

Chapter 1 - Introduction to Managerial Accounting

1. The managerial activity of monitoring a plan's implementation and taking corrective action as needed is referred to as decision making.

- a. True
- b. False

ANSWER: False

2. The process of choosing among competing alternatives is decision making.

- a. True
- b. False

ANSWER: True

3. Managerial accounting information is *not* important for not-for-profit organizations.

- a. True
- b. False

ANSWER: False

4. Management accounting information is only used by manufacturing organizations.

- a. True
- b. False

ANSWER: False

5. Managerial Accounting is designed primarily for internal users.

- a. True
- b. False

ANSWER: True

6. Managerial accounting has its emphasis on the future.

- a. True
- b. False

ANSWER: True

7. Financial accounting is governed by GAAP.

- a. True
- b. False

ANSWER: True

8. The value chain is the set of activities required to design, develop, produce, market, and deliver products and service to customers.

- a. True
- b. False

ANSWER: True

9. Time is *not* a crucial element in all phases of the value chain.

- a. True

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b. False

ANSWER: False

10. Activity-based costing is a *less* detailed approach to determining the cost of goods and services than traditional cost accounting.

a. True
b. False

ANSWER: False

11. Excellent customer service is an example of a value-added activity.

a. True
b. False

ANSWER: True

12. A cost accountant would normally occupy a staff position within an organization.

a. True
b. False

ANSWER: True

13. Positions that have direct responsibility for the basic objectives of an organization are referred to as line positions.

a. True
b. False

ANSWER: True

14. Virtually all managerial accounting practices were developed to assist managers in maximizing profits.

a. True
b. False

ANSWER: True

15. The belief that each member of a group bears *no* responsibility for the well-being of other members is a common principle underlying all ethical systems.

a. True
b. False

ANSWER: False

16. The four emphasized areas of the CMA examination reflect the needs of managerial accounting and highlights that managerial accounting has more of an interdisciplinary flavor than other areas of accounting.

a. True
b. False

ANSWER: True

17. The purpose of the Certificate in Public Accounting is to provide minimal professional qualification for external auditors.

a. True

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b. False

ANSWER: True

18. The detailed formulation of action to achieve a particular end is the management activity called _____.

ANSWER: planning.

19. _____ is the provision of accounting information for a company's internal users.

ANSWER: Managerial accounting

20. The process of choosing among competing alternatives is called _____.

ANSWER: decision making

21. The managerial activity of monitoring a plan's implementation and taking corrective action as needed is referred to as _____.

ANSWER: controlling

22. The managerial accounting system produces information for _____ users.

ANSWER: internal

23. _____ is primarily concerned with producing information for external users.

ANSWER: Financial accounting

24. Managerial accounting strongly emphasizes providing information about _____.

ANSWER: future events

25. The _____ is the set of activities required to design, develop, produce, market and deliver products and services as well as provide support services to customers.

ANSWER: value chain

26. _____ organizes costs according to the value chain and collects both financial and nonfinancial information.

ANSWER: Lean accounting

27. _____ is a management philosophy in which manufacturers strive to create an environment that will enable workers to manufacture perfect (zero-defect) products.

ANSWER: Total quality management

28. _____ is the continual search for ways to increase the overall efficiency and productivity of activities by reducing waste, increasing quality and managing costs.

ANSWER: Continuous improvement

29. _____ is a crucial element in all phases of the value chain.

ANSWER: Time

30. The _____ supervises all accounting functions and reports directly to the general manager and chief operating officer (COO).

ANSWER: controller

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31. Positions that are supportive in nature and have only indirect responsibility for an organization's basic objectives are called _____.

ANSWER: _____ staff positions

32. The _____ is responsible for the finance function.

ANSWER: _____ treasurer

33. In June 2002, Congress passed the _____ in response to financial scandals such as Enron.

ANSWER: _____ Sarbanes-Oxley Act (SOX)

34. _____ involves choosing actions that are right, proper, and just.

ANSWER: _____ Ethical behavior

35. To promote ethical behavior by managers and employees, organizations commonly establish a _____.

ANSWER: _____ code of conduct

36. Only a _____ is permitted to serve as an external auditor.

ANSWER: _____ Certified Public Accountant (CPA)

37. A _____ has passed a comprehensive examination designed to ensure technical competence and has two years of experience.

ANSWER: _____ Certified Internal Auditor
CIA

38. Which of the following is *not* an objective of managerial accounting?

- a. To prepare external reports for investors, creditors, government agencies, and other outside users.
- b. To provide information for costing of services, products, and other objects of interest to management.
- c. To provide information for planning, controlling, evaluating and continuous improvement.
- d. To provide information for decision making.

ANSWER: _____ a

39. Which of the following is an example of the management activity referred to as planning?

- a. Developing a strategy for disposing of hazardous waste.
- b. The decision to eliminate an unprofitable segment of an organization.
- c. The decision to outsource an organization's payroll processing.
- d. All of these are correct

ANSWER: _____ a

40. Developing a company strategy for responding to anticipated new markets is an example of

- a. planning.
- b. controlling.
- c. decision making.

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- d. all of these are correct.

ANSWER:

a

41. Investigating production variances and adjusting the production process is an example of

- a. planning.
- b. controlling.
- c. decision making.
- d. all of these.

ANSWER:

b

42. The primary objective of managerial accounting is

- a. to provide stockholders 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 Internal Revenue Service with information about taxable income.

ANSWER:

c

43. Managerial accounting

- a. is primarily for external users.
- b. has no mandatory rules.
- c. provides information based on historical information.
- d. must adhere to GAAP.

ANSWER:

b

44. Managerial accounting reports are prepared

- a. according to GAAP guidelines.
- b. to meet the needs of decision makers within the firm.
- c. for external users.
- d. all of these are correct

ANSWER:

b

45. Financial accounting

- a. is concerned with the information about the firm as a whole.
- b. has to adhere to GAAP policies.
- c. focuses on external users.
- d. all of these are correct

ANSWER:

d

46. Which of the following would *not* be an example of a value-added activity?

- a. timely delivery of products
- b. offering the customer a variety of products
- c. storage of finished products
- d. excellent customer service

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ANSWER:

c

47. Total quality management emphasizes

- a. zero defects.
- b. continuous improvement.
- c. elimination of waste.
- d. all of these are correct.

ANSWER:

d

48. Activity-based costing

- a. strives to create an environment that will enable workers to manufacture zero-defect products.
- b. is the process of choosing among competing alternatives.
- c. was established in response to financial scandals.
- d. encourages process-value analysis.

ANSWER:

d

49. Which of the following would normally occupy a line position?

- a. staff accountant
- b. accounting manager
- c. vice-president of marketing
- d. treasurer

ANSWER:

c

50. Which of the following would normally occupy a staff position?

- a. assembly worker
- b. cost accounting manager
- c. factory manager
- d. all of these

ANSWER:

b

51. Which of the following would occupy a line position in a hospital?

- a. manager of the cafeteria
- b. hospital administrator
- c. chief of surgery
- d. none of these

ANSWER:

c

52. The controller of an organization participates in

- a. planning.
- b. controlling.
- c. decision making.
- d. all of these are correct

ANSWER:

d

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53. The objective of profit maximization

- a. should be the only goal of an organization.
- b. is an objective of financial accounting but not managerial accounting.
- c. should be achieved through legal and ethical means.
- d. should outweigh the goal of product quality.

ANSWER:

c

54. The standards of ethical conduct for managerial accountants include

- a. competence and performance.
- b. integrity and respect for others.
- c. confidentiality, confidence, integrity, and observance.
- d. competence, confidentiality, integrity, and credibility.

ANSWER:

d

55. Which of the following areas is *not* emphasized on the CMA examination?

- a. external auditing and business law
- b. economics, finance, and management
- c. decision analysis and information systems
- d. financial accounting and reporting

ANSWER:

a

56. Accountants that have a Certificate in Public Accounting (CPA):

- a. are the only accountants permitted to serve as external auditors.
- b. must pass a national examination and be licensed by the state in which they practice.
- c. may be held responsible to provide assurance concerning the reliability of a firm's financial statements.
- d. all of these statements are true.

ANSWER:

d

57. Persons in the United States who provide assurance service are designated as

- a. Certified Public Accountants.
- b. Certified Financial Accountants.
- c. Chartered Accountants.
- d. Certified Management Accountants.

ANSWER:

a

58. Describe the major differences between managerial accounting and financial accounting.

ANSWER: Managerial accounting:

- Internally focused
- No mandatory rules
- Financial and nonfinancial information; subjective information possible
- Emphasis on the future
- Internal evaluation and decisions based on very detailed information

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- Broad, multidisciplinary

Financial accounting:

- Externally focused
- Must follow externally imposed rules
- Objective financial information
- Historical orientation
- Information about the firm as a whole
- More self-contained

59. Discuss in detail the three uses of managerial accounting information.

ANSWER: The three uses of managerial accounting information are planning, controlling and decision making. Planning is the detailed formulation of action to achieve a particular end in the management activity. Planning requires setting objectives and identifying methods to achieve those objectives. The managerial activity of monitoring a plan's implementation and taking corrective action as needed is referred to as controlling. Control is usually achieved by comparing actual performance with expected performance. This information can be used to evaluate or to correct the steps being taken to implement a plan. The final use of managerial accounting information is decision making. This managerial function is intertwined with planning and control in that a manager cannot successfully plan or control the organization's actions without making decisions regarding competing alternatives.

60. The Institute of Management Accountants (IMA) established ethical standards for accountants known as the Statement of Ethical Professional Practice. Briefly describe the four standards.

ANSWER:

1. Competence—maintain an appropriate level of professional expertise by continually developing knowledge and skills; perform professional duties in accordance with relevant laws, regulations, and technical standards; provide decision support information and recommendations that are accurate, clear, concise and timely; recognize and communicate professional limitations or other constraints that would preclude responsible judgment or successful performance of an activity.
2. Confidentiality—keep information confidential except when disclosure is authorized or legally required; inform all relevant parties regarding appropriate use of confidential information; monitor subordinates' activities to ensure compliance; refrain from using confidential information for unethical or illegal advantage.
3. Integrity—mitigate actual conflicts of interest, regularly communicate with business associates to avoid apparent conflicts of interest; advise all parties of any potential conflicts; refrain from engaging in any conduct that would prejudice carrying out duties ethically; abstain from engaging in or supporting any activity that might discredit the profession.
4. Credibility—communicate information fairly and objectively; disclose all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, analyses or recommendations; disclose delays or deficiencies in information, timeliness, processing, or internal controls in conformance with organization policy and/or applicable law.

61. Briefly describe activity-based costing (ABC), value chain, lean accounting and enterprise risk management (ERM).

ANSWER: ABC—is a more detailed approach, than traditional cost accounting, to determining the cost of goods and services. It improves costing accuracy by emphasizing the cost of the many activities or tasks that must be done to produce a product or offer a service. The objective is to find ways to perform necessary activities

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more efficiently and to eliminate those that do not create customer value.

Value chain—is the set of activities required to design, develop, produce, market or deliver products and services as well as provide support services to customers. A managerial accounting system should track information about a wide variety of activities that span the value chain.

Lean Accounting—organizes costs according to the value chain and collects both financial and nonfinancial information. The objective is to provide information to managers that supports their waste reduction efforts and to provide financial statements that better reflect overall performance, using both financial and nonfinancial information.

ERM—managerial accountants help carry out the company's ERM approach. ERM is a formal way for managerial accountants to identify and respond to the most important threats and business opportunities facing the organization.

62. List the different types of certifications that can be obtained by an accountant.

ANSWER: Certified Management Accountant (CMA)
Certified Public Accountant (CPA)
Certified Internal Auditor (CIA)

63. Describe the provisions of the Sarbanes-Oxley Act of 2002.

ANSWER: Congress passed the Sarbanes-Oxley Act (SOX) in an attempt to limit securities frauds and accounting misconduct scandals like those associated with Enron, WorldCom, Adelphia and HealthSouth. SOX led to increased attention on corporate ethics. While successful on many fronts, SOX has not prevented all subsequent frauds.

64. You have been working as a staff accountant at Sanborn Industries for three months. Mr. Jones, the accounting manager as well as your boss, has informed you that he has decided to change vendors for the company's office supplies. He notifies you that your company will now be utilizing the store owned by his best friend. Mr. Jones is hopeful that this will bring in a significant profit for his friend's business possibly preventing the closing of his store. You receive the first invoice from that store and realize that the prices are nearly double the amount that the company was paying when using a large retail chain.

What should you do about the situation?

ANSWER: Mr. Jones may not be acting ethically. Therefore, the first step is to show the bill to Mr. Jones. He may be unaware that the prices are that much higher than they were previously. If he tells you to not mention the price difference to anyone and just pay the invoice, then you would want to discuss the matter with another member of upper management, potentially the controller or CFO. If another supervisor is not available then you would have the option of contacting an IMA Ethics Counselor to discuss your options. The decision to use a higher priced vendor would also affect external users. The increasing costs of supplies will have a negative effect on the financial statements.