

Chapter 1 - Introduction to management accounting

MULTIPLE CHOICE

1. ____ is devoted to providing information for external users.
 - a. Management accounting
 - b. Financial accounting
 - c. Internal accounting
 - d. Cost accounting

ANS: B PTS: 1
2. Financial accounting is primarily concerned with providing financial reports to all of the following EXCEPT
 - a. creditors such as banks and other financial institutions.
 - b. creditors such as suppliers.
 - c. shareholders of the company.
 - d. management of the firm.

ANS: D PTS: 1
3. Management accounting and financial accounting differ in that management accounting information is prepared
 - a. following prescribed rules.
 - b. using whatever methods the company finds beneficial.
 - c. for shareholders.
 - d. to summarize the whole company with little detail.

ANS: B PTS: 1
4. The primary objective of management accounting is
 - a. to provide shareholders and potential investors with useful information for decision making.
 - b. to provide banks and other creditors with information useful in making credit decisions.
 - c. to provide management with information useful for planning and control of operations.
 - d. to provide the relevant taxation authorities with information about taxable income.

ANS: C PTS: 1
5. Management accounting is the branch of accounting concerned with reporting to
 - a. internal managers.
 - b. shareholders.
 - c. the government.
 - d. bankers.

ANS: A PTS: 1
6. Which of the following characteristics does NOT pertain to management accounting?
 - a. provides information and estimates about future activity
 - b. generates specific-purpose financial statements and reports
 - c. provides financial and operating data multidisciplinary in scope
 - d. has externally imposed standards

ANS: D PTS: 1

7. Which of the following does NOT describe management accounting?
- a. evaluation of segments or products within the firm
 - b. emphasis on the future
 - c. externally focused
 - d. detailed information

ANS: C PTS: 1

8. Management accounting reports are prepared
- a. to meet the needs of decision makers within the firm.
 - b. whenever shareholders request them.
 - c. according to guidelines prepared by the shares and Financial Services Authority.
 - d. according to financial accounting standards.

ANS: A PTS: 1

9. Cost accounting
- a. is concerned with assigning costs to various cost objects.
 - b. attempts to satisfy the costing objectives of both financial accounting and management accounting.
 - c. provides cost information that supports planning, controlling, and decision making.
 - d. All of the above descriptions are true.

ANS: D PTS: 1

10. Which of the following costing activities is associated with the financial accounting system?
- a. determining the cost of a department
 - b. determining the cost of goods sold for financial statements
 - c. preparing budgets
 - d. determining the cost of a customer

ANS: B PTS: 1

11. Which of the following activities is NOT associated with the financial accounting information system?
- a. reporting on the cost of quality
 - b. reporting to the shareholders
 - c. preparing reports for the tax authorities
 - d. preparing a statement of cash flows

ANS: A PTS: 1

12. Which of the following cost management tools supports the firm's concentration on the delivery of value to the customer?
- a. service industry growth
 - b. global competition
 - c. preparing an earnings report for external reporting
 - d. value-chain analysis

ANS: D PTS: 1

13. Factors that have led to a global market for manufacturing and service firms are
- improved transportation and communications systems.
 - improved telemarketing and communications.
 - improved distribution and transportation systems.
 - None of these factors have contributed.

ANS: A PTS: 1

14. Which of the following activities is NOT significant to the advancement of information technology?
- enterprise resource planning software
 - emergence of electronic commerce
 - theory of constraints
 - decision support systems

ANS: C PTS: 1

15. Software that has integrated system capability using real time data is
- enterprise resource planning software.
 - on-line analytic programs.
 - computer-assisted engineering software.
 - none of the above.

ANS: A PTS: 1

16. Automation of the manufacturing environment is associated with increases in
- inventory.
 - capacity.
 - processing time.
 - none of these.

ANS: B PTS: 1

17. Total quality management emphasizes
- zero defects.
 - continual improvement.
 - elimination of waste.
 - all of the above.

ANS: D PTS: 1

18. Which of the following emerging themes in cost accounting deals with managers striving to create an environment that will enable workers to manufacture perfect (zero-defect) products?
- advances in information technology
 - time as a competitive element
 - global competition
 - total quality management

ANS: D PTS: 1

19. Competitive advantage is established by
- providing more customer products than competitors.
 - providing better quality than competitors.
 - providing greater customer value for less cost than competitors.
 - providing greater efficiencies than competitors.

ANS: C PTS: 1

20. Improvement in time performance is most likely NOT enhanced by
- a. redesign of products.
 - b. adding processes in production.
 - c. eliminating waste.
 - d. eliminating nonvalue-added activities.

ANS: B PTS: 1

21. Which of the following statements is NOT true about world-class firms?
- a. World-class firms are firms that are poor in customer support.
 - b. World-class firms know their market and their products.
 - c. World-class firms strive continually to improve product design, manufacture, and delivery.
 - d. World-class firms can compete with the best of the best in a global environment.

ANS: A PTS: 1

22. Accounting
- a. always has an external orientation.
 - b. always has an internal orientation.
 - c. information assists in planning and controlling.
 - d. terms serve as a model of the organization.

ANS: C PTS: 1

23. Monitoring the number of defects produced is an example of the management function of
- a. planning.
 - b. control.
 - c. decision making.
 - d. both a and c.

ANS: B PTS: 1

24. The setting of objectives and the identification of methods to achieve those objectives is called
- a. planning.
 - b. controlling.
 - c. performance evaluation.
 - d. decision making.

ANS: A PTS: 1

25. Comparing actual quality costs with planned quality costs is an example of
- a. planning.
 - b. controlling.
 - c. performance evaluation.
 - d. both b and c.

ANS: D PTS: 1

26. Performance reports are accounting reports that compare
- a. planned data with actual data.
 - b. audited data with actual data.
 - c. managers' bonuses with performance ratings by supervisors.
 - d. actual data with industry standards.

ANS: A PTS: 1

27. Which of the following statements correctly distinguishes between financial and management accounting?
- a. Management accounting reports on the whole organization.
 - b. Financial accounting is oriented toward the future.
 - c. Financial accounting is primarily concerned with providing information for internal users.
 - d. Management accounting is oriented more toward the planning and control aspects of management.

ANS: D PTS: 1

28. Setting the company's profit targets for the upcoming year is an example of the management function of
- a. planning.
 - b. control.
 - c. variance analysis.
 - d. internal auditing.

ANS: A PTS: 1

29. Setting the selling price of a company's product is an example of
- a. planning.
 - b. control.
 - c. decision making.
 - d. all of the above.

ANS: C PTS: 1

30. Developing a company strategy for responding to anticipated new markets is an example of
- a. planning.
 - b. control.
 - c. decision making.
 - d. all of the above.

ANS: A PTS: 1

31. The planning process includes
- a. setting objectives.
 - b. identifying means of achieving the objectives.
 - c. making decisions.
 - d. all of the above.

ANS: D PTS: 1

32. Investigating production variances and adjusting the production process is an example of
- a. planning.
 - b. control.
 - c. internal auditing.
 - d. both a and c.

ANS: B PTS: 1

33. Evaluating the performance of a segment of the company is an example of
- a. planning.
 - b. control.
 - c. internal auditing.
 - d. both a and c.

ANS: B PTS: 1

34. Determining the bid your company should submit on a construction contract is an example of
- a. planning.
 - b. control.
 - c. decision making.
 - d. both a and b.

ANS: C PTS: 1

35. The formulation of a scheme or program for the accomplishment of a specific purpose or goal is referred to as
- a. controlling.
 - b. motivating.
 - c. organizing.
 - d. planning.

ANS: D PTS: 1

36. In a performance report,
- a. differences between actual costs and allowed costs are always undesirable.
 - b. expenditures of less than allowed amounts are undesirable.
 - c. expenditures of more than allowed amounts are not permitted to occur.
 - d. expenditures of less than allowed amounts are desirable.

ANS: D PTS: 1

37. The monitoring of a plan's implementation is called
- a. planning.
 - b. controlling.
 - c. decision making.
 - d. budgeting.

ANS: B PTS: 1

38. Inspecting units produced to determine if they meet specifications is an example of
- a. planning.
 - b. control.
 - c. decision making.
 - d. both a and c.

ANS: B PTS: 1

39. Continuous improvement is NOT
- a. critical in a dynamic environment.
 - b. important to finding and maintaining a competitive advantage.
 - c. an effort to find ways to increase overall efficiency, improve quality, and reduce costs.
 - d. a responsibility of managers in world-class organizations.

ANS: B PTS: 1

40. Principles of personal ethical behaviour that are essential to an ethical life include
- integrity.
 - respect for others.
 - accountability.
 - all of the above.

ANS: D PTS: 1

41. Which one of the following statements about ethical behaviour is true?
- Ethical behaviour is not guided by well-defined rules and is often subjective.
 - Ethical behaviour is best described as doing actions that are permitted by law.
 - Ethical behaviour always involves choosing between actions that are clearly right or wrong.
 - Ethical behaviour is best guided by a policy of placing corporate performance above individual ends.

ANS: A PTS: 1

42. The standards of ethical conduct for management accountants include
- competence and performance.
 - integrity and respect for others.
 - confidentiality, confidence, integrity, and observance.
 - competence, confidentiality, integrity, and objectivity.

ANS: D PTS: 1

43. In resolving an ethical conflict, which of the following would never be appropriate?
- discussing the matter with the chief executive officer
 - discussing the matter with an external member of the board of directors
 - taking the matter to the press where there is no legal requirement
 - resigning from the position because of a conflict

ANS: C PTS: 1

44. Management accounting is concerned with which kind of decision?
- product costing and pricing
 - continuous operational improvement
 - financial control
 - all of the above

ANS: D PTS: 1

45. One advantage of employee empowerment is
- it frees up some of the time of upper management for more strategic decision making.
 - workers can improve production processes in a timely manner.
 - employees closest to the work can provide valuable input in increasing efficiency.
 - all of the above are advantages

ANS: D PTS: 1

46. The value chain includes which of the following activities?
- designing and developing products and services
 - producing products and services
 - marketing and delivering products and services
 - all of the above

ANS: D PTS: 1

47. Relationships among activities that are performed within a firm's portion of the industrial value chain are
- internal linkages.
 - external linkages.
 - customer linkages.
 - none of the above

ANS: A PTS: 1

48. Breakthroughs in technology this century have given rise to which one of the following effects?
- Direct materials have GREATLY decreased as a percentage of total manufacturing costs.
 - Manufacturing overhead has only SLIGHTLY decreased as a percentage of total manufacturing costs.
 - Direct labour has GREATLY decreased as a percentage of total manufacturing costs.
 - Manufacturing overhead has GREATLY decreased as a percentage of total manufacturing costs.

ANS: C PTS: 1

49. The overall objective of accounting information systems is to
- provide information to users.
 - manage the organization.
 - prepare financial reports.
 - report to the government.

ANS: A PTS: 1

50. The ____ is an accounting information subsystem that is primarily concerned with producing outputs for external users.
- cost management information system
 - computer system
 - internal accounting system
 - financial accounting information system

ANS: D PTS: 1

51. A(n) ____ is a computerized information system that strives to input data once and make it available to people across the company for different purposes.
- cost management information system
 - enterprise resource planning system
 - internal accounting system
 - financial accounting information system

ANS: B PTS: 1

52. Which of the following costs would be included in value-chain product costs?
- research and development
 - production
 - customer service
 - all of the above

ANS: D PTS: 1

53. Classify the activity of handling raw materials according to its value-chain category.
- a. developing
 - b. designing
 - c. producing
 - d. distributing

ANS: C PTS: 1

54. Management accounting:
- a. provides a framework to evaluate information in light of an organization's goals.
 - b. provides relevant information to managers.
 - c. provides relevant information to meet specific needs of persons inside the organization.
 - d. all of the above

ANS: D PTS: 1

55. Financial accounting information is *least* useful in providing:
- a. information for stating corporate wide goals.
 - b. information for internal decision makers.
 - c. periodic reports for shareholders.
 - d. aggregate information about an organization's assets, obligations and performance.

ANS: B PTS: 1

56. Management accounting is primarily concerned with:
- a. providing investors with useful information for valuing securities.
 - b. providing creditors information on the status of their loans.
 - c. providing managers with relevant information to help achieve organizational goals.
 - d. providing the relevant taxation authorities with information to determine the amount of taxes owed.

ANS: C PTS: 1

57. To compete on the basis of price, the seller must carefully manage:
- a. cost.
 - b. service.
 - c. quality.
 - d. none of the above.

ANS: A PTS: 1

58. World-class companies must continuously struggle to improve performance in the dimensions of:
- a. price/cost.
 - b. service.
 - c. quality.
 - d. all of the above.

ANS: D PTS: 1

59. Which of the following statements *most accurately* describes an effect of employee empowerment?
- a. Employee empowerment reduces the cost of implementing decisions.
 - b. Employee empowerment decreases the speed in which decisions are made.
 - c. Employee empowerment leads to an increased number of corporate staff positions
 - d. Employee empowerment places greater emphasis on decisions made by upper management.

ANS: A

PTS: 1

PROBLEM

1. Briefly discuss the differences between financial and management accounting.

ANS:

Management accounting differs from financial accounting in the following major ways: (1) an internal focus, (2) emphasis on the future, (3) freedom from GAAP and other mandatory rules, (4) multidisciplinary and broader in scope, (5) evaluates individual segments within the firm, and (6) provides more detailed information.

PTS: 1

2. Identify and discuss the emerging themes that are affecting the way cost accounting is practiced.

ANS:

Seven emerging themes affecting cost element accounting are as follows: customer orientation, total quality management, time as a competitive factor, advances in information technology, advances in the manufacturing environment, service industry growth, and global competition. Customer orientation, total quality management, and time as a competitive factor require the accountant to create and track nonfinancial measures of customer satisfaction such as quality improvement and responsiveness. Advances in information technology have led to the creation of relationship databases that allow a variety of users to develop their own reports based on their particular needs. Advances in the manufacturing environment are characterized by activity-based costing and the emergence of the JIT philosophy. Service industry growth has led to the need for increased management accounting information to improve productivity and quality. Finally, global competition means that companies are now competing with the best of the best. Accurate, timely, and relevant accounting data are crucial in appropriately managing cost.

PTS: 1

3. What is customer orientation? Why is it important in a global environment? What role does cost management play in serving customers?

ANS:

Organizations are concerned with the importance and value that customers have for their processes, activities, products, and services. Firms want to deliver value to customers in order to keep them and to attract new customers in an increasingly competitive global environment. Managing activities and costs is a critical component of managing the value chain.

PTS: 1

4. Why has time become such an important factor in competition?

ANS:

Reducing the time that it takes to act means that companies are able to respond to customers and suppliers more quickly. It fosters adaptability and the ability to respond to changing demands. Reducing time is accomplished by reducing waste and nonvalue-added activities. Reducing activities and waste lowers cost and builds competitive advantage.

PTS: 1

5. Personal computers significantly increase a manager's capabilities to process and use accounting information. Do you agree? Explain.

ANS:

Yes. Personal computers allow managers to access accounting data and to build their own reports and to perform many of their own analyses.

PTS: 1

6. How has the nature of accounting systems shifted in response to technology?

ANS:

There is a shift from external report-based accounting to relationship-based accounting systems. ERP and OLAP software have allowed firms to create one database that can be used for many purposes. Information is more accessible and can be used to provide much more effective planning, control, feedback, decision making, and continuous improvement.

PTS: 1

7. What is cross-functional expertise and why is it important to the systems approach?

ANS:

The ability to see situations from many perspectives is the key to cross-functional thinking. The ability to see the whole, not just one part or function, is part of cross-functional thinking. The ability to foster creative linkages and see relationships and dependencies among the interrelated parts of the organizational system is also part of cross-functional thinking. Open-mindedness, inclusiveness, and flexibility in pursuit of organizational goals are necessary for employees to maintain and grow their organizational systems.

PTS: 1

8. Describe the connection between planning, controlling, and feedback.

ANS:

Planning establishes performance standards, feedback compares actual performance with planned performance, and control uses feedback to evaluate deviations from plans.

PTS: 1

9. Give some examples of reporting feedback that will assist in continuous improvement of a dry cleaning company.

ANS:

A dry cleaners will be interested in monitoring all aspects of performance. It may prepare performance reports on materials and labour usage, as well as on meeting revenue targets. It will want to keep track of things important to customers, turnaround time, customer satisfaction, types of complaints, and requests for auxiliary services (i.e., delivery and tailoring). It may keep records about the characteristics of customers (i.e., profession, residence, age) to better understand their market. It will be interested in efficiency and productivity of labour and equipment. It might monitor the usage of capacity. It will be interested in reporting on all aspects of performance.

PTS: 1

10. You are a management accountant for the Eugene Division of Lowden Company. Your longtime friend, David Orth, is the Eugene Division manager. David was instrumental in helping you obtain your current position. Because the manager's annual bonus is based on the amount of profit the Eugene Division reports for the year, David has asked you to "massage the numbers" to make the Eugene Division appear more profitable.

Considering the Standards of Ethical Conduct for Management Accountants, how would you respond to David Orth's request?

ANS:

According to the Standards of Ethical Conduct for Management Accountants, management accountants have a responsibility to "perform their professional duties in accordance with relevant laws, regulations, and technical standards." Therefore, if "massaging the numbers" involves violating any laws, regulations, or technical standards, it would violate the Standards of Ethical Conduct for Management Accountants. In addition, the Standards of Ethical Conduct for Management Accountants indicate that management accountants have a responsibility to communicate information fairly and objectively and to communicate unfavorable as well as favorable information.

PTS: 1

11. Discuss how the goal of profit maximization is affected by ethical considerations. What incentives are there for managers to manipulate accounting data in unethical ways in order to increase profits?

ANS:

The objective of profit maximization should be constrained by the requirement that profits are achieved through legal and ethical means. Because performance evaluation and rewards for managers often are linked to reported profits, managers might manipulate accounting data to show increased profits in order to increase their own bonuses. The evaluation and reward system should be designed to discourage unethical behaviour.

PTS: 1

12. You are a management accountant for Burn's Ltd. Ruth Hamilton, the sales representative for one of Burn's suppliers, invited you to attend a professional sporting event. Because you are an avid sports fan, you accepted Ruth's invitation.

At the sporting event, Ruth begins talking about Burn's upcoming contract renewals with suppliers. Because there is intense competition and because it is the first bid she will submit to Burn's Ltd., she asks you to review her bid to make sure "it is good enough" before she submits it to the company. In addition, because you are knowledgeable about costs, especially regarding this contract, she asks you to tell her if her bid is "in the ballpark" or "needs improvement." She indicates that if she wins the contract, you will be provided with season tickets for the rest of the year.

Considering the Standards of Ethical Conduct for Management Accountants, how would you respond to Ruth's request?

ANS:

According to the Standards of Ethical Conduct for Management Accountants, management accountants have a responsibility to "refrain from using or appearing to use confidential information acquired in the course of their work for unethical or illegal advantage either personally or through a third party." If you agree to review Ruth's bid and tell her if the bid needs improvement so that she will win the contract, this could be viewed as using confidential information for your personal advantage (season tickets). In addition, management accountants have a responsibility to refuse any gift, favor, or hospitality that would influence their actions.

PTS: 1

13. What can a company do to increase the likelihood of its employees being ethical in all their undertakings?

ANS:

Companies can establish a culture and atmosphere of ethical business practices by rewarding those employees that are honest, fair, and act with integrity. They can establish their own code of professional conduct that sets out the organizational purpose, beliefs, values, and expectations of employees. The code of conduct should be known, visible, and enforced. Companies should hire certified professionals, when appropriate. Professions have codes of conduct and standards appropriate to their duties. Companies can incorporate ethical values into the selection criteria for employee recruitment.

PTS: 1

14. Explain what is meant by confidentiality and why it is important.

ANS:

Management accountants are entrusted with sensitive information about their companies and their dealings with outside firms. Confidentiality standards require that accountants honor this trust. They cannot disclose confidential information without the permission of the company, unless legally required to do so. They must monitor their subordinates to make sure that they are upholding the confidentiality standard. They may not use or appear to use confidential information acquired in their work for unethical or illegal advantage.

PTS: 1

15. Describe a cost management information system, its objectives, and major subsystems.

ANS:

The cost management information system is an accounting information subsystem that is primarily concerned with producing outputs for internal users using inputs and processes needed to satisfy management objectives.

The objectives are as follows:

1. To provide information for costing out services, products, and other objects of interest to management.
2. To provide information for planning and control.
3. To provide information for decision making.

The major subsystems of a cost management information system are the cost accounting information system and the operational control information system.

PTS: 1

SHORT ANSWER

1. Discuss the change in composition of total manufacturing costs during the last century, using the three major cost categories: direct materials, direct labour, and manufacturing overhead.

ANS:

1. Direct materials, the cost of primary raw materials converted into finished goods, have increased slightly as organizations purchase components that formerly fabricated.
2. Direct labour, the wages earned by production employees for the time they spend converting raw materials into finished products, has decreased significantly as employees spend less time physically working on products and more time supporting automated production activities.
3. Manufacturing overhead, which includes all manufacturing costs other than direct materials and direct labour, has increased significantly due to automation, product diversity, and product complexity.

PTS: 1

2. Briefly discuss the three dimensions on which competition takes place.

ANS:

Competition takes place on the dimensions of price/cost, service, and quality. Well-informed buyers routinely search the world for the product or service that best fits their needs on the three interrelated dimensions. To compete on the basis of price, the seller must carefully manage costs. Otherwise, reduced prices might squeeze product margins to such an extent that a sale becomes unprofitable. Quality refers to the degree to which products or services meet the customer's needs. Service includes such things as timely delivery, helpfulness of sales personnel, and subsequent support.

PTS: 1

ESSAY

1. Identify the trends impacting management accounting and discuss the implications for management accounting.

ANS:

Changes in the manufacturing environment, brought about by the implementation of JIT manufacturing, increasing quality requirements, product diversity, diminishing product life cycles, automation, and advances in information technology, are having a significant influence on the management accounting environment. Many traditional management accounting practices will be altered because of the revolution taking place among many manufacturing firms. Deregulation and growth in the service sector of our economy are also increasing the demand for management accounting practices.

PTS: 1

2. What is the role of management accounting information in strategic cost management?

ANS:

Firms generally choose a strategy of cost leadership and product differentiation. Cost leadership involves providing better value to customers at a lower cost than its competitors. Through activity-based costing, product costs are more accurate by first tracing costs to activities and then to products and customers. Process value analysis tries to determine the nature of activities, monitors the costs of the activities to more efficiently perform the activities that add value to the product, and eliminates the activities that do not add value. Management accounting information plays a key role in strategic cost management. This information is used to accumulate and monitor costs to achieve cost leadership. Product differentiation needs management accounting information to determine whether the cost of added value to the customer exceeds the firm's cost to provide the differentiation.

PTS: 1