

## Managerial Accounting: A Business Perspective 10e

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Managerial Accounting: A Business Perspective 10e



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### Highlights of 10e:

- Former Irwin/McGraw Hill title recently revised (2018 copyright)
- New lead author and extensive author involvement in the revision of the text and all supplements to ensure relevance of chapter content and seamless integration with all supplementary materials.
- A current, fully up-to-date text (all accounting standards through 2017 are incorporated). Extensive revisions from prior edition with new content, new examples, and updated assignments.
- A great way to give your students a high-quality product at a low cost. A great value decision!

**Background:** This book went through many editions with Business Publications, Inc. an imprint of Richard D. Irwin Publishers, and was among the company's best sellers. After Irwin's titles were sold to McGraw, the new owner dropped the project to avoid cannibalizing their native product. The authors brought the book to Textbook Media and we published 9e back in 2006.

**Brief Description:** Thoroughly updated in 2017, 10e builds on the strengths of previous editions and continues to provide a thorough understanding of how to use accounting information to analyze business performance and make business decisions. Uses real companies to illustrate many of the accounting concepts, and covers a variety of issues associated with these actual businesses to provide a real-world perspective. Combines solid coverage of financial accounting for business students, regardless of the selected major, and provides non-accounting majors a solid foundation for making effective use of accounting information.

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### More on 10e:

**One of the** ... most important things accomplished in this revision was to bring Dr. Susan Hermanson in as lead author of the text. She was a coauthor on previous editions this text.

With Susan directing the development of 10e, know that there was a high level of personal involvement in updating this textbook by the author team, including bringing it up to date with all FASB pronouncements through early 2018. Susan oversaw the revising and working the solutions to all questions, exercises, and problems in each chapter of the book. All supplements including the Solutions Manual, Instructor's Resource Guide, Test Bank, Power Point Slides®, and Study Guide were personally revised by the authors.

The focus of 10e remains on giving your students an understanding of how to use accounting information to analyze business performance and make business decisions. Like previous editions, 10e takes a business perspective, seeking to involve the business student more in real-world business applications as we introduce and explain the subject matter. The authors use the annual reports of real companies to illustrate many of the accounting concepts. Your students are familiar with many of the companies used in 11e, including Apple, The Home Depot, and Coca-Cola Company.



TENTH EDITION

# Managerial Accounting

## A Business Perspective

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# Contents in Brief

*Preface* ix

*Acknowledgments* xiii

*About the Authors* xvii

## **PART 1** The Managerial Environment 1

---

- 1** An Introduction to Managerial Accounting 4

## **PART 2** Product Costing 27

---

- 2** Managerial Accounting Concepts/ Job Costing 30
- 3** Process Cost Systems 69
- 4** Using Accounting for Quality and Cost Management 101

## **PART 3** Using Cost Information for Decision-Making 135

---

- 5** Cost-Volume-Profit Analysis 138
- 6** Short-Term Decision Making: Differential Analysis 167

## **PART 4** Planning and Control 189

---

- 7** Budgeting for Planning and Control 192
- 8** Control Through Standard Costs 229
- 9** Responsibility Accounting: Segmental Analysis 259
- 10** Capital Budgeting: Long-Range Planning 292

## **PART 5** Analysis of Financial Statements: Using the Statement of Cash Flows 319

---

- 11** Analysis Using the Statement of Cash Flows 322
- 12** Analysis and Interpretation of Financial Statements 373

*Check Figures* CF-1

*Annual Report Appendix: Apple Inc.* A-1

*Appendix: Compound Interest and Annuity Tables* A-17

*New Terms Index* I-1

*Subject Matter Index* I-3

# Contents

|                          |             |
|--------------------------|-------------|
| <i>Preface</i>           | <i>ix</i>   |
| <i>Acknowledgments</i>   | <i>xiii</i> |
| <i>About the Authors</i> | <i>xvii</i> |

## **PART 1 The Managerial Environment 1**

### **Careers in Accounting: Entrepreneurship 2**

#### **1 An Introduction to Managerial Accounting 4**

|   |    |
|---|----|
| Organizations   | 4  |
| The Nature of Organizations                                 | 4  |
| Setting Objectives or Goals                                 | 4  |
| Strategic Planning  | 5  |
| What Products and Services?                                 | 5  |
| What Marketing Strategy?                                    | 5  |
| Organizing to Achieve Objectives                            | 5  |
| The Basic Management Functions                              | 7  |
| Organizations—Their Differences and Similarities            | 9  |
| Accounting, Information, and Management Action              | 9  |
| The Nature of Information                                   | 10 |
| Sources of Accounting Information                           | 10 |
| Uses of Management Accounting Information                   | 10 |
| Management, Accounting, and Financial Accounting            | 12 |
| Management Accounting and Financial Accounting Similarities | 12 |
| Management Accounting and Financial Accounting Differences  | 13 |
| Management Accounting as a Recognized Discipline            | 14 |
| The Certificate in Management Accounting (CMA)              | 14 |
| Future Topics   | 14 |
| Understanding the Learning Objectives                       | 15 |
| Demonstration Problem                                       | 16 |
| Solution to Demonstration Problem                           | 17 |
| <i>New Terms</i>  | 18 |
| <i>Self-Test</i>  | 19 |
| <i>Questions</i>  | 20 |
| <i>Problems</i>   | 21 |
| <i>Alternate Problems</i>                                   | 23 |
| <i>Beyond the Numbers—Critical Thinking</i>                 | 25 |
| <i>Using the Internet—A View of the Real World</i>          | 26 |
| Answers to Self-Test  | 26 |

## **PART 2 Product Costing 27**

### **Careers in Accounting: Industry 28**

#### **2 Managerial Accounting Concepts/Job Costing 30**

|  |    |
|--|----|
| Compare Managerial Accounting with Financial Accounting                | 30 |
| Ethical Issues   | 30 |
| Merchandiser and Manufacturer Accounting: Differences in Cost Concepts | 31 |
| Basic Product Cost Components  | 31 |
| Product and Period Costs   | 33 |
| Financial Reporting by Manufacturing Companies                         | 34 |
| The Statement of Cost of Goods Manufactured                            | 34 |
| The Income Statement   | 35 |
| The Balance Sheet  | 37 |
| The General Cost Accumulation Model                                    | 37 |
| Product and Cost Flows   | 37 |
| Cost Accounting Systems for Different Types of Production              | 38 |
| Job Costing  | 39 |
| Managerial Uses of Cost Information                                    | 44 |
| Predetermined Overhead Rates   | 44 |
| Understanding the Learning Objectives                                  | 46 |
| Appendix: Variable versus Absorption Costing                           | 47 |
| Comparing the Two Methods  | 48 |
| Demonstration Problem 2-A  | 49 |
| Solution to Demonstration Problem 2-A                                  | 50 |
| Demonstration Problem 2-B  | 51 |
| Solution to Demonstration Problem 2-B                                  | 51 |
| <i>New Terms</i>   | 52 |
| <i>Self-Test</i>   | 52 |
| <i>Questions</i>   | 54 |
| <i>Exercises</i>   | 54 |
| <i>Problems</i>  | 56 |
| <i>Alternate Problems</i>  | 59 |
| <i>Beyond the Numbers—Critical Thinking</i>                            | 61 |
| <i>Using the Internet—A View of the Real World</i>                     | 64 |
| Answers to Self-Test   | 64 |



|   |     |  |     |
|---|-----|--|-----|
| <b>Careers in Accounting: Controlling Costs</b>           | 67  | Activity-Based Costing and Management                    | 111 |
| <b>3 Process Cost Systems</b>                             | 69  | Activity-Based Costing                                   | 112 |
| Nature of a Process Cost System                           | 69  | Activity-Based Management                                | 113 |
| Process Costing Illustration                              | 71  | Methods Used for Activity-Based Costing                  | 114 |
| Equivalent Units of Production                            | 72  | Step 1: Identifying the Activities                       |     |
| Journal Entry Analysis                                    | 75  | that Consume Resources                                   | 115 |
| Production Cost Report                                    | 76  | Step 2: Choosing Cost Drivers                            | 115 |
| FIFO Method   | 78  | Step 3: Computing a Cost Rate per Cost Driver            | 116 |
| Process Costing in Service Organizations                  | 79  | Step 4: Assigning Costs to Products                      | 116 |
| Spoilage  | 79  | Activity-Based Costing Illustrated                       | 116 |
| Spoilage and Total Quality Management                     | 79  | Assigning Costs Using Activity-Based Costing             | 117 |
| Understanding the Learning Objectives                     | 80  | Impact of New Production Environment                     |     |
| Appendix 3A: The FIFO Process Cost Method                 | 81  | on Cost Drivers  | 119 |
| FIFO Process Costing—An Illustration                      | 82  | Activity-Based Costing in Marketing                      | 119 |
| The Production Cost Report                                | 83  | Strategic Use of Activity-Based Management               | 120 |
| Appendix 3B: Allocation of Joint Costs                    | 84  | Behavioral and Implementation Issues                     | 120 |
| Physical Measures Method                                  | 87  | Opportunities to Improve Activity-Based Costing          |     |
| Relative Sales Method                                     | 87  | in Practice  | 120 |
| Demonstration Problem                                     | 87  | Understanding the Learning Objectives                    | 121 |
| Solution to Demonstration Problem                         | 88  | Demonstration Problem                                    | 122 |
| <i>New Terms</i>  | 89  | Solution to Demonstration Problem                        | 122 |
| <i>Self-Test</i>  | 89  | <i>New Terms</i>   | 123 |
| <i>Questions</i>  | 90  | <i>Self-Test</i>   | 123 |
| <i>Exercises</i>  | 91  | <i>Questions</i>   | 124 |
| <i>Problems</i>   | 92  | <i>Exercises</i>   | 125 |
| <i>Alternate Problems</i>                                 | 93  | <i>Problems</i>  | 127 |
| <i>Beyond the Numbers—Critical Thinking</i>               | 94  | <i>Alternate Problems</i>                                | 130 |
| <i>Using the Internet—A View of the Real World</i>        | 96  | <i>Beyond the Numbers—Critical Thinking</i>              | 132 |
| <i>Answers to Self-Test</i>                               | 97  | <i>Using the Internet—A View of the Real World</i>       | 133 |
| Comprehensive Review Problem                              | 97  | <i>Answers to Self-Test</i>                              | 134 |
| <b>Careers in Accounting: The Balanced Scorecard</b>      | 99  | <b>PART 3 Using Cost Information for Decision-Making</b> | 135 |
| <b>4 Using Accounting for Quality and Cost Management</b> | 101 | <b>Careers in Accounting: Central Banking</b>            | 136 |
| Importance of Good Accounting Information                 | 101 | <b>5 Cost-Volume-Profit Analysis</b>                     | 138 |
| The Quality Is Free Concept                               | 102 | Cost Behavior Patterns                                   | 138 |
| Methods to Identify Quality Problems                      | 103 | Curvilinear Cost Patterns                                | 140 |
| Quality and Customer Satisfaction Measures                | 104 | Methods for Analyzing Costs                              | 140 |
| Nonfinancial Performance Measures                         | 105 | Scatter Diagram  | 141 |
| Motivation Effects  | 106 | High-Low Method  | 142 |
| Strategic Advantages of High Quality                      | 106 | Cost-Volume-Profit (CVP) Analysis                        | 143 |
| Benchmarking  | 106 | Cost-Volume-Profit Chart                                 | 143 |
| Balanced Scorecard  | 107 | Finding the Break-Even Point                             | 144 |
| Just-in-Time Method                                       | 108 | Calculating Break-Even                                   |     |
| Just-in-Time and Quality                                  | 108 | for a Multiproduct Company                               | 146 |
| Flexible Manufacturing                                    | 108 | Margin of Safety   | 147 |
| Lean Production   | 109 | Cost-Volume-Profit Analysis Illustrated                  | 148 |
| Effect of Just-in-Time on Accounting                      | 109 | Calculating the Break-Even Point                         | 148 |
| Advantages of Just-in-Time Systems                        | 111 | Calculating Sales Volume Needed for Desired              |     |
|   |     | Net Income   | 148 |

|   |     |
|---|-----|
| Calculating the Effect of Changing the Sales Price on Net Income  | 149 |
| Calculating sales Needed to Maintain Net Income When Costs Change | 149 |
| Other Uses of Cost-Volume-Profit Analysis                         | 149 |
| Assumptions Made in Cost-Volume-Profit Analysis                   | 150 |
| Using Computer Spreadsheets for CVP Analysis                      | 150 |
| Effect of Automation on Cost-Volume-Profit Analysis               | 151 |
| Understanding the Learning Objectives                             | 152 |
| Demonstration Problem 5-A   | 153 |
| Solution to Demonstration Problem 5-A                             | 153 |
| Demonstration Problem 5-B   | 153 |
| Solution to Demonstration Problem 5-B                             | 154 |
| <i>New Terms</i>  | 154 |
| <i>Self-Test</i>  | 154 |
| <i>Questions</i>  | 155 |
| <i>Exercises</i>  | 156 |
| <i>Problems</i>   | 157 |
| <i>Alternate Problems</i>   | 160 |
| <i>Beyond the Numbers—Critical Thinking</i>                       | 162 |
| <i>Using the Internet—A View of the Real World</i>                | 164 |
| Answers to Self-Test  | 164 |

**Careers in Accounting: Governmental Accounting** 165

|  |     |
|--|-----|
| <b>6 Short-Term Decision Making: Differential Analysis</b> | 167 |
| Contribution Margin Income Statements                      | 167 |
| Differential Analysis                                      | 168 |
| Nature of Fixed Costs                                      | 170 |
| Opportunity Costs  | 170 |
| Applications of Differential Analysis                      |     |
| Opportunity Costs  | 170 |
| Pricing Decisions  | 171 |
| Accepting or Rejecting Special Orders: Providing Discounts | 171 |
| Adding or Eliminating Products, Segments, or Customers     | 173 |
| Processing or Selling Joint Products                       | 174 |
| Deciding to Make or Buy                                    | 175 |
| Applying Differential Analysis to Quality                  | 175 |
| Understanding the Learning Objectives                      | 177 |
| Demonstration Problem                                      | 178 |
| Solution to Demonstration Problem                          | 178 |
| <i>New Terms</i>   | 179 |
| <i>Self-Test</i>   | 179 |
| <i>Questions</i>   | 180 |
| <i>Exercises</i>   | 180 |
| <i>Problems</i>  | 182 |
| <i>Alternate Problems</i>                                  | 184 |
| <i>Beyond the Numbers—Critical Thinking</i>                | 186 |

|  |     |
|--|-----|
| <i>Using the Internet—A View of the Real World</i> | 188 |
| Answers to Self-Test                               | 188 |

**PART 4 Planning and Control** 189

|  |     |
|--|-----|
| <b>Careers in Accounting: Industry</b>                                     | 190 |
| <b>7 Budgeting for Planning and Control</b>                                | 192 |
| The Budget—for Planning and Control  | 192 |
| Purposes of Budgets  | 192 |
| Considerations in Preparing a Budget                                       | 193 |
| General Principles of Budgeting  | 194 |
| Behavioral Implications of Budgets   | 194 |
| The Master Budget Concept  | 195 |
| Preparing the Planned Operating Budget at the Expected Level of Operations | 195 |
| Preparing the Financial Budget   | 197 |
| The Master Budget Illustrated  | 197 |
| Preparing the Planned Operating Budget in Units for Leed Company           | 197 |
| Preparing the Planned Operating Budget in Dollars                          | 198 |
| Planned Operating Budget Illustrated                                       | 198 |
| Flexible Operating Budgets   | 200 |
| Preparing the Financial Budget for Leed Company                            | 204 |
| The Financial Budget Illustrated   | 209 |
| Budgeting in Merchandising Companies                                       | 209 |
| Purchases Budget for a Merchandising Company                               | 209 |
| Budgeting in Service Companies   | 211 |
| Additional Concepts Related to Budgeting                                   | 211 |
| Just-in-Time Inventory   | 211 |
| Zero-Based Budgeting   | 212 |
| Understand the Learning Objectives   | 212 |
| Demonstration Problem  | 213 |
| Solution to Demonstration Problem  | 214 |
| <i>New Terms</i>   | 214 |
| <i>Self-Test</i>   | 215 |
| <i>Questions</i>   | 215 |
| <i>Exercises</i>   | 216 |
| <i>Problems</i>  | 217 |
| <i>Alternate Problems</i>  | 220 |
| <i>Beyond the Numbers—Critical Thinking</i>                                | 222 |
| <i>Using the Internet—A View of the Real World</i>                         | 223 |
| <i>Comprehensive Problems</i>  | 224 |
| Answers to Self-Test   | 226 |

**Careers in Accounting: Corporate Controller** 227

|   |     |
|---|-----|
| <b>8 Control Through Standard Costs</b>     | 229 |
| Uses of Standard Costs                      | 229 |
| Nature of Standard Costs                    | 229 |
| Use of Standard Costs in Developing Budgets | 230 |
| Management by Exception                     | 230 |



|   |     |  |     |
|---|-----|--|-----|
| Ideal versus Practical Standards                                | 231 | Economic Value Added and Residual Income   | 273 |
| Other Uses of Standard Costs                                    | 231 | Using Judgment in Performance Evaluation   | 274 |
| Advantages and Disadvantages of Using Standard Costs            | 231 | Segmental Reporting in External Financial Statements                             | 274 |
| Advantages of Using Standard Costs                              | 231 | Understanding the Learning Objectives  | 274 |
| Disadvantages of Using Standard Costs                           | 232 | Appendix: Allocation of Service Department Costs                                 | 275 |
| Computing Variance  | 233 | Direct Method  | 276 |
| Materials Variances   | 233 | Step Method  | 277 |
| Labor Variances   | 236 | Demonstration Problem  | 277 |
| Labor Variances in Nonmanufacturing Organizations               | 239 | Solution to Demonstration Problem  | 278 |
| Overhead Variances  | 239 | <i>New Terms</i>   | 279 |
| Goods Completed and Sold  | 242 | <i>Self-Test</i>   | 279 |
| Investigating Variances from Standard Performance Reports       | 244 | <i>Questions</i>   | 280 |
| Disposing of Variances from Standard                            | 244 | <i>Exercises</i>   | 281 |
| Nonfinancial Performance Measures                               | 245 | <i>Problems</i>  | 283 |
| Activity-Based Costing, Standards, and Variances                | 246 | <i>Alternate Problems</i>  | 286 |
| Understanding the Learning Objectives                           | 246 | <i>Beyond the Numbers—Critical Thinking</i>                                      | 288 |
| Demonstration Problem   | 248 | <i>Using the Internet—A View of the Real World</i>                               | 290 |
| Solution to Demonstration Problem                               | 248 | Answers to Self-Test   | 290 |
| <i>New Terms</i>  | 249 | <b>Careers in Accounting: Industry</b>   | 291 |
| <i>Self-Test</i>  | 249 | <b>10 Capital Budgeting: Long-Range Planning</b>                                 | 292 |
| <i>Questions</i>  | 250 | Capital Budgeting Defined  | 292 |
| <i>Exercises</i>  | 251 | Project Selection: A General View  | 293 |
| <i>Problems</i>   | 252 | Time Value of Money  | 293 |
| <i>Alternate Problems</i>                                       | 253 | Net Cash Inflow  | 293 |
| <i>Beyond the Numbers—Critical Thinking</i>                     | 254 | Project Selection: Payback Period  | 296 |
| <i>Using the Internet—A View of the Real World</i>              | 255 | Project Selection: Unadjusted Rate of Return                                     | 298 |
| Answers to Self-Test  | 255 | Project Selection: Net Present Value Method                                      | 299 |
| <b>Careers in Accounting: Chief Financial Officer</b>           | 257 | Profitability Index  | 300 |
| <b>9 Responsibility Accounting: Segmental Analysis</b>          | 259 | Project Selection: The Time-Adjusted Rate of Return (or Internal Rate of Return) | 301 |
| Responsibility Accounting                                       | 259 | Investments in Working Capital   | 303 |
| Responsibility Reports  | 260 | The Postaudit  | 304 |
| Features of Responsibility Reports                              | 261 | Investing in High Technology Projects  | 304 |
| Responsibility Reports—An Exhibit                               | 262 | Capital Budgeting in Not-for-Profit Organizations                                | 305 |
| Responsibility Centers  | 263 | Understanding the Learning Objectives  | 305 |
| Expense Centers   | 263 | Demonstration Problem  | 306 |
| Profit Centers  | 265 | Solution to Demonstration Problem  | 306 |
| Investment Centers  | 265 | <i>New Terms</i>   | 308 |
| Transfer Prices   | 266 | <i>Self-Test</i>   | 308 |
| Use of Segmental Analysis                                       | 266 | <i>Questions</i>   | 309 |
| Concepts Used in Segmental Analysis                             | 267 | <i>Exercises</i>   | 309 |
| Direct Cost and Indirect Cost                                   | 267 | <i>Problems</i>  | 311 |
| Net Income of a Segment—Evaluation Criteria for a Profit Center | 267 | <i>Alternate Problems</i>  | 314 |
| Investment Center Analysis                                      | 270 | <i>Beyond the Numbers—Critical Thinking</i>                                      | 315 |
| Return on Investment (ROI)                                      | 270 | <i>Using the Internet—A View of the Real World</i>                               | 317 |
|   |     | Answers to Self-Test   | 317 |

**PART 5 Analysis of Financial Statements: Using the Statement of Cash Flows 319**

**Careers in Accounting:  
External Auditing 320**

**11 Analysis Using the Statement of Cash Flows 322**

Purposes of the Statement of Cash Flows 322

Uses of the Statement of Cash Flows 322

    Management Uses 323

    Investor and Creditor Uses 323

Information in the Statement of Cash Flows 323

    A Separate Schedule for Significant Noncash Investing and Financing Activities 325

Cash Flows from Operating Activities 325

Steps in Preparing Statement of Cash Flows 328

    Step 1: Determining Cash Flows from Operating Activities—Direct Method 329

    Alternate Step 1: Determining Cash Flows from Operating Activities—Indirect Method 330

    Step 2: Analyzing the Noncurrent Accounts and Additional Data 331

    Step 3: Arranging Information in the Statement of Cash Flows 332

Analysis of the Statement of Cash Flows 334

    Synotech’s Consolidated Statement of Cash Flows Management’s Discussion and Analysis 334

    Explanation of Items in Synotech’s Consolidated Statements of Cash Flows 336

    Use of the Cash Flow Information for Decision Making 337

Analyzing and Using the Financial Results—Cash Flow per Share of Common Stock, Cash Flow Margin, and Cash Flow Liquidity Ratios 338

Understanding the Learning Objectives 341

Appendix: Use of a Working Paper to Prepare a Statement of Cash Flows 342

    Preparing the Statement of Cash Flows 345

Demonstration Problem 345

Solution to Demonstration Problem 346

*New Terms 348*

*Self-Test 348*

*Questions 349*

*Exercises 350*

*Problems 351*

*Alternate Problems 359*

*Beyond the Numbers—Critical Thinking 365*

*Using the Internet—A View of the Real World 368*

Answers to Self-Test 369

**Careers in Accounting:  
Investment Analysts 371**

**12 Analysis and Interpretation of Financial Statements 373**

Objectives of Financial Statement Analysis 373

    Financial Statement Analysis 373

Sources of Information 375

    Published Reports 375

    Government Reports 376

    Financial Service Information, Business Publications, Newspapers, and Periodicals 376

Horizontal Analysis and Vertical Analysis:  
An Illustration 377

    Analysis of a Balance Sheet 377

    Analysis of Statement of Income and Retained Earnings 378

Trend Percentages 378

Ratio Analysis 381

    Liquidity Ratios 381

    Current or Working Capital Ratio 381

    Equity, or Long-Term Solvency, Ratios 386

    Profitability Tests 387

    Market Tests 393

Final Considerations in Financial Statement Analysis 395

    Need for Comparable Data 395

    Influence of External Factors 395

    Need for Standards of Comparison 398

    The Future 398

Understanding the Learning Objectives 399

Demonstration Problem 12-A 401

Solution to Demonstration Problem 12-A 402

Demonstration Problem 12-B 403

Solution to Demonstration Problem 12-B (in millions) 404

*New Terms 405*

*Self-Test 406*

*Questions 406*

*Exercises 407*

*Problems 409*

*Alternate Problems 415*

*Beyond the Numbers—Critical Thinking 420*

*Using the Internet—A View of the Real World 423*

*Answers to Self-Test 423*

*Check Figures CF1*

*Annual Report Appendix: Apple Inc. A-1*

*Appendix: Compound Interest and Annuity Tables A-17*

*New Terms Index I-1*

*Subject Index I-3*

# Preface

With this edition, Dr. Susan Hermanson has become the lead author on this text. She is currently a full professor and actively involved with teaching, research, and service responsibilities. She is very engaged with accounting professionals and does her best to stay current on all recent accounting developments.

## Philosophy and Purpose

Imagine that you have graduated from college without taking an accounting course. You are employed by a company as a sales person, and you eventually become the sales manager of a territory. While attending a sales managers' meeting, financial results are reviewed by the Vice President of Sales and terms such as gross margin percentage, cash flows from operating activities, and break-even analysis are being discussed. The Vice President eventually asks you to discuss these topics as they relate to your territory. You try to do so, but it is obvious to everyone in the meeting that you do not know what you are talking about.

Accounting courses teach you the “language of business” so you understand terms and concepts used in business decisions. If you understand how accounting information is prepared, you will be in an even stronger position when faced with a management decision based on accounting information.

The importance of transactions analysis and proper recording of transactions has clearly been demonstrated in some of the recent business failures that have been reported in the press. If the financial statements of an enterprise are to properly represent the results of operations and the financial condition of the company, the transactions must be analyzed and recorded in the accounts following generally accepted accounting principles as you learned in your Financial Accounting course. The debits and credits are important not only to accounting majors but also to those entering or engaged in a business career to become managers or managerial accountants because the ultimate effects of these journal entries are reflected in the financial statements. If expenses are reported as assets, liabilities and their related expenses are omitted from the financial statements, or reported revenues are recorded prematurely or do not really exist, the financial statements are misleading. The financial statements are only useful and meaningful if they are fair and clearly represent the business events of the company. Both financial and managerial accountants

rely heavily on the financial statements for information. Managerial accountants also use internal cost and margin related information to support decision making within the business. Understanding how costs behave is critical to decision-making within the business.

We wrote this text to give you an understanding of how to use accounting information to analyze business performance and make business decisions. The text utilizes a decision focus. When relevant, we use the annual reports of **real** companies to illustrate many of the accounting concepts. You are familiar with many of the companies we use, such as Apple and Coca-Cola Company, and we use real company information whenever possible. However, the true focus of this text is on how managers can use accounting information to make decisions. Oftentimes, the information used by managers in making decisions, such as budgets, contribution margins, variable costs, standard costs, etc., is information available within the business rather than information reported to those outside the business.

While gaining an understanding of accounting terminology and concepts is important, it is not enough to ensure your success. You also need to be able to find information on the Internet, analyze various business situations and think about what information is most relevant to the decisions at hand, work effectively as a member of a team, and communicate your ideas clearly. This text was developed to help you develop these skills.

## Curriculum Concerns

Significant changes have been recommended for accounting education. Some parties have expressed concern that recent accounting graduates do not possess the necessary set of skills to succeed in an accounting career. The typical accounting graduate seems unable to successfully deal with complex and unstructured “**real world**” accounting problems and generally lacks communication and interpersonal skills. One recommendation is the greater use of active learning techniques in a reenergized classroom environment. The traditional lecture and structured problem solving method approach would be supplemented or replaced with a more informal classroom setting dealing with cases, simulations, and group projects. Both inside and outside the classroom, there should be two-way communication between (1) professor and student and (2) student and student. Study groups could be formed so that

students could tutor other students. The purposes of these recommendations include enhancing students' critical thinking skills, written and oral communication skills, and interpersonal skills.

One of the most important benefits you can obtain from a college education is that you “learn how to learn.” The concept that you gain all of your learning in school and then spend the rest of your life applying that knowledge is not valid. Change is occurring at an increasingly rapid pace. You will probably hold many different jobs during your career, and you will probably work for many different companies. Much of the information you learn in college will be obsolete in just a few years. Therefore, you will be expected to engage in life-long learning. Memorizing is much less important than learning how to think critically.

With this changing environment in mind, we have developed a text that will lend itself to developing the skills that will lead to success in your future career in business. The section at the end of each chapter titled, “Beyond the Numbers—Critical Thinking,” provides the opportunity for you to address unstructured case situations, such as the analysis of real companies' financial situations, ethics cases, and team projects. Each chapter also includes one or two **Internet projects** in the section titled “Using the Internet—A View of the Real World.” For many of these items, you will use written and oral communication skills in presenting your results.

## Objectives and Overall Approach of the Tenth Edition

The Accounting Education Change Commission (AECC) made specific recommendations regarding teaching materials and methods used in the first-year accounting course. As a result, significant changes have taken place in that course at many universities. The AECC states:

The first course in accounting can significantly benefit those who enter business, government, and other organizations, where decision-makers use accounting information. These individuals will be better prepared for their responsibilities if they understand the role of accounting information in decision-making by managers, investors, government regulators, and others. All organizations have accountability responsibilities to their constituents, and accounting, properly used, is a powerful tool in creating information to improve the decisions that affect those constituents.<sup>1</sup>

One of the purposes of the first year course should be to recruit accounting majors. To help accomplish this, the text has a section preceding the chapters discussing careers in accounting.

We retained a solid coverage of accounting that serves business students well regardless of the majors they select. Those who choose not to major in accounting, which is a majority of those taking this course, will become better users of accounting information because they will know something about the preparation and uses of that information in decisions.

## Approach and Organization

Without actual business experience, business students sometimes lack a frame of reference in attempting to apply accounting concepts to business decisions. We seek to involve the business student more in real world business applications as we introduce and explain the subject matter.

### Decision Focus

- “**An Accounting Perspective: Business Insight**” boxes throughout the text provide examples of how companies featured in text examples use accounting information every day, or they provide other useful information.
- “**Accounting Perspective: Uses of Technology**” boxes throughout the text demonstrate how technology has affected the way accounting information is prepared, manipulated, and accessed.
- Some chapters contain “**A Broader Perspective.**” These situations, taken from annual reports of real companies and from articles in business periodicals such as *Management Accounting*, relate to subject matter discussed in that chapter or present other useful information. These real world examples demonstrate the business relevance of accounting.
- Real world questions and real world business decision cases are included in almost every chapter.
- Some of the chapters contain end-of-chapter questions, exercises, or business decision cases that require the student to refer to the Annual Report Appendix and answer certain questions. As stated earlier, this appendix is included with the text and contains the significant portions of the annual report of Apple Inc.
- Each chapter contains a section entitled, “Beyond the Numbers—Critical Thinking.” This section contains business decision cases, annual report analysis problems, writing assignments based on the Ethical Perspective and Broader Perspective boxes, group projects, and Internet projects.

### Pedagogy

Students often come into accounting principles courses feeling anxious about learning the subject matter. Recognizing this apprehension, we studied ways to make learning easier and came up with some helpful ideas on how to make this edition work even better for students.

<sup>1</sup> Accounting Education Change Commission, *Position Statement No. Two*, “The First Course in Accounting” (Torrance, CA, June 1992), pp. 1–2.



- Improvements in the text’s content reflect feedback from adopters, suggestions by reviewers, and a serious study of the learning process itself by the authors and editors. New subject matter is introduced only after the stage has been set by transitional paragraphs between topic headings. These paragraphs provide students with the reasons for proceeding to the new material and explain the progression of topics within the chapter.
- Each chapter has an “Understanding the Learning Objectives” section. These “summaries” enable the student to determine how well the Learning Objectives were accomplished. We were the first authors (1974) to ever include Learning Objectives in an accounting text. These objectives have been included at the beginning of the chapter, as marginal notes within the chapter, at the end of the chapter, and in supplements such as the Test Bank, Instructors’ Resource Guide, and Study Guide. The objectives are also indicated for each exercise and problem.
- Demonstration problems and solutions are included for each chapter, and a different one appears for each chapter in the Study Guide. These demonstration problems help students to assess their own progress by showing them how problems that focus on the topic(s) covered in the chapter are worked before students do assigned homework problems.
- Key terms are printed in another color for emphasis. End-of-chapter glossaries contain the definition and the page number where the new term was first introduced and defined. Students can easily turn back to the original discussion and study the term’s significance in context with the chapter material.
- Each chapter includes a “Self-Test” consisting of true-false and multiple-choice questions. The answers and explanations appear at the end of the chapter. These self-tests are designed to determine whether the student has learned the essential information in each chapter.
- In the margin beside each exercise and problem, we have included a description of the requirements and the related Learning Objective(s). These descriptions let students know what they are expected to do in the problem.
- Throughout the text we use examples taken from everyday life to relate an accounting concept being introduced or discussed to students’ experiences.

## Ethics

There is no better time to emphasize high ethical standards to students. This text includes many items throughout the text entitled, “An Ethical Perspective.” These items present situations in which students are likely to find themselves throughout their careers. They range from resisting pressure by a superior or a client to do the wrong thing to deciding between alternative corporate behaviors that have environmental and profit consequences.

## End-of-Chapter Materials

Describing teaching methods, the AECC stated, “Teachers . . . should place a priority on their interaction with students and on interaction among students. Students’ involvement should be promoted by methods such as cases, simulations, and group projects. . . .”<sup>2</sup> A section entitled “**Beyond the Numbers—Critical Thinking**” at the end of every chapter is designed to implement these recommendations. **Business Decision Cases** require critical thinking in complex situations often based on real companies. The **Ethics Cases** require students to respond in writing to situations they are likely to encounter in their careers. These cases do not necessarily have one right answer. The **Group Projects** for each chapter teach students how to work effectively in teams, a skill that was stressed by the AECC and is becoming increasingly necessary for success in business. The **Internet Projects** teach students how to retrieve useful information from the Internet.

A team approach can also be introduced in the classroom using the regular exercises and problems in the text. Teams can be assigned the task of presenting their solutions to exercises or problems to the rest of the class. Using this team approach in class can help reenergize the classroom by creating an active, informal environment in which students learn from each other. (Two additional group projects are described in the Instructor’s Resource Guide. These projects are designed to be used throughout the semester or quarter.)

We have included a vast amount of other resource materials for each chapter *within* the text from which the instructor may draw: (1) one of the largest selections of end-of-chapter questions, exercises, and problems available; and (2) from one to three business decision cases per chapter. Other key features regarding end-of-chapter material follow.

- The authors have been actively involved with solving and checking all of the end-of-chapter problem materials (questions, exercises, problems, business decision cases, other “Beyond the Numbers” items, and comprehensive review problems). Each exercise and problem is identified with the learning objective(s) to which it relates.
- All end-of-chapter exercises and problems have been traced back to the chapters to ensure that nothing is asked of a student that does not appear in the book. This feature was a strength of previous editions, ensuring that instructors could confidently assign problems without having to check for applicability. Also, we took notes while teaching from the text and clarified problem and exercise instructions that seemed confusing to our students.

<sup>2</sup> Ibid, p. 2.

## Supplements for the Instructor

A complete package of supplemental teaching aids contains all you need to efficiently and effectively teach the course.

**Instructor's Resource Guide** This guide contains sample syllabi for both semester- and quarter-based courses. Each chapter contains: (1) a summary of major concepts; (2) learning objectives from the text; (3) space for the instructor's own notes; (4) an outline of the chapter with an indication of when each exercise can be worked; and (5) detailed lecture notes that also refer to specific end-of-chapter exercise and problem materials illustrating these concepts. Also included are (6) a summary of the estimated time, learning objective(s), level of difficulty, and content of each exercise and problem that is useful in deciding which items to cover in class or to assign as homework; and (7) teaching transparencies masters. The Instructor's Resource Guide for Chapter 12 contains a case study based on Hasbro, Inc. This company is the world's leading manufacturer and marketer of toys, games, puzzles, and infant care products. You may want to assign this case as a special project to individuals or to teams. The results of the analysis, with recommendations, could then be presented to the class.

**Solutions Manual** The solutions manual contains suggested discussion points for each ethics case as well as detailed answers to questions, exercises, two series of problems, business decision cases, most "Beyond the Numbers" items, and some group projects.

### **Test Bank on disk (Diploma software by Blackboard)**

The test bank contains approximately 1,300 questions and problems to choose from in preparing examinations. This test bank contains true-false questions, multiple-choice questions, and short problems for each chapter (except there are

no short problems for Chapter 1). Questions and problems are *classified by the learning objective* to which they relate.

**PowerPoint Slides** An average of 26 PowerPoint slides exist for each chapter. These slides illustrate the most important points in the chapter. They can be used as a basis for classroom lectures and/or discussions.

## Supplements for the Student

In addition to the text, the package of support items for the student includes the following:

**Study Guide** Included for each chapter are learning objectives, a reference outline, a chapter review, and an additional demonstration problem and solution. If students use the study guide throughout the course, their knowledge of accounting will be enhanced significantly. The study guide is a valuable learning tool in that it includes matching, true-false, and multiple-choice questions, completion questions, and exercises. Solutions to all exercises and questions are also included. The Study Guide is available to students in PDF format. It can be purchased at the publisher's website ([www.textbookmedia.com](http://www.textbookmedia.com)).

**Check Figures** Check figures are available at the end of the text, page CF1. They show key amounts that students can check to see if they are on the right track when working the exercises and problems.

We are indebted to all our previous coauthors who have contributed to the project in the past, especially R. F. "Sully" Salmonson who worked on many of the early editions.

Susan D. Hermanson

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Roger H. Hermanson



# Acknowledgments

The development of all ten editions of *Management Accounting* was an evolving and challenging process. Significant changes have taken place in the first course in accounting in schools across the country, and the authors and publisher worked hard throughout the development of this text to stay on top of those changes. We are grateful to the following individuals for their valuable contributions and suggestions which we have incorporated in the various editions of this text. The affiliations shown for all individuals are as of the time of their contributions.

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### Susan D Hermanson

Susan D. Hermanson is the Cameron Distinguished Professor of Accountancy and has published over 55 refereed articles in leading accounting journals. She has co-authored articles with some of the top researchers in the country. Her research investigating audit market mergers was referenced by the United States General Accounting Office (GAO) in its 2003 Report to the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Services. In addition, Susan was sought out by the GAO to participate in a research survey conducted by the GAO in conjunction with its report. Her works have been cited in top accounting journals throughout the United States, Europe, Asia, Africa and Australia. Dr. Hermanson was solicited by the College Board to contribute the content regarding majoring in accounting for its *Book of Majors*, a resource utilized nationally by high school and college students to assist them in selecting a major. Susan is an author of several accounting textbooks published by Textbook Media.

Dr. Hermanson is a highly regarded teacher at both the graduate and undergraduate levels. She has received eight teaching awards, most notably the UNCW Chancellor's Teaching Excellence Award. She has served as a faculty advisor to the Beta Alpha Psi Accounting Honorary Society as well as the Beta Gamma Sigma Honorary Society. In addition, she is a frequent Chair of Honor's Theses in support of the Honor's College at UNCW.

Dr. Hermanson served as Dixon Hughes Goodman Faculty Fellow from 2008–2016, until being named as Cameron Distinguished Professor of Accounting. Before joining UNCW in 2000, Dr. Hermanson was on the faculty at the University of Tampa and the University of Nevada Las Vegas. She earned her Ph.D. in accounting from Texas A&M University. She worked in public accounting through the rank of senior auditor with Arthur Andersen & Co. She passed all four parts of the CPA Exam in November 1988 and became a licensed CPA in June 1992 in Texas, where she continues to hold her license.

### James Don Edwards

James Don Edwards is the J. M. Tull Professor Emeritus of Accounting in the Terry College of Business at the University of Georgia. He is a graduate of Louisiana

State University and has been inducted into the Louisiana State University Alumni Federation's Hall of Distinction. He received his M.B.A. from the University of Denver and his Ph.D. from the University of Texas and is a CPA in Texas and Georgia. He has served as a professor and chairman of the Department of Accounting and Financial Administration at Michigan State University, a professor and dean of the Graduate School of Business Administration at the University of Minnesota, and a Visiting Scholar at Oxford University in Oxford, England.

Professor Edwards is a past President of the American Accounting Association and a past national Vice President and executive committee member of the Institute of Management Accountants. He has served on the board of directors of the American Institute of Certified Public Accountants and as chairman of the Georgia State Board of Accountancy. He was an original trustee of the Financial Accounting Foundation, the parent organization of the FASB, and a member of the Public Review Board of Arthur Andersen & Co.

He has published in *The Accounting Review*, *The Journal of Accountancy*, *The Journal of Accounting Research*, *Management Accounting*, and *The Harvard Business History Review*. He is also the author of *History of Public Accounting in the United States*. He has served on various American Institute of Certified Public Accountants committees and boards, including the Objectives of Financial Statements Committee, Standards of Professional Conduct Committee, and the CPA Board of Examiners. He was the managing editor of the centennial issue of *The Journal of Accountancy*.

In 1974, Beta Alpha Psi, the National Accounting Fraternity, selected Professor Edwards for its first annual Outstanding Accountant of the Year award. This selection is made from industry, government, and educational leaders. In 1975, he was selected by the American Accounting Association as its Outstanding Educator.

He has served the AICPA as president of the Benevolent Fund, chairman of the Awards Committee, member of the Professional Ethics Committee and Program for World Congress of Accountants. He was on the Education Standards Committee of the International Federation of Accountants and the Committee on Planning for the Institute of Management Accountants. He was the director of the Seminar for Management Accountants–Financial Report-

ing for the American Accounting Association. He is also a member of the Financial Executives Institute.

He received the 1993 AICPA Gold Medal Award, the highest award given by the Institute. A Doctor Honoris Causa (Honorary Doctorate) from the University of Paris was awarded to him in 1994. He is the first accountant to receive this distinction in France. The Academy of Accounting Historians awarded him the 1994 Hourglass Award which is the highest international honor in the field of Accounting History. He was inducted into the Ohio State University Accounting Hall of Fame in 2001.

## Roger H. Hermanson

Roger H. Hermanson is the Regents Professor Emeritus of Accounting and Ernst & Young–J. W. Holloway Memorial Professor Emeritus at Georgia State University. He received his doctorate at Michigan State University in 1963 and held the CPA in Georgia. Professor Hermanson taught and later served as chairperson of the Division of Accounting at the University of Maryland. He has authored or co-authored approximately one-hundred articles for professional and scholarly journals and has coauthored numerous editions of several textbooks, including *Accounting Principles*, *Financial Accounting*, *Management Accounting*,

*Survey of Financial and Managerial Accounting*, *Auditing Theory and Practice*, *How Accounting Works*, *Principles of Financial and Managerial Accounting*, and *Computerized Accounting with Peachtree Complete III*. He served as the editor of the Plaid Series of 85 programmed learning books on accounting, business, and economics. He also has served on the editorial boards of the *Journal of Accounting Education*, *New Accountant*, *Accounting Horizons*, and *Management Accounting*. Professor Hermanson has served as coeditor of the Trends in Accounting Education column for *Management Accounting*. He has held the office of Vice President of the American Accounting Association and served on its executive committee. He was also a member of the Institute of Management Accountants, the American Institute of Certified Public Accountants, and the Financial Executives Institute.

Professor Hermanson has been awarded two excellence in teaching awards, a doctoral fellow's award, and a Distinguished Alumni Professor award; and he was selected as the Outstanding Faculty Member for 1985 by the Federation of Schools of Accountancy. He has served as a consultant to many companies and organizations. In 1990, Professor Hermanson was named Accounting Educator of the Year by the Georgia Society of CPAs.