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preface

‘An accountant is a person who is hired to explain that you didn’t make the money you thought you did.’ This anonymous quotation has a great deal of relevance today as business moves towards a position of wanting to achieve more and more with less and less. This objective brings with it increased pressure on businesses to become more competitive through improved efficiencies and productivity. Accounting systems must respond to this change by correctly measuring the cost of goods and services and providing relevant cost reports to management.

The fifth edition of *Management Accounting: Principles and Applications* adopts the same easy-to-read style used in previous editions. The purpose of this book is to provide a practical approach to the principles involved in recording and reporting the costs incurred by manufacturing and service industries. This is done by initially introducing the concepts and definitions that are later expanded and applied within the framework of various cost accounting systems. The book is primarily designed to assist students in the Vocational Education and Training sector who are studying management accounting (or cost accounting). However, the content may also be relevant to university or other tertiary students requiring a management (cost) accounting text that has a practical emphasis. The style of presentation allows for a gradual development of the learning objectives to meet competencies in each chapter through the extensive use of worked examples, tables and diagrams. Self-testing questions are strategically placed within chapters (with solutions) to consolidate a student’s knowledge. Graded questions are also provided at the end of each chapter for further practice. The material presented in the text demonstrates the skills required by the units in the Financial Services Training Package FNS10 v2: FNSACC407A, FNSACC507A and FNSACC613A.

The book is divided into two sections—Principles (Chapters 1–9) and Applications (Chapters 10–16). The first chapter introduces the basic

concepts and terminology that surround the subject. The second chapter illustrates the type of manufacturing reports used by smaller firms using a periodic inventory system. Chapter 3 introduces a more universal double entry system for cost accounting using a perpetual method of recording inventory transactions. The next three chapters provide a detailed description of the accounting and control of material, labour and overhead costs. Chapter 7 covers budgeting for a manufacturing business needed for the unit FNSACC407A. Chapter 8 introduces a job cost system within the double-entry framework described in earlier chapters. The last chapter in the Principles part of the text examines the behaviour of fixed and variable costs in cost/volume profit and break-even analysis.

The Applications part of the book commences with a chapter on the subject of direct costing and considers an alternative way of reporting fixed manufacturing costs. This is followed in Chapter 11 by an examination of relevant costs for decision-making under the topic of differential costing. Chapter 12 compares the traditional treatment of overhead costs with activity-based costing. Chapters 13, 14 and 15 deal with specific issues related to process costing, operations costing, and joint and by-product costing. The final chapter covers the topic of standard costing including the calculation and recording of material, labour and overhead variances.

Where appropriate the combination of topics has been illustrated. For instance, Chapter 15 includes an example of joint and by-products where a process cost sheet has to be prepared. Chapter 16 explores the effect work in process inventories and/or operation costing and/or direct costing have on the calculation of the standard cost variances and also includes standard costing applied to job order costing.

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