

Cost Management

A Strategic Emphasis

2024 Release

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Kenan-Flagler Business School*

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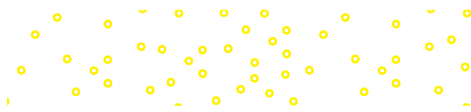
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COST MANAGEMENT: A STRATEGIC EMPHASIS, 2024 RELEASE

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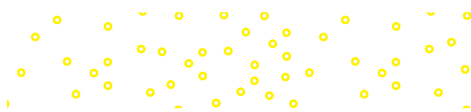
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We dedicate this release . . .

To my wife, Sandy, and our sons, Joseph
and David

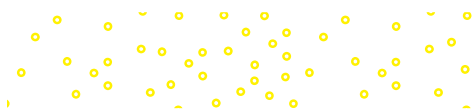
Ed Blocher

To my wife, Colleen, and my children,
Stephen and Kate

Paul Juras

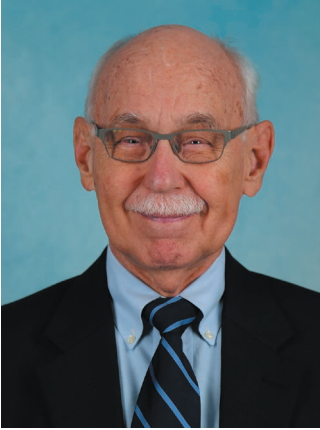
To my wife, Heather, and our children,
Darby, Trevor, Kelli, Finneas, and Melissa

Steve Smith





Meet the Authors



Jessica Gray Starnes/Kenan-Flagler Business School/University of North Carolina at Chapel Hill

Edward J. Blocher is an emeritus professor of accounting at the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill. His undergraduate degree (economics) is from Rice University, his MBA from Tulane University, and his PhD from the University of Texas at Austin. Professor Blocher has presented regularly on strategic cost management at the national meetings of both the American Accounting Association (AAA) and the Institute of Management Accountants (IMA).

While he is involved in a number of accounting organizations, Professor Blocher has been most continually active in the IMA, where he has been a member of the IMA's Research Foundation. He is a certified management accountant (CMA), has taught review courses for the CMA exam, and has served on the IMA's national education committee. He has supervised or participated in the direction of several doctoral students, many of whom prepared dissertations in management accounting. Professor Blocher is also the author or coauthor of several articles in management accounting and in other areas of accounting and has served as associate editor and reviewer for a number of accounting journals. He published a 2009 article in *Issues in Accounting Education* on the topic of teaching strategic cost management.

Putting research and teaching into practice is important to Professor Blocher, who has worked closely with other firms and organizations in developing products, publications, and teaching materials. He was a member of the task force for the IMA that developed a new definition of management accounting in 2008. From 2010 to 2014, he served as a member of the joint curriculum task force of the Management Accounting Section (MAS) of the AAA and the IMA, which was charged with the responsibility of developing curriculum recommendations for accounting education. The task force has two recent publications in *Issues in Accounting Education*. Also, he has provided expert testimony and has consulted with a number of organizations regarding cost management matters.



Courtesy of Carrie Allen Photography

Paul E. Juras is the Jefferson Vander Wolk Professor of Management Accounting and Operational Performance and former chair of the Accountancy and Law Division at Babson College. Previously, he was a professor of accountancy at Wake Forest University. He earned both his BBA and MBA at Pace University and his PhD from Syracuse University. He is a certified management accountant (CMA) and has a certified public accountant (CPA) license from New York. Professor Juras has experience in strategic management accounting. He has published articles and cases in many journals, including the *Journal of Corporate Accounting and Finance*, *Issues in Accounting Education*, *The CPA Journal*, and *Strategic Finance*. He has made numerous presentations at meetings of both the American Accounting Association (AAA) and the Institute of Management Accountants (IMA). In 2014 and in 2020, he received the IMA's Lybrand Gold Medal, awarded to the author(s) of the outstanding article of the year published in *Strategic Finance*, and in 2015 he received the IMA's R. Lee Brummet Award for Distinguished Accounting Educators.

Professor Juras taught managerial accounting and strategic cost management courses in the undergraduate program, the Masters of Science in Accountancy program, and the MBA program at Wake Forest University. He teaches strategic cost management courses in the undergraduate and various graduate programs in both face-to-face and blended-learning formats at Babson College.

He is active in CAM-I, the Consortium for Advanced Management–International, and has served in leadership roles in the Management Accounting Section of the AAA, Professor Juras dedicates most of his efforts outside the classroom to the IMA, including his role as the 2020–2021 global chair of the organization, and 2023–2024 chair of the Sustainable Business Management Committee. In addition, he has served as chair of the Institute of Certified Management Accountants, the organization responsible for the CMA certification; chaired their Sustainability Management Committee; served a three-year term as chair of the IMA Research Foundation; and, for 10 years, was an associate editor of the *IMA Educational Case Journal*.



BYU Photo

Steven D. Smith is an associate professor of accountancy and the Warnick/Deloitte Fellow in the Marriott School of Business at Brigham Young University (BYU). Previously he was an assistant professor of accountancy at the University of Illinois at Urbana-Champaign. He earned BS and MACC degrees from BYU, and MS and PhD degrees from Cornell University. He is a certified management accountant (CMA). Professor Smith teaches cost and management accounting courses in the undergraduate and graduate accounting programs, as well as the full-time and executive MBA programs at BYU. Professor Smith has experience working in the field of strategic cost management, including a professional development leave from BYU, during which he worked as an in-house financial planning and analysis consultant for Ortho Development Corporation, a medical device company in Salt Lake City, Utah.

Professor Smith's expertise is in the areas of management control systems, focusing on the provision of incentives and performance measurement. He has published numerous articles in prestigious academic publications such as *The Accounting Review*, *Review of Accounting Studies*, *Contemporary Accounting Research*, and *Journal of Management Accounting Research*. He has presented his research at conferences and invited presentations throughout the world, and has also published teaching cases in the *IMA Educational Case Journal* and *Strategic Finance*. Professor Smith has served in a variety of research- and teaching-focused positions in both the Management Accounting Section (MAS) of the American Accounting Association (AAA) and the Institute of Management Accountants (IMA). He is the recipient of the 2021 IMA Faculty Leadership Award and the 2023 Ursel K. Albers IMA Academic Mentor of the Year Award.

The Author Team was selected to create a leading book in cost management based on leadership in teaching experience, research, commitment to learning, and a connection to the profession and practice of management accounting that provides students with up-to-date knowledge of real-world management accounting issues and practices.

Blocher/Juras/Smith

Letter to the Students:

We have written this book to help you understand the role of cost management in helping an organization succeed. Unlike many books that aim to teach you *about* accounting, we aim to show you how an important area of accounting, cost management, is *used* by managers to help organizations achieve their goals.

An important aspect of cost management in our text is the strategic focus. By *strategy*, we mean the long-term plan the organization has developed to compete successfully. Most organizations strive to achieve a competitive edge through the execution of a specific strategy. For some firms, it is low cost; for others, it might be high quality, customer service, or some unique feature or attribute of its product or service. We know in these competitive times that an organization does not succeed by being ordinary. Rather, it develops a strategy that will set it apart from competitors and ensure its attractiveness to customers and other stakeholders into the future. The role of cost management is to help management of the organization attain and maintain success through strategy implementation. Thus, for every major topic covered in our text, there is a larger issue, which is: “How does this organization compete? What type of cost management information does it need?” We do *not* cover a cost management method simply to become proficient at it. We want you to know why, when, and how the technique can be used to help the organization succeed.

An understanding of the strategic role of cost management today is so important that many senior financial managers and many CPAs—both in public and in private practice—are coming back to school to learn more about strategy, competitive analysis, and new cost management techniques. Knowing how to do the accounting alone—no matter how well you do it—is, by itself, no longer sufficient. Cost management with a strategic emphasis is one way to enhance your career and to add value to your employer, whatever type of organization it might be.

Key Text Features That Integrate Strategy

REAL-WORLD FOCUS Using Value-Chain Analysis: Going Downstream Where the Profits Are

Many manufacturers of expensive equipment and automobiles usually have a financial services unit. Financing is a downstream activity that provides the customer access to the needed funds, once the purchasing decision has been made. In some firms, the finance unit can be the most profitable part of the overall business.

Examples of successful execution of this downstream activity include Ford, Deere & Company, and Caterpillar. According to their recent annual reports, profit from financial services comprised 27% (Ford), 12% (Deere), and 10% (Caterpillar) of each firm's total profit.

*All information is taken from company annual reports.

Real-World Focus Cost Management provides extensive real-world examples of how cost management systems can add value to the organization. The **Real-World Focus** boxes throughout the text take real organizations and demonstrate strategy in action and the role that cost management plays in supporting the organization's strategy.

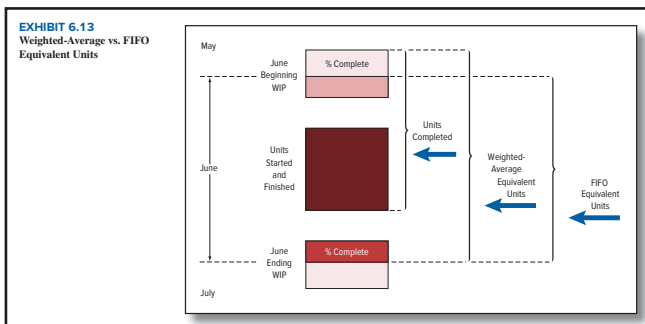
To augment this coverage, the Blocher team encourages students to further explore real-world companies through **Cost Management in Action** boxes that appear in each chapter throughout the text. This feature poses important questions that make students think critically about the relationship between cost management and organizational strategy. At the end of each chapter, the authors then supply their comments for the **Cost Management in Action** boxes.

COST MANAGEMENT IN ACTION The Value Chain in Action: Inside the Samsung Phone

Samsung, the South Korean consumer electronics giant, includes six main components in its smartphones: (1) display and touchscreens, (2) memory chip, (3) processor, (4) camera, (5) wireless electronics, and (6) battery. Samsung manufactures a wide range of electronic products in addition to the smartphone, including televisions, monitors, tablets, cameras, and a variety of chips.

Required

1. What strategy (cost leadership or differentiation) do you think Samsung uses and why?
2. Consider the six components of Samsung's smartphones listed above. Which do you think are manufactured by Samsung? Which components do you think are purchased from other manufacturers? That is, how much does Samsung rely on its own manufacturing in the value chain for its smartphones?
3. Apple has a very similar set of components for its smartphones. How similar do you think the two firms' value chains are likely to be?



Text Illustrations Clear and concise exhibits help illustrate basic and complicated topics throughout the book.



Helping Students Succeed Using *Cost Management*

Problem Material The Blocher team has taken great care to develop assignment material that effectively reinforces concepts, procedures, and strategic issues presented in each chapter. In addition, each chapter has one or more end-of-chapter assignments that focus on ethical issues or that deal with an international context or a service (i.e., nonmanufacturing) setting. The authors also include exercises and problems that relate topical coverage to the general issue of sustainability. Where appropriate, the chapters have assignments based on readings from periodicals such as *Strategic Finance*, *Management Accounting Quarterly*, *The Wall Street Journal*, and *Harvard Business Review*. These assignments link topical material in the chapter to the broader, strategic issues that organizations face. End-of-chapter assignments that embrace a distinguishing focus are identified as follows:



Strategy



International



Service



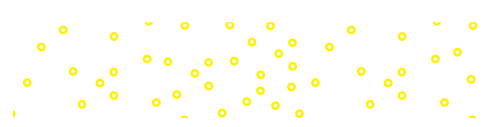
Ethics



Sustainability

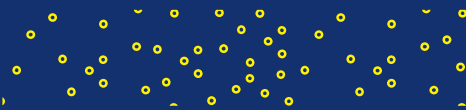
A Framework for Integrating Strategy: The Five Steps of Strategic Decision Making

The first edition of *Cost Management* introduced a five-step framework for decision making with a strategic emphasis. The framework shows that each decision starts and ends with a consideration of the organization's strategy. To extend and integrate the strategic emphasis, the ninth edition continues the tradition of including this five-step framework throughout the text. In all but a few chapters, there is a short section that uses the five-step framework to show how a consideration of the organization's strategy plays a key role in making decisions that will address the business-related problems presented in that chapter.





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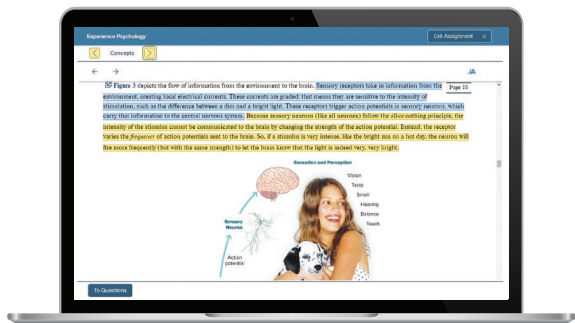


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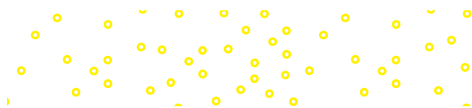
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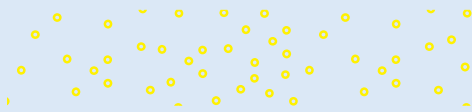
"I really liked this app— it made it easy to study when you don't have your textbook in front of you."

Jordan Cunningham, a student at Eastern Washington University

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Our new Evergreen delivery model provides the most current and relevant content for your course, hassle-free. Content, tools, and technology updates are delivered directly to your existing McGraw Hill Connect® course. Engage students and freshen up assignments with up-to-date coverage of select topics and assessments, all without having to switch editions or build a new course.





What's NEW?

Applying Tableau: Data Visualization Assignments

The 2024 release of *Cost Management* builds upon data analytics and visualization with additional assignments using “Applying Tableau” in *Connect*. This includes video and text instruction, assignment material, and feedback. These assignments provide vital training and development in one of the most important emerging aspects of management: using technology to analyze large data sets with effective visualization tools.

New! Integrated Excel

These auto-graded assignments help introduce students to Excel formulas using Excel online integrated with *Connect*, which means no student purchase of Excel is required. Student “Hint” videos demonstrating a guided example are included.

New! Text Hints

Text Hints in *Connect* provide short, written tips or hints on how to approach key points of select exercises. The instructor can choose to turn the Hint feature on or off using assignment settings.

New! Guided Examples

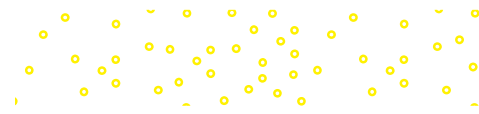
“Hint” videos in *Connect* provide a narrated, step-by-step walkthrough of select exercises that are similar to those being assigned, providing reinforcement where students need it most. These short presentations can be turned on or off by the instructor.

Integration of Important Topics throughout the Text

Key topic areas for the course are integrated across the chapters. As previously noted, strategy is integrated throughout the text. In addition, accounting for “lean” is included in four chapters as it relates to the subject matter of that chapter. Similarly, time-driven activity-based costing (TDABC) is covered in the ABC chapter (Chapter 5) and also in the chapter on budgeting (Chapter 10). ABC appears in most of the chapters in Part Two because it has a key role in planning and decision making. Nonfinancial performance measures and the balanced scorecard (BSC) are introduced in Part One and then covered as part of the operational and management control chapters included in Parts Three and Four. Resource consumption accounting (RCA) is covered both in Chapter 5 and again in Chapter 15. The topic of capacity resource planning is covered in Chapters 10 and 15. These are just examples of the efforts the authors have made to integrate key topics throughout the text.

Enhancing Features from Prior Releases

- The Excel Tutorial videos and documentation for each chapter have been fully reproduced for the tenth edition, using Excel version 16. Students can simultaneously hone their Excel skills and apply those skills to managerial topics using functions such as pivot tables, charts and graphs, Goal Seek, Solver, and regression analysis. Tutorials are offered for each chapter in both step-by-step tutorial documents and videos. In addition, the book provides “Applying Excel” content within *Connect*, enabling instructors to more easily integrate Excel into their courses and allowing students further practice using algorithmic versions. As always, *Cost Management* is unique in its integration of Excel skills into both the text of the chapters and much of the end-of-chapter content.
- *Cost Management: A Strategic Emphasis*, 2024 release, also offers a large selection of recently used Certified Management Accountant (CMA) Exam problems and essay questions (with solutions) in *Connect*. These problems and essay questions are linked to the book chapters to which the topics most closely relate, and they create an even richer library of content (much of it auto-gradable) that instructors may use to build homework and other assignments. These problems also present



valuable practice material for students who are interested in pursuing the CMA designation, either as students or following their formal education.

- Significant new material has been added to *Connect* to greatly enhance the usefulness of this teaching and learning environment.
- Chapters have been revised to include up-to-date issues in cost management and discuss how accountants are dealing with these issues; examples include the COVID-19 recession, ESG reporting, data analytics, the volatility of foreign exchange rates, strategic cost management, and changes in management compensation practices, among others. Because of the strategic focus of the book, we put emphasis on providing current, real-world examples in the text and in the problem material. This material is then updated for each new release.
- End-of-chapter exercises and problems have been enhanced, with a strong focus on providing clarity and a clear linkage to chapter learning objectives, with varying and appropriate levels of challenge.



Remote Proctoring and Browser-Locking Capabilities

New remote proctoring and browser-locking capabilities, hosted by Proctorio within *Connect*, provide control of the assessment environment by enabling security options and verifying the identity of the student.

Seamlessly integrated within *Connect*, these services allow instructors to control students' assessment experience by restricting browser activity, recording students' activity, and verifying students are doing their own work.

Instant and detailed reporting gives instructors an at-a-glance view of potential academic integrity concerns, thereby avoiding personal bias and supporting evidence-based claims.

Evergreen

Content and technology are ever-changing, and it is important that you can keep your course up to date with the latest information and assessments. That's why we want to deliver the most current and relevant content for your course, hassle-free.

Cost Management is moving to an Evergreen delivery model, which means it has content, tools, and technology that is updated and relevant, with updates delivered directly to your existing McGraw Hill *Connect*[®] course. Engage students and freshen up assignments with up-to-date coverage of select topics and assessments, all without having to switch editions or build a new course.

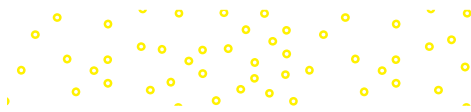
Polling

Every learner has unique needs. Uncover where and when you're needed with the new Polling tool in McGraw Hill *Connect*[®]! Polling allows you to discover where students are in real time. Engage students and help them create connections with your course content while gaining valuable insight during lectures. Leverage polling data to deliver personalized instruction when and where it is needed most.



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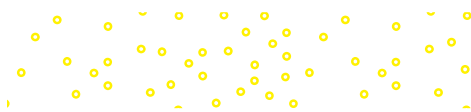
Test Builder in Connect

Available within McGraw Hill *Connect*[®], Test Builder is a cloud-based tool that enables instructors to format tests that can be printed, administered within a Learning Management System, or exported as a Word document. Test Builder offers a modern, streamlined interface for easy content configuration that matches course needs, without requiring a download.

Test Builder allows you to:

- access all test bank content from a particular title.
- easily pinpoint the most relevant content through robust filtering options.
- manipulate the order of questions or scramble questions and/or answers.
- pin questions to a specific location within a test.
- determine your preferred treatment of algorithmic questions.
- choose the layout and spacing.
- add instructions and configure default settings.

Test Builder provides a secure interface for better protection of content and allows for just-in-time updates to flow directly into assessments.





Enhancements for This Release

For All Chapters:

- Real-World Focus feature updates throughout
- Updates to time-based elements and links in EOC
- Additions and revisions to end-of-chapter content for adaptability in *Connect*

Part One: Introduction to Strategy, Cost Management, and Cost Systems

Chapter 1: Cost Management and Strategy

- Updated and revised chapter opener (Walmart)
- Added discussion of ESG (replacing Social, Political, and Climate Change Considerations, now called Environmental, Social, and Governance (ESG) Considerations) to “The Contemporary Business Environment” section, added “ESG reporting” as a glossary term
- Added brief discussion of the IMA Management Accounting Competency Framework, added new exhibit with framework graphic
- Revised Cost Management in Action and Comments on CMA

Chapter 2: Implementing Strategy: The Value Chain, the Balanced Scorecard, and the Strategy Map

- Updated and revised chapter opener (Amazon)
- Revised Sustainability section, updating time-based elements and implementing more ESG language

Chapter 3: Basic Cost Management Concepts

- Updated opening scenario to mention 2022 results of the cost-cutting efforts started in 2016, that was a 5-year cost reduction plan
- COST MANAGEMENT IN ACTION—Cost per Bushel of Soybeans in the U.S.
- Clarification of language on cost behavior and cost classifications

Chapter 4: Job Costing

- COST MANAGEMENT IN ACTION—Is Job Costing a Match for Caterpillar’s Manufacturing Process?
- Updates to sections on cost flows, discussing technology and the proration method for disposition of over/underapplied overhead

Chapter 5: Activity-Based Costing and Customer Profitability Analysis

- New subsection added to Customer Profitability section titled “Customer Acquisition Costs”

Chapter 6: Process Costing

- Updated opening scenario to reflect information current as of 2022
- Updates for currency to Cost Management in Action

Chapter 7: Cost Allocation: Departments, Joint Products, and By-Products

- Clarifying language and revisions throughout

Part Two: Planning and Decision Making

Chapter 8: Cost Estimation

- Updated chapter opener to be more current and incorporate supply chain disruptions experienced in 2020–2022
- The Five Steps of Strategic Decision Making for Harrah’s—Updated Harrah’s is now Caesars
- Minor updates to text and wording updates for clarity

Chapter 9: Short-Term Profit Planning: Cost-Volume-Profit (CVP) Analysis

- Updated chapter opener to reflect information current for iHeartMedia as of August 2022

Chapter 10: Strategy and the Master Budget

- Updated chapter opener with current information about Johnson & Johnson

Chapter 11: Decision Making with a Strategic Emphasis

- Updated chapter opener to add an example from Amazon to the existing Apple example

Chapter 12: Strategy and the Analysis of Capital Investments

- Revised chapter opener with new company (AT&T)
- Revised “Recent Developments. . .” section in “Strategy and the Analysis of Capital Expenditures”

- Updates and revisions to four Real-World Focus items
- Two new problems, both available in *Connect*

Chapter 13: Cost Planning for the Product Life Cycle: Target Costing, Theory of Constraints, and Strategic Pricing

- Two new Real-World Focus items (discussing designing for the market and pricing with artificial intelligence) with updates to three others
- Appendix and associated end-of-chapter content removed

Part Three: Operational-Level Control

Chapter 14: Operational Performance Measurement: Sales, Direct Cost Variances, and the Role of Nonfinancial Performance Measures

- Updated and revised chapter opener (UPS)

Chapter 15: Operational Performance Measurement: Indirect Cost Variances and Resource Capacity Management

- Updated and revised chapter opener (Southwest Airlines)
- Revised Cost Management in Action and Comments on CMA

Chapter 16: Operational Performance Measurement: Further Analysis of Productivity and Sales

- Updated the opening scenario to reflect information current as of July 2022

Chapter 17: The Management and Control of Quality

- Updated and revised chapter opener
- Updated Cost Management In Action based on 2022 college rankings

Part Four: Management-Level Control

Chapter 18: Strategic Performance Measurement: Cost Centers, Profit Centers, and the Balanced Scorecard

- Revised chapter opener

Chapter 19: Strategic Performance Measurement: Investment Centers and Transfer Pricing

- New chapter opener about MLB cost per win measure

Chapter 20: Management Compensation, Business Analysis, and Business Valuation

- New chapter opener about Oracle's executive compensation



Acknowledgments

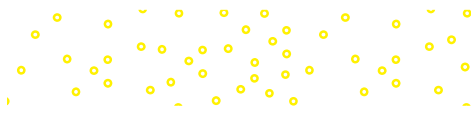
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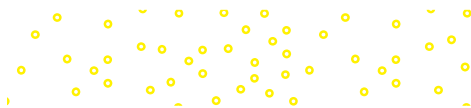
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