**Chapter 1**

**Accounting as a Tool for Management**

**CHAPTER LEARNING OBJECTIVES**

1. **Define managerial accounting (Unit 1.1)**

There are several formal definitions of managerial accounting. A simple one is “the generation of relevant information to support management’s decision-making activities.”

1. **Describe the differences between managerial and financial accounting (Unit 1.1)**

Managerial accounting’s primary users are managers and decision makers within an organization, whereas financial accounting is aimed primarily at external users. Unlike GAAP that guides financial accounting, there are no mandated rules in managerial accounting. Managerial accounting reports focus on operating segments, while financial accounting statements report results for the organization as a whole. Managerial accounting is concerned more with projecting future results than reporting past results. Managerial information is prepared to take advantage of a window of opportunity, even if some accuracy must be sacrificed. Financial accounting information is balanced to the penny and is delivered after the end of the accounting period.

1. **List and describe the four functions of managers (Unit 1.1)**

Planning means setting a direction for the organization. Long-term, or strategic planning provides direction for a five- to ten-year period. Short-term or operational planning provides more detailed guidance for the coming year; it translates the company’s strategy into action steps. Controlling is the monitoring of day-to-day operations to identify any problems that require corrective action. Evaluating is the process of comparing a particular period’s actual results to planned results, for the purpose of assessing managerial performance. Decision making means choosing between alternative courses of action.

1. **Explain how the selection of a particular business strategy determines the information that managers need to run an organization effectively (Unit 1.2)**

To run a business effectively, managers need information that shows how well operations are meeting the organization’s strategic goals. For instance, if the organization’s strategy is to be a low-cost producer, information about product costs and cost variances will be more useful to managers than information about research and development.

1. **Discuss the importance of ethical behavior in managerial accounting (Unit 1.3)**

Ethical behavior means knowing right from wrong and then doing the right thing. Many companies and most professional organizations have codes of conduct to guide employees’ actions. Acting unethically can lead to illegal activity and ultimately to the destruction of the firm. Furthermore, research has shown that a public commitment to ethical behavior can lead to superior financial performance.

**TRUE-FALSE STATEMENTS**

1. Management accounting is the generation of relevant information and analysis provided to external users.

Ans: False – Management accounting is the generation of relevant information and analysis to support managers’ decision-making activities, LO: 1, Bloom: K, Unit: 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. The American Institute of Certified Public Accountants is the leading organization for management accountants in the United States.

Ans: False – The Institute of Management Accountants (IMA) is the leading organization for management accountants in the United States, LO: 1, Bloom: K, Unit: 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. The primary users of managerial accounting information are managers and other internal decision-makers.

Ans: True, LO: 2, Bloom: K, Unit: 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Managerial accounting provides reports and information for a range of decision makers outside an organization.

Ans: False – Managerial accounting provides reports and information for a range of decision makers within an organization,LO: 2, Bloom: C, Unit: 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Managerial accounting differs from financial accounting in that managerial accounting has no comparable set of rules governing what information must be provided to decision-makers or how that information is presented.

Ans: True, LO: 2, Bloom: C, Unit: 1-1, Difficulty: Easy Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Managerial accounting uses historical information, often with the purpose of comparing actual results to budgeted results.

Ans: True, LO: 2, Bloom: K, Unit: 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Decision makers might have a long list of information they would find helpful, and they are generally **not** willing to sacrifice accuracy for having the information quickly.

Ans: False – Decision makers might have a long list of information they would find helpful. But sometimes they might need to sacrifice precision for timeliness, LO: 2, Bloom: C, Unit: 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. Managerial accounting is designed to assist managers with four general activities: planning, controlling, evaluating, and decision making.

Ans: True, LO: 3, Bloom: K, Unit: 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. Long-term planning is often referred to as reporting.

Ans: True, LO: 3, Bloom: K, Unit: 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. One purpose of planning activities is to monitor day-to-day operations to ensure that processes are operating as expected.

Ans: False – One purpose of controlling activities is to monitor day-to-day operations to ensure that processes are operating as expected, LO: 3, Bloom: C, Unit: 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. All other things held equal, the more frequent the controlling activity, the faster an out-of-control process can be corrected.

Ans: True, LO: 3, Bloom: C, Unit: 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. The task of assessing how well employees have performed relative to expectations is a controlling activity.

Ans: False – The task of accessing how well employees have performed relative to expectations is considered an evaluation activity, LO: 3, Bloom: K, Unit: 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. Preparers of managerial accounting information are generally **not** active participants in the decision-making process.

Ans: False – Preparers of managerial accounting information are no longer solely number crunchers, but active participants in the decision-making process, LO: 3, Bloom: C, Unit: 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. Managerial accounting information is always prepared by the controller or cost accountant.

Ans: False – Managerial accounting information can be provided by a controller, a plant accountant, a cost accountant, a financial analyst, a budget or cost analyst, a general accountant, or even a chief financial officer, LO: 3, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. Managerial accounting information provides feedback about how well the organization is implementing its strategy and achieving its goals.

Ans: True, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. For the product differentiation strategy, companies will want information on quality, such as defect rates, percentage of on-time deliveries, and customer satisfaction.

Ans: True, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. If a company follows a strategy of product differentiation, it will seek ways to set its products apart from competitors’ in terms of quality, design or service.

Ans: True, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. A company that focuses on product differentiation does **not** need to monitor product costs because if the quality is sufficient, customers will pay the price.

Ans: False – A company that focuses on product differentiation must monitor product costs because if too much cost is incurred for quality, the sales price will be too high to be competitive, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. The four strategies based on a firm’s approach to market share growth are build, hold, harvest and divest.

Ans: True, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. Under a build strategy, a company aims to increase its market share and competitive position relative to others in the industry, maximizing its short-term earnings and positive cash flow.

Ans: False – Under a build strategy, a company aims to increase its market share and competitive position relative to others in the industry, even at the expense of short-term earnings and cash flows, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. A harvest strategy focuses on short-term profits and cash, even at the expense of market share.

Ans: True, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. A divest strategy is appropriate when a company desires to enter a particular market.

Ans: False – A divest strategy is appropriate when a company desires to exit a particular market, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. A tool that managerial accountants have developed to assist in monitoring organizational performance is the balanced scorecard.

Ans: True, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. The balanced scorecard uses only nonfinancial information such as customer satisfaction or employee turnover to measure performance.

Ans: False – While the balanced scorecard uses some financial performance measures, it places equal emphasis on nonfinancial performance measures, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. A supply chain is a network of facilities that procure raw materials, transform them into intermediate goods and then into final products, and deliver the final products to customers through a distribution system.

Ans: True, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. The supply chain’s goal is to reduce or eliminate defects.

Ans: False – The supply chain’s goal is to get the right product to the right location in the right quantities, at the right time, and at the right cost, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. Just-in-time inventory management is an inventory strategy that focuses on reducing waste and inefficiency by ordering inventory items so that they arrive just when they are needed.

Ans: True, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. Just-in-time implementations are simple and take little or no effort to implement and will work for most companies.

Ans: False – Just-in-time implementations take time and effort to implement and will **not** work for everyone, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. The goal of an ERP system is to integrate all data from the company’s many business processes into a single information system.

Ans: True, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Technology, AICPA FN: Reporting, AICPA PC: None, IMA: Technology

1. Ethical behavior is knowing right from wrong and conducting yourself accordingly, so that your decisions are consistent with your own value system and the values of those affected by your decisions.

Ans: True, LO: 5, Bloom: K, Unit 1-3, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethics, IMA: Ethics

1. Ethical business behavior is compliance with the law.

Ans: False – Ethical business behavior is **not** the same as mere compliance with the law, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethics, IMA: Ethics

1. A firm’s code of conduct is based on a set of core values that are meant to guide employees’ behavior.

Ans: True, LO: 5, Bloom: K, Unit 1-3, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethics, IMA: Ethics and Values

**Answers to True-False Statements**

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| --- | --- | --- | --- | --- | --- | --- | --- |
| **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** |
| 1. | F | 9. | T | 17. | T | 25. | T |
| 2. | F | 10. | F | 18. | F | 26. | F |
| 3. | T | 11. | T | 19. | T | 27. | T |
| 4. | F | 12. | F | 20. | F | 28. | F |
| 5. | T | 13. | F | 21. | T | 29. | T |
| 6. | T | 14. | F | 22. | F | 30. | T |
| 7. | F | 15. | T | 23. | T | 31. | F |
| 8. | T | 16. | T | 24. | F | 32. | T |

**MULTIPLE-CHOICE QUESTIONS**

1. The leading professional organization for management accountants is the
   1. American Association of Management Accountants.
   2. Institute of Management Accountants.
   3. National Association of Accountants.
   4. Society of Management Accountants.

Ans: B, LO: 1, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. In the context of managerial accounting, relevant information
   1. is information that will make a difference in the decision.
   2. is information that has been provided by the controller.
   3. must be provided in quantitative terms.
   4. must be reviewed by the chief financial officer before being provided to managers.

Ans: A, LO: 1, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Good managerial accounting information helps
   1. creditors decide on good credit risks.
   2. managers to do their jobs.
   3. stockholders make informed investment decisions.
   4. creditors assess liquidity.

Ans: B, LO: 1, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Managerial accounting is used by managers to
   1. partner with management decision-making, devise planning and performance management systems, and provide expertise to assist management in an organization’s strategy.
   2. assure accountability for an organization’s resources, and provides information used in planning, evaluation and controlling functions.
   3. provide information used in planning, evaluation and controlling functions, and provide expertise to assist management in an organization’s strategy.
   4. assure appropriate use of an organization’s resources, accountability for an organization’s resources, and provides information used in planning, evaluation and controlling functions within an organization.

Ans: A, LO: 1, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Which of the following is **not** a way managers use managerial accounting?
   1. Provide information used in planning, evaluation and controlling functions
   2. Partner with management decision-making
   3. Assure accountability for an organization’s resources
   4. Communicate information to stockholders

Ans: D, LO: 1, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Managerial accounting is used by managers to
   1. plan, evaluate, and control financial statements and to assure appropriate use of and accountability for organizational resources.
   2. generate and analyze relevant information to support managers’ strategic decision making.
   3. focus on past results to aid in decision-making for managers.
   4. decide the long-term direction of a company and comply with GAAP.

Ans: B, LO: 2, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. The purpose of financial statements contained in annual reports is to

aid in monitoring day-to-day decisions of operations to ensure the company’s strategy is followed.

aid external financial users in analyzing product costs for the company’s segments and perform short-term planning.

provide information to external users for decision making.

communicate a company’s strategic direction and controlling activities to external users.

Ans: C, LO: 2, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. An example of an external user is a
   1. company president.
   2. plant manager.
   3. payroll supervisor.
   4. creditor.

Ans: D, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. An example of an external user is a
   1. managerial accountant.
   2. Vice-President of Marketing.
   3. potential Investor.
   4. Payroll Manager.

Ans: C, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Which of the following is **not** a correct statement?
   1. Managerial accounting benefits internal users.
   2. Managerial accounting reports must comply with generally accepted accounting principles.
   3. Managerial accounting includes reports and information prepared for a range of decision makers within the organization.
   4. Managerial accounting reports come in a variety of formats.

Ans: B, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Which of the following is a characteristic of managerial accounting reports?
   1. Managerial accounting reports are designed to provide the internal decision-makers with the appropriate information.
   2. Managerial accounting reports require compliance with a particular format.
   3. Managerial accounting reports are distributed to the general public.
   4. Managerial accounting reports are used by investors.

Ans: A, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. The information provided by managerial accountants is **not** distributed to the general public because to do so
   1. could provide competitors with vital information about corporate strategies and capabilities.
   2. would be against the Institute of Management Accountants’ code of conduct.
   3. would be against generally accepted accounting principles.
   4. would violate federal trade laws.

Ans: A, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. The information provided by managerial accountants is **not** disseminated to the general public because
   1. to do so would violate federal trade laws.
   2. it would be too expensive to distribute the information.
   3. to do so would provide competitors with vital information about corporate strategies and capabilities.
   4. external users only need information about a company’s financial position, profitability, and cash flows.

Ans: C, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. All public companies that are traded on a stock exchange and governed by the Securities and Exchange Commission must prepare financial statements following
   1. accounting principles set by the Federal Trade Commission.
   2. generally accepted accounting principles.
   3. generally appropriate accounting standards.
   4. standards set by the Accounting Principles Board.

Ans: B, LO: 2, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. GAAP “rules” govern how

controlling activities are performed.

strategic plans should be designed.

a company evaluates its operational activities.

transactions are valued, recorded, and presented.

Ans: D, LO: 2, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Since external users of financial statements have no way to verify the reported information,
   1. they cannot make informed decisions from financial information.
   2. FASB provides consequences to companies who distribute false managerial accounting reports to outsiders.
   3. GAAP provides a level of protection or assurance that the reports will follow certain standards.
   4. internal reports are provided to them by management.

Ans: C, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Since internal users have access to all the underlying data used for managerial accounting reports,
   1. they can create reports that suit their particular decision-making needs.
   2. there is no need to use financial data in making decisions.

c. they can easily incorporate it into financial statements and provide to external users.

d. they should provide it to potential investors when requested.

Ans: A, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Which of the following statements is **not** true?
   1. A company is unlikely to be successful in the long run without adequate managerial accounting information to support decision making.
   2. Managerial accounting is less detailed than external reporting.
   3. Managerial accounting reports are covered by rules comparable to those governing financial accounting.
   4. Internal users have access to all the underlying data in managerial accounting reports.

Ans: C, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Most managerial decisions are made at which of the following levels?
   1. Organization-level
   2. Operating-segment level
   3. Managerial accounting level
   4. Presidential level

Ans: B, LO: 2, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. The basic financial statements always report on transactions and events
   1. that have already occurred.
   2. that will occur in the future.
   3. that are projected.
   4. that have been audited.

Ans: A, LO: 2, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Managerial accounting reports historical information often with the purpose of
   1. comparing actual results to budgeted results.
   2. helping managers to make decisions that will
   3. improve the company’s past performance.
   4. providing information about organizational segments, such as divisions, locations, and product lines.

Ans: A, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Managerial accounting reports

provide future projections and strategic goals to external users.

provide information to users to determine the profitability of individual product lines.

use information contained only in reports provided to external users.

use historical information, compare actual results to budgeted results, and project the results of certain decisions.

Ans: D, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Which of the following statements is **not** true?
   1. Managerial accounting reports often uses historical information.
   2. Managerial accounting does not use estimates in preparing reports.
   3. Managerial accountants use historical amounts in developing future projections.
   4. Managerial accounting reports attempt to project the results of certain decisions.

Ans: B, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Decision makers sometimes may need to sacrifice precision for timeliness because
   1. receiving highly accurate information after the deadline has passed would enhance decision making for future periods.
   2. the nature of many business decisions requires precision in managerial accounting reports.
   3. receiving highly accurate information after the deadline has passed would be of no help.
   4. the nature of many business decisions focuses on the past rather than the future.

Ans: C, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. Managerial accounting is designed to assist managers with which of the following activities?
2. Planning, allocating, and operating
3. Leading, controlling, and planning
4. Evaluating, formulating, and leading
5. Planning, controlling, and evaluating

Ans: D, LO: 3, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. Which of the following is **not** an activity in which managerial accounting is designed to assist managers?
   1. Reporting
   2. Controlling
   3. Decision-making
   4. Evaluation

Ans: A, LO: 3, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. Frequent feedback from planning, controlling, evaluating, and decision-making activities creates which of the following types of decision-making process?
   1. Linear
   2. Circular
   3. Scattered
   4. Operational

Ans: B, LO: 3, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. Long-term planning is often referred to as
   1. strategic planning.
   2. operational planning.
   3. goal-oriented planning.
   4. external planning.

Ans: A, LO: 3, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. Short-term planning is often referred to as
   1. strategic planning.
   2. operational planning.
   3. goal-oriented planning.
   4. external planning.

Ans: B, LO: 3, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. Operational planning translates strategic planning into a plan to be completed within
   1. three months.
   2. one year.
   3. five years.
   4. ten years.

Ans: B, LO: 3, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. One of the primary products of the operational planning stage will likely be a
   1. projected income statement.
   2. pro forma balance sheet.
   3. budget.
   4. strategic plan.

Ans: C, LO: 3, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. One purpose of controlling activities is to
   1. monitor day-to-day operations to ensure that processes are operating as expected.
   2. translate long-term strategy into a short-term plan.
   3. perform variance analysis and prepare performance reports.
   4. translate short-term strategy into a long-term plan.

Ans: A, LO: 3, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: business operations

1. Managers perform controlling activitieswith a frequency such as once a year or every 5 years.
2. in real time as operations are occurring.
3. by analyzing past transactions.
4. by choosing a course of action over the long-term.

Ans: B, LO: 3, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. All other things held equal, the more frequent the controlling activity,
   1. the slower an out-of-control process will be corrected.
   2. the faster an out-of-control process can be corrected.
   3. the more likely employees may ignore the control.
   4. the less likely employees may ignore the control.

Ans: B, LO: 3, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. To help managers with their evaluations, managerial accountants often perform
   1. time tests.
   2. spot checks.
   3. variance analysis.
   4. performance reviews.

Ans: C, LO: 3, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. The forefront of managerial activity is
   1. planning activities.
   2. controlling activities.
   3. evaluating activities.
   4. decision-making.

Ans: D, LO: 3, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. One of the planning activities that occupies managers is inventory planning. Which of the following is **not** an input into this planning process?
   1. Projected sales forecasts
   2. Variance analysis of actual versus budgeted inventory
   3. Projected supply and prices
   4. Anticipated manufacturing capacity

Ans: B, LO: 3, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. Which of the following is **not** an input into the monitoring activities relating to production?
   1. Actual production rate
   2. Actual output
   3. Anticipated production rate
   4. Anticipation manufacturing capacity

Ans: D, LO: 3, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. Managerial accounting information is provided by which of the following individuals within an organization?
   1. An investor
   2. A payables accountant
   3. A cost accountant
   4. A controller or a cost accountant

Ans: D, LO: 3, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. Which of the following is **not** a role of a managerial accountant?
   1. Prepare reports for the SEC
   2. Analyze and interpret financial data
   3. Analyze and interpret operating data
   4. Active participant in the decision-making process

Ans: A, LO: 3, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. A company that wants to be successful needs to
   1. know what it wants to accomplish.
   2. know how to increase market share.
   3. maintain a high gross profit rate.
   4. involve upper level managers in daily operations

Ans: A, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. Michael Porter, a management strategy expert, developed a strategic framework in which a firm has ways to develop a competitive advantage. Which of the following is **not** one of the ways Porter suggested a firm use to develop a competitive advantage?
   1. Product differentiation
   2. Low cost production
   3. Contribution differentiation
   4. Customer satisfaction

Ans: C, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. Michael Porter, a management strategy expert, developed a strategic framework in which a firm has ways to develop a competitive advantage. Which of the following is one of the ways Porter suggested a firm use to develop a competitive advantage?
   1. Supply chain management
   2. Low-cost production
   3. Just-in-time management
   4. Enterprise Resource Planning

Ans: B, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. If a company follows a strategy of product differentiation, it will seek ways to set it products apart in terms of
   1. quality, design, or service.
   2. price, demand, or service.
   3. design, price, or popularity.
   4. quality, demand, or life cycle.

Ans: A, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. If a company chooses a low-cost production strategy, the company will set itself apart from competitors in terms of
   1. quality.
   2. lower selling price.
   3. demand.
   4. high-cost design.

Ans: B, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. In monitoring product differentiation strategy and low-cost production strategy, a difference is that
   1. for the product differentiation strategy, information on quality is emphasized, while for low-cost, production managers are more interested in the production process.
   2. for the product differentiation strategy, information on the production process is emphasized, while for low-cost production managers are more interested in maintaining quality.
   3. for the product differentiation strategy, information on design is emphasized, while for low-cost production, managers are more interested in quality.
   4. for the product differentiation strategy, information on quality is emphasized, while for low-cost production managers are more interested in design.

Ans: A, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. Which of the following are managers most likely to monitor, whether using product differentiation or low-cost production strategy?
   1. Customer satisfaction
   2. The production process
   3. External information such as competitor actions
   4. Customer satisfaction and the production process

Ans: C, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. Which of the following are strategies based on a firm’s approach to market share growth?
   1. Handle, control, hold, or harvest
   2. Build, hold, harvest, or divest
   3. Handle, expand, low-cost, or divest
   4. Build, expand, hold, or divest

Ans: B, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. When a company approaches market share growth under a build strategy, the company
   1. aims to increase its market share in the industry, even at the expense of short-term earnings and cash flow.
   2. seeks to maintain its current market share, while building its return on investment.
   3. seeks market share growth by purchasing companies exiting the market.
   4. focuses on short-term profits and cash.

Ans: A, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. When a company approaches market share growth under a hold strategy,
   1. the company aims to hold its market share in the industry, even at the expense of short-term earnings and cash flow.
   2. the company seeks to maintain its current market share and generate a reasonable return on investment.
   3. the company seeks market share growth by purchasing companies exiting the market.
   4. the company focuses on short-term profits and cash.

Ans: B, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. When a company approaches market share growth under a harvest strategy,
   1. the company aims to increase its market share in the industry, even at the expense of short-term earnings and cash flow.
   2. the company seeks to maintain its current market share but build its return on investment.
   3. the company focuses on short-term profits and cash, even at the expense of market share.
   4. the company focuses on long-term profits and return on investment.

Ans: C, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. Which of the following is **not** a tool for monitoring strategic performance?
   1. The balanced scorecard
   2. Code of conduct
   3. Supply chain management
   4. Enterprise Resource Planning (ERP) systems

Ans: B, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, Technology, AICPA PC: None, IMA: Strategy, Technology

1. Which of the following is **not** a correct statement relating to the balanced scorecard?
   1. It was developed in the early 1990s by David Norton and Robert Kaplan.
   2. It is a collection of performance measures that track an organization’s progress toward achieving its goals.
   3. The selection of performance measures used is driven by the organization’s network of facilities used to produce and deliver its product.
   4. It uses both financial and non-financial performance measures.

Ans: C, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. Which of the following is **not** a measure of performance for a balanced scorecard?
   1. Stock price
   2. Defect rates
   3. Customer satisfaction
   4. A hold strategy

Ans: D, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. Which of the following is **not** a category for performance measures used for a balanced scorecard?
   1. Financial
   2. Customer
   3. Internal business processes
   4. Regulatory

Ans: D, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. Which of the following is **not** a category for performance measures used for a balanced scorecard?
   1. Learning and growth
   2. Competitive
   3. Internal business processes
   4. Customer

Ans: B, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. In a survey of global business executives, what percentage did Bain & Company find were using a balanced scorecard?
   1. Almost 50%
   2. Almost 70%
   3. Almost 75%
   4. Almost 25%

Ans: A, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. For which of the following would a balanced scorecard **most likely** be appropriate?
   1. For-profit organizations and investors
   2. Governmental units and stockholders
   3. Service organizations and investors
   4. For non-profit organizations and governmental units

Ans: D, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. Which of the following is **not** a step in the supply chain?
   1. Put inventory into production as soon as it arrives
   2. Deliver the final products to customers through a distribution system
   3. Procure raw materials
   4. Transform raw materials into intermediate goods and then into final products

Ans: A, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. A supply chain’s goal is to
   1. avoid carrying too much inventory.
   2. to reduce or eliminate defective goods.
   3. to measure performance based on financial and non-financial components.
   4. to get the right product to the right location, in the right quantities at the right time, and at the right cost.

Ans: D, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

1. The supply chain’s goal is to get
   1. the right product to the right location.
   2. the product in the right quantities at the right time.
   3. the product produced at any cost.
   4. the right product to the right location and to get the product in the right quantities at the right time.

Ans: D, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

1. Just-in-time inventory management (JIT) is an inventory strategy that focuses on
   1. performance measures.
   2. reducing waste and inefficiency.
   3. getting the right product to the right location at the right price.
   4. getting the product produced at any cost.

Ans: B, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. When using just-in-time inventory management, a company puts goods into production
   1. in anticipation of customer orders.
   2. when inventory levels drop below specified levels.
   3. when customer orders are received and goods arrive.
   4. when the warehouse has enough space to accommodate additional inventory.

Ans: C, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. Just-in-time inventory can be traced back to
   1. Toyota Motor Company.
   2. Henry Ford.
   3. Microsoft.
   4. Wal-Mart.

Ans: B, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. In a traditional inventory system,
   1. inventory is accumulated in large amounts.
   2. inventory is ordered just in time to be put into production.
   3. the marketing manager determines how much inventory should be in stock.
   4. the cost of carrying inventory is no more than with a JIT system.

Ans: A, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. Without affecting their ability to meet customer demand using a just-in-time system, some companies have found they can reduce inventory levels by as much as
   1. 5% to 10%.
   2. 20% to 25%.
   3. 35% to 40%.
   4. 50% to 60%.

Ans: D, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. Which of the following statements relating to just-in-time inventory is **not** correct?
   1. As soon as goods are completed, they are shipped directly to the customer.
   2. Products are generally completed in small batches in response to customer requests.
   3. Just-in-time is beneficial to all companies that implement it.
   4. No safety stock is kept to protect units found to be defective.

Ans: C, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

1. A problem with traditional computerization of operations is that
   1. functional areas such as marketing and production created systems to meet their own needs without considering the needs of other areas.

b. they often result in efficient crossover between multiple systems.

c. functional areas such as production created its own system to meet its own needs without considering the needs of other areas.

d. they often cause companies to stockpile inventory and not focus on the supply chain.

Ans: C, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Technology, AICPA FN: Reporting, Technology, AICPA PC: None, IMA: Technology

1. Which of the following is an example of an enterprise resource planning (ERP) system?
   1. JIT
   2. Oracle
   3. SCOR
   4. Balanced scorecard

Ans: C, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 1, AACSB: Technology, AICPA FN: Reporting, Technology, AICPA PC: None, IMA: Technology

1. The goal of an ERP system is to
   1. reduce waste and inefficiency in the production process.
   2. integrate all data from the company’s many business processes into a single information system.
   3. establish the direction in which an organization wishes to go.
   4. monitor day-to-day operations to ensure that processes are operating as expected.

Ans: B, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 2, AACSB: Technology, AICPA FN: Technology, AICPA PC: None, IMA: Technology

1. Ethical behavior is
   1. always doing what benefits yourself regardless of the consequences to others affected by your decision.
   2. always choosing the behavior that will harm the least number of stakeholders.
   3. knowing right from wrong and conducting yourself accordingly so that your decisions are consistent with your own value system and the values of those affected by your decisions.
   4. knowing right from wrong and conducting yourself accordingly so that your decisions are made to benefit others affected by your decisions rather than yourself.

Ans: C, LO: 5, Bloom: K, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following is **not** a test of an ethical business decision as suggested by the Institute of Business Ethics?
   1. Would I want others to do to me what I am doing to them?
   2. Do I mind others knowing what I have done?
   3. Who does my decision affect or hurt?
   4. Would my decision be considered fair by those affected?

Ans: A, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct , IMA: Ethics

1. Ethical business behavior
   1. is more than compliance with the law.
   2. suggests that the spirit of the law is not as important than the letter of the law.
   3. suggests that moral values and codes are less important than rules and policies.
   4. occurs with compliance with the law.

Ans: A, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following statements related to ethical behavior is **not** a correct statement?
   1. The spirit of the law is more important than the letter of the law.
   2. Moral values and codes are more important than rules and policies.
   3. A person is considered to uphold ethical business practices as long as he or she complies with the law.
   4. Ethical business behavior is not solely compliance with the law.

Ans: C, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. According to a 2018 Global Business Ethics Survey, what percentage of employers had a written code of conduct?
   1. 26%, up from 17% in 1994
   2. 47%, up from 35% in 1994
   3. 78%, up from 67% in 1994
   4. 82%, up from 35% in 1994

Ans: C, LO: 5, Bloom: K, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. The Sarbanes-Oxley Act requires that all publicly traded companies disclose whether certain executives are subject to a corporate code of ethics. Which of the following executive positions need **not** be disclosed?
   1. Principal executive officer
   2. Principal marketing officer
   3. Principal financial officer
   4. Principal accounting officer

Ans: B, LO: 5, Bloom: K, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. The Sarbanes-Oxley Act requires that all publicly traded companies disclose whether certain executives are subject to a corporate code of ethics. Which of the following executive position need **not** be disclosed?
   1. Principal production officer
   2. Principal financial officer
   3. Principal accounting officer
   4. Principal executive officer

Ans: A, LO: 5, Bloom: K, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Under the Sarbanes-Oxley Act, which of the following is a requirement of the corporate code of ethics?
   1. Cannot be published in the annual report or on the corporate website, or provided at no charge upon request
   2. Must disclose specific instances in which these codes have been waived for a particular individual
   3. Must disclose all breaches to the code in the annual report
   4. Must disclose all changes to the code

Ans: D, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Under the Sarbanes-Oxley Act, which of the following related to the corporate code of ethics is **not** required?
   1. Must be published in the annual report or on the corporate website or provided at no charge upon request
   2. Must disclose the likelihood of a breach of the code based on the industry and structure of the corporation
   3. Must disclose all instances in which these codes have been waived for a particular individual
   4. Must disclose all changes to the code

Ans: B, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. The leading professional organization for managerial accountants is
   1. The American Institute of Managerial Accountants.
   2. The Society of American Management Accountants.
   3. The Institute of Management Accountants.
   4. The National Society of Management Accountants.

Ans: C, LO: 5, Bloom: K, Unit 1-3, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. A key component of a positive ethical environment is
   1. legal requirements.
   2. regulatory requirements.
   3. industry requirement.
   4. tone at the top, or management’s commitment to ethical behavior.

Ans: D, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following is **not** a type of unethical behavior employees might observe?
   1. Abusive or intimidating behavior
   2. Lying to employees
   3. Misreporting of hours worked
   4. Requiring employees to sign an acknowledgement that they must adhere to the corporate code of conduct.

Ans: D, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following is **not** a type of unethical behavior employees might observe?
   1. Requiring employees to sign an acknowledgement that they understand and will adhere to the corporate code of conduct
   2. Putting one’s own interest ahead of the organization’s interest
   3. Misreporting of hours worked
   4. Lying to employees

Ans: A, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following is a type of unethical behavior employees might observe?
   1. Putting one’s own interest in line with the organization’s interest
   2. Misreporting of hours worked
   3. Posting a journal entry twice in error
   4. Misreporting of hours worked and lying to employees

Ans: D, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following is a **not** a consequence of unethical behavior?
   1. It can lead to illegal activity.
   2. It can lead to the destruction of the firm.
   3. It can lead to inferior financial performance.
   4. It can lead to improved financial performance.

Ans: D, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following is **least** likely to be in a company’s code of ethics?
   1. Profit margin expected
   2. Transparency of information
   3. Political activity
   4. Commitment to the environment

Ans: A, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following is **least** likely to be in a company’s code of ethics?
   1. Access to information
   2. Projected percentage of employees who act unethically
   3. Development and fundraising
   4. Clarity of information

Ans: B, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following is **least** likely to be in a company’s code of ethics?
   1. Transparency of information
   2. Commitment to the environment
   3. Maximum amount of bonuses to be paid to executives
   4. Discrimination

Ans: C, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following is **not** a standard of the IMA statement of ethical professional practice?
   1. Competence
   2. Integrity
   3. Credibility
   4. Independence

Ans: D, LO: 5, Bloom: K, Unit 1-3, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following is **not** a standard of the IMA statement of ethical professional practice?
   1. Competence
   2. Integrity
   3. Objectivity
   4. Confidentiality

Ans: C, LO: 5, Bloom: K, Unit 1-3, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following is **not** a duty of a management accountant under the IMA Statement of Ethical Professional Practice’s competence standard?
   1. Maintain an appropriate level of professional expertise by continually developing knowledge and skills.
   2. Provide decision support information and recommendations that are accurate, clear, concise and timely.
   3. Mitigate actual conflicts of interest. Regularly communicate with business associates to avoid apparent conflicts of interest. Advise all parties of any potential conflicts.
   4. Perform professional duties in accordance with relevant laws, regulations, and technical standards.

Ans: C, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following is **not** a duty of a management accountant under the IMA Statement of Ethical Professional Practice’s confidentiality standard?
   1. Refrain from engaging in any conduct that would prejudice carrying out duties ethically.
   2. Keep information confidential except when disclosure is authorized or legally required.
   3. Inform all relevant parties regarding appropriate use of confidential information. Monitor subordinates’ activities to ensure compliance.
   4. Refrain from using confidential information for unethical or illegal advantage.

Ans: A, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. The IMA Statement of Ethical Professional Practice includes which of the following components?
   1. Overarching principles that express members’ values
   2. Penalties assessed for failure to follow ethical standards
   3. Types of employee misconduct
   4. Procedures to identify ethical integrity

Ans: A, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. The IMA Statement of Ethical Professional Practice includes which of the following components?
2. Overarching principles of reprimand for apparent conflicts of interest
3. Interpretations of principles
4. Guidance for penalties for unethical conduct
5. Internal controls useful in establishing a code of conduct

Ans: B, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. The IMA Statement of Ethical Professional Practice includes which of the following components?
   1. Articles that express members’ ethical requirements
   2. Standards that guide members’ conduct
   3. Laws that support ethical conduct
   4. GAAP requirements for ethics

Ans: B, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following is **not** a duty of a management accountant under the IMA Statement of Ethical Professional Practice’s credibility standard?
   1. Communicate information fairly and objectively.
   2. Disclose all relevant information that could reasonably be expected to influence an intended user’s understanding of the reports, analyses, or recommendations.
   3. Disclose delays or deficiencies in information, timeliness, processing, or internal controls in conformance with organization policy and/or applicable law.
   4. Disclose information when only good for financial performance improvements.

Ans: D, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. The IMA Statement of Ethical Professional Practice applies to
   1. all accountants.
   2. all CPAs.
   3. all members of the IMA.
   4. all those employed by a company with a code of conduct.

Ans: C, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following is **not** a duty of a management accountant under the IMA Statement of Ethical Professional Practice’s integrity standard?
   1. Mitigate actual conflict of interest.
   2. Refrain from engaging in any conduct that would prejudice carrying out duties ethically.
   3. Properly exercise authority.
   4. Abstain from engaging in or supporting any activity that might discredit the profession.

Ans: C, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. Which of the following is **not** a component of the IMA Statement of Ethical Professional Practice standards?
   1. Reliability
   2. Confidentiality
   3. Integrity
   4. Credibility

Ans: A, LO: 5, Bloom: K, Unit 1-3, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

1. In applying the Standards of Ethical Professional Practice, when faced with ethical issues, you should
   1. follow your organization’s established policies on the resolution of such conflict.
   2. hire a professional investigator to resolve the conflict.
   3. contact the authorities immediately.
   4. ignore the conflict to give it time to resolve itself.

Ans: A, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

**Answers to Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item** | **Ans** | **Item** | **Ans** | **Item** | **Ans** | **Item** | **Ans** | **Item** | **Ans** |
| 33. | B | 53. | A | 73. | A | 93. | D | 113. | D |
| 34. | A | 54. | D | 74. | C | 94. | B | 114. | D |
| 35. | B | 55. | B | 75. | B | 95. | C | 115. | A |
| 36. | A | 56. | C | 76. | A | 96. | B | 116. | D |
| 37. | D | 57. | D | 77. | B | 97. | A | 117. | D |
| 38. | B | 58. | A | 78. | A | 98. | D | 118. | A |
| 39. | C | 59. | B | 79. | C | 99. | C | 119. | B |
| 40. | D | 60. | A | 80. | B | 100. | C | 120. | C |
| 41. | C | 61. | B | 81. | A | 101. | C | 121. | D |
| 42. | B | 62. | B | 82. | B | 102. | B | 122. | C |
| 43. | A | 63. | C | 83. | C | 103. | C | 123. | C |
| 44. | A | 64. | A | 84. | B | 104. | A | 124. | A |
| 45. | C | 65. | B | 85. | C | 105. | A | 125. | A |
| 46. | B | 66. | B | 86. | D | 106. | C | 126. | B |
| 47. | D | 67. | C | 87. | D | 107. | C | 127. | B |
| 48. | C | 68. | D | 88. | B | 108. | B | 128. | D |
| 49. | A | 69. | B | 89. | A | 109. | A | 129. | C |
| 50. | C | 70. | D | 90. | D | 110. | D | 130. | C |
| 51. | B | 71. | D | 91. | A | 111. | B | 131. | A |
| 52. | A | 72. | A | 92. | D | 112. | C | 132. | A |

**MATCHING**

1. Match the following terms to the appropriate statement by placing the letter to the left of each statement.

|  |  |  |  |
| --- | --- | --- | --- |
| a. | Balanced Scorecard | g. | Generally Accepted Accounting Principles (GAAP) |
| b. | Code of conduct | h. | Just-in-time inventory |
| c. | Controlling | i. | Long-term planning |
| d. | Enterprise Resource Planning (ERP) | j. | Managerial accounting |
| e. | Ethical behavior | k. | Short-term planning |
| f. | Evaluating | l. | Supply chain |

|  |  |
| --- | --- |
| \_\_\_\_ | 1. Based on a set of core values that are meant to guide employees’ behavior. |
| \_\_\_\_ | 1. Task managers use to assess how well employees have performed relative to expectations. |
| \_\_\_\_ | 1. Rules that govern how transactions are valued and recorded and how information about them is presented. |
| \_\_\_\_ | 1. The generation of relevant information and analysis to support managers’ decision-making activities. |
| \_\_\_\_ | 1. A tool that managerial accountants have developed to assist in monitoring organizational performance. |
| \_\_\_\_ | 1. A system to accumulate data and provide information to decisions makers on a company-wide basis. |
| \_\_\_\_ | 1. Also referred to as strategic planning. |
| \_\_\_\_ | 1. A network of facilities that procure raw materials, transform them into intermediate goods and then into final products, and deliver the final products to customers through a distributions system. |
| \_\_\_\_ | 1. The monitoring of day-to-day operations to identify any problems that require corrective action. |
| \_\_\_\_ | 1. Knowing right from wrong and conducting oneself accordingly. |
| \_\_\_\_ | 1. A strategy that focuses on reducing waste and inefficiency by ordering inventory items so that they arrive just when they are needed. |
| \_\_\_\_ | 1. Also referred to as operational planning. |

Ans: N/A, LO: 1,2,3,4,5, Bloom: K, Unit 1-1,1-2,1-3, Difficulty: Easy, Min: 5, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

**Solution:**

1. B – Code of conduct
2. F – Evaluating
3. G – Generally accepted accounting principles
4. J – Managerial accounting
5. A – Balanced scorecard
6. D – ERP
7. I – Long-term planning
8. L – Supply chain
9. C – Controlling
10. E – Ethical behavior
11. H – Just-in-time inventory
12. K – Short-term planning

**BRIEF EXERCISES**

1. Indicate which of the following users are classified as internal versus external users.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Internal** | **External** |
| a. | Plant superintendent |  |  |
| b. | Banker |  |  |
| c. | Internal Revenue Service |  |  |
| d. | Warehouse manager |  |  |
| e. | Potential investor |  |  |

Ans: N/A, LO: 2, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

**Solution:**

a Internal

b External

c External

d Internal

e External

1. List four differences in managerial and financial accounting.

Ans: N/A, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 5, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

**Solution:**

1. Primary users of managerial accounting are internal while primary users of financial accounting are external users.
2. Managerial accounting does not have mandated rules, while financial accounting must adhere to GAAP.
3. Managerial accounting reporting units include organizational segments, while financial accounting reports on the organization as a whole.
4. Managerial accounting uses past results and projects future results, while financial accounting reports on past results but does not project future results.
5. Managerial accounting reports are prepared on an “as needed” basis, while financial accounting reports are prepared after the end of an accounting period.
6. Managerial accounting is designed to assist managers with four general activities: planning, controlling, evaluating and decision making. Give two examples of each type of activity for a furniture manufacturer.

Ans: N/A, LO: 3, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 6-8, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

**Solution:** Answers will vary.Common examples may include the following.

Planning:

Setting and implementing long-term goals, preparing budgets, adopting strategies or implementing short-term or operational goals.

Controlling:

Monitoring day-to-day operations, monitoring quality of products manufactured, ensuring that inventory is on hand to manufacture, or monitoring customer satisfaction.

Evaluating:

Correcting problems found during control activities such as evaluating quality of materials used in production, comparing actual and planned results such as comparing actual output with budgeted output, or reviewing sales history of sales staff.

Decision-making:

Choosing a course of action such as adding or dropping a product line, increasing or reducing employee level, purchasing new equipment, or expanding sales territory.

1. Two ways to develop a competitive advantage is through product differentiation and low-cost production. How does a company set itself apart from competitors under each strategy?

Ans: N/A, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 3-4, AACSB: Communication, AICPA FN: Reporting, AICPA PC: Communication, IMA: Strategy

**Solution:**

If a company follows a strategy of product differentiation, it will seek ways to set its products apart from its competitors in terms of quality, design or service. Under a low-cost production strategy, the company will set itself apart from competitors in terms of a lower sales price.

1. Two ways to develop a competitive advantage are through product differentiation and low-cost production. List three examples of managerial accounting information a company might need to monitor each of these strategies.

Ans: N/A, LO: 4, Bloom: AP, Unit 1-2, Difficulty: Moderate, Min: 12, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

**Solution:** Answers will vary. Common examples may include the following.

|  |  |  |  |
| --- | --- | --- | --- |
| Product Differentiation | | Low-Cost Production | |
| Defect rates | Product process | | | |
| Percentage of on-time deliveries | Product quality | | | |
| Customer satisfaction | Product cost | | | |
| Competitor actions | Competitor actions | | | |
| Product cost | | |  | | |

1. For each statement below, indicate the management tool being implemented.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **JIT** | **ERP** | **Supply Chain Management** | **Balanced Scorecard** |
| 1. | A company places equal emphasis on financial and non-financial performance measures. |  |  |  |  |
| 2. | Goal is to get the right product to the right location, in the right quantities, at the right time, and at the right cost. |  |  |  |  |
| 3. | Performance measures are grouped into financial, customer, internal business processes, and learning and growth categories. |  |  |  |  |
| 4. | Focuses on reducing waste and inefficiency. |  |  |  |  |
| 5. | Examples of such a system include SAP and Oracle. |  |  |  |  |

Ans: N/A, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 4, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

**Solution:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **JIT** | **ERP** | **Supply Chain Management** | **Balanced Scorecard** |
| 1. | A company places equal emphasis on financial and non-financial performance measures. |  |  |  | x |
| 2. | Goal is to get the right product to the right location, in the right quantities, at the right time, and at the right cost. |  |  | x |  |
| 3. | Performance measures are grouped into financial, customer, internal business processes, and learning and growth categories. |  |  |  | x |
| 4. | Focuses on reducing waste and inefficiency. | x |  |  |  |
| 5. | Examples of such a system include SAP and Oracle. |  | x |  |  |

1. For each of the statements below, indicate which approach to market share growth is being used.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Build** | **Hold** | **Harvest** | **Divest** |
| 1. | With this strategy, a company focuses on short-term profits and cash, even at the expense of market share. |  |  |  |  |
| 2. | This strategy is appropriate when a company desires to exit a particular market. |  |  |  |  |
| 3. | Under this strategy, a company seeks to maintain its current market share and generate a reasonable return on investment. |  |  |  |  |
| 4. | Under this strategy, a company aims to increase its market share and competitive position relative to others in the industry, even at the expense of short-term earnings and cash flow. |  |  |  |  |
| 5. | To monitor this strategy, managers will want to know about gross margin and cash sales. |  |  |  |  |

Ans: N/A, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 4-5, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

**Solution:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Build** | **Hold** | **Harvest** | **Divest** |
| 1. | With this strategy, a company focuses on short-term profits and cash, even at the expense of market share. |  |  | x |  |
| 2. | This strategy is appropriate when a company desires to exit a particular market. |  |  |  | x |
| 3. | Under this strategy, a company seeks to maintain its current market share and generate a reasonable return on investment. |  | x |  |  |
| 4. | Under this strategy, a company aims to increase its market share and competitive position relative to others in the industry, even at the expense of short-term earnings and cash flow. | x |  |  |  |
| 5. | To monitor this strategy, managers will want to know about gross margin and cash sales. |  |  | x |  |

1. List the three tests of an ethical business decision posed by the Institute of Business Ethics.

Ans: N/A, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 3, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

**Solution:**

1. Do I mind others knowing what I have done?
2. Who does my decision affect or hurt?
3. Would my decision be considered fair by those affected?
4. List the four standards that guide a management accountant’s conduct as specified by the IMA Statement of Ethical Professional Practice and give two responsibilities under each standard.

Ans: N/A, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 10, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethical Conduct, IMA: Ethics

**Solution:**

1. Competence
   1. Maintain an appropriate level of professional expertise by continually developing knowledge and skills.
   2. Perform professional duties in accordance with relevant laws, regulations, and technical standards.
   3. Provide decision support information and recommendations that are accurate, clear, concise, and timely.
   4. Recognize and communicate professional limitations or other constraints that would preclude responsible judgment or successful performance of an activity.
2. Confidentiality
   1. Keep information confidential except when disclosure is authorized or legally required.
   2. Inform all relevant parties regarding appropriate use of confidential information. Monitor subordinates’ activities to ensure compliance.
   3. Refrain from using confidential information for unethical or illegal advantage.
3. Integrity
   1. Mitigate actual conflicts of interest. Regularly communicate with business associates to avoid apparent conflicts of interest. Advise all parties of any potential conflicts.
   2. Abstain from engaging in or supporting any activity that might discredit the profession.
4. Credibility
   1. Communicate information fairly and objectively.
   2. Disclose all relevant information that could reasonably be expected to influence an intended user’s understanding of the reports, analyses, or recommendations.
   3. Disclose delays or deficiencies in information, timeliness, processing, or internal controls in conformance with organization policy and/or applicable law.

**EXERCISES**

1. Indicate which of the following users are classified as internal versus external users.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Internal** | **External** |
| 1. | Purchasing manager |  |  |
| 2. | Potential investor |  |  |
| 3. | Internal Revenue Service |  |  |
| 4. | Inventory control manager |  |  |
| 5. | Supplier |  |  |
| 6. | Quality control manager |  |  |
| 7. | Chief financial officer |  |  |
| 8. | Banker |  |  |
| 9. | Warehouse manager |  |  |
| 10. | Payroll supervisor |  |  |

Ans: N/A, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 3-4, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

**Solution:**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Internal** | **External** |
| 1. | Purchasing manager | X |  |
| 2. | Potential investor |  | X |
| 3. | Internal Revenue Service |  | X |
| 4. | Inventory control manager | X |  |
| 5. | Supplier |  | X |
| 6. | Quality control manager | X |  |
| 7. | Chief financial officer | X |  |
| 8. | Banker |  | X |
| 9. | Warehouse manager | X |  |
| 10. | Payroll supervisor | X |  |

1. Indicate which of the following statements relate to financial accounting versus managerial accounting.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Financial** | **Managerial** |
| 1. | Must adhere to generally accepted accounting principles. |  |  |
| 2. | Primary users are external. |  |  |
| 3. | Past results and projected future results. |  |  |
| 4. | Reports prepared after the end of an accounting period. |  |  |
| 5. | Financial statements contained in annual reports. |  |  |
| 6. | Reports benefit internal users. |  |  |
| 7. | Reports come in a variety of formats, designed for the decision maker. |  |  |
| 8. | Information not disseminated to the general public. |  |  |
| 9. | Communicates information about the financial health of the company. |  |  |
| 10. | Includes information prepared for a range of decision makers within the organization. |  |  |

Ans: N/A, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 3-4, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

**Solution:**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Financial** | **Managerial** |
| 1. | Must adhere to generally accepted accounting principles. | X |  |
| 2. | Primary users are external. | X |  |
| 3. | Past results and projected future results. |  | X |
| 4. | Reports prepared after the end of an accounting period. | X |  |
| 5. | Financial statements contained in annual reports. | X |  |
| 6. | Reports benefit internal users. |  | X |
| 7. | Reports come in a variety of formats, designed for the decision maker. |  | X |
| 8. | Information not disseminated to the general public. |  | X |
| 9. | Communicates information about the financial health of the company. | X |  |
| 10. | Includes information prepared for a range of decision makers within the organization. |  | X |

1. In each of the following situations, identify whether the setting is primarily financial accounting or managerial accounting.
   1. Abba Company purchased a new telephone system costing $132,000 for its sales division. The new phone system will be depreciated using the straight-line method over a period of five years and has an estimated salvage value of $5,000.
   2. Bandex Company has had several customers who are experiencing negative effects of the downturn in the economy. As a result, the company believes its allowance for doubtful accounts should be increased from 1% of credit sales to 1.5% of credit sales.
   3. Cortez, Inc. has experienced a decline in net income over the past three years. The engineering department is considering redesigning a product to eliminate waste and inefficiency in the production process.
   4. The sales manager of Decca Corporation believes one salesman is creating fictitious sales to inflate his commission. The sales manager has asked the controller for a detailed report of sales by salesman.
   5. Essex, Inc. executives are meeting to analyze the company’s actual results compared to budgeted amounts.

Ans: N/A, LO: 2, Bloom: AN, Unit 1-1, Difficulty: Moderate, Min: 5-6, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

**Solution:**

* 1. Financial
  2. Financial
  3. Managerial
  4. Managerial
  5. Managerial

1. In each of the following situations, identify whether the setting is primarily financial accounting or managerial accounting.
   1. Falcon Company sent its annual report to its stockholders.
   2. Genesis, Inc.’s controller sent a report of actual versus budgeted sales figures to the sales manager.
   3. Hurtz Rent-All Company determines that its investments have declined in value and should be adjusted.
   4. Inca, Inc. controller suspects that cash is being stolen by a sales clerk. As a result, she prepares an analysis to compare each sales clerk’s collections for each day.
   5. Jones Company executives are meeting to review the annual report to be submitted to the SEC.

Ans: N/A, LO: 2, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 5-6, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

**Solution:**

1. Financial
2. Managerial
3. Financial
4. Managerial
5. Financial
6. Michael Mounts owns several used bookstores in Cleveland. Identify each of the following actions he performs as a planning, controlling, evaluating, or decision-making activity:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Planning** | **Controlling** | **Evaluating** | **Decision Making** |
| 1. Michael prepares a budget for the next year. |  |  |  |  |
| 1. Michael orders shelving to replace some old shelving. |  |  |  |  |
| 1. Michael reviews his income statement for the month. |  |  |  |  |
| 1. Michael prepares an annual performance review for his salesclerk. |  |  |  |  |
| 1. Michael fires an employee who is consistently late. |  |  |  |  |
| 1. Michael investigates adding an on-line sales division. |  |  |  |  |
| 1. Michael puts a new 401-K benefit plan into effect for employees. |  |  |  |  |
| 1. Michael determines how many books he can add when new shelves are installed. |  |  |  |  |
| 1. Michael reconciles cash with cash register tapes at the end of each day. |  |  |  |  |
| 1. Michael decides to implement a code of conduct for all employees. |  |  |  |  |

Ans: N/A, LO: 3, Bloom: AP, Unit 1-1, Difficulty: Moderate, Min: 5-6, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

**Solution:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Planning** | **Controlling** | **Evaluating** | **Decision Making** |
| 1. Michael prepares a budget for the next year. | x |  |  |  |
| 1. Michael orders shelving to replace some old shelving. |  |  |  | x |
| 1. Michael reviews his income statement for the month. |  |  | x |  |
| 1. Michael prepares an annual performance review for his sales clerk. |  |  | x |  |
| 1. Michael fires an employee who is consistently late. |  |  |  | x |
| 1. Michael investigates adding an on-line sales division. | x |  |  |  |
| 1. Michael puts a new 401-K benefit plan into effect for employees. |  |  |  | x |
| 1. Michael determines how many books he can add when new shelves are installed. | x |  |  |  |
| 1. Michael reconciles cash with cash register tapes at the end of each day. |  | x |  |  |
| 1. Michael decides to implement a code of conduct for all employees. | x |  |  |  |

1. Lilly Grant owns an ice cream shop in Marigold. Identify each of the following actions she performs as a planning, controlling, evaluating, or decision-making activity:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Planning** | **Controlling** | **Evaluating** | **Decision Making** |
| 1. Lilly meets with her sales staff to discuss long-range planning strategies. |  |  |  |  |
| 1. Lilly prepares a mission, values, and vision statement for her company. |  |  |  |  |
| 1. Lilly monitors the ice cream machine to make sure it is working properly. |  |  |  |  |
| 1. Lilly checks her inventory of toppings to ensure that enough toppings are in stock. |  |  |  |  |
| 1. Lilly fires an employee who has been giving her friends banana splits without charging them. |  |  |  |  |
| 1. Lilly adjusts the timer on her ice cream machine because the ice cream has been too soft. |  |  |  |  |
| 1. Lilly puts a new 401-K benefit plan into effect for her employees. |  |  |  |  |
| 1. Lilly compares her budgeted sales to her actual sales for the period. |  |  |  |  |
| 1. Lilly evaluates her employees’ pay rates. |  |  |  |  |
| 1. Lilly meets with her CPA to discuss a succession plan for when she retires. |  |  |  |  |

Ans: N/A, LO: 3, Bloom: AP, Unit 1-1, Difficulty: Moderate, Min: 5-6, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

**Solution:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Planning** | **Controlling** | **Evaluating** | **Decision Making** |
| 1. Lilly meets with her sales staff to discuss long-range planning strategies. | x |  |  |  |
| 1. Lilly prepares a mission, values, and vision statement for her company. | x |  |  |  |
| 1. Lilly monitors the ice cream machine to make sure it is working properly. |  | x |  |  |
| 1. Lilly checks her inventory of toppings to ensure that enough toppings are in stock. |  | x |  |  |
| 1. Lilly fires an employee who has been giving her friends banana splits without charging them. |  |  |  | x |
| 1. Lilly adjusts the timer on her ice cream machine because the ice cream has been too soft. |  | x |  |  |
| 1. Lilly puts a new 401-K benefit plan into effect for her employees. |  |  |  | x |
| 1. Lilly compares her budgeted sales to her actual sales for the period. |  |  | x |  |
| 1. Lilly evaluates her employees’ pay rates. |  |  | x |  |
| 1. Lilly meets with her CPA to discuss a succession plan for when she retires. | x |  |  |  |

1. Kristin West owns a car wash in Clinton. Identify each of the following actions she performs as a planning, controlling, evaluating, or decision-making activity:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Planning** | **Controlling** | **Evaluating** | **Decision Making** |
| 1. Kristin prepares a budget for the next quarter. |  |  |  |  |
| 1. Kristin replaces an old vacuum with a more energy efficient model. |  |  |  |  |
| 1. Kristin looks at her cash flow statement for the last quarter to analyze her cash receipts and disbursements. |  |  |  |  |
| 1. Kristin checks the change machine to make sure it is dispensing the correct change. |  |  |  |  |
| 1. Kristin fires an employee who has been stealing supplies from the storeroom. |  |  |  |  |
| 1. Kristin adjusts the timer on the rinse cycle to save water. |  |  |  |  |
| 1. Kristin implements a new bonus plan where employees can earn prizes for cost-saving ideas. |  |  |  |  |
| 1. Kristin compares her budgeted expenses to her actual expenses for the period. |  |  |  |  |
| 1. Kristin works on a code of conduct for the company. |  |  |  |  |
| 1. Kristin prepares a five-year strategic plan. |  |  |  |  |

Ans: N/A, LO: 3, Bloom: AP, Unit 1-1, Difficulty: Moderate, Min: 5-6, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

**Solution:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Planning** | **Controlling** | **Evaluating** | **Decision Making** |
| 1. Kristin prepares a budget for the next quarter. | x |  |  |  |
| 1. Kristin replaces an old vacuum with a more energy efficient model. |  |  |  | X |
| 1. Kristin looks at her cash flow statement for the last quarter to analyze her cash receipts and disbursements. |  |  | x |  |
| 1. Kristin checks the change machine to make sure it is dispensing the correct change. |  | x |  |  |
| 1. Kristin fires an employee who has been stealing supplies from the storeroom. |  |  |  | X |
| 1. Kristin adjusts the timer on the rinse cycle to save water. |  | x |  |  |
| 1. Kristin implements a new bonus plan where employees can earn prizes for cost-saving ideas. |  |  |  | X |
| 1. Kristin compares her budgeted expenses to her actual expenses for the period. |  |  | x |  |
| 1. Kristin works on a code of conduct for the company. | x |  |  |  |
| 1. Kristin prepares a five-year strategic plan. | x |  |  |  |

1. Managerial accounting information is not just for accountants. All areas within an organization can use the information to support decision-making. For each of the following positions, list three decisions the manager might have to make and give an example of a report that would help the manager in the decision-making process.
   1. Plant manager
   2. Vice-President of sales
   3. Inventory supervisor

Ans: N/A, LO: 3, Bloom: AP, Unit 1-1, Difficulty: Moderate, Min: 8-10, AACSB: Communication, AICPA FN: Reporting, AICPA PC: Communication, IMA: Business Operations

**Solution:** Answers will vary.Common examples may include the following.

a. Plant manager

Do we need to replace a piece of production equipment? Report of units by machine showing number of units produced, number of hours the machine operated, number of breakdowns, and number of defective units.

Do we need to increase inventory levels? Report of current inventory levels, inventory needs for orders received but not in production yet, analysis of vacant space in storeroom.

Do we fire an employee suspected of slacking on the job? Report of time logged by employee, number of days missed, summary of supervisor evaluations.

b. Vice-President of sales

Do we expand territory into another state? Market analysis for new territory, summary of competitors expected to be in new territory, filing requirement (such as fees, taxes, etc., to state agencies), analysis of current sales managers’ territories.

Do we need to add a new sales manager for the current territory? Analysis of sales by territory.

Do we need to increase advertising? Analysis of competitor activities, analysis of budgeted advertising expense.

c. Inventory supervisor

Do we need to increase inventory levels? Analysis of number and type of requisitions for inventory.

Do we need to purchase a new forklift? Report of repair costs for current forklift.

Do we need to have more security over inventory? Report of inventory write-downs due to theft, report of possible security measures with costs analysis of each.

1. Managerial accounting information is not just for accountants. All areas within an organization can use the information to support decision-making. For each of the following positions, list three decisions the manager might have to make and give an example of a report that would help the manager in the decision-making process.
   1. Human resources manager
   2. Purchasing manager
   3. Engineering department

Ans: N/A, LO: 3, Bloom: AP, Unit 1-1, Difficulty: Moderate, Min: 5-6, AACSB: Communication, AICPA FN: Reporting, AICPA PC: Communication, IMA: Business Operations

**Solution:** Answers will vary.Common examples may include the following.

a. Human resources manager

Is pay equitable for similar positions? Report of employee salaries by position.

Are the salaries authorized and paid correctly? Report of authorized salaries and gross salaries by employee.

Are any individuals being paid twice? Report of employees showing social security number, address, name, date hired, and authorized hiring personnel.

1. Purchasing manager

Have all orders been received? Report of open purchase orders.

Have all requisitioned materials been processed? Report of requisitioned materials.

1. Engineering department

Is quality of material acceptable? Report of defective units

Does engineering software need to be updated? Analysis of cost of software company support costs.

Does product meet regulatory specifications? Analysis of regulatory requirements.

1. For each statement below, indicate the management tool being described.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **JIT** | **ERP** | **Supply Chain Management** | **Balanced Scorecard** |
| 1. | The selection of performance measures is driven by the organization’s strategy. |  |  |  |  |
| 2. | Goal is to get the right product to the right location, in the right quantities, at the right time, and at the right cost. |  |  |  |  |
| 3. | In implementing this system, managers develop a strategy for managing all the resources needed to meet customer demand. |  |  |  |  |
| 4. | This strategy greatly reduces warehousing costs. |  |  |  |  |
| 5. | Examples of such a system include SAP and Oracle. |  |  |  |  |
| 6. | This strategy focuses on reducing waste and inefficiency by ordering inventory items so that they arrive just when they are needed. |  |  |  |  |
| 7. | A collection of performance measures that track an organization’s progress toward achieving its goals. |  |  |  |  |
| 8. | In the 1950s, this strategy’s roots can be traced back to Henry Ford. |  |  |  |  |
| 9. | A network of facilities that procure raw materials, transform them into intermediate goods, and then into final products. |  |  |  |  |
| 10. | Developed in the early 1990s by David Norton and Robert Kaplan. |  |  |  |  |

Ans: N/A, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 6-7, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Business Operations

**Solution:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **JIT** | **ERP** | **Supply Chain Management** | **Balanced Scorecard** |
| 1. | The selection of performance measures is driven by the organization’s strategy. |  |  |  | x |
| 2. | Goal is to get the right product to the right location, in the right quantities, at the right time, and at the right cost. |  |  | x |  |
| 3. | In implementing this system, managers develop a strategy for managing all the resources needed to meet customer demand. |  |  | x |  |
| 4. | This strategy greatly reduces warehousing costs. | x |  |  |  |
| 5. | Examples of such a system include SAP and Oracle. |  | x |  |  |
| 6. | This strategy focuses on reducing waste and inefficiency by ordering inventory items so that they arrive just when they are needed. | x |  |  |  |
| 7. | A collection of performance measures that track an organization’s progress toward achieving its goals. |  |  |  | x |
| 8. | In the 1950s, this strategy’s roots can be traced back to Henry Ford. | x |  |  |  |
| 9. | A network of facilities that procure raw materials, transform them into intermediate goods, and then into final products. |  |  | x |  |
| 10. | Developed in the early 1990s by David Norton and Robert Kaplan. |  |  |  | x |

1. For each of the following measures that could be incorporated into a balanced scorecard, identify which of the four balanced scorecard perspectives to which it would most likely belong.
   1. Earnings per share
   2. Prototype of redesigned product
   3. Addition of athletic facility for employees
   4. Number of customer complaints handled
   5. Net sales
   6. Number of new customers
   7. Number of defective units identified in quality control division
   8. Day care center on site
   9. Professional development seminars conducted for sales staff
   10. Recognized by local Chamber of Commerce as Business of the year

Ans: N/A, LO: 4, Bloom: AP, Unit 1-2, Difficulty: Moderate, Min: 5-6, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

**Solution:**

|  |  |
| --- | --- |
| * 1. Financial   2. Internal Business Processes   3. Learning and Growth   4. Customers   5. Financial | * 1. Customers   2. Internal Business Processes   3. Learning and Growth   4. Learning and Growth   5. Internal Business Processes |

1. For each of the following measures that could be incorporated into a balanced scorecard, identify which of the four balanced scorecard perspectives to which it would most likely belong.
   1. New employee training session
   2. Number of positive responses received from customer surveys
   3. Number of customer complaints handled by phone during month
   4. Gross profit
   5. Number of new products introduced during past year
   6. Number of defective units identified in quality control division
   7. Training on new equipment purchased
   8. Number of deliveries made within proscribed time frame
   9. Professional development seminars conducted for sales staff
   10. Recognized by major supplier as Customer of the Year

Ans: N/A, LO: 4, Bloom: AP, Unit 1-2, Difficulty: Moderate, Min: 5-6, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Strategy

**Solution:**

1. Learning and Growth
2. Customers
3. Customers
4. Financial
5. Internal Business Processes
6. Internal Business Processes
7. Learning and Growth
8. Customers
9. Internal Business Processes
10. Learning and Growth

**PROBLEMS**

1. Managerial and financial accounting differ in several different ways. Explain these differences by completing the table below.

|  |  |  |
| --- | --- | --- |
|  | **Managerial Accounting** | **Financial Accounting** |
| Primary users |  |  |
|  |  |  |
|  |  |  |
| Mandated rules |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| Reporting unit |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| Time horizon |  |  |
|  |  |
|  |  |  |
|  |  |  |
| Timing of information |  |  |
|  |  |  |
|  |  |  |
|  |  |  |

Ans: N/A, LO: 2, Bloom: K, Unit 1-1, Difficulty: Easy, Min: 8-10, AACSB: None, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

**Solution:**

Managerial and financial accounting differ in several different ways. Explain these differences by completing the table below.

|  |  |  |
| --- | --- | --- |
|  | Managerial  Accounting | Financial  Accounting |
| Primary users | Internal: Managers and other internal decision makers | External: Investors and creditors |
| Mandated rules | None | Generally accepted accounting principles (GAAP) |
| Reporting unit | Organizational segments such as | Organization as a whole |
| divisions, locations, and product |  |
| lines |  |
| Time horizon | Past results and projected future | Past results |
| results |  |
| Timing of information | As needed, even if information is not | After the end of an accounting |
| exact | period |

**SHORT ANSWER**

1. Juan’s Ortiz’s taco stand in Bomfa, California, specializes in fresh, handmade tacos. While Juan’s business does not yet have a national presence, he does have a strong citywide reputation. Recently, Juan has been receiving orders from other parts of the country through the company’s website. He is beginning to think about the potential for growing his out-of-city business.

Required:

a. How can managerial accounting information be useful to Juan as he thinks about growing his out-of-city business?

b. What decisions might Juan need to make if he decides to grow his out-of-city business?

c. What managerial accounting information might Juan find useful as he decides how to grow his out-of-city business?

Ans: N/A, LO: 1, 3, 4, Bloom: E, Unit 1-1 , 1-2, Difficulty: Difficult, Min: 10-12, AACSB: Communications, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

**Solution:** Answers will vary.

a. Managerial accounting information can be useful when growing a business. The information obtained can be used in the areas of planning, controlling, evaluating, and ultimately for decision-making. Juan can use managerial information to predict out-of-city demand, additional costs to meet this new demand, and the income generated by the new demand. After sales are made, Juan will be able to assess whether making out-of-city sales is as profitable as he expected.

b. One important decision that Juan would need to make is the rate at which to grow his business. In what areas and by how much should he increase capacity of operations? Juan would need to decide what type of strategy, product differentiation versus low-cost production, to pursue when growing his business. He will also need to decide how performance will be evaluated.

c. Budgeting is a useful tool when growing a business and is an important part of the planning function of managerial accountants. Budget information will provide useful information about how resources are to be allocated.

1. A relatively new tool that managerial accountants have developed to assist is the balanced scorecard.

Required:

Explain the purpose of the balanced scorecard. List the various perspectives comprising the balanced scorecard, and state what each perspective measures.

Ans: N/A, LO: 4, Bloom: C, Unit 1-2, Difficulty: Easy, Min: 5-6, AACSB: Communication, AICPA FN: Reporting, AICPA PC: Communication, IMA: Strategy

**Solution:**

The balanced scorecard is a collection of performance measures that track an organization’s progress toward achieving its goals. The balanced scorecard is comprised of the following perspectives:

a. Financial: uses financial performance measures that are common to most firms, such as EPS and current ratio.

b. Customer: evaluates a company from the viewpoint of the customer in terms of price, quality, innovation, customer service, and on-time delivery.

c. Learning and growth: evaluates how well a company trains and retains its employees.

d. Internal business processes: evaluates the value chain to ensure company is operating effectively and efficiently.

1. As part of their continuing effort to improve business processes to deliver maximum value to their customers, many businesses have adopted one or more of the following systems:

a. Supply chain management

b. Just-in-time-inventory (JIT)

c. Enterprise resource planning (ERP) systems

Required:

Describe each of the three systems and their goal.

Ans: N/A, LO: 4, Bloom: K, Unit 1-2, Difficulty: Easy, Min: 5-6, AACSB: Communication, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

**Solution:**

a. A supply chain is a network of facilities that acquire raw materials, transform them into intermediate goods and then into finished products, and deliver them through a distribution system. The goal is to get the right product to the right customer, in the right quantities, at the right time, and for the right cost.

b. Just-in-time inventory is an inventory system that focuses on having raw materials on hand just in time to complete customers’ orders as they are received. The goal is to reduce the costs associated with maintaining inventory.

c. Enterprise resource planning systems are electronic systems used to accumulate and provide information to decision makers on a companywide basis. The goal of ERP systems is to integrate all data from the company’s many business processes into a single information system.

159. Define managerial accounting and explain how managerial accounting information helps managers do their jobs.

Ans: N/A, LO: 1, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 5-6, AACSB: Communication, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

**Solution:**

Managerial accounting is defined by the IMA as a profession that involves partnering in management decision making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization’s strategy.

Simply put, managerial accounting is the generation of relevant information and analysis to support managers’ decision-making activities.

Good managerial accounting information helps managers to do their jobs more efficiently and effectively. A large part of a manager’s job is decision-making. To make the best decisions possible, managers need a wealth of good information. Much of that information will be the product of a managerial accounting system.

160. Compare and contrast strategic planning and operational planning.

Ans: N/A, LO: 3, Bloom: AN, Unit 1-1, Difficulty: Moderate, Min: 5-6, AACSB: Communication, AICPA FN: Reporting, AICPA PC: Communication, IMA: Business Operations

**Solution:**

Both strategic planning and operational planning are planning activities, one of the four general activities of managers. Strategic planning relates to long-term planning, while operational planning is another name for short-term planning. Strategic planning establishes the direction in which an organization wishes to go. Many organizations prepare a formal strategic plan that provides direction for a five- to ten-year period. Operational planning translates the long-term strategy into a short-term plan to be completed within the next year. One of the primary products of operational planning is likely a budget that specifies how resources will be spent to achieve the organizational goals.

161. Managerial accounting is designed to assist managers with four general activities. List the activities and give an example of each.

Ans: N/A, LO: 3, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 3-4, AACSB: Communication, AICPA FN: Reporting, AICPA PC: Communication, IMA: Business Operations

**Solution:** Answers will vary.Common examples may include the following.

Planning – Preparing a budget

Controlling – Monitoring day-to-day operations

Evaluating – Assessing how well employees are performing

Decision making – Selecting the best option for an employee health care plan

162. List three reasons why it is important for a company to have a written code of conduct.

Ans: N/A, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 2-3, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Ethics, IMA: Ethics

**Solution:** Answers will vary.Common examples may include the following.

a. It provides the core values of the company.

b. It guides employees in their behavior.

c. It may be required by the Sarbanes-Oxley Act.

163. What are the requirements of Section 406 of the Sarbanes-Oxley Act regarding publicly traded company’s code of conduct?

Ans: N/A, LO: 5, Bloom: K, Unit 1-3, Difficulty: Easy, Min: 4-5, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Communication, IMA: Business Operations

**Solution:**

1. Companies must disclose whether the “principal executive officer, financial officer, principal accounting officer or controller, or persons performing similar functions” are subject to a corporate code of ethics.
2. The code must be published in the annual report or on the corporate website or provided without charge upon request.
3. Companies must disclose all instances in which these codes have been waived for a particular individual as well as all changes to the code.
4. A company that does not have a written code of ethics is required to publish a disclosure explaining why no code has been adopted.

**Essay**

164. Assume your roommate is a management major and must take this managerial accounting course next semester. You have explained some of the things you have learned thus far, but your roommate states, “I don’t know why I would need to know anything about managerial accounting! I am not an accounting major and will NEVER be preparing any managerial accounting reports. As long as I make a profit for the company for which I will work, who cares what the accountants’ reports say?” How would you respond?

Ans: N/A, LO: 1, Bloom: C, Unit 1-1, Difficulty: Easy, Min: 4-5, AACSB: Communication, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

**Solution:**

Managerial accounting helps managers in their decision-making activities. Managerial accounting information helps managers do their jobs more efficiently and effectively. Managerial accounting reports are not constrained by GAAP and can provide information in various formats and at whatever detailed level a manager needs. Since internal users have access to all of the underlying data, they can create reports that suit their particular decision-making needs. Managerial accounting reports not only provide information to managers from historical information but helps managers make decisions that will affect the company’s future by projecting the results of certain decisions.

165. A key component of a positive ethical environment is “tone at the top.” Discuss what this term means, and why this is a key component.

Ans: N/A, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 3, AACSB: Communication, AICPA FN: Reporting, AICPA PC: Communication, IMA: Ethics

**Solution:** Answers will vary. Common examples may include the following.

Tone at the top means management’s commitment to ethical behavior. It is a key component because, if employees are to act ethically, managers must not only “talk the talk”, but “walk the walk”. Employees who witness managers engaging in unethical behavior will assume that while the company may have a corporate code of ethics, it does not really matter.

166. Your boss has asked you to lead a committee to develop a code of conduct for the company. Write a memo to the committee members to schedule your first meeting. In your memo, list the six components you believe are most important to be included in the code and explain why.

Ans: N/A, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 12-14, AACSB: Ethics, Communication, AICPA FN: Reporting, AICPA PC: Ethics, IMA: Ethics

**Solution:** Answers will vary.

January 15, 20xx

To: Code of Conduct committee members

From: Student Name

Subject: Preparation for first meeting in two weeks

Thank you for agreeing to serve on the committee to develop a code of conduct for our company. This is a daunting task, but one that will benefit the company and employees. Our first meeting will be in two weeks. Please be prepared to contribute your thoughts and ideas on what we should incorporate into the code.

I have listed six items below that many companies include in the document. At our first meeting we will expand this list to incorporate the elements the committee deems to be appropriate for our particular needs. I look forward to working with each of you and will be respectful of the time and effort you are giving to this project.

(Examples of items)

Workplace Harassment

Equal Opportunity

Diversity

Fair Treatment of Employees

Discrimination

Disclosure of Information

Commitment to the Environment

167. The Institute of Management Accountants (IMA) and many other professional organizations have a code of conduct to direct the membership’s ethical behavior. Discuss the standards that guide the conduct of members of the IMA.

Ans: N/A, LO: 5, Bloom: C, Unit 1-3, Difficulty: Easy, Min: 15-20, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Communication, Ethics, IMA: Ethics

**Solution:**

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.

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.

Integrity

Mitigate actual conflicts of interest. Regularly communicate with business associates to avoid apparent conflicts of interest. Advise all parties of any potential conflicts.

Abstain from engaging in or supporting any activity that might discredit the profession.

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.

168. The Institute of Management Accountants (IMA) and many other professional organizations have a code of conduct to direct the membership’s ethical behavior. The IMA standards include competence, confidentiality, integrity, and credibility. For each standard, give a situation in which the code of conduct will help a management accounting in his or her decision making.

Ans: N/A, LO: 5, Bloom: AN, Unit 1-3, Difficulty: Moderate, Min: 10-12, AACSB: Ethics, AICPA FN: Reporting, AICPA PC: Communication, Ethics, IMA: Ethics

**Solution:** Answers will vary. Common examples may include the following.

Competence

Management accountants should maintain an appropriate level of professional expertise. They should attend seminars and conferences relevant to the industry in which they work in order to maintain knowledge of accounting principles and practices appropriate to the industry.

Confidentiality

Management accountants should refrain from using confidential information for unethical or illegal advantage. They should not participate in insider trading or other unethical practices.

Integrity

Management accountants should refrain from engaging in any conduct that would prejudice carrying out duties ethically. They should avoid conflicts of interest where that interest might influence their decision-making ability. For example, they should purchase supplies based on quality or price rather than purchasing from a supplier only because a relative works there.

Credibility

Management accountants should communicate information fairly and objectively. They should not hide bad news or tweak reports to bias a particular individual or department.