To Our Families

The Horngren Family (CH)
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This effort is dedicated to Ian, Megan, Evan, Lucy, Alec and Molly
(and Charlie, too).
-Louis Beaubien

To Professor Howard Teal (a previous Canadian author of Horngren et al.) who, along with Professor Rick Robertson, first got me excited about accounting. And to my wife Joan and daughter Adrienne, who put up with/supported me during my “creative” process!
-Chris Graham
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Preface

Success in any business—big or small—requires the use of cost and management accounting concepts to inform decision making. Cost accounting provides key data to managers for planning and control, as well as providing techniques for costing products and services and for measuring performance. This book focuses on how cost accounting helps managers make better decisions by using financial and nonfinancial information better. In order to build these skills, we focus on the basic concepts and analytical techniques that make cost accounting an essential part of business strategy.

Hallmark Features of Cost Accounting

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

The first 13 chapters provide the essence of a one-term (quarter or semester) course. There is ample text and assignment material in the book’s 22 chapters for a two-term course. This book can be used immediately after the student has had an introductory course in financial accounting. Alternatively, this book can build on an introductory course in managerial accounting.

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

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

New to This Edition

Deeper Consideration of Global Issues

Businesses today have no choice but to integrate into an increasingly global ecosystem. Virtually all aspects of business—including supply chains, product markets, and the market for managerial talent—have become increasingly international in their outlook. To do this, we have focused on examples in Vignette Boxes and Concepts in Action which focus on the global context of businesses in the production, merchandising, and service sectors. We have also developed examples and discussions in the chapter material that focus on the importance of transfer pricing as a technique to manage tax strategy (Chapter 21), the different nature of process flows in inventory management (Chapter 19), and capital budgeting (Chapter 20).
We have expanded the discussion through the text on the role of accounting systems in fostering and supporting innovation and developing organizational strategy. We have also added ideas based on current research in areas of the balanced scorecard, performance management, and enterprise resource planning systems and information technology.

**Streamlined Presentation and Chapter-by-Chapter Changes**

We continue to simplify and streamline our presentation to make it as easy as possible for students to learn the concepts, frameworks, and tools. We have attempted to balance this against the desire to provide comprehensive explanations reflecting current research and modern organizational practice, as well as to offer a complete set of problems for students to practise these concepts. There have been some major changes in the Seventh Canadian Edition of *Cost Accounting*. To ease your transition from the Sixth Canadian Edition, we highlight the following changes, by chapter.

Chapter 1 has been rewritten to include expanded discussions of ethics and sustainability. The chapter also reflects the shifting landscape of professional accounting in Canada, as we discuss the changes that are emerging with the creation of Chartered Professional Accountants (CPA) of Canada from the legacy designations; the Chartered Accountants of Canada, the Society of Certified Management Accountants of Canada, and the Certified General Accountants of Canada.

Chapters 2 and 3 have been revised to make it easier for students to understand core concepts in accounting and to provide the grounding for the decision-making framework to be used throughout *Cost Accounting*. The content also reflects real decision-making processes in real companies from the Canadian and global contexts.

Chapters 4 and 5 have been updated to include a substantial amount of new material to enhance the coverage of manufacturing overhead allocation and manufacturing overhead control. The material also highlights the process of developing cost allocation pools from standard accounting classifications. These changes are intended to advance the understanding of how costing systems such as activity-based costing can effectively be implemented.

Chapter 6 frames the budgeting process as a decision-making activity. The financial figures in the budget schedules and cash flow budget are now internally consistent. A list of commonly used budget techniques has been added. The discussion on sensitivity, kaizen, and activity-based costing budgets now appears in the appendix to the chapter.

Chapter 7 presents the levels of variance analysis in a more consistent manner. The discussion on Level 4 variances (substitutable inputs) now appears in the appendix to the chapter. The section on not-for-profit benchmarks has been rewritten to include a list of characteristics for good NFP benchmarks.

Chapter 8 has new calculations showing the importance of fixed overheads and break-even issues for the firm. Some of the discussions have been shortened to improve readability.

Chapter 9 has been updated to reflect ASPE/IFRS with regard to capacity decisions for external reporting. The sections on throughput costing and the impact of capacity decisions on break-even analysis have been moved to an appendix.

Chapters 10 and 11 are a practical guide to various cost estimation techniques and the determination of the relevance of costs. Chapter 19 from the Sixth Canadian Edition of *Cost Accounting* has been eliminated and the content redistributed to several chapters in the Seventh Canadian Edition—most significantly to Chapters 10 and 11. So, along with familiar discussions of regression analysis and enhanced topics on correlation versus causation, the chapter has new content such as the costs of quality and the impact of time on the costing and decision-making process.

Chapter 12 focuses on pricing decisions in the long- and short-term contexts, and builds on material in Chapters 10 and 11 to expand the understanding of opportunity and relevant costs in how a pricing decision is made.

Chapter 13 reflects the diverse applicability of the balanced scorecard as an evaluative, communication, and strategy formulation tool in decision making. Emphasis is placed on understanding its application in financial, operational, and sustainability decision making.
Chapter 14 contains new exhibits for the support cost allocation methods that combine a graphic presentation with the calculations. A summary chart comparing the advantages and disadvantages of the three methods has been added. References to matrix algebra and the appendix have been removed from the narrative.

Chapter 15 has been updated to reflect ASPE/IFRS with regard to joint cost allocations. The section and exhibits showing the production and sales method for byproduct accounting have been changed to eliminate the issues with rounding.

Chapter 16 discusses revenue allocation methods and customer profitability. The exhibits for revenue allocation have been summarized to allow for easier comparison of the various methods. The discussion around revenue variance analysis is now focused on the contribution margin approach.

In Chapters 17 and 18, a discussion of when to use process costing has been added to the narrative. A number of the exhibits were changed slightly to make them more consistent across the two chapters and to ensure numerical consistency.

Chapter 19 (formerly Chapter 20) builds on the efforts to streamline content in Chapters 10, 11, 17, and 18 and provides revised content to examine traditional and just-in-time purchasing. The focus remains on developing an effective costing strategy for inventory management.

Chapter 20 (formerly Chapters 21 and 22) represents one of the most significant changes for Cost Accounting. Previously, the discussion on capital budgeting spanned two chapters. The material has now been streamlined and consolidated to focus on the decision-making process of capital acquisitions, including the impact of tax in the Canadian context.

Chapter 21 (formerly Chapter 23) has been revised to address the use of transfer payments as a tax minimization strategy. The updated content focuses on real-world examples and broader strategic concepts including decentralization.

Chapter 22 (formerly Chapter 24) has been revised to focus on the increasing responsibility of the executives and boards of directors for corporate governance. This chapter reviews the most recent legislation in Canada, the United States, and the European Union and how it impacts both executive compensation and corporate governance. A new summary chart compares the four common performance measurement tools (ROS, ROI, RI, and EVA).

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Our task is to serve the learning needs of students and teaching needs of instructors as they surmount the challenge of the impossible—creating, managing, and controlling the profitability of future outcomes. We welcome your comments and suggestions on how to serve you better.

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