

Abstracts from Accounting Education: A Journal of Theory, Practice and Research

| Article Title | Authors | Volume | Page Numbers |
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| Theory of Constraints versus Traditional Management Accounting | Joseph G. Louderback J. Wayne Patterson | Volume 1 Issue 2 (1996) | pp. 189-196 |

Theory of Constraints versus Traditional Management Accounting

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Vol. 1, Issue 2, pp.189-196 (1996)

Abstract: Theory of constraints (TOC) has become a topic of interest in accounting literature. An increasing number of textbooks are describing and illustrating TOC. TOC emphasizes throughput - sales less material costs - and equates this concept with contribution margin. TOC does not recognize other costs as being variable at the unit level. TOC might thereby conflict with traditional management accounting in decision applications because traditional management accounting defines contribution margin as selling price less all variable costs. Neither articles nor cost/management accounting textbooks address this issue directly, leaving no guidance to faculty.