

Chapter 1 – Introduction to managerial accounting

MULTIPLE CHOICE

1. The main focus of managerial accounting is:
- decision making.
 - the preparation of financial statements.
 - the preparation of budgets.
 - documenting cash flows.

ANS: A PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Analytic |

2. Which of the following is *not* true about knowledge in the business environment?
- It is the same as data and information.
 - It is the value added from shared information.
 - It includes both quantitative and qualitative information.
 - It must be managed in order for a company to remain competitive.

ANS: A PTS: 1 DIF: Easy OBJ: 1.1
NAT: AACSB: Analytic |

3. Which of the following statements is *not* true regarding enterprise resource planning (ERP)?
- It integrates traditional accounting information systems with other information systems.
 - It can be customised to provide specific and relevant information to different types of users.
 - It has evolved in the past few years to address the shortcomings of traditional accounting information systems.
 - It captures quantitative but not qualitative information.

ANS: D PTS: 1 DIF: Easy OBJ: 1.1
NAT: AACSB: Use of technology |

4. ERP systems capture:
- only qualitative data.
 - only quantitative data.
 - both qualitative and quantitative data.
 - the same information as traditional accounting information systems.

ANS: C PTS: 1 DIF: Easy OBJ: 1.1
NAT: AACSB: Use of technology |

5. An example of *qualitative* data is:
- product cost.
 - customer satisfaction.
 - net income.
 - operating costs.

ANS: B PTS: 1 DIF: Easy OBJ: 1.1
NAT: AACSB: Analytic |

6. An example of *quantitative* data is:
- company reputation.
 - number of customer complaints.
 - customer satisfaction.
 - product quality.

ANS: B PTS: 1 DIF: Easy OBJ: 1.1
NAT: AACSB: Analytic |

7. Which of the following statements is true?
- External and internal users of accounting information have exactly the same information needs.
 - Financial accounting is less flexible than managerial accounting.
 - Managerial accounting provides the best information to external users.
 - Managerial accounting emphasises the organisation as a whole more than financial accounting.

ANS: B PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

8. Which of the following is *not* an example of an external user of accounting information?
- Potential and existing stockholders
 - Government taxing agencies
 - Potential and existing creditors
 - Management

ANS: D PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

9. Which of the following is an example of an internal user of accounting information?
- Supplier
 - Stockholder
 - Manager
 - Federal tax agency

ANS: C PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

10. Which of the following is a characteristic of managerial accounting?
- It is used primarily by external users.
 - It often lacks flexibility.
 - It is often future-oriented.
 - The information it provides is extremely precise.

ANS: C PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

11. Which of the following is true regarding managerial accounting?
- It often emphasises segments rather than the organisation as a whole.
 - It often must follow established rules called generally accepted accounting principles.
 - Its primary focus is on providing information to external users.
 - It is less flexible than financial accounting.

ANS: A PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

12. Which of the following statements about decision-making is true?
- Risk should not be taken into account.
 - Objectives should be quantitative and not qualitative.
 - Managers often do not have a clear understanding of the real source of the problem.
 - Sunk costs should usually be taken into account.

ANS: C PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Analytic |

13. In the decision-making process, an example of a quantitative measure would include:
- employee morale.
 - product satisfaction.
 - customer service.
 - number of kilograms needed.

ANS: D PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Analytic |

14. Decision-makers should consider:
- only qualitative factors.
 - only quantitative factors.
 - both quantitative and qualitative factors.
 - sunk costs as well as quantitative and qualitative factors.

ANS: C PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Analytic |

15. Relevant costs are costs that:
- do not differ between alternatives.
 - differ between alternatives.
 - have already been incurred.
 - may not be eliminated by choosing one alternative over another.

ANS: B PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Analytic |

16. Costs that differ between alternatives are called:
- sunk costs.
 - irrelevant costs.
 - relevant costs.
 - unavoidable costs.

ANS: C PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Analytic |

17. Mary Ann is trying to decide whether to fly to Florida or New York. The cost of her ticket will be the same either way. The cost of the ticket is an example of a(n):
- sunk cost.
 - opportunity cost.
 - relevant cost.
 - irrelevant cost.

ANS: D PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Reflective thinking |

18. Sunk costs are:
- usually relevant.
 - costs that will occur in the future.
 - not relevant.
 - costs that can be avoided.

ANS: C PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Analytic |

19. Relevant costs:
- are sunk costs.
 - are costs that differ among alternatives.
 - are unavoidable.
 - can not be opportunity costs.

ANS: B PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Analytic |

20. When making a decision, which of the following should *not* be considered?
- Relevant costs
 - Opportunity costs
 - Sunk costs
 - Risk

ANS: C PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Analytic |

21. Which of the following is *not* true with regard to opportunity costs?
- They are the benefits forgone by selecting one alternative over another.
 - They are relevant.
 - They are sometimes difficult to quantify.
 - They have already occurred in the past.

ANS: D PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Analytic |

22. You are now considering your housing options for next semester. If the cost of a dorm room and the cost of an apartment are exactly the same, housing costs are:
- sunk costs.
 - an opportunity cost.
 - not relevant.
 - relevant.

ANS: C PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Analytic |

23. You are now considering your housing options for next semester. If the cost of a dorm room and the cost of an apartment are the same, but the apartment is larger, then:
- both cost and size are relevant.
 - neither cost nor size is relevant.
 - cost is relevant but size is not.
 - size is relevant but cost is not.

ANS: D PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Analytic |

24. You are considering your housing options for next semester. The cost of a dorm room and the cost of an apartment are the same. You paid a \$50 non-refundable deposit to live in the dorm last year. This deposit is an example of a(n):
- opportunity cost.
 - relevant cost.
 - sunk cost.
 - avoidable cost.

ANS: C PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Reflective thinking |

25. Which of the following would be an irrelevant cost?
- Future costs that differ among alternatives.
 - Benefits foregone by choosing one alternative over another.
 - Costs that have already been incurred.
 - Costs that are avoidable.

ANS: C PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Analytic |

26. Which of the following statements is *true* regarding ethics in decision-making?
- Since most business decisions are simply a matter of economics, ethical considerations should be ignored.
 - Decision-making can have an ethical as well as an economic impact.
 - Managerial accountants do not face ethical issues.
 - Business managers will always agree on ethical choices.

ANS: B PTS: 1 DIF: Easy OBJ: 1.4
NAT: AACSB: Analytic |

27. Which of the following should *not* be taken into account in decision-making?
- Risk
 - Ethical considerations
 - Irrelevant costs
 - Opportunity costs

ANS: C PTS: 1 DIF: Easy OBJ: 1.3
NAT: AACSB: Analytic |

28. Which of the following is *not* one of the three primary activities of managers?
- Budgeting activities
 - Planning activities
 - Operating activities
 - Controlling activities

ANS: A PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

29. _____ involve(s) the development of short-term objectives and goals.
- Controlling activities
 - Strategic planning
 - Operational planning
 - Financial activities

ANS: C PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

30. Looking at how a company will distinguish itself from its competitors involves:
- operational planning.
 - strategic planning.
 - internal planning.
 - financial planning.

ANS: B PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

31. A company's decision on where to locate a new factory is most likely a result of:
- operating activities.
 - operational planning.
 - strategic planning.
 - controlling activities.

ANS: C PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

32. Which manager activity would address the decision on whether or not to accept a special order within the next few days?
- Sales activity
 - Strategic planning activity
 - Operating activity
 - Controlling activity

ANS: C PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

33. All of the following are examples of operating activities except:
- Decisions on whether or not to schedule overtime for employees.
 - Decisions on what price to charge for a product.
 - Decisions on whether or not to accept a special order.
 - Decisions on whether actual outcomes were similar to desired outcomes.

ANS: D PTS: 1 DIF: Medium OBJ: 1.2
NAT: AACSB: Analytic |

34. Which type of business manager decides how much inventory should be kept on hand?
- Finance manager
 - Operations/production manager
 - Marketing manager
 - Human resource manager

ANS: B PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

35. Which type of business manager decides whether a company should borrow money or issue stock as a way to raise money?
- Human resource manager
 - Operations/production manager
 - Finance manager
 - Marketing manager

ANS: C PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

36. Which type of business manager would be the most likely to decide whether or not a company should lease or buy expensive manufacturing equipment?
- Operations/production manager
 - Human resource manager
 - Finance manager
 - Marketing manager

ANS: C PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

37. Which type of business manager would be the most likely to decide whether or not employees need to work overtime in order to fill a special order?
- Human resource manager
 - Operations/production manager
 - Finance manager
 - Marketing manager

ANS: B PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

38. Which type of business manager would most likely be involved in product packaging decisions?
- Marketing manager
 - Operations/production manager
 - Finance manager
 - Human resource manager

ANS: A PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

39. Which type of business manager would most likely be in charge of deciding on the type of benefit package an employee receives?
- Finance manager
 - Operations/production manager
 - Human resource manager
 - Marketing manager

ANS: C PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

40. The primary role of today's managerial accountant is to:
- enter data into the accounting system.
 - collect data.
 - analyse information and create knowledge.
 - prepare tax returns.

ANS: C PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

41. Looking at how a company will design the distribution of its profits across different business units internationally is what type of activity?
- operational planning.
 - strategic planning.
 - internal planning.
 - financial planning.

ANS: D PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

42. A company's decision on which country to expand into is most likely a result of:
- operating activities.
 - operational planning.
 - controlling activities
 - strategic planning.

ANS: D PTS: 1 DIF: Easy OBJ: 1.2
NAT: AACSB: Analytic |

SHORT ANSWER

1. Accounting information systems generate both monetary and non-monetary accounting information. List two examples of each type of accounting information.

ANS:

Monetary accounting information generated by an accounting information system includes sales, net income, total costs, and costs of product or services.

Non-monetary accounting information generated by an accounting information system includes: number of budgeted labour hours, the number of units necessary to break even, units shipped, and the time it takes to manufacture a product.

PTS: 1 DIF: Medium OBJ: 1.1
NAT: AACSB: Analytic |

2. Identify one internal user of accounting information and one external user of accounting information. Provide a specific example of how accounting information might be used by each.

ANS:

Examples of internal users and the manner in which they use accounting information could include:

- Production manager: assess the efficiency of the production process
- Marketing manager: help set a proper sales price for an item
- Regional manager: decide whether to maintain or close individual divisions
- Finance personnel: plan capital expenditures

Examples of external users and the manner in which they use accounting information could include:

- Stockholders or potential investors: help analyse the profitability of an organisation
- Donors of non-profit organisations: help determine the future donations, identify use of prior donations
- Bank officials or creditors: decide whether to lend money to an organisation
- Government agencies: assess compliance with laws and regulations (e.g. taxes)

PTS: 1 DIF: Medium OBJ: 1.2
NAT: AACSB: Analytic |

3. Discuss how a managerial accounting report prepared for an internal user might differ from a financial accounting report prepared for an external user.

ANS:

Managerial accounting reports prepared for internal users are generally characterised by the following:

- They do not have to follow standardised rules set by an authoritative body.
- They are typically more detailed than financial reports.
- They are more future-oriented.
- They are focused on the needs of the user.
- They are timelier and more relevant.

(This is not an exhaustive list.)

In contrast, **financial accounting** reports are generally characterised by the following:

- A lack of flexibility.
- The reporting of past events using historical costs.
- The focus of reporting on the business on a whole rather than individual products.
- The reports are prepared in accordance with GAAP.

(This is not an exhaustive list.)

PTS: 1 DIF: Medium OBJ: 1.2

NAT: AACSB: Analytic |

4. Managers are responsible for numerous activities including planning, operating, and controlling.

Define these three types of activities and provide at least one example of each.

ANS:

Planning activities involve the development of both short-term (operational) and long-term (strategic) objectives and goals of an organisation and an identification of the resources needed to achieve them. Examples include budget preparation, capital expenditure decisions, plant expansion decisions, production plans, etc.

Operating activities involve the day-to-day operations of a business. Examples include special order decisions, pricing decisions, employee policy decisions, etc.

Controlling activities involve the motivation and monitoring of employees and the evaluation of people and other resources used in the operations of the organisation. Examples include employee evaluations, bonus calculations, employee rewards, etc.

PTS: 1 DIF: Medium OBJ: 1.2

NAT: AACSB: Analytic |

5. Select one of the following functional managers and provide an example of the type of accounting information that they might request from the managerial accountant: marketing manager, operations/production manager, human resource manager, or finance manager.

ANS:

Marketing manager – product costs, advertising costs, costs of product enhancements, sales commissions, shipping costs

Operations/Production manager – product costs, labour costs, overhead costs

Human resource manager – production projections, labour needs

Finance manager – cash needs, capital needs

PTS: 1 DIF: Medium OBJ: 1.2

NAT: AACSB: Analytic |

6. Select one of the following functional managers and discuss *how* they might use accounting information in their managerial role: marketing manager, operations/production manager, human resource manager, or finance manager.

ANS:

Marketing manager – help set a proper sales price for an item, make product enhancement decisions, make advertising decisions, make distribution decisions

Operations/Production manager – make production planning decisions, assess the efficiency of the production process

Human resource manager – determine how many people to hire, use a cost-benefit analysis to promote training on new equipment, motivate employees to perform optimally

Finance manager – plan capital expenditures, arrange financing

PTS: 1 DIF: Medium OBJ: 1.2

NAT: AACSB: Analytic |

7. Describe the role of the management accountant within an organisation.

ANS:

Managerial accountants present financial information in a manner that is useful to managers within an organisation. They also help managers within various functional areas to understand financial information and make better decisions. They are often involved with financial planning and financial modelling.

PTS: 1 DIF: Medium OBJ: 1.2

NAT: AACSB: Analytic |

8. How has the automation of accounting information altered the role of the managerial accountant?

ANS:

Automation in present-day organisations allows clerical staff to gather and input accounting information. Most computer systems have the ability to generate data reports. Therefore, the managerial accountant is able to spend time monitoring and interpreting the reports generated by the automated system. They also aid managers in the decision-making process and perform more financial planning and modelling.

PTS: 1 DIF: Medium OBJ: 1.1

NAT: AACSB: Analytic |

9. Grant Enterprises is considering the introduction of a new product. The marketing and production departments have begun informal discussions about its design, production, and sales. List three examples of accounting information that the marketing and production managers would find useful in their meeting.

ANS:

Examples might include: projected product costs, breakeven figures, the effects of the new product on corporate net income, storage costs, advertising budgets, effects of outsourcing, labour costs, production capacity, and capital expenditure analysis.

PTS: 1 DIF: Medium OBJ: 1.2

NAT: AACSB: Reflective thinking |

10. You are trying to decide what to do during your next school break. One campus group is planning a trip to Jacksonville Beach. Another is planning a ski trip to Snowmass. Many students will be going home to see family, and others will remain on campus. List three factors that you might consider in making your decision.

ANS:

Answers will vary, but may include:

- the student's financial situation
- whether or not the student likes the students within each campus group
- does the student prefer the beach or skiing
- does the student have to study or work during the break
- the cost of each alternative

PTS: 1 DIF: Medium OBJ: 1.3

NAT: AACSB: Reflective thinking |

11. Identify how a sales manager might provide internal information to enable a management accountant's decision making.

ANS:

A sales manager's understanding of the company's intended promotional activities strongly shapes a management accountant's conceptualisation of the marketing budget for a future period. Also, the sales manager might assist sales to better forecast the sales volume for a future period, which impacts a management accountant's conceptualisation of budget sales revenues and subsequent production cost estimates.

PTS: 1 DIF: Medium OBJ: 1.2

NAT: AACSB: Analytic |

PROBLEM

1. You and your room-mate would like to purchase a projection TV for your apartment. You have gathered the following information about the two leading models:

Factors	Xenabox 1000	BigScreen 1050
Screen size	50 inch	50 inch
Picture Quality	great	good
Cost	\$1300	\$1200
Delivery Charge	\$50	\$50

You paid \$750 for your current TV two years ago.

Required:

- a. Which of the four factors listed above are relevant to your decision?

- b. Is the cost of your old TV relevant to your decision? Why or why not?
- c. Which of the factors are quantitative and which are qualitative?

ANS:

- a. The picture quality and cost are relevant since they differ among the two alternatives.
- b. The cost of the old TV is a sunk cost and therefore is not relevant to the current decision.
- c. Only the picture quality variable is qualitative, the rest are quantitative.

PTS: 1 DIF: Medium OBJ: 1.3
NAT: AACSB: Analytic |

2. A friend has informed you of a part-time job for which you are well qualified. It would begin next semester and require working 20 hours a week at a rate of \$35 per hour. You would have to commute 2 hours round trip four days a week to work. You have already registered for 18 credit hours (6 classes) next semester, and you have been told that each of the classes is very demanding, requiring projects and extensive study time. If you complete these 18 hours, you will graduate. You are only taking 12 credit hours this semester. You have enough money for tuition (\$100 per credit hour) and room and board but would love some extra spending money.

Required:

- a. Define your problem related to the information above.
- b. What information above would you consider relevant to the decision? Why?
- c. What information above would you consider *not* relevant to the decision? Why?
- d. What other factors not provided above might be relevant to the decision?
- e. What are some possible alternatives?
- f. Which alternative would you choose? Why?

ANS:

- a. A well-paying part-time job is available; however, the job will most likely affect your studies. Should you accept the part-time job?
- b. Relevant – work hours, commuting hours, hourly wages, demands for next semester, need for spending money

Answers may vary.

- c. Not relevant – number of hours this semester, tuition cost

Answers may vary.

- d. Answers might include: Would the work hours conflict with your class schedule? Is the job related to your major or future career plans? Do you have a reliable car to make the commute in? Can you drop any classes?

- e. Do not accept the job; accept the job and drop some classes; accept the job and do not drop any classes
- f. Answers will vary depending upon the 'why'.

PTS: 1 DIF: Medium OBJ: 1.3
NAT: AACSB: Reflective thinking |