

Chapter 1

Introduction to Managerial Accounting

Concept Questions*

1. (LO1—Data, information, and knowledge)
Data include items such as sales invoices, purchase orders, customer lists, and inventory records. Data are facts and figures that have not been organized and transformed into information. Information is data that has been sorted, organized, processed, and summarized. Knowledge is information that is shared and exploited so that it adds value to an organization.
2. (LO2—Managerial versus financial accounting)
The primary purpose of financial accounting is the preparation of general-use financial statements for creditors, investors, and other users outside the company. The primary purpose of managerial accounting is the generation of financial and nonfinancial information for managers in their decision-making roles within a company.
3. (LO2—Strategic and operational planning)
Operational planning involves the development of short-term objectives and goals. Strategic planning involves the development of long-range objectives and goals.
4. (LO2—Role of finance function)
The finance function is responsible for managing the financial resources of the organization. Finance managers make decisions about how to raise capital as well as where and how it is invested.
5. (LO3—Role of the managerial accountant)
Advances in accounting information systems and other changes in the past 5 or 10 years have resulted in the automation of traditional accounting functions involving data collection, data entry, and data reporting and a corresponding shifting of those functions from managerial accountants to clerical staff. Consequently, many managerial accountants now focus on analyzing information and creating knowledge from that information rather than collecting data.
6. (LO3—Sunk and opportunity costs)
Sunk costs are costs that have already been incurred. As a result, they cannot be avoided and are not relevant in decision making. Opportunity costs are benefits forgone by choosing one alternative over another and are relevant costs for decision-making purposes.

**Concept Questions are found on the student review cards.*

7. (LO4—Ethics)

Because there is no one correct answer to this question, student responses will vary. You may wish to utilize the quote cited in this question to initiate a group discussion about whether corporations have social responsibilities.

Brief Exercises

1. (LO1—Data, information, and knowledge)

- a. Data
- b. Data
- c. Knowledge
- d. Information
- e. Information
- f. Knowledge

2. (LO2—Managerial versus financial accounting)

Managerial accounting

- Timeliness is critical
- Information is often less precise
- Future orientation
- Reports results by segments
- Highly customizable

Financial accounting

- Must follow GAAP
- Focused on past performance
- Emphasizes reporting on the whole company
- Information is often “old”

3. (LO3—Factors in decision making)

- a. False
- b. True
- c. False
- d. True
- e. False

4. (LO4—Ethics and decision making)

Note to Instructors: The full statements follow, and the answers are underlined.

- a. The famed economist Milton Friedman once argued that the only social responsibility of a corporation is to increase profits.
- b. Common elements of ethics programs include employee hot lines, written codes of conduct, and ethics training.

- c. Corporate scandals such as that at Enron led to the passage of the Sarbanes–Oxley Act.
- d. Integrity is the cornerstone of ethical business practices.
- e. Managers should always consider the views of various stakeholders when evaluating ethical dilemmas.

Exercises

5. (LO2—Users of accounting information)

Note to Instructors: Student responses to this question will vary. You may find that students will have difficulty identifying the types of information needed by these individuals and organizations because the students lack experience with accounting. You may find that this question is useful as an in-class discussion exercise. Following are a few of the potential answers that students may provide.

- a. Financial statements, cash flow projections, sales projections, and budgets.
- b. Sales projections, financial statements, payroll analysis and related data, production budget, productivity data, and employment contracts for management.
- c. Production budget, labor budget, purchases budget, sales projection, and variance analysis (that is, actual versus budgeted performance).
- d. Financial statements, management discussion and analysis, and filings made with the Securities and Exchange Commission by public companies.
- e. Production budget, sales projection, product cost reports, inventory reports, and shipping schedules.
- f. Financial statements, budgets, projections and analyses (for example, sales, cash flow, market share, and inventory), variance analysis, and filings made with the Securities and Exchange Commission by public companies.

6. (LO2—Types of business managers)

- a. finance managers
- b. marketing managers
- c. human resource managers
- d. operations/production managers

7. (LO4—Decision making and ethics)

Note to Instructors: This question is loosely based on the facts surrounding the Ford Explorer/Firestone tire rollover problems in 2000. As part of the discussion, you may want to discuss the role of risk in analyzing and making decisions.

- A. Regardless of fault, Henry Powell, Inc., should immediately advise suppliers and consumers of the potential danger and try to either fix the problem or design a safeguard for the mower to protect users.
- B. Ideally, Henry Powell, Inc., should work hand in hand with the lawn mower manufacturer in order to pinpoint the problem and develop a solution.
- C. Stakeholders affected include the customers who bought the mowers with the battery and the manufacturers of this mower. Both Henry Powell, Inc., and the lawn mower manufacturer have an ethical responsibility. Henry Powell should alert the lawn mower manufacturer in an attempt to pinpoint the cause of the problem. Both companies should contact potential consumers and immediately offer to replace the batteries.

Problems

8. (LO2—Financial versus managerial accounting)

- A. Financial accounting is concerned with the preparation of general-purpose financial statements used by external parties, whereas managerial accounting is concerned with generating financial and nonfinancial information used by internal parties.
- B. Each type of accounting exists to provide appropriate information to relevant users. Not all individuals or organizations have the same information needs.
- C. Financial accounting information is used primarily by stockholders, creditors, and other external parties. Managerial accounting information is used primarily by managers and company employees.

9. (LO3—Decision making and relevant factors)

Not all of the factors are relevant in choosing among flights. For example, since the cost of beverages is the same for flights 1, 2, and 3, it is not relevant in deciding among those flights. Likewise, the cost of a first-class upgrade is the same for flights 2 and 3 and would not be relevant in comparing those flights. The costs of the other options are relevant because they differ between alternatives. Qualitative factors include variables such as legroom, the probability of an on-time arrival, and access to in-flight amenities and food.

10. (LO3, 4—Decision making and ethics)

Note to Instructors: This question is loosely based on the facts surrounding the Space Shuttle *Challenger* disaster in 1986.

- A. Knowing that the part may fail certainly requires the company to take some remedial action. At the very least, the company should inform the airplane manufacturers and the airlines that the problem exists. The company would then be in a position to work with these affected parties to share the cost of repairing or replacing the defective parts with nondefective ones.
- B. Although cost is a consideration in most business decisions, the cost is not likely to be highly significant. The costs of a catastrophic event would be much greater to the company.
- C. Knowing that the part may fail certainly requires the company to take some remedial action. At the very least, the company should inform the airplane manufacturers and the airlines that the problem exists. The company would then be in a position to work with these affected parties to share the cost of repairing or replacing the defective parts with non-defective ones.
- D. Cost is a consideration in most business decisions, and this decision is no different than most others. The company would likely consider the actual cost to fix the part as well as the costs of not fixing the part. For example, should there be a crash and the incident be linked to the company's faulty part, then the costs of litigation, lost sales, and lost reputation would likely be considerable.

