

# Preface

## New to This Edition

### Increased Focus on Merchandising and Service Sectors

In keeping with the shifts in the U.S. and world economy, this edition makes great use of merchandising and service sector examples, with corresponding de-emphasis of traditional manufacturing settings. For example, Chapter 10 illustrates linear cost functions in the context of payments for cloud computing services. Chapter 11 describes revenue management using big-data analytics at a company investing in loans. Chapter 21 highlights inventory management in retail organizations and uses an example based on a seller of sunglasses. Chapter 22 incorporates a running example that looks at capital budgeting in the context of a transportation company. Several Concepts in Action boxes focus on the merchandising and service sectors, including achieving cost leadership at Costco (Chapter 1), using activity-based costing to reduce the costs of health care delivery at the Mayo Clinic (Chapter 5), reducing fixed costs at Lyft (Chapter 2), and analyzing operating income performance at Buffalo Wild Wings (Chapter 13) and Web-based budgeting at P.F. Chang's (Chapter 6).

### Greater Emphasis on Sustainability

This edition places significant emphasis on sustainability as one of the critical managerial challenges of the coming decades. Many managers are promoting the development and implementation of strategies to achieve long-term financial, social, and environmental performance as key imperatives. We highlight this in Chapter 1 and return to the theme in several subsequent chapters. Chapter 13 discusses the benefits to companies from measuring social and environmental performance and how such measures can be incorporated in a balanced scorecard. Chapter 24 provides several examples of companies that mandate disclosures and evaluate managers on environmental and social metrics. A variety of chapters, including Chapters 2, 6, 10, 14, and 22, contain material that stress themes of recognizing and accounting for environmental costs; energy independence; setting stretch targets to motivate greater carbon reductions; using cost analysis, carbon tax, and cap-and-trade auctions to reduce environmental footprints; and constructing “green” homes in a cost-effective manner.

### Focus on Innovation

We discuss the role of accounting concepts and systems in fostering and supporting innovation and entrepreneurial activities in firms. In particular, we discuss the challenges posed by recognizing R&D costs as period expenses even though the benefits of innovation accrue in later periods. In Chapter 6, we describe how companies budget for innovation expenses and develop measures to monitor success of the innovation efforts delinked from operational performance in the current period. Chapter 12 presents the importance of nonfinancial measures when making decisions about innovation. Chapter 14 stresses that innovation starts with understanding customer needs while Chapter 20 discusses process innovations for improving quality.

### New Cutting-Edge Topics

The pace of change in organizations continues to be rapid. The 17th edition of *Cost Accounting* reflects changes occurring in the role of cost accounting in organizations.

- We introduce sustainability strategies and the methods companies use to implement sustainability and business goals.
- We describe ideas based on academic research regarding the weights to be placed on performance measures in a balanced scorecard. We also have a section on methods to evaluate strategy maps such as the strength of links, differentiators, focal points, and trigger points.

- We provide details on the transfer pricing strategies used by multinational technology firms such as Apple and Google to minimize income taxes.
- We discuss current trends in the regulation of executive compensation.
- We describe the evolution of enterprise resource planning systems and newer simplified costing systems that practice lean accounting.
- We have added new material and a new Chapter 11 to explain recent trends in big data and data analytics to manage revenues and predict costs. Companies are increasingly looking for management accountants who can interface with data scientists.

## Solving Learning and Teaching Challenges

Studying cost accounting is one of the best business investments a student can make. Why? Because success in any organization—from the smallest corner store to the largest multinational corporation—requires the use of cost accounting concepts and practices. Cost accounting provides key data to managers for planning and controlling, as well as costing, products, services, and even customers. This book focuses on how cost accounting helps managers make better decisions, as cost accountants increasingly are becoming integral members of their company’s decision-making teams. In order to emphasize this prominence in decision making, we use the “different costs for different purposes” theme throughout this book. By focusing on basic concepts, analyses, uses, and procedures instead of procedures alone, we recognize cost accounting as a managerial tool for business strategy and implementation.

We also prepare students for the rewards and challenges they face in the professional cost accounting world of today and tomorrow. For example, we emphasize both the development of technical skills such as Excel and big-data analytics to leverage available information technology and the values and behaviors that make cost accountants effective in the workplace.

## Opening Vignettes

Each chapter opens with a vignette on a real company situation. The vignettes engage the reader in a business situation or dilemma, illustrating why and how the concepts in the chapter are relevant in business. For example, Chapter 2 describes how teen apparel chain Aéropostale was driven into bankruptcy by the relatively high proportion of fixed costs in its operations. Chapter 5 explains the use of activity-based costing by IBM to evaluate the true cost of data breaches. Chapter 9 highlights Under Armor’s use of a new internal company system to better manage its inventory and supply chain with efficiency and precision to reduce inventory costs. Chapter 15 shows how Starbucks changed its rewards program to better align rewards with customer spending. Chapter 19 shows the impact on Tesla of the rework costs associated with a drastic ramp-up of production to meet unprecedented customer demand. Chapter 24 describes the misalignment between performance measurement and pay at General Electric, where previous CEOs Jeff Immelt and John Flannery were both pushed out for this reason.

## Concepts in Action Boxes

Found in every chapter, these boxes cover real-world cost accounting issues across a variety of industries, including defense contracting, entertainment, manufacturing, retailing, and sports. New examples include the following:

- Cost Leadership at Costco: Rock-Bottom Prices and Sky-High Profits (Chapter 1)
- Can Cost–Volume–Profit Analysis Help Whole Foods Escape the “Whole Paycheck” Trap? (Chapter 3)
- P.F. Chang’s and Internet-Based Budgeting (Chapter 6)
- Can ESPN Avoid the Cord-Cutting “Death Spiral”? (Chapter 9)
- Zara Uses Target Pricing to Become the World’s Largest Fashion Retailer (Chapter 14)
- Big Data Joint-Products and Byproducts Create New Business Opportunities (Chapter 17)
- Facebook Works to Overcome Mobile Data Bottlenecks (Chapter 20)

## Streamlined Presentation

We continue to try to simplify and streamline our presentation of various topics to make it as easy as possible for students to learn the concepts, tools, and frameworks introduced in different chapters. We have introduced a new chapter, Chapter 11, on data analytics to help management accountants use big data to manage both revenue and costs. This chapter follows Chapter 10 on predicting cost behavior. We received positive feedback for the reorganization of Chapters 12 through 16 in the 16th edition and have maintained that order in the 17th edition as Chapters 13 through 17. Chapter 13 on the balanced scorecard and strategic profitability analysis follows Chapter 12 on decision making and relevant information for operational decisions. Chapter 14 is the first of four chapters on cost allocation. We introduce the purposes of cost allocation in Chapter 14 and discuss cost allocation for long-run product costing and pricing. Continuing the same example, Chapter 15 discusses cost allocation for customer costing. Chapter 16 builds on the Chapter 4 example to discuss cost allocation for support departments. Chapter 17 discusses joint cost allocation.

Other examples of streamlined presentations can be found in the following chapters:

- Chapter 2, in the discussion of fundamental cost concepts and the managerial framework for decision making.
- Chapter 6, where the appendix ties the cash budget to the chapter example.
- Chapter 8, which has a comprehensive chart that lays out all of the variances described in Chapters 7 and 8.
- Chapter 9, which uses a single two-period example to illustrate the impact of various inventory-costing methods and denominator level choices.

## Try It! Examples

Found throughout each chapter, Try It! interactive questions give students the opportunity to apply the concept they just learned. Links in the eText allow students to practice in MyLab Accounting without interrupting their interaction with the eText.

## Becker Multiple-Choice Questions

Sample problems, assignable in MyLab Accounting, provide an introduction to the CPA Exam format and an opportunity for early practice with CPA exam-style questions.

## 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 behavior 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 24 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. Because 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 Chapters 17 and 18. Instructors interested in filling out a student's perspective of costing systems can move directly from job-order 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.

## Acknowledgments

We are indebted to many people for their ideas and assistance. Our primary thanks go to the many academics and practitioners who have advanced our knowledge of cost accounting. The package of teaching materials we present is the work of skillful and valued team members developing some excellent end-of-chapter assignment material. Tommy Goodwin provided outstanding research assistance on technical issues and current developments. Merle Ederhof was enormously helpful with updating the chapter materials and the assignments, and she brought her health care experience to bear in highlighting new applications for cost accounting in the book.

We would also like to thank the dedicated and hard-working supplement author team and Integra. The book is much better because of the efforts of these colleagues.

In shaping this edition and past editions we would like to thank all the reviewers and colleagues who have worked closely with us and the editorial team. We extend special thanks to those who contributed to the development of Chapter 11, which is new to this edition: Mark Awada, Pascal Bizzaro, Caitlin Bowler, Rachel Caruso, Mahendra Gujarathi, Paul Hamilton, John Harris, Donna McGovern, Tatiana Sandino, and V.G. Narayanan.

We thank the people at Pearson for their hard work and dedication, including Lacey Vitetta, Ellen Geary, Sara Eilert, Christopher DeJohn, Michael Trinchetto, Claudia Fernandes, Stacey Miller, and Martha LaChance. This book and support materials would not have been possible without their dedication and skill. Allison Campbell at Integra expertly managed the production aspects of the manuscript's preparation with superb skill and tremendous dedication. We are deeply appreciative of their good spirits, loyalty, and ability to stay calm in the most hectic of times.

Appreciation also goes to the American Institute of Certified Public Accountants, the Institute of Management Accountants, the Society of Management Accountants of Canada, the Certified General Accountants Association of Canada, the Financial Executive Institute of America, and many other publishers and companies for their generous permission to quote from their publications. Problems from the Uniform CPA examinations are designated (CPA), and problems from the Certified Management Accountant examination are designated (CMA). Many of these problems are adapted to highlight particular points. We are grateful to the professors who contributed assignment material for this edition. Their names are indicated in parentheses at the start of their specific problems. Comments from users are welcome.

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