

# Cost Management

Accounting & Control



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Accounting and

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***Cost Management: Accounting and Control, Fifth Edition***

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To Our Parents  
Lindell and Leola Wis  
John L. Myers and Marjori

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Over the past twenty years, changes in the business environment have affected cost accounting and cost management. A few of these changes include increased emphasis on providing value to customers, the need for cost as a competitive element, advances in information and management technology, globalization of markets, service industry growth, deregulation, and new ethical and environmental business practices. These changes have created and sustained a competitive advantage. For many firms, a competitive advantage can no longer be derived from a traditional management information system. The traditional system relies on a functional-based control. In a functional-based system, costing and cost management are separate functions. Unfortunately, this functional-based approach has not been able to provide that is detailed, accurate, and timely enough to support the current business environment. This has resulted in the emergence of an activity-based cost management system. Typically, an activity-based cost management system is a functional-based cost management system and, thus, it has not been able to meet the need to add a formal guidance mechanism to the current business environment. A demand for strategic-based cost management. Thus, the activity-based system can be more accurately referred to as an activity- and strategic-based cost management system. The emergence and acceptance of activity- and strategic-based cost management systems that in many cases the benefits of this more sophisticated system. On the other hand, the continued existence and reliance on functional-based systems is a positive for other firms.

The coexistence of functional-based systems with activity-based systems necessitates the study of both systems. This book provides a framework of understanding. In creating a text on cost management, we have focused on its structure. We believe that a systems approach provides a framework for work. Using a systems framework allows us to easily compare and contrast functional-based approaches in a way that students can easily understand. By developing a common terminology—a terminology that is used to describe and discuss how they differ. Then the functional and activity-based systems are compared and contrasted as they are applied to costing, cost management, and decision-making. We believe this integration will allow students to appreciate the differences between functional and activity-based approaches. This integration will allow students to see the decision-making chapters, as it allows students to see the differences between functional and activity-based systems.

## Key Features

We feel that the text offers a number of distinctive and appealing features that should make it much easier to teach students about the emerging cost management business world. One of our objectives was to reduce the time and resources required by instructors so that students can be more readily exposed to today's topics. To help you understand the text's innovative approach, we have provided a description of its key features.

## Structure

The text's organization follows a systems framework and is divided into four parts:

1. *Part 1: Foundation Concepts.* Chapters 1 through 4 introduce the basic concepts and tools associated with cost management information systems.
2. *Part 2: Fundamental Costing and Control.* Chapters 5 through 10 provide the basic coverage of product costing, planning, and control in both functional and activity-based costing systems.
3. *Part 3: Advanced Costing and Control.* Chapters 11 through 16 present the latest developments of the new cost management approaches. Examples of the topics covered include activity-based customer and supplier costing, strategic cost management, activity-based budgeting, activity-based management, process value analysis, target costing, quality costing, productivity, environmental cost management, and Balanced Scorecard.
4. *Part 4: Decision Making.* Chapters 17 through 21 bring the costing and control together in the discussion of decision making.

This edition's structure permits integrated coverage of both the traditional and modern costing systems. In this way, students can see how each system can be used for planning, control, and decision making and can evaluate the advantages and disadvantages of each. This approach helps students to see how cost management is applied to the real business world and to understand the richness of the approaches to business process management.

## Contemporary Topics

introduces the industrial value chain. Value chain analysis helps us understand and exploit internal and external linkages so that a competitive advantage can be achieved. Exploitation of these linkages requires a deep understanding of the costs associated with both internal and external activities. This book expands the treatment of value chain analysis by introducing activity-based supplier costing and activity-based customer costing. The examples developed show how the value chain concepts can be applied to a wide range of situations not clearly described by other treatments. Thus, we believe that value chain analysis is a significant feature of the text.

## Accounting and Cost Management

In Chapter 2, the accounting information system and its components are discussed. Distinctions are made between the financial accounting system and the management accounting systems and the differing purposes they serve. The management accounting system is broken down into the cost accounting information system and the non-cost accounting information system. The differences between functional-based and activity-based systems are defined and illustrated. The criteria for choosing an activity-based system are also discussed.

In Chapter 2, three methods of cost assignment are discussed: direct costing, indirect costing, and allocation. Activity drivers are also defined. Once the activity-based costing model is established, the model is used to help students understand the differences between functional-based and activity-based cost management systems. A key difference between the two systems is fundamental to the organizational structure.

## Activity Costs Change as Activity Levels Change

Chapter 3 is a comprehensive treatment of cost behavior analysis. It starts with a discussion of mixed activity cost behavior. Then, we discuss the impact of flexible and committed resources on cost behavior. We then discuss breaking out fixed and variable activity costs. This text explains to students how to use the computer spreadsheet for cost behavior analysis. The chapter on cost behavior analysis is more comprehensive than the subject. Traditional treatment usually focuses on cost-volume-profit analysis. We break away from this pattern and focus on cost behavior.



to support the system. Thus, we show how the general ledger is bundled to provide activity information. We also define and illustrate the database. This unique feature of the text helps the student understand the practical requirements of an ABC system.

## Activity-Based Budgeting

Activity-based budgeting is now combined with traditional budgeting in Chapter 8. This integrated treatment helps students to see how budgets can be used to illustrate the power of activity-based cost concepts. This chapter introduces traditional budgeting and gives an expanded example in a service setting. The behavioral impact of budgets are also included in this chapter.

## Just-in-Time Effects

JIT manufacturing and purchasing are defined and their own cost management systems are discussed in Chapters 11 and 21. JIT is compared and contrasted with traditional manufacturing practices. The effects on areas such as cost traceability, inventory management, costing, and responsibility accounting are carefully delineated.

## Life Cycle Cost Management

In Chapter 11, we define and contrast three different life cycle viewpoints: product life cycle, marketing life cycle, and consumable life cycle. We then show how they are used for strategic planning and analysis. In later chapters, we show how life cycle costing is useful for pricing and profitability analysis (Chapter 19). The use of life cycle costing in environmental cost management is also discussed (Chapter 16). The broad range of numerous examples illustrating life cycle cost applications allow the student to understand the nature and scope of this methodology.

## Activity-Based Management and the Balance Sheet

There are three types of responsibility accounting systems: functional-based, activity-based, and strategic-based. These three systems are compared and contrasted in Chapter 21. Activity-based and strategic-based responsibility accounting systems are discussed in Chapter 21. Activity-based responsibility accounting focuses on controlling and managing processes.

treated at all. In Chapter 15, we offer a thorough treatment of some new material on how to measure activity and product costs.

## Strategic Cost Management

A detailed introduction to strategic cost management and understanding strategic cost analysis is a vital part of the book. Strategic cost management is defined and illustrated. Structural and executional cost drivers are introduced and discussed with the focus on activity-based supplier and customer costs. In strategic cost management is also emphasized.

## Environmental Costs: Measurement and Reporting

Chapter 16 reflects the growing strategic importance of environmental costs. This chapter introduces and discusses the concept of environmental costs and illustrates the reporting of environmental costs and processes. The role of life-cycle costing in environmental costs is detailed. Finally, we describe ways the Balanced Scorecard can be used from an environmental perspective.

## Theory of Constraints

We introduce the theory of constraints (TOC) in Chapter 17. This work is used to facilitate the description of TOC and its application to the value of linear programming. In fact, our treatment is motivated by the need to develop the underlying concepts so that they can be applied. This edition expands the coverage of TOC by adding a new chapter on TOC.

## Service Sector Focus

The significance of the service sector is recognized in the application of cost management principles to services. The text applies less complicated manufacturing settings but instead focuses on service characteristics require modification of cost management principles. Service characteristics appear in a number of chapters, including Chapter 15 on activity-based costing.

quality and productivity measurement.

## Professional Ethics

Strong professional ethics need to be part of every account. We are convinced that students are interested in ethical dilemmas and the taught areas in which ethical conflicts occur. Chapter 1 includes the reprints of the ethical standards developed by the Institute of Management Accountants. To reinforce coverage of ethics, every chapter includes a section on ethics. In addition, many chapters include sections on ethics. For example, Chapter 10, on cost accounting and revenue analysis, includes material on the ethical aspects of cost accounting.

## Behavioral Issues

Ethical behavior is just one aspect of human behavior that affects management systems. The systems used for planning, controlling, and evaluating affect the way in which people act. Insights from behavioral science are presented in appropriate sections of the text. For example, Chapter 10, on profit measurement can affect people's behavior is included in Chapter 8, on activity-based budgeting, includes a section on behavioral budgets. We believe that an integration of behavioral science into the study of accounting leads to a more complete understanding of the role of accounting in management.