review questions found on the student's side of the site
- ExamView® testbank and test generator software
- Downloadable PowerPoint slides
- Case study teaching notes to accompany the case studies on the website and within the text
- Spreadsheet models to accompany exercises within the text. The models incorporate a range of spreadsheet techniques which are explained in text notes adjacent to the calculations

All of the web material is available in a format that is compatible with virtual learning environments such as Blackboard and WebCT. This version of the product is only available from your Cengage Learning sales representative.

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CASE STUDIES AVAILABLE FROM THE WEBSITE

The dedicated website for this book includes over 20 case studies. Both students and lecturers can download these case studies from the open access website. The authors of the cases have provided teaching notes for each case and these can be downloaded only by lecturers from the password-protected lecturers' section of the website.

The cases generally cover the content of several chapters and contain questions to which there is no ideal answer. They are intended to encourage independent thought and initiative and to relate and apply the content of this book to more uncertain situations. They are also intended to develop critical thinking and analytical skills. Details relating to the cases that are available from the website are as follows:

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Lin Fitzgerald, Loughborough University Business School

Variance analysis that provides the opportunity for the case to be used as a role-playing exercise.

Berkshire Threaded Fasteners Company

John Shank, The Amos Tuck School of Business Administration, Dartmouth College

Cost analysis for dropping a product, for pricing, for product mix and product improvement.

Berkshire Toy Company

D. Crawford and E.G. Henry, State University of New York (SUNY) at Oswego

Variance analysis, performance evaluation, responsibility accounting and the balanced scorecard.

Blessed Farm Partnership

Rona O'Brian, Sheffield Hallam University

Strategic decision-making, evaluation of alternatives, ethics, sources of information.

Bohemia Industries

Colin Drury, Huddersfield University Business School

The application of variable and absorption costing for internal monthly profit reporting.

Chadwick's Department Store

Lewis Gordon, Liverpool John Moores University

The application of budget-building techniques and spreadsheet skills to a retail sector situation.

Company A

Mike Tayles, University of Hull Business School and Paul Walley, Warwick Business School.

Evaluation of a product costing system and suggested performance measures to support key success factors.

Company B

Mike Tayles, University of Hull Business School and Paul Walley, Warwick Business School.

The impact of a change in manufacturing strategy and method upon product costing and performance measurement systems.

Dumbellow Ltd

Stan Brignall, Aston Business School

Marginal costing versus absorption costing, relevant costs and cost-volume-profit analysis.

Edit 4U Ltd

Rona O'Brien, Sheffield Hallam University

The case study explores and evaluates the role of management accounting information in a small business context.

Electronic Boards plc

John Innes, University of Dundee, and Falconer Mitchell, University of Edinburgh

A general case that may be used at an introductory stage to illustrate the basics of management accounting and the role it can play within a firm.

Endeavour Twoplise Ltd

Antony Head, Brenda McDonnell, Jayne Rastrick, Sheffield Hallam University, and Susan Richardson, University of Bradford Management Centre

Functional budget and master budget construction, budgetary control and decision-making.

Fleet Ltd

Lin Fitzgerald, Loughborough University Business School

Outsourcing decision involving relevant costs and qualitative factors.

Global Ltd

Susan Richardson, University of Bradford Management Centre

Cash budgeting, links between cash and profit, pricing/bidding, information system design and behavioural aspects of management control.

Hardhat Ltd

Stan Brignall, Aston Business School

Cost-volume-profit analysis.

High Street Reproduction Furniture Ltd

Antony Head, Rona O'Brian, Jayne Rastrick, Sheffield Hallam University, and Susan Richardson, University of Bradford Management Centre

Relevant costs, strategic decision-making and limiting factors.

Majestic Lodge

John Shank, The Amos Tuck School of Business Administration, Dartmouth College

Relevant costs and cost-volume-profit analysis.

Merrion Products Ltd

Peter Clarke, University College Dublin

Cost-volume-profit analysis, relevant costs and limiting factors.

Moult Hall

Antony Head, Brenda McDonnell, Jayne Rastrick, Sheffield Hallam University, and Susan Richardson, University of Bradford Management Centre

Organizational objectives, strategic decision-making, evaluation of alternatives, relevant costs, debating the profit ethos, break-even analysis.

Oak City

R.W. Ingram and W.C. Parsons, University of Alabama, and W.A. Robbins, Attorney, Pearson and Sutton

Cost allocation in a government setting to determine the amount of costs that should be charged to business for municipal services. The case also includes ethical considerations.

Quality Shopping

Rona O'Brian, Sheffield Hallam University

Departmental budget construction, credit checking, environmental issues, behavioural issues and management control systems.

Rogatec Ltd

Antony Head, Brenda McDonnell, Jayne Rastrick, Sheffield Hallam University, and Susan Richardson, University of Bradford Management Centre

Standard costing and variance analysis, budgets, ethics, sources of information.

The Beta Company

Peter Clarke, University College Dublin

Cost estimation involving regression analysis and relevant costs.

Traditions Ltd

Antony Head, Brenda McDonnell, Jayne Rastrick, Sheffield Hallam University, and Susan Richardson, University of Bradford Management Centre

Relevant cost analysis relating to a discontinuation decision and budgeting.

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