

Index

• A •

- ABC (activity-based costing). *See also* costs;
 peanut butter costing
 allocating indirect costs, 77–78
 allocations to cost pools, 79
 analyzing cost activities, 78–79
 applying to bottlenecks, 353
 applying to variance analysis, 122–124
 benefits, 66
 changing prices after, 80
 computing profit, 76–80
 computing sale price, 76–80
 computing total cost, 76–80
 considering, 361
 cost control, 15
 versus cost smoothing, 66
 defined, 65
 estimators, 78
 overcosting, 69–70
 versus peanut butter costing, 66
 by product, 79
 product-cost cross-subsidization, 69–70
 reallocating cost activities, 78–79
 reallocating via ABC, 78–79
 single indirect cost allocation, 66–67
 tracing direct costs, 69
 undercosting, 69–70
- ABC design
 cost allocation base, 74
 cost allocation rates, 74–75
 cost pools, 73
 direct costs, 73
 indirect costs, 74, 76
 testing, 73–76
 total costs by type, 75
- ABC system
 batch-level costs, 72
 cost hierarchy, 72
 cost pools, 71
 cost-allocation bases, 71
 customer-level costs, 72
 direct cost tracing, 71
 facility-sustaining costs, 72
 precision of costing, 72
 product-sustaining costs, 72
 profit calculations, 72
 as refined costing system, 71
 unit-level costs, 72
- abnormal spoilage
 job costing, 311
 making adjustments for, 309–311
 versus normal spoilage, 297–299
- absorption costing
 applying, 151–153
 versus variable costing, 149–150
- account analysis method, 165–166
- accounting, defined, 9
- accounting methods
 accrual, 17
 financial, 10
 management, 11–12
- accounting terms
 direct costs, 19–21
 fixed costs, 21–22
 indirect costs, 19–21
- accrual accounting
 budgeting with, 99–100
 versus cash basis, 27–29
 versus cash basis accounting, 97
 downside, 100
 using, 17
- activity-based costing (ABC). *See* ABC
 (activity-based costing)
- adjustments, making for spoilage, 310
- advertising, considering, 40–41
- allocated fixed costs
 gaining, 242–244
 losing, 242–244
- antitrust law, 209
- appraisal costs, 340

asset accounts, debits and credits in, 60
assets
 defined, 25
 depreciation of, 85
 listing on balance sheet, 92
 relevant range, 26
 tangible versus intangible, 26

• B •

balance sheet
 creating, 100–101
 using, 92–93
batch-level costs in ABC system, 72
BCR (benefit-cost ratio), 147
bidding for contracts, 252
bonds
 maturity rate, 11
 selling, 11
bottlenecks
 applying ABC (activity-based costing), 353
 clearing, 352–354
 considering outsourcing, 353
 eliminating defective products, 353
 eliminating idle time, 353
 incoming units, 352–353
 increasing contribution margin, 351–352
 inefficiencies, 352
 occurrence of, 351
 reducing setup time, 353
breakeven point
 applying to products, 43–44
 calculating for CVP, 32–34
 computing via contribution margin, 35
 example, 33–34
 formula, 33
 lowering, 35–36
budget
 defined, 83, 92
 financial controls, 84
 going over, 241
 master, 84
 purpose, 84
budget entities, determining, 91
budget goals, role in employee
 compensation, 90
 budget variances
 flex budgets, 112
 investigating, 111–113
budgeted hours, using in dual rate
 allocations, 239
budgeting
 business plan, 86
 cash basis accounting, 97–99
 cash flow, 86
 importance of, 85–86
 opportunity cost, 85–86
 overview, 14
 with practical capacity, 237–239
 with single rate allocations, 237–239
 strategic plan, 86–87
budgeting financials, pro forma statements,
 91–94
budgeting process
 accountant, 89
 balance sheet, 100–101
 capital expenditure budget, 88
 cost of goods sold, 96–97
 equity investors, 92
 experience, 87–88
 financial plan, 92
 financial statement, 92
 income statement, 101
 market research, 90
 matching principle, 99
 sales projections, 89–91
 source of funds, 92
 staff, 89
 standard costs, 91
 timing, 88
 variances, 91
budgets
 flex versus static, 104
 production, 94–97
 revenue, 94–97
business plan
 controls, 84
 defined, 83, 92
 going over, 241
 master, 84
 purpose, 84

- byproducts. *See also* products
 accounting for joint costs, 270
 considering, 270
 defined, 255
 gross margin, 270
 production method, 270
 production of, 270
 sales method, 270
 setting sales value of, 257
- C •
- capacity. *See also* practical capacity
 adding to avoid redlining, 360
 cyclical stock, 155
 defined, 139
 downward demand spiral, 157
 master-budget, 154–155
 normal, 154–155
 practical, 153–154
 pricing decisions, 157
 and product mix, 188–192
 relating to inventory, 153–158
 theoretical, 153–154
 uncertainty, 158
 utilization, 154
- capacity and profit, analyzing, 190–192
- capacity level
 choosing, 156–158
 costing products, 156
 and employee evaluation, 157–158
- capacity planning, 128
- capital expenditure budget, 88
- carrying costs, considering for JIT
 purchasing system, 330–331
- carrying costs of inventory. *See also* inventory
 considering, 318, 320
 interest, 186
 ordering, 186
 quantity discounts, 186–187
 reducing, 329
- cash basis accounting
 versus accrual method, 27–29, 97
 budgeting with, 97–99
- cash flow
 budgeted statement of, 99
 financing activities, 94
 investing activities, 94
 operating activities, 93
 role in budgeting, 86
- Change Bank skit, 33
- changes. *See* variance analysis
- client activity, levels of, 67–68
- COGS (cost of goods sold)
 account type, 59
 assessing, 96–97
 defined, 27, 37
- collusion pricing, 210
- common costs
 allocating, 217–221
 allocating to divisions, 220–221
 allocation methods, 218–219
 defined, 231, 249
 incremental cost allocation, 251
 pooling, 219
 stand-alone cost allocation, 249–251
- competition law, 209
- competitors, influence on prices, 194
- conference method, 165
- conservatism, principle of, 29
- constant gross margin NRV method. *See also* joint cost allocation methods
 explained, 263, 268
 expressing as percentage, 263–265
 goods available for sale, 264
 joint cost allocations, 265
 reducing separable costs, 266–267
 using, 263
 working backward, 263
- Consumer Price Index, 143
- contracts
 bidding for, 252
 cost-plus, 251
 defined, 251
 fair costs, 252–253
 with government, 251–253
 reasonable costs, 252–253
- contribution margin
 formula for, 35
 versus gross margin, 37–38

- contribution margin (*continued*)
 - increasing, 351–352
 - lost, 320
 - reduced, 320
 - using, 225–227
- control accounts. *See also* debit process
 - versus credit process
 - flow process, 63
 - for inventory, 59
 - manufacturing example, 61–62
 - using in manufacturing, 58–59
- conversion costs in process costing, 273, 280–281
- corporate costs
 - allocating, 217–221
 - allocating to divisions, 220–221
 - allocation methods, 218–219
 - defined, 231, 249
 - incremental cost allocation, 251
 - pooling, 219
 - stand-alone cost allocation, 249–251
- cost accounting
 - defined, 9
 - historical information, 12
 - versus management accounting, 12
 - “secret,” 69
- cost activities, analyzing via ABC, 78–79
- cost allocation
 - accuracy, 366
 - complexity of, 216
 - corporate costs, 217–221
 - direct method, 246–247
 - direct versus indirect costs, 213
 - explained, 50–51, 66
 - going over budget, 241
 - incremental, 251
 - indirect costs, 216
 - justifying decisions, 215–216
 - processing, 213–216
 - purposes of, 214
 - single rate, 232–235
 - stand-alone method, 249–251
 - step-down method, 247–248
 - tracking customer revenues, 222–225
 - via cost hierarchies, 216–217
- cost allocation base
 - explained, 126
 - using with indirect costs, 74
- cost allocation rates
 - assigning to products, 74–75
 - determining, 237–240
- cost behavior
 - defined, 161
 - fixed costs, 161
 - mixed costs, 161
 - plug and chug, 161
 - variable costs, 161
- cost control
 - ABC (activity-based costing), 15
 - CVP (cost-volume profit), 15
 - joint costing, 15
 - performing analysis, 14
 - support costs, 15
 - variance analysis, 15
- cost drivers
 - assets, 25–26
 - constant, 170
 - deciding between, 169–170
 - defined, 51
 - impact on total costs, 163–164
 - relevant range, 25–26
 - slope coefficient, 170
- cost estimation methods
 - account analysis, 165–166
 - choosing, 169–170
 - conference, 165
 - cost hierarchies, 170
 - industrial engineering, 164
 - quantitative analysis, 166–169
- cost functions
 - changing, 171
 - defined, 161
 - linear, 162–163
 - nonlinear, 162–163, 171
- cost objects
 - allocating, 49
 - defined, 25
- cost of goods sold (COGS)
 - account type, 59
 - assessing, 96–97
 - defined, 27, 37

- cost of quality
 - appraisal costs, 340
 - considering for inventory, 318
 - external failure costs, 340
 - internal failure costs, 340
 - prevention costs, 339–340
 - replacement, 340
 - warranty work, 340
- cost of quality report
 - appraisal costs, 341
 - compiling, 341–342
 - external failure costs, 341
 - internal failure costs, 341
 - prevention costs, 341
- cost of sales
 - account type, 59
 - assessing, 96–97
 - defined, 27, 37
- cost pools
 - in ABC design, 73
 - in ABC systems, 71
 - changing allocations to, 79
 - defined, 50–51
 - homogeneous, 71
 - using with corporate costs, 219
- cost smoothing, 66
- cost versus benefit, 249
- cost-allocation bases in ABC systems, 71
- cost-benefit analysis, 13
- costing mistakes
 - avoiding, 357–361
 - costs assigned incorrectly, 359
 - failing to implement ABC, 361
 - fixed costs as variable costs, 357–358
 - forgetting about taxes, 359
 - ignoring timing of costs, 361
 - misusing target net income, 358–359
 - period costs as product costs, 358
 - pricing products incorrectly, 357
 - redlining, 360
 - reviewing variances incorrectly, 360
- cost-plus contract, defined, 251
- cost-plus pricing, applying to profits, 202–204
- costs. *See also* ABC (activity-based costing); pricing; product costs; total costs
 - direct, 23
 - direct versus indirect, 19–21
 - dollar amounts of, 174
 - essential, 126
 - expensing, 27
 - finding, 24–25
 - fixed versus variable, 21–22
 - ignoring timing of, 361
 - indirect, 23
 - inventoriable, 26–27
 - lowering, 16–17
 - manufacturing, 24
 - non-inventoriable, 141
 - reducing, 123–124
 - for retailers, 24
 - spreading evenly, 67–68
 - spreading over cost objects, 66
 - sunk, 39
 - timing, 39–40
 - variable, 21–23
- costs and employee issues, handling, 364
- costs and profit by product, 77
- cost-volume profit (CVP), 15
- credit process versus debit process, 59–60, 63
- creditors, defined, 10–11
- credits in manufacturing, 61–62
- customer costs
 - isolating, 223–225
 - labor, 225
- customer life-cycle costs, 206
- customer orders, dealing with changes in, 67–68
- customer response time
 - average waiting time, 349–350
 - bottlenecks, 348
 - explained, 348
 - manufacturing lead-time, 350–351
 - parts and supplies, 348
 - specifications, 348
 - time drivers, 348
 - on-time performance, 349
 - uncertainty about orders, 348

- customer returns, occurrence of, 332
- customer revenues
 - profit analysis, 222–223
 - purchase discounts, 223
 - tracking, 222–225
- customer satisfaction
 - achieving, 338
 - annual reports, 346
 - benefits, 347
 - CEO letter, 346–347
 - complaints, 345
 - defective units, 345
 - follow-up, 338
 - getting feedback, 346
 - improving, 344–347
 - internal reports, 346
 - market research, 345
 - measuring, 344–347
 - non-financial measurements, 345–347
 - process yield, 346
 - timeliness, 338, 346
- customer-level costs in ABC system, 72
- customers
 - gathering information from, 198
 - ideal, 191
 - influence on prices, 194
- CVP (cost-volume profit) analysis. *See also* profit goal
 - breakeven point, 32–34
 - combining results of products, 43–45
 - contribution margin, 34–35
 - cost of sales, 37
 - defined, 15, 31
 - example, 32
 - financial losses, 34
 - lowering prices, 41–42
 - operating leverage, 38–39
 - pitching products, 40–45
 - reaching profitability, 35–36
 - sales mix, 43–45
 - setting profit goal, 36–38
 - target net income, 36–38
- cyclical stock, defined, 155

• D •

- debit process versus credit process, 59–60, 63. *See also* control accounts
- debits in manufacturing, 61–62
- decision making
 - carrying cost of inventory, 186–188
 - make versus buy decision, 181–184
 - special orders, 179–181
 - weighing opportunity costs, 184–185
- decision model
 - applying to equipment decisions, 175–178
 - book value, 177–178
 - overview, 174–175
 - real value, 177–178
 - relevant qualitative factors, 178–179
- demand
 - affecting suppliers, 336
 - analyzing, 335–336
 - from competitors, 336
 - purchasing patterns, 336
 - variations, 336
- departments
 - allocating to, 245–249
 - direct allocation method, 246–247
 - reciprocal method, 248
 - step-down allocation method, 247–248
- depreciation
 - accumulated, 177
 - considering, 176
 - defined, 85
 - five-year straight-line, 176–177
- design decisions, considering, 201
- direct allocation method, implementing, 246–247
- direct costs
 - in ABC design, 73
 - allocating to cost objects, 49
 - charging customers for, 50–51
 - computing in manufacturing, 52–53
 - deciding on, 20–21
 - examples, 23
 - versus indirect costs, 19–21
 - in normal costing, 57
 - in process costing, 272

tracing, 69
 tracing in ABC systems, 71
 dividends, considering, 92
 dual rate allocations
 calculating, 239
 and practical capacity, 239–240
 using, 235–237
 duty cycle, explained, 127

● E ●

economic order quantity (EOQ) formula. *See*
 EOQ (economic order quantity) formula
 efficiency variances
 applying to direct materials, 114–116
 budgeted input quantity, 114–115
 for direct labor, 117
 formula for, 113
 and price variance, 123–124
 reasons for, 115–116
 employee effectiveness
 judging, 120–121
 purchasing manager, 121
 employee evaluation, capacity-level
 considerations, 157–158
 employee issues and costs, handling, 364
 employee turnover, impact of, 245
 EOQ (economic order quantity) formula
 demand, 321
 explained, 317
 ignoring, 327–328
 for prediction error, 325
 purchase order lead time, 321
 purchasing cost per unit, 321
 quality costs, 321
 relevant carrying cost, 321
 relevant ordering cost, 321
 reorder point, 321, 323–324
 stockouts, 321
 variables, 321
 equipment decision
 applying model to, 175–178
 coming to conclusions, 176–177
 connecting to balance sheet, 177–178
 considering depreciation, 176
 determining alternatives, 175

equity, listing on balance sheet, 92
 equity investors, rewarding, 92
 equivalent units
 calculating, 280–281
 computing, 277–279
 and costs, 276–279
 counting, 274–275
 direct material costs, 276
 labor costs, 276
 overhead costs, 276
 spoiled units excluded, 301–302
 spoiled units included, 299–301
 total costs of production, 275–276
 using in process costing, 274
 weighted average method, 283–285
 essential costs, explained, 126
 estimator, job of, 78
 expense accounts, debits and credits
 in, 60
 expenses, recognizing, 27
 expensing costs, 27
 expiration date, considering, 298
 externality, negative, 184

● F ●

facility-sustaining costs ABC system, 72
 factory second, explained, 297
 FIFO (first-in, first-out) method. *See also*
 LIFO (last-in, first-out) method
 equivalent units, 287–288
 equivalent units for spoilage, 307–308
 and LIFO, 147–149
 physical flow of units, 286–287
 physical flow of units for spoilage, 307
 process costing, 286–290
 process costing for spoilage, 306–309
 units for beginning WIP, 308
 using, 144–145
 financial accounting
 explained, 10
 external parties, 10
 retrospective, 10
 shareholders, 10
 financial control, defined, 84
 financial losses, incurring, 34

- financial plan
 - controls, 84
 - defined, 83, 92
 - going over, 241
 - master, 84
 - purpose, 84
 - financial statements
 - balance sheet, 92
 - dividends, 92
 - income statement, 93
 - statement of cash flows, 93–94
 - types of, 92
 - finished goods inventory, 273
 - fixed costs
 - allocating, 242–244
 - covering, 34–35
 - defined, 161
 - examples, 23
 - listing as variable costs, 357–358
 - in total dollars, 181
 - versus variable costs, 21–22, 49
 - fixed overhead costs
 - allocating, 128–130
 - applying costs, 129
 - assessing variances, 131
 - budgeting, 130
 - capacity needs, 127–128
 - capacity planning, 128
 - cost allocation rates, 128
 - duty cycle, 127–128
 - flexible budget variances, 129
 - paying for, 126–131
 - planning, 127–128
 - preventive maintenance, 127
 - production volume variances, 129–130
 - relevant range, 128
 - scheduled maintenance, 127
 - spending variance, 129
 - static budget, 129
 - flex budget
 - applying, 123–124
 - benefits, 109
 - components, 110–111
 - defined, 104
 - fixed costs, 109
 - revenue and cost variance, 110
 - sales volume variance, 110–111
 - using static budget with, 109
 - variances, 110, 112
 - FOB (free on board), 141
- **G** •
- GAAP (Generally Accepted Accounting Principles)
 - period costs, 150
 - product costs, 150
 - goal congruence, defined, 327
 - government contracts
 - bidding for, 252–253
 - entering into, 251–252
 - gross margin, defined, 270
 - gross versus contribution margin, 37–38
- **H** •
- historical information, use of, 12
- **I** •
- improvements, making, 16–17
 - income, after-tax, 359
 - income accounts, debits and credits in, 60
 - income statement
 - budgeted example, 101
 - formula, 93
 - showing common costs on, 219
 - income taxes, adjusting target net income for, 46
 - incremental cost allocation, 251, 270
 - incremental revenue, 270
 - indirect costs. *See also* overhead; single indirect cost allocation
 - in ABC design, 74, 76
 - allocating, 20
 - allocating by product, 77–78
 - allocating to cost objects, 49
 - allocation of, 126
 - budgeted, 56
 - budgeting for, 56–57
 - calculating in manufacturing, 53–54

- charging customers for, 50–51
 - cost allocation base, 74, 126
 - deciding on, 20–21
 - versus direct costs, 19–21
 - examples, 23
 - fixed, 126–131
 - fixed versus variable, 49, 125
 - incurring, 126
 - job costing, 55–58
 - justifying allocations, 216
 - in normal costing, 57
 - predetermined, 56
 - industrial engineering method, 164
 - inflation, measuring, 143
 - inspection point, considering for waste, 296
 - intangible assets, 26
 - interest, explained, 10
 - inventoriable costs
 - being conservative, 142
 - defined, 140
 - examples, 140–141
 - FOB (free on board), 141
 - matching principle, 140
 - previewing, 26–27
 - profit, 140
 - risk of loss, 141
 - inventory. *See also* carrying costs of inventory
 - assets, 58
 - carrying cost of, 186–188
 - considering in manufacturing, 58
 - control accounts, 59
 - indirect costs, 59
 - labor, 59
 - materials, 59
 - purchases and sales, 143
 - and quality, 343–344
 - relating capacity issues to, 153–158
 - reserve, 323–324
 - types, 58
 - inventory costing
 - allocating fixed costs, 149–153
 - capacity level, 156–158
 - period costs, 150
 - product costs, 150
 - variable versus absorption, 149–153
 - inventory costing methods
 - applying, 142
 - BCR (benefit-cost ratio), 147
 - FIFO (first-in, first-out), 144–145, 147–149
 - inflation, 143
 - LIFO (last-in, first-out), 145–149
 - overview, 142–144
 - specific identification method, 147
 - weighted-average, 146–147
 - inventory costs
 - carrying, 318, 320
 - considering, 317
 - opportunity costs, 320
 - ordering, 318
 - ordering sequence, 319–320
 - purchasing, 318
 - quality, 318
 - stockout, 318, 320
 - inventory formula, using, 95
 - inventory issues, handling, 365
 - inventory levels, uncertainties related to, 324
 - inventory methods, process costing, 288–290
 - inventory quantity
 - calculating, 321–322
 - EOQ (economic order quantity), 321
 - invoice, including in ordering sequence, 319
 - invoice orders, dealing with changes in, 67
- 7 •
- Jelly Belly cost recovery, 298
 - JIT (just-in-time) purchasing
 - benefits, 329–330
 - carrying costs, 330
 - explained, 329
 - goal of, 329
 - ordering costs, 330
 - risks, 329–330
 - JIT purchasing system
 - adjusting total purchasing costs, 334
 - average inventory, 331
 - carrying costs of inventory, 331
 - customer returns, 332–333
 - opportunity costs, 330
 - ordering costs, 330

JIT purchasing system (*continued*)
 purchasing costs, 330–331
 stockout costs, 332
 warranties, 332–333

job cost sheet, using in normal costing, 57–58

job costing
 abnormal spoilage, 311
 budgeting for indirect costs, 56–57
 cost allocation, 50
 cost drivers, 51
 cost objects, 49
 cost pools, 50–51
 defined, 47
 direct costs, 50–53
 implementing in manufacturing, 51–55
 indirect costs, 50–51, 55–58
 normal costing, 55–58
 normal spoilage, 309–311
 presenting total costs, 54–55
 versus process costing, 190–191
 proper use of, 48
 quality in, 343
 Reliable Fencing example, 52
 spoilage, 309–312

joint cost allocation methods. *See also*
 constant gross margin NRV method
 choosing, 267–270
 incremental cost, 270
 incremental revenue, 270
 market-based approach, 258
 matching principle, 258
 NRV (net realizable value) method, 258,
 261–263, 268
 physical measure, 260
 relative sales value, 259
 sales value at splitoff, 259, 268
 sell or process further, 269–270

joint costs
 allocating, 257–258
 contracts, 258
 defined, 15, 255
 financial reporting, 257
 insurance settlements, 258
 litigation, 258

NRV (net realizable value) calculation, 261–262
 product pricing, 257
 regulated products, 258
 separable costs, 256
 splitoff point, 256
 total cost, 256

● L ●

labor costs
 considering, 225
 determining, 276

labor variances
 analyzing, 113
 efficiency variances for, 117
 price variances for, 116

layoffs, impact of, 179

learning curves, assessing impact of, 172

lenders, defined, 10–11

liabilities
 defined, 85
 listing on balance sheet, 92

liability accounts, debits and credits in, 60

LIFO (last-in, first-out) method, 145–149.
See also FIFO (first-in, first-out) method

litigation risk, estimating for products, 220

losses, incurring, 34

lost contribution margin, 320

● M ●

machine costs, allocating, 220

maintenance
 preventive, 127
 scheduled, 127

make versus buy decision, 181–184

management accounting
 versus cost accounting, 12
 differential costs, 12
 versus financial accounting, 11
 forward-looking, 11
 using, 11–12

management by exception, 104–105

management reports, preferences for, 12

- manufacturing costs, reviewing, 24
- manufacturing examples
- control accounts, 61–62
 - cost of goods sold, 62
 - direct costs, 52–53
 - finished goods, 62
 - indirect costs, 53–54
 - job costing, 51–55
 - Karl's Kustom Kitchen Cabinets, 61–62
- manufacturing lead-time
- capacity costs, 351
 - carrying costs of inventory, 351
 - formula, 350
 - relevant costs, 350
 - revenue, 350
 - variable costs, 350
- manufacturing system
- COGS (cost of goods sold), 59
 - control accounts, 58–59
 - credit process, 59–60
 - debit process, 59–60
 - inventory, 58
 - overhead control, 59
- margin, contribution versus gross, 37–38
- margin of safety
- increasing, 364
 - and lower profits, 37
- market research, conducting, 90, 345
- markups, reducing, 202–203
- master budget
- defined, 104
 - financial plan, 84
 - operating income, 106–107
 - operating plan, 84
 - problem with, 105–108
 - for toy manufacturer, 105
 - using with flex budget, 109
 - variances, 106–108, 111
- matching principle
- applying to joint cost allocation, 258
 - applying to spoilage, 296–297
 - calculating profit on sale, 140–141
 - in product life-cycle budgeting, 205
 - using in budgets, 99
- material costs in process costing, 280–281
- materiality, defined, 249
- mistakes in costing
- avoiding, 357–361
 - costs assigned incorrectly, 359
 - failing to implement ABC, 361
 - fixed costs as variable costs, 357–358
 - forgetting about taxes, 359
 - ignoring timing of costs, 361
 - misusing target net income, 358–359
 - period costs as product costs, 358
 - pricing products incorrectly, 357
 - redlining, 360
 - reviewing variances incorrectly, 360
- mixed costs, defined, 161
- N •
- net realizable value (NRV) method. *See* NRV (net realizable value) method
- nonlinear cost functions
- versus linear functions, 162–163
 - quantity discounts, 171
 - slope coefficients, 171
- normal costing
- direct costs, 57
 - indirect costs, 55–58
 - job cost sheet, 57–58
- normal spoilage
- versus abnormal spoilage, 297–299
 - job costing, 309–311
 - making adjustments for, 309–311
- normal spoilage methods
- choosing, 302–303
 - excluding spoiled units, 301–302
 - including spoiled units, 299–301, 303
 - inspection process, 303
- NRV (net realizable value) method
- changing amounts, 262
 - considering, 268
 - constant gross margin, 263–268
 - determining sales prices, 263
 - explained, 258
 - per unit amounts, 261–262
 - Percent of NRV total, 262
 - total costs, 261–262

• 0 •

operating department, 232
 operating income
 in static budget, 106–107
 toy manufacturing example, 106
 operating leverage, degree of, 38–39
 operating plan in master budget, 84
 operations manual, 176
 opportunity costs
 defined, 85
 JIT purchasing system, 330
 lost contribution margin, 320
 reduced contribution margin, 320
 weighing, 184–185
 order management example, 68
 ordering costs
 considering for inventory, 318
 considering for JIT purchasing, 330
 inventory, 318–320
 JIT purchasing system, 330
 ordering decisions
 demand issues, 335–336
 JIT (just-in-time) purchasing, 329–334
 prediction error, 325–328
 SCM (supply chain management), 325
 total purchasing cost, 334
 ordering process, uncertainty in, 324
 ordering sequence
 invoice, 319
 packing receipt, 319
 PO (purchase order), 319
 statement, 319
 orders. *See* customer orders
 outsourcing
 considering, 353
 versus in-house production, 181–184
 versus insourcing, 354
 overcosting, impact on pricing, 69–70
 overhead
 control in manufacturing, 59
 determining, 276
 essential costs, 126
 minimizing, 125–126
 variable manufacturing, 131

overhead costs
 in ABC design, 74, 76
 allocating, 20
 allocating by product, 77–78
 allocating to cost objects, 49
 allocation of, 126
 budgeted, 56
 budgeting for, 56–57
 calculating in manufacturing, 53–54
 charging customers for, 50–51
 cost allocation base, 74, 126
 deciding on, 20–21
 versus direct costs, 19–21
 examples, 23
 fixed, 126–131
 fixed versus variable, 49, 125
 incurring, 126
 job costing, 55–58
 justifying allocations, 216
 in normal costing, 57
 predetermined, 56

• p •

P&L (profit and loss statement)
 formula, 93
 budgeted example, 101
 showing common costs on, 219
 packing receipt, including in ordering
 sequence, 319
 payable, generating, 100
 peak-load pricing, 208
 peanut butter costing. *See also* ABC
 (activity-based costing)
 explained, 66
 levels of client activity, 67–68
 undercosting, 69–70
 performance related to time, 348–349
 period costs
 defining, 150
 labeling as product costs, 358
 physical measure method, 260
 physical units, percentages of completion,
 279–280
 plug and chug, 161
 PO (purchase order), filling out, 319

- practical capacity. *See also* capacity
budgeting with, 237–239
determining cost allocation rates, 237–240
and dual rate allocations, 239–240
evaluating, 240
and variance analysis, 241–242
- predatory pricing, 209–210
- prediction error
acting on, 326–327
calculating EOQ, 325
defined, 325
evaluating, 325–328
goal congruence, 327
ignoring EOQ, 327–328
relevant total costs, 325–326
scope amount, 327
total dollar amount, 327
- pre-tax dollars, 45–46
- prevention costs, 339
- price discrimination, 207, 209
- price variances
applying to direct materials, 114
for direct labor, 116
and efficiency variance, 123–124
formula for, 113
reasons for, 115–116
- prices
changing after analysis, 16
increasing, 16
influences on, 193–196
lowering, 41–42
setting, 15–16
- pricing. *See also* costs; sale price; target pricing
collusion, 210
and competition, 15–16
cost-based, 197
impact of overallocation on, 70
impact of underallocation on, 70
market-based, 197
predatory, 209–210
- pricing decisions, considering capacity, 157
- pricing for profits, 197–202
- principal amount, paying interest on, 10
- principle of conservatism, 141
- pro forma financial statements, explained, 91
- process costing
allocating costs, 272
applying to spoilage, 304–309
conversion costs, 273, 280–281
defined, 47, 271
direct material costs, 272, 276
equivalent units, 274, 277–279
FIFO (first-in, first-out) method, 286–290
FIFO for spoilage, 306–309
finished goods inventory, 273
goal of, 271
inventory methods, 288–290
labor, 276
material costs, 280–281
overhead, 276
percentages of completion, 279–281
physical units and total costs, 277
pricing products, 272
and spoilage, 298–303
standard costs, 290
total costs of production, 275–276
tracing costs, 272
transferred-in costs, 290–291
using, 271
weighted average method, 282–285,
288–290
WIP (work in process), 273–274
- process versus job costing, 190–192
- process yield, defined, 346
- product costs. *See also* costs; target costing
accuracy of, 72
defining, 150
incorrect assignment, 359
labeling period costs as, 358
- product defects, identifying, 341
- product design, quality of, 340
- product life-cycle budgeting
assigning risks, 205–206
collusion pricing, 210
competition law, 209
customer life-cycle costs, 206
demand inelasticity, 207–208
explained, 204
matching principle, 205
peak-load pricing, 208

- product life-cycle budgeting (*continued*)
- predatory pricing, 209–210
- price discrimination, 207, 209
- pricing and regulation, 209
- pricing strategies, 206–208
- research and development costs, 205–206
- skimming the market, 206
- total cost of ownership, 206
- product mix, managing with capacity, 188–192
- product sales, adjusting, 45
- product testing, conducting, 340–341
- product-cost cross-subsidization, 69–70
- production activity, pushing above relevant range, 360
- production and scheduling issues, 364
- production budgets, 94–97
- production costs
 - determining totals, 275–276
 - direct materials, 276
 - labor, 276
 - overhead, 276
- production in house versus outsourcing, 181–184
- production method, using with byproducts, 270
- production volume variances, 129–130
- products. *See also* byproducts; reworking products
 - applying breakeven point to, 43–44
 - applying target net income to, 44
 - combining results of, 43–45
 - comparing profits of, 363
 - cost allocation rates, 74–75
 - costing, 156
 - defective, 118–120
 - defined, 23
 - estimating litigation risk, 220
 - pitching via CVP (cost-volume-profit) analysis, 40–45
 - pricing incorrectly, 357
 - WIP (work-in-process), 24
- product-sustaining costs in ABC system, 72
- profit and capacity, analyzing, 190–192
- profit and loss statement (P&L), 219
- profit calculations, accuracy of, 72
- profit goal. *See also* CVP (cost-volume profit)
 - margin of safety, 37
 - meeting, 15–16
 - setting, 36–38
- profit on sale, calculating, 140–141
- profitability
 - improving, 271
 - reaching via CVP, 35–36
 - sales mix variances, 226–229
 - sales quantity variances, 229–230
 - sales volume variances, 230
 - variances and contribution margin, 225–227
- profits
 - computing via ABC, 76–80
 - cost allocations, 366
 - cost-plus pricing, 202–204
 - costs and employee issues, 364
 - defined, 140
 - financial risk, 205
 - implementing sales mix analysis, 363–364
 - improving, 240
 - increasing margin of safety, 364
 - increasing using costing, 363–366
 - inventory issues, 365
 - maintaining, 41–42
 - maximizing with limited capacity, 188–192
 - measuring, 147–149
 - pricing for, 197–202
 - product life-cycle budgeting, 204–210
 - production issues, 364
 - reducing markups, 202–203
 - scheduling issues, 364
 - scrap management, 365
 - scrap reduction, 365
 - special orders, 365–366
 - spoilage issues, 366
 - target costing, 198–202
 - target rate for ROI, 203
- purchase discounts, analyzing, 223
- purchase order (PO), filling out, 319
- purchases, uncertainties related to, 324
- purchasing costs
 - considering for inventory, 318
 - JIT purchasing system, 330
- purchasing manager, evaluating, 121, 328

• Q •

qualitative factors, considering, 178–179
quality
 benefits, 338
 cost of quality report, 341–342
 defined, 338
 demanding, 17
 eliminating bottlenecks, 351–354
 ensuring, 340–341
 identifying defective products, 341
 importance of, 337
 inspecting work in process, 354
 and inventory, 343–344
 in job costing, 343
 limited warranty, 344
 performance related to time, 348–349
 product design, 340
 product testing, 340–341
 scheduled maintenance, 340
quality costs
 appraisal costs, 340
 considering for inventory, 318
 external failure costs, 340
 internal failure costs, 340
 prevention costs, 339–340
 replacement, 340
 warranty work, 340
quality practices, implementing, 342–344
quantitative analysis method, 166–169
quantity discounts, impact of, 171

• R •

R&D (research and development) costs, 206
receivable, generating, 99
reciprocal allocation method,
 implementing, 248
redlining, avoiding, 360
reduced contribution margin, 320
regulators, addressing concerns of, 11
relevance
 deciding on, 17
 decision model, 174–175
 defined, 173–174

 dollar amount of cost, 174
 materiality, 174
relevant costs
 explained, 174
 and revenue, 191–192
relevant range
 for assets, 26
 defined, 25
 explained, 128
relevant revenue, 174
reorder point
 defined, 321, 323
 formula, 323
 reserve inventory, 323–324
 safety stock, 323–324
reserve inventory, 323–324
retailers, costs for, 24
revenue
 recognizing, 27–28
 and relevant cost, 191–192
revenue budgets, 94–97
revenue formula, applying, 95
reverse engineering, 199
rework
 allocating to jobs, 313–314
 assigning to jobs, 312–313
reworked products, defined, 295
reworking products. *See also* products
 accounting entries, 312
 to recoup profits, 303
risk of loss, defined, 141
risk versus effort, 35
risks, assessing for product life cycle,
 205–206
ROI (return on investment), target rate
 of, 203

• S •

safety stock
 computing, 324
 explained, 323
sale price, computing via ABC, 76–80. *See also* pricing
sales method, using with byproducts, 270

- sales mix
 - adjusting product sales, 45
 - applying breakeven point, 43–44
 - applying target net income, 44
 - combining results of products, 43–45
 - connecting to contribution margin, 227–228
 - defined, 359
 - for increasing total profits, 363–364
 - variance, 228–229
- sales projections, role in budgeting, 89–91
- sales quantity variance, calculating, 229–230
- sales value at splitoff, 259, 268
- sales volume variances
 - competition, 112
 - explained, 110–111, 230
 - product demand, 112
 - quality, 112
 - reasons, 112–113
 - unrealistic budget, 112
- scheduled maintenance program,
 - following, 127, 340
- scheduling and production issues, 364
- SCM (supply chain management) issues, 335–336
- scrap
 - defined, 295
 - making allocation decisions about, 314–315
 - managing, 365
 - reducing, 365
 - and spoilage, 296
 - versus spoilage, 314
- sell or process further decision, 269–270
- separable costs
 - computing after splitoff, 260–267
 - defined, 255–256
 - determining, 262
 - incurring, 260
 - NRV (net realizable value), 261–263
 - reducing, 266–267
- services, defined, 23
- shareholders, considering in financial accounting, 10
- shipping orders, dealing with changes in, 67
- single indirect cost allocation, 66–67. *See also* indirect costs
- single rate cost allocation
 - actual results, 234–235
 - analyzing, 233–234
 - budgeting with, 237–239
 - explained, 232
 - figuring out rate, 233
- slope coefficients, changing, 171
- special orders
 - considering, 180–181
 - defined, 179
 - fixed costs, 181
 - influence on prices, 195–196
 - profitability, 196
 - taking, 365–366
- specific identification method, 147
- splitoff point, defined, 255–256
- spoilage
 - abnormal, 297–299, 311
 - dealing with, 366
 - defined, 295, 339
 - expiration date, 298
 - job costing, 309–312
 - matching principle, 296–298
 - normal, 297–303, 309–311
 - and process costing, 298–303
 - process costing, 304–309
 - and scrap, 296
 - versus scrap, 314
 - weighted average method, 304–306
- stand-alone cost allocation method, 249–251
- standard costs
 - considering in budget, 91
 - defined, 103
 - and process costing, 290
 - setting realistically, 121
- statement, including in ordering sequence, 319
- static budget
 - defined, 104
 - financial plan, 84
 - operating income, 106–107
 - operating plan, 84
 - problem with, 105–108
 - for toy manufacturer, 105
 - using with flex budget, 109
 - variances, 106–108, 111

step-down allocation method,
 implementing, 247–248
 stock appreciation, 92
 stockout costs, considering for inventory,
 318, 320
 strategic plan, explained, 86–87
 sunk costs, 39
 suppliers
 gathering information from, 199
 influence on prices, 194
 supply chain management (SCM) issues,
 335–336
 supply chain, tying to variance analysis, 122
 support activities, 231
 support costs
 allocating to departments, 245–246
 defined, 15, 231
 dual rate allocations, 235–237
 incurring, 232
 practical capacity, 237–240
 single rate cost allocation, 232–235
 support department, 232

• T •

tangible assets, 26
 target costing. *See also* pricing; product
 costs
 gathering information, 198–199
 implementing in manufacturing, 199–201
 overview, 198
 value engineering, 200
 target net income
 adjusting for income taxes, 46
 adjusting product sales, 45
 applying to products, 44
 misusing, 358–359
 setting profit goals, 36–38
 target pricing. *See also* pricing
 design decisions, 201
 and target cost, 199–201
 taxes
 adjusting target net income, 46
 mistake of forgetting about, 359
 pre-tax dollars, 45–46

terminology
 direct costs, 19–21
 fixed costs, 21–22
 indirect costs, 19–21
 TOC (theory of constraints), 351
 total cost of ownership, 206
 total costs. *See also* costs
 computing via ABC, 76–80
 figuring, 256
 impact of cost drivers on, 163–164
 total purchasing cost, adjusting, 334
 transferred-in costs, considering in
 process costing, 290–291

• U •

undercosting, impact on pricing, 69–70
 unit-level costs in ABC system, 72
 U.S. antitrust law, 209
 utility costs, investigating, 69
 utilization, defined, 154

• V •

value engineering, 200
 variable costing
 versus absorption costing, 149–150
 applying, 151–153
 variable costs
 computing, 22
 defined, 161
 examples, 23
 versus fixed costs, 21–22, 49
 listing fixed costs as, 357–358
 variable manufacturing costs
 activity levels, 132–134
 actual costs, 133–134
 budgeted costs, 132–133
 design-engineer labor, 131
 efficiency variances, 135–137
 expert costs, 131
 finding reasons for, 136–137
 flex budget, 134
 implementing analysis, 134–136
 maintenance, 131

variable manufacturing costs (*continued*)
 planning for, 132
 repair, 131
 spending variance, 135–137
 utility costs, 131
variance analysis
 and ABC costing concepts, 122–124
 allocated fixed costs, 242–244
 allocating to departments, 245–249
 applying to decisions, 118–124
 benchmarking, 120
 budgeted versus usage, 241–244
 continuous improvement, 120
 contribution margin, 108
 defective products, 118
 defined, 103
 dollar amounts, 119
 efficiency, 113–117
 employee effectiveness, 120–121
 favorable versus unfavorable, 107–108
 flex budget, 104, 109–111, 123
 following up on, 118–120
 labor, 113
 management by exception, 104–105
 material prices, 113–117
 operating income, 108
 percentages, 119
 practical capacity, 241–242
 product volume variances, 129–130
 rate of usage, 244
 researching relevance, 118
 standard price, 113
 standard rate, 113

 of static budget, 105–108
 and supply chain, 122
variances
 defined, 240, 360
 recognizing, 104–105
 reviewing incorrectly, 360
 role in budgeting, 91
VC (venture capital) firms, 86–87

• W •

warranties
 limited, 344
 relevance to JIT purchasing system,
 332–333
waste
 factory second, 297
 inspection point, 296
 reworking products, 303
 scrap, 296–298
 spoilage, 296–298
weighted average method
 applying to spoilage, 304–306
 beginning work in process, 283–285
 equivalent units, 283–285
 equivalent units for spoilage, 305–306
 physical units for spoilage, 304–305
 process costing, 282–285, 288–290
weighted-average cost, 146–147
WIP (work in process)
 process costing, 273–274
 products, 24

