

Management Accounting, Cdn. 6e (Horngren/Sundem/Stratton/Beaulieu)
Chapter 1 Management Accounting and Management Decisions

1) Both internal managers and external parties use accounting information.

Answer: TRUE

Diff: 2 Type: TF Page Ref: 16

Objective: 8

2) Internal accounting reports must follow generally accepted accounting principles and account for assets at historical cost.

Answer: FALSE

Diff: 2 Type: TF Page Ref: 16

Objective: 8

3) Organizations that do not make or sell tangible goods are called service organizations.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 7

Objective: 3

4) The cost-benefit balance is the primary consideration in choosing among accounting systems and methods.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 2

Objective: 3

5) Planning refers to setting objectives, implementing plans, and evaluating objectives.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 3

Objective: 2

6) A budget is a quantitative expression of a plan of action.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 2

Objective: 3

7) Management by exception involves a detailed analysis of all deviations from planned performance regardless of the amount.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 2

Objective: 3

8) Sales growth occurs in the mature market stage of product life cycle.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 9

Objective: 4

9) Line authority is authority exerted downward over subordinates.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 12

Objective: 5

10) Line departments support or service staff departments.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 12

Objective: 5

11) According to the Financial Executives Institute, the controller's function is to obtain both short-term and long-term loans.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 14

12) The CMA program focuses on management accounting and its role in Canadian business.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 16

Objective: 8

13) The factors causing changes in management accounting today include increased global competition, technological advances and increased production by Canadian companies.

Answer: FALSE

Diff: 1 Type: TF Page Ref: 16

Objective: 8

14) The essence of the just-in-time philosophy is to eliminate waste.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 16

Objective: 8

15) The Society of Management Accountants of Canada (SMAC) has developed standards of ethical conduct for management accountants, which include standards of competence, confidentiality, integrity and objectivity.

Answer: TRUE

Diff: 1 Type: TF Page Ref: 20

Objective: 9

16) A survey of managers selected which of the following business areas as the most common starting-point for future managers?

A) Accounting.

B) Finance.

C) Legal environment of business.

D) Computers in business.

Answer: A

Diff: 1 Type: MC Page Ref: 2

Objective: 1

17) Management accounting refers to accounting information developed for

- A) shareholders.
- B) governmental authorities.
- C) managers within an organization.
- D) loan officers.

Answer: C

Diff: 1 Type: MC Page Ref: 16

Objective: 8

18) _____ is a formal mechanism for gathering, organizing, and communicating information about an organization's activities.

- A) An accounting system
- B) Scorekeeping
- C) Management accounting
- D) Attention directing

Answer: A

Diff: 1 Type: MC Page Ref: 3

Objective: 2

19) _____ refers to accounting information developed for users within an organization.

- A) An accounting system
- B) Scorekeeping
- C) Management accounting
- D) Financial accounting

Answer: C

Diff: 1 Type: MC Page Ref: 3

Objective: 2

20) _____ is the accumulation and classification of data.

- A) An accounting system
- B) Scorekeeping
- C) Management accounting
- D) Attention directing

Answer: B

Diff: 1 Type: MC Page Ref: 3

Objective: 2

21) _____ means reporting and interpreting information that helps managers to focus on operating problems, imperfections, inefficiencies, and opportunities.

- A) Scorekeeping
- B) Attention directing
- C) Problem-solving
- D) None of the above

Answer: B

Diff: 1 Type: MC Page Ref: 3

Objective: 2

22) _____ is the aspect of accounting that quantifies the likely results of possible courses of action and often recommends the best course to follow.

- A) Scorekeeping
- B) Attention directing
- C) Problem-solving
- D) None of the above

Answer: C

Diff: 1 Type: MC Page Ref: 3

Objective: 2

23) The codes of conduct for integrity include all of the following EXCEPT

- A) avoiding actual or apparent conflicts of interest.
- B) refusing to advise or assist with the commission of fraud.
- C) recognizing and communicating professional limitations.
- D) communicating information subjectively.

Answer: D

Diff: 1 Type: MC Page Ref: 20

Objective: 9

24) A clerk prepares a monthly report comparing the actual phone bill with the expected phone costs. This activity would be classified as

- A) problem-solving.
- B) scorekeeping.
- C) planning.
- D) attention directing.

Answer: D

Diff: 1 Type: MC Page Ref: 3

Objective: 2

25) Broad guidelines and detailed practices that together make up accepted accounting practice at a given time are referred to as

- A) GAAS.
- B) accounting conventions.
- C) GAAP.
- D) Revenue Canada regulations.

Answer: C

Diff: 1 Type: MC Page Ref: 16

Objective: 8

26) Service organizations

- A) sell tangible goods.
- B) are not wholesalers.
- C) are considered manufacturers.
- D) must be profit-seeking.

Answer: B

Diff: 1 Type: MC Page Ref: 7

Objective: 3

27) A characteristic of service organizations is that

- A) labour is intensive.
- B) output is easy to define.
- C) major inputs and outputs can be stored.
- D) plant and equipment costs are high in proportion to labour costs.

Answer: A

Diff: 1 Type: MC Page Ref: 7

Objective: 3

28) The watchword for the installation of systems in service industries and nonprofit organizations is

- A) maximize.
- B) simplicity.
- C) constraints.
- D) complexity.

Answer: B

Diff: 1 Type: MC Page Ref: 7

Objective: 3

29) Which of the following is a characteristic of both profit-seeking and nonprofit service organizations?

- A) Labour is intensive.
- B) Output is usually difficult to define.
- C) Major inputs and outputs cannot be stored.
- D) All of the above are characteristics.

Answer: D

Diff: 1 Type: MC Page Ref: 7

Objective: 3

30) Financial accounting is constrained by GAAP. Management accounting is constrained by

- A) GAAS.
- B) the cost-benefit balance.
- C) Revenue Canada.
- D) the controller.

Answer: B

Diff: 1 Type: MC Page Ref: 16

Objective: 8

31) The primary consideration in choosing among accounting systems and methods is

- A) simplicity.
- B) behavioural issues.
- C) cost-benefit balance.
- D) computerization.

Answer: C

Diff: 1 Type: MC Page Ref: 3

Objective: 2

32) An accounting system should provide accurate, timely budgets and performance reports in a form useful to

- A) shareholders.
- B) bankers.
- C) Revenue Canada.
- D) managers.

Answer: D

Diff: 1 Type: MC Page Ref: 3

Objective: 2

33) _____ is (are) a quantitative expression(s) of a plan of action.

- A) A budget
- B) Performance reports
- C) Variances
- D) Management by exception

Answer: A

Diff: 1 Type: MC Page Ref: 3

Objective: 2

34) _____ provide(s) feedback by comparing results with plans and by highlighting deviations from plans.

- A) A budget
- B) Performance reports
- C) Variances
- D) Management by exception

Answer: B

Diff: 1 Type: MC Page Ref: 3

Objective: 2

35) _____ is (are) deviations from plans.

- A) A budget
- B) Performance reports
- C) Variances
- D) Management by exception

Answer: C

Diff: 1 Type: MC Page Ref: 3

Objective: 2

36) _____ concentrate(s) on areas that deviate from the plan and ignore(s) areas that are presumed to be running smoothly.

- A) A budget
- B) Performance reports
- C) Variances
- D) Management by exception

Answer: D

Diff: 1 Type: MC Page Ref: 3

Objective: 2

37) Launching a new product line is an example of

- A) decision making.
- B) planning.
- C) controlling.
- D) organization.

Answer: A

Diff: 1 Type: MC Page Ref: 3

Objective: 2

38) Answering the following questions: When is dinner? Who is cooking it? is an example of

- A) planning.
- B) controlling.
- C) budgeting.
- D) analyzing.

Answer: A

Diff: 1 Type: MC Page Ref: 3

Objective: 2

39) Cooking dinner and tasting the food are examples of

- A) planning.
- B) controlling.
- C) budgeting.
- D) analyzing.

Answer: B

Diff: 1 Type: MC Page Ref: 3

Objective: 2

40) Planning determines action, action generates feedback, and feedback influences

- A) reports.
- B) accounting systems.
- C) further planning.
- D) deviations.

Answer: C

Diff: 1 Type: MC Page Ref: 3

Objective: 2

41) A quantitative expression of a plan of action is a

- A) variance.
- B) performance report.
- C) control.
- D) budget.

Answer: D

Diff: 1 Type: MC Page Ref: 3

Objective: 2

42) Actual results are compared to budgeted amounts in a

- A) performance report.
- B) financial statement.
- C) production report.
- D) flexible report.

Answer: A

Diff: 1 Type: MC Page Ref: 3

Objective: 2

43) Management by exception means management concentrates on

- A) significant activities proceeding as planned.
- B) significant deviations from expected results.
- C) insignificant activities proceeding as planned.
- D) insignificant deviations from expected results.

Answer: B

Diff: 1 Type: MC Page Ref: 3

Objective: 2

44) A synonym for deviation is

- A) planned.
- B) systematic.
- C) variance.
- D) reported.

Answer: C

Diff: 1 Type: MC Page Ref: 3

Objective: 2

45) A significant unfavourable variance

- A) should be ignored because of materiality.
- B) could not result from careless budgeting.
- C) is the result of proper planning.
- D) should be analyzed, and measures should be taken to correct the situation.

Answer: D

Diff: 1 Type: MC Page Ref: 3

Objective: 2

46) The product development stage in a product's life cycle corresponds to

- A) no sales.
- B) sales growth.
- C) stable sales level.
- D) low and decreasing sales.

Answer: A

Diff: 1 Type: MC Page Ref: 9

Objective: 4

47) The introduction to market stage in a product's life cycle corresponds to

- A) no sales.
- B) sales growth.
- C) stable sales level.
- D) low and decreasing sales.

Answer: B

Diff: 1 Type: MC Page Ref: 9

Objective: 4

48) The mature market stage in a product's life cycle corresponds to

- A) no sales.
- B) sales growth.
- C) stable sales level.
- D) low and decreasing sales.

Answer: C

Diff: 1 Type: MC Page Ref: 9

Objective: 4

49) The phase-out-of-product stage in a product's life cycle corresponds to

- A) no sales.
- B) sales growth.
- C) stable sales level.
- D) low sales to no sales.

Answer: D

Diff: 1 Type: MC Page Ref: 9

Objective: 4

50) The various stages through which a product passes are called the

- A) product life cycle.
- B) production plan.
- C) market analysis.
- D) product initiative.

Answer: A

Diff: 1 Type: MC Page Ref: 9

Objective: 4

51) Product life cycles

- A) are the same for all products.
- B) must be considered to effectively plan for production.
- C) are computerized bicycles.
- D) have nothing to do with product profitability.

Answer: B

Diff: 1 Type: MC Page Ref: 9

Objective: 4

52) Authority exerted downward over subordinates is referred to as

- A) line authority.
- B) staff authority.
- C) general authority.
- D) specific authority.

Answer: A

Diff: 1 Type: MC Page Ref: 12

Objective: 5

53) Authority to advise but NOT command is called

- A) line authority.
- B) staff authority.
- C) general authority.
- D) specific authority.

Answer: B

Diff: 1 Type: MC Page Ref: 12

Objective: 5

54) An example of a line department at a jewelry manufacturer is the

- A) accounting department.
- B) finance department.
- C) maintenance department.
- D) sales department.

Answer: D

Diff: 1 Type: MC Page Ref: 12

Objective: 5

55) According to the Financial Executives Institute, one function of controllership is

- A) investments.
- B) short-term financing.
- C) provision of capital.
- D) reporting and interpreting.

Answer: D

Diff: 1 Type: MC Page Ref: 14

56) The top accounting officer in an organization is often

- A) the controller.
- B) the treasurer.
- C) the CFO.
- D) the CEO.

Answer: A

Diff: 1 Type: MC Page Ref: 14

57) _____ is mainly concerned with the company's financial matters.

- A) The controller
- B) The treasurer
- C) The secretary
- D) None of the above

Answer: B

Diff: 1 Type: MC Page Ref: 14

58) _____ is the designation that provides the greatest orientation toward management accounting.

- A) CIA
- B) CMA
- C) CEO
- D) CGA

Answer: B

Diff: 1 Type: MC Page Ref: 14

59) According to the Financial Executives Institute, one function of treasurership is

- A) planning for control.
- B) protection of assets.
- C) investor relations.
- D) economic appraisal.

Answer: C

Diff: 1 Type: MC Page Ref: 14

Objective: 6

60) Chartered Accountants are

- A) internal auditors.
- B) management accountants.
- C) external auditors.
- D) clerical accountants.

Answer: C

Diff: 1 Type: MC Page Ref: 16

Objective: 8

61) The largest Canadian association of professional accountants whose major interest is management accounting is the

- A) Canadian Institute of Chartered Accountants.
- B) Certified General Accountants of Canada.
- C) Government Accounting Institute.
- D) Society of Management Accountants of Canada.

Answer: D

Diff: 1 Type: MC Page Ref: 16

Objective: 8

62) A philosophy to eliminate waste by reducing the time products spend in the production process and eliminating the time that products spend on activities that do NOT add value is

- A) computer-integrated manufacturing.
- B) just-in-time.
- C) better late than never.
- D) added value tax.

Answer: B

Diff: 1 Type: MC Page Ref: 16

Objective: 8

63) Systems that use computer-aided design and computer-aided manufacturing, together with robots and computer-controlled machines are called

- A) just-in-time systems.
- B) robotic-computer systems.
- C) computer-integrated manufacturing systems.
- D) manufacturing-robotic systems.

Answer: C

Diff: 1 Type: MC Page Ref: 16

Objective: 8

64) Which of the following factors is causing changes in management accounting today?

- A) Shift from a manufacturing-based to a service-based economy.
- B) Increased global competition.
- C) Advances in technology.
- D) All of the above are factors.

Answer: D

Diff: 1 Type: MC Page Ref: 16

Objective: 8

65) Systems that use CAD and CAM together with robots and computer-controlled machines are called

- A) JIT.
- B) CMA.
- C) CIM.
- D) none of the above.

Answer: C

Diff: 1 Type: MC Page Ref: 16

Objective: 8

66) Below is a statement from the Code of Professional Ethics for the Society of Management Accountants.

"Maintain at all times independence of thought and action."

It is an example of

- A) competence.
- B) confidentiality.
- C) integrity.
- D) objectivity.

Answer: D

Diff: 1 Type: MC Page Ref: 20

Objective: 9

67) Management accountants are similar to CAs and CGAs in that they

- A) give opinions on financial statements.
- B) are licensed by the Canadian Institute of public accountancy.
- C) adhere to codes of conduct.
- D) are independent of the company they work for.

Answer: C

Diff: 1 Type: MC Page Ref: 16

Objective: 8

68) The Society of Management Accountants has adopted a set of standards of professional ethics which includes codes of conduct regarding all of the following EXCEPT

- A) competence.
- B) independence.
- C) integrity.
- D) confidentiality.

Answer: B

Diff: 1 Type: MC Page Ref: 20

Objective: 9

69) Which of the following individuals would likely NOT be users of management accounting reports?

- A) company presidents
- B) university deans
- C) bankers
- D) chief physicians

Answer: C

Diff: 2 Type: MC Page Ref: 16

Objective: 8

70) Which of the following statements about management accounting is FALSE?

- A) It is concerned with how measurements and reports will influence managers' daily behaviour.
- B) It is less sharply defined than financial accounting.
- C) Its primary users are organizational managers at various levels.
- D) It is constrained by generally accepted accounting principles.

Answer: D

Diff: 2 Type: MC Page Ref: 16

Objective: 8

71) Which of the following statements about ethical dilemmas faced by management accountants is FALSE? Ethical dilemmas

- A) are clear-cut.
- B) involve conflict between two or more ethical standard.
- C) require individual integrity and judgment.
- D) require the application of ethical standards.

Answer: A

Diff: 2 Type: MC Page Ref: 20

Objective: 9

72) Which of the following statements about line authority is TRUE? Line authority

- A) is similar to staff authority.
- B) is indirectly related to the basic activities of an organization.
- C) is exerted upwardly from subordinates.
- D) includes the authority to command action.

Answer: D

Diff: 1 Type: MC Page Ref: 12

Objective: 5

73) Broad concepts or guidelines and detailed practices, including all conventions, rules, and procedures that together make up accepted accounting practice at a given time.

Answer: Generally accepted accounting principles

Diff: 1 Type: SA Page Ref: 16

Objective: 8

74) The person from whom the controller derives authority to set accounting procedures.

Answer: The company president

Diff: 1 Type: SA Page Ref: 12

75) Weighing known costs against probable benefits, the primary consideration in choosing among accounting systems and methods.

Answer: Cost-benefit balance

Diff: 1 Type: SA Page Ref: 11

Objective: 7

76) A quantitative expression of a plan of action, and an aid to coordinating and implementing the plan.

Answer: Budget

Diff: 1 Type: SA Page Ref: 2

Objective: 2

77) Deviations from plans.

Answer: Variances

Diff: 1 Type: SA Page Ref: 2

Objective: 2

78) Concentrating on areas that deserve attention and ignoring areas that are presumed to be running smoothly.

Answer: Management by exception

Diff: 1 Type: SA Page Ref: 2

Objective: 2

79) Authority exerted downward over subordinates.

Answer: Line authority

Diff: 1 Type: SA Page Ref: 12

Objective: 5

80) Authority to advise but not to command. It may be exerted downward, laterally, or upward.

Answer: Staff authority

Diff: 1 Type: SA Page Ref: 12

Objective: 5

81) The largest Canadian professional organization of accountants whose major interest is management accounting.

Answer: Society of Management Accountants

Diff: 1 Type: SA Page Ref: 16

Objective: 8

82) A philosophy to eliminate waste, by reducing the time products spend in the production process and eliminating the time that products spend on activities that do not add value.

Answer: Just-in-time philosophy

Diff: 1 Type: SA Page Ref: 16

Objective: 8

83) Describe the major users of accounting information.

Answer: In general, users of accounting information fall into three categories: (1) Internal managers who use the information for short-term planning and controlling routine operations. (2) Internal managers who use the information for making nonroutine decisions and formulating overall policies and long-range plans. (3) External parties, such as investors and government authorities, who use the information for making decisions about the company.

Diff: 1 Type: ES Page Ref: 2

Objective: 1

84) Explain the cost-benefit and behavioral issues involved in designing an accounting system.

Answer: The cost-benefit balance, weighing known costs against probable benefits, is the primary consideration in choosing among accounting systems. The system's value must exceed its cost. In addition, the system's effects on the behaviour of managers should also be considered. The system must provide accurate, timely budgets and performance reports in a form useful to managers.

Diff: 1 Type: ES Page Ref: 14

Objective: 7

85) Distinguish between line and staff roles in an organization, and give an example of each.

Answer: Line authority is authority exerted downward over subordinates. Staff authority is authority to advise but not to command. It may be exerted downward, laterally, or upward. Line departments are directly responsible for conducting the basic mission of the organization, that is, producing and selling a product or service. Staff departments are indirectly related to these basic activities through servicing and supporting the line departments. An example of a line role would be the sales executives, whereas a staff role would include the top accounting executive.

Diff: 1 Type: ES Page Ref: 12

Objective: 5

86) Contrast the functions of controllers and treasurers.

Answer: The treasurer is concerned mainly with the company's financial matters such as investor relations, provision of capital, short-term financing, credits and collections, and banking. The controller is concerned with operating matters such as reporting and interpreting, evaluating and consulting, tax administration, government reporting, and protection of assets.

Diff: 1 Type: ES Page Ref: 1

87) Explain a management accountant's ethical responsibilities.

Answer: A certified management accountant must adhere to a code of conduct regarding competence, confidentiality, integrity, and objectivity developed by the Society of Management Accountants. An unethical act is one that violates the ethical standards of the profession. Management accountants have an obligation to the organizations they serve, their profession, the public, and themselves to maintain the highest standards of ethical conduct.

Diff: 1 Type: ES Page Ref: 20

Objective: 9

88) Explain the role of budgets and performance reports in planning and control.

Answer: Budgets and performance reports are essential tools for planning and control. Budgets result from the planning process. Managers use them to translate the organization's goals into action. A performance report compares actual results to the budget. Managers use these reports to monitor, evaluate, and reward performance and, thus, exercise control.

Diff: 3 Type: ES Page Ref: 3

Objective: 2

89) Discuss the role that management accountants play in the company's value-chain functions.

Answer: Management accountants play a key role in planning and control. Throughout the company's value chain, management accountants gather and report cost and revenue information for decision makers.

Diff: 2 Type: ES Page Ref: 9

Objective: 4

90) Identify current trends in management accounting.

Answer: Many factors have caused changes in accounting systems in recent years. Most significant are globalization, technology, and a shift from a manufacturing-based to a service-based economy. Without continuous adaptation and improvement, accounting systems would be obsolete.

Diff: 2 Type: ES Page Ref: 16

Objective: 8