Introduction to Management Accounting 1st edition Scott Test Bank

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Correct answers are marked with an asterisk (*).

Type: multiple response question
Title: Chapter 02 - Question 01
01**)** Cost accounting is used in organisations to: Please select all that apply.
Feedback: Cost accounting is used to determine the costs of products and services. Once all the costs of making products and delivering services have been calculated, then a selling price can be determined for those products and services in order to generate a profit on products sold and services delivered. Cost accounting is also used to establish budgets and analyse variances between planned and actual outcomes, so cost accounting is used to monitor and review outcomes as they happen. Cost accounting is used for short-term planning and decision making, whereas management accounting is used in making long-term strategic decisions. Cost accounting's short-term horizon means it is irrelevant for making long-term decisions due to the rapid changes in costs and the impact of technology together with the other many variables that affect all organisations' costs over the long term.
Page reference: 24-25
***a.** Determine selling prices for products and services.
b. Make long-term decisions.
***c.** Calculate product and service costs.
***d.** Monitor and review outcomes as they happen.

Type: true-false
Title: Chapter 02 - Question 02
02**)** The number of cost objects to which costs can be attached is limited to products, services, centres, activities, customers and distribution channels.
a. True
Feedback: This statement is false. While the Official Terminology of the Chartered Institute of Management Accountants provides examples of cost objects as 'a product, service, centre, activity, customer or distribution channel in relation to which costs are ascertained', these are just examples and not an exhaustive list of all possible cost objects. As cost accounting is the 'gathering of cost information and its attachment to cost objects' (CIMA Official Terminology), it follows that costs can be accumulated for any clearly defined activity or event. The number of cost objects is thus as large as the number of activities or events that take place.
Page reference: 24-25
***b.** False
Feedback: While the Official Terminology of the Chartered Institute of Management Accountants provides examples of cost objects as 'a product, service, centre, activity, customer or distribution channel in relation to which costs are ascertained', these are just examples and not an exhaustive list of all possible cost objects. As cost accounting is the 'gathering of cost information and its attachment to cost objects' (CIMA Official Terminology), it follows that costs can be accumulated for any clearly defined activity or event. The number of cost objects is thus as large as the number of activities or events that take place. You are therefore correct to conclude that this statement is false.
Page reference: 24-25

Type: true-false
Title: Chapter 02 - Question 03
03**)** Costing is micro level, strategy is macro level.
***a.** True
Feedback: Strategy is the overarching vision that all entities have. It is the long-term destination that each organisation sets for itself. Strategy looks at the big picture to determine the long-term direction of the business as it seeks to reach its destination and so takes place at the macro level. Costing involves determining, accumulating and allocating costs to products and services in order to calculate selling prices which will generate a short-term profit. Costing also involves budgeting, setting standard costs and the analysis of variances, profitability and the social use of funds, all short-term activities. Costing activities are thus individual steps on the journey towards the strategic destination. These steps are small but

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aim to ensure that each step takes the entity in the right direction towards its strategic goal or puts the organisation back on track if it deviates from the path. You are therefore correct to conclude that this statement is true.
Page reference: 24-27
b. False
Feedback: This statement is true. Strategy is the overarching vision that all entities have. It is the long-term destination that each organisation sets for itself. Strategy looks at the big picture to determine the long-term direction of the business as it seeks to reach its destination and so takes place at the macro level. Costing involves determining, accumulating and allocating costs to products and services in order to calculate selling prices which will generate a short-term profit. Costing also involves budgeting, setting standard costs and the analysis of variances, profitability and the social use of funds, all short-term activities. Costing activities are thus individual steps on the journey towards the strategic destination. These steps are small but aim to ensure that each step takes the entity in the right direction towards its strategic goal or puts the organisation back on track if it deviates from the path.
Page reference: 24-27

Type: true-false
Title: Chapter 02 - Question 04
04**)** The provision of costing information to managers undermines organisational efficiency and effectiveness.
a. True
Feedback: This statement is false. Managers must have costing information to enable them to manage the business effectively and efficiently. Costing information received is reviewed, analysed and interpreted. Decisions are then taken and plans made based upon this review, analysis and interpretation. Plans will be turned into budgets against which actual results are compared to make sure the plan is on track; where plans are not on track, corrective action can be proposed or plans revised in the light of changed circumstances. Costing information is also used both to eliminate unnecessary costs and to streamline processes to improve profitability. In these ways the provision of costing information to managers assists them in enhancing and improving organisational efficiency and effectiveness.
Page reference: 26
*__b.__ False
Feedback: Managers must have costing information to enable them to manage the business effectively and efficiently. Costing information received is reviewed, analysed and interpreted. Decisions are then taken and plans made based upon this review, analysis and interpretation. Plans will be turned into budgets against which actual results are compared to make sure the plan is on track; where plans are not on track, corrective action can be proposed or plans revised in the light of changed circumstances. Costing information is also used both to eliminate unnecessary costs and to streamline processes to improve profitability. In these ways the provision of costing information to managers assists them in enhancing and improving organisational efficiency and effectiveness. You are therefore correct in concluding that this statement is false.
Page reference: 26

Type: multiple choice question
Title: Chapter 02 - Question 05
05**)** Which one of the following is the odd one out?
*__a.__ Informing operational decisions.
Feedback: Three of the four statements are taken from the CIMA Official Terminology definition of cost accounting whereas the fourth statement is part of the CIMA Official Terminology definition of management accounting. The CIMA Official Terminology definition of cost accounting is the 'gathering of cost information and its attachment to cost objects…, the establishment of budgets, standard costs, and actual costs of operations, processes, activities, or products; and the analysis of variances, profitability or the social use of funds.' The CIMA Official Terminology definition of management accounting states that 'it requires the identification, generation, presentation, interpretation, and use of relevant information to:

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…inform operational decisions'. This is a description of management not cost accounting so this is the odd one out.
Page reference: 24-27
b. Gathering and attaching cost information to cost objects.
Feedback: Three of the four statements are taken from the CIMA Official Terminology definition of cost accounting whereas the fourth statement is part of the CIMA Official Terminology definition of management accounting. The CIMA Official Terminology definition of cost accounting is the 'gathering of cost information and its attachment to cost objects … , the establishment of budgets, standard costs and actual costs of operations, processes, activities, or products; and the analysis of variances, profitability or the social use of funds.' This is a description of cost not management accounting so this is not the odd one out.
Page reference: 24-27
c. Establishing budgets and standard costs.
Feedback: Three of the four statements are taken from the CIMA Official Terminology definition of cost accounting whereas the fourth statement is part of the CIMA Official Terminology definition of management accounting. The CIMA Official Terminology definition of cost accounting is the 'gathering of cost information and its attachment to cost objects … , the establishment of budgets, standard costs, and actual costs of operations, processes, activities, or products; and the analysis of variances, profitability or the social use of funds.' This is a description of cost not management accounting so this is not the odd one out.
Page reference: 24-27
d. Analysing profitability.
Feedback: Three of the four statements are taken from the CIMA Official Terminology definition of cost accounting whereas the fourth statement is part of the CIMA Official Terminology definition of management accounting. The CIMA Official Terminology definition of cost accounting is the 'gathering of cost information and its attachment to cost objects … , the establishment of budgets, standard costs, and actual costs of operations, processes, activities, or products; and the analysis of variances, profitability or the social use of funds.' This is a description of cost not management accounting so this is not the odd one out.
Page reference: 24-27

Type: true-false
Title: Chapter 02 - Question 06
06**)** Management accounting is the application of the principles of accounting and financial management to create, protect, preserve and increase value for shareholders.
a. True
Feedback: This statement is false. The CIMA Official Terminology states that 'management accounting is the application of the principles of accounting and financial management to create, protect, preserve and increase value for the **stakeholders** of for-profit and not-for-profit enterprises in the public and private sectors'. Management accounting thus takes account of the interests of all stakeholders not just of the interests of shareholders. Management accounting is also relevant to the management of organisations in both the for-profit and the not-for-profit sectors and in both the public and the private sectors.
Page reference: 26-27
*__b.__ False
Feedback: The CIMA Official Terminology states that 'management accounting is the application of the principles of accounting and financial management to create, protect, preserve and increase value for the **stakeholders** of for-profit and not-for-profit enterprises in the public and private sectors'. Management accounting thus takes account of the interests of all stakeholders not just of the interests of shareholders. Management accounting is also relevant to the management of organisations in both the for-profit and the not-for-profit sectors and in both the public and the private sectors. You are therefore correct to conclude that this statement is false.
Page reference: 26-27

Type: true-false
Title: Chapter 02 - Question 07

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07**)** Management accounting focuses on the long-term not the short-term operations of organisations.
a. True
Feedback: This statement is false. The CIMA Official Terminology states that management accounting 'requires the identification, generation, presentation, interpretation, and use of relevant information to… plan long, medium and short-run operations… inform operational decisions… control operations, and ensure the efficient use of resources'. While the role of management accounting is also to formulate business strategy and to inform strategic decisions, its focus will not solely be on the long-term. Decisions taken today have an impact upon the long-term strategic success of a business so management have to consider short and medium term as well as long-term operational decisions to ensure that operations are fully under control and that decisions taken now are contributing effectively to the long-term strategic success of the organisation.
Page reference: 26-27
***b.** False
Feedback: The CIMA Official Terminology states that management accounting 'requires the identification, generation, presentation, interpretation, and use of relevant information to… plan long, medium and short-run operations … inform operational decisions … control operations, and ensure the efficient use of resources'. While the role of management accounting is also to formulate business strategy and to inform strategic decisions, its focus will not solely be on the long term. Decisions taken today have an impact upon the long-term strategic success of a business so management have to consider short and medium term as well as long-term operational decisions to ensure that operations are fully under control and that decisions taken now are contributing effectively to the long-term strategic success of the organisation. You are therefore correct to conclude that this statement is false.
Page reference: 26-27

Type: multiple response question
Title: Chapter 02 - Question 08
08**)** Management accounting is an integral part of management. It requires the identification, generation, presentation, interpretation, and use of relevant information to: Please select all that apply.
Feedback: Management accounting does use relevant information to design reward strategies for executives (through their remuneration packages) and for shareholders (through the distribution of dividends and other returns of profits and capital). It is the directors' duty to safeguard tangible and intangible assets to ensure they do not suffer damage or loss so this is also a function of management accounting. Information on the financial and non-financial performance of a business is critical to the needs of both management and other stakeholders, so dissemination of this information is a key role of management accounting. Accumulating and allocating costs to cost objects, however, is the role of cost accounting not management accounting.
Page reference: 26-27, 24-25
***a.** Design reward strategies for executives and shareholders.
***b.** Safeguard tangible and intangible assets.
***c.** Measure and report financial and non-financial performance to management and other stakeholders.
d. Accumulate and allocate costs to cost objects.

Type: multiple choice question
Title: Chapter 02 - Question 09
09**)** Which one of the following statements is not true?
***a.** Financial accounting reports have an internal user focus while management accounting reports are focused on external users of accounting information.
Feedback: This statement is not true. Financial accounting reports are aimed at **external** users while management accounting reports are presented for the sole use of **internal** users of accounting information.
Page reference: 28-29

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b. Financial accounting summarises accounting transactions while cost and management accounting presents a detailed analysis of costs, selling prices and any other information required by an entity's management.
Feedback: This statement is true. Financial accounting does summarise accounting transactions, usually at annual intervals, and presents these reports to users outside the organisation such as investors. Cost and management accounting is concerned with the detailed components of product costs and selling prices and presents information in great detail in order to inform management decisions.
Page reference: 28-29
c. Financial accounting reports report on what has happened while management accounting reports focus on current activity and future projections.
Feedback: This statement is true. The focus of financial accounting reports is historical, reporting on what has happened in the past whereas management accounting reports are concerned with what is happening today, the effect of current product costs, current selling prices and current levels of demand on today's profit and profits in the future.
Page reference: 28-29
d. Financial accounting reports are used by investors to make investment decisions while cost and management accounting reports are used by managers to make business decisions.
Feedback: This statement is true. The primary interest group for financial accounting reports is investors whereas cost and management accounting reports are purely for use within a business organisation for planning and control purposes.
Page reference: 28-29

Type: multiple response question
Title: Chapter 02 - Question 10
10**)** Which of the following are descriptions of cost and management accounting? Please select all that apply.
Feedback: Cost and management accounting is focused on the future. In order to achieve this future focus, cost and management accounting reports on what has happened in the past and what is currently happening in order to inform decisions and plans that will affect the future. Costing statements break down accounting information into its smallest constituent parts to determine the selling prices and costs of products and services so it is true to say that management accounting is data at the micro level. Financial accounting summarises data for an accounting period and looks at the overall picture, so financial accounting information presents accounting information at the macro level. Cost and management accounting information is focused on internal users only: financial accounting information adopts an external user focus.
Page reference: 28-29
***a.** Future focus.
***b.** Reports on the past and present to inform the future.
c. External user focus.
***d.** Accounting data at the micro level.

Type: multiple choice question
Title: Chapter 02 - Question 11
11**)** Which one of the following statements is the odd one out?
a. Not designed for planning purposes.
Feedback: Three of the four statements describe features of financial accounting reports while only one statement describes an aspect of cost and management accounting reports. Financial accounting reports are not designed for planning purposes so this statement is not the odd one out as it does not describe a feature of cost and management accounting reports.
Page reference: 28-29
b. Information with a historical perspective.
Feedback: Three of the four statements describe features of financial accounting reports while only one statement describes an aspect of cost and management accounting reports. Financial accounting reports do present information with a historical perspective so this statement is not the odd one out as it does not describe a feature of cost and management accounting reports.

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Page reference: 28-29
c. Presents summarised accounting information.
Feedback: Three of the four statements describe features of financial accounting reports while only one statement describes an aspect of cost and management accounting reports. Financial accounting reports present summarised accounting information so this statement is not the odd one out as it does not describe a feature of cost and management accounting reports.
Page reference: 28-29
***d.** A focus on the future.
Feedback: Three of the four statements describe features of financial accounting reports while only one statement describes an aspect of cost and management accounting reports. Cost and management accounting reports do have a focus on the future so this statement is the odd one out as it is the one statement that does describe a feature of cost and management accounting reports.
Page reference: 28-29

Type: multiple choice question
Title: Chapter 02 - Question 12
12**)** Which one of the following is the odd one out?
a. Information prepared for internal users.
Feedback: Three of the four statements describe features of cost and management accounting while only one statement describes a feature of financial accounting. Cost and management accounting information is prepared for internal users so this statement is not the odd one out as it does not describe a feature of financial accounting.
Page reference: 28-29
***b.** Information summarizing annual accounting data.
Feedback: Three of the four statements describe features of cost and management accounting while only one statement describes a feature of financial accounting. Financial accounting does present information that is a summary of annual accounting data (cost and management accounting presents information at the micro and not the macro level) so this statement is the odd one out as it describes a feature of financial accounting not of cost and management accounting.
Page reference: 28-29
c. Information that is used to make business decisions.
Feedback: Three of the four statements describe features of cost and management accounting while only one statement describes a feature of financial accounting. Cost and management accounting does present information that is used to make business decisions (financial accounting presents summarized information to external users to make **investment** (not business) decisions relating to the buying and selling of shares) so this statement is not the odd one out as it does not describe a feature of financial accounting.
Page reference: 28-29
d. Information that has a forward looking perspective.
Feedback: Three of the four statements describe features of cost and management accounting while only one statement describes a feature of financial accounting. Cost and management accounting does have a forward looking perspective (financial accounting has a historical, backward looking perspective) so this statement is not the odd one out as it does not describe a feature of financial accounting.
Page reference: 28-29

Type: multiple choice question
Title: Chapter 02 - Question 13
13**)** Which one of the following does not describe a feature of cost and management accounting?
a. Used to guide and control operations.
Feedback: Cost and management accounting is used by managers within an organisation to guide and control operations, so this is a description of a feature of cost and management accounting.
Page reference: 28-29

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b. Used to guide an organisation to the fulfilment of both long and short term objectives.
Feedback: Cost and management accounting is used by managers within an organisation to guide an organisation to the fulfilment of both long- and short-term objectives, so this is a description of a feature of cost and management accounting.
Page reference: 28-29
***c.** Used by external users for investment decision-making purposes.
Feedback: Cost and management accounting is used by users internal to an organisation not by users external to an organisation. Cost and management accounting is used for business decisions but not for investment decision making. Therefore, this is a description of financial accounting information which is used by external users to make investment decisions about the buying and selling of shares in an entity.
Page reference: 28-29
d. Monitors actual outcomes against budgets.
Feedback: Cost and management accounting involves the preparation of budgets as a way of forecasting and planning for the future, in order to guide an organisation to the fulfilment of both its long- and short-term objectives. Actual outcomes are compared to budgeted outcomes in order to determine which costs and revenues are on budget and which are not as an aid to future planning and to assist in devising actions to correct unfavourable outcomes and to exploit favourable outcomes. This is therefore a description of a feature of cost and management accounting.
Page reference: 28-29

Type: true-false
Title: Chapter 02 - Question 14
14**)** The form and content of both financial and cost and management accounting reports are highly regulated.
a. True
Feedback: This statement is false. The form and content of financial accounting reports are governed by the requirements of both the Companies Act 2006 and the requirements of International Financial Reporting Standards which specify a strict presentation format and rigid disclosures. However, the form and content of cost and management accounting reports are not regulated at all. Organisations have complete freedom to present their cost and management accounting reports in whichever way they choose. Organisations therefore present their cost and management accounting reports in the most user-friendly and most decision-useful formats.
Page reference: 28-29
***b.** False
Feedback: The form and content of financial accounting reports are governed by the requirements of both the Companies Act 2006 and the requirements of International Financial Reporting Standards which specify a strict presentation format and rigid disclosures. However, the form and content of cost and management accounting reports are not regulated at all. Organisations have complete freedom to present their cost and management accounting reports in whichever way they choose. Organisations therefore present their cost and management accounting reports in the most user-friendly and most decision-useful formats. You are therefore correct to conclude that this statement is false.
Page reference: 28-29

Type: true-false
Title: Chapter 02 - Question 15
15**)** Financial accounting reports exhibit a high degree of comparability with the financial accounting reports of other organisations while cost and management accounting reports of different organisations display no such comparability.
***a.** True
Feedback: Companies' annual financial statements are governed by the presentation and disclosure requirements of the Companies Act 2006 and of International Financial Reporting Standards. This statute and these standards specify rigid presentation formats and very specific information disclosures which are applicable to all companies. Therefore, the financial accounting reports of all organisations will exhibit a high degree of comparability due to the

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strict rules governing their preparation and presentation. On the other hand, the cost and management accounting reports of different organisations will not be comparable at all. There are no rules governing the presentation of cost and management accounting reports and organisations are free to present these reports in any format they choose. You are therefore correct to conclude that this statement is true.
Page reference: 28-29
b. False
Feedback: This statement is true. Companies' annual financial statements are governed by the presentation and disclosure requirements of the Companies Act 2006 and of International Financial Reporting Standards. This statute and these standards specify rigid presentation formats and very specific information disclosures which are applicable to all companies. Therefore, the financial accounting reports of all organisations will exhibit a high degree of comparability due to the strict rules governing their preparation and presentation. On the other hand, the cost and management accounting reports of different organisations will not be comparable at all. There are no rules governing the presentation of cost and management accounting reports and organisations are free to present these reports in any format they choose.
Page reference: 28-29

Type: multiple response question
Title: Chapter 02 - Question 16
16**)** Cost and management accounting information should: Please select all that apply.
Feedback: To be useful, cost and management accounting information must be relevant, timely, comparable and understandable. However, management accounting information does not have to be verifiable and it does not have to faithfully represent what it purports to represent. Faithful representation is a quality of accounting information that is only required when reporting to third parties, individuals and organisations with no connection to the reporting entity: management accounting information is reported within organisations for internal decision-making purposes only and does not purport to represent anything further to outside parties. As long as management are confident that the accounting system is generating accurate information, there is no further need for verification of the details produced. Management will therefore take the necessary steps to ensure that all information produced by the accounting system is accurate and forms a suitable basis for management decision making.
Page reference: 31-32
a. Faithfully represent what it purports to represent.
*__b.__ Be understandable.
c. Be verifiable.
*__d.__ Be timely.

Type: true-false
Title: Chapter 02 - Question 17
17**)** Cost and management accounting information is subject to the cost-benefit rule.
***a.** True
Feedback: Cost and management accounting information is very much subject to the cost-benefit rule: the cost of obtaining the information should always be lower than the benefit gained from that information. Where this is not the case, time and effort should not be wasted on acquiring the information as the benefits gained are lower than the cost of obtaining the information. You are therefore correct to conclude that this statement is true.
Page reference: 32
b. False
Feedback: This statement is true: cost and management accounting information is subject to the cost-benefit rule: the cost of obtaining the information should always be lower than the benefit gained from that information. Where this is not the case, time and effort should not be wasted on acquiring the information as the benefits gained are lower than the cost of obtaining the information.
Page reference: 32

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Type: true-false
Title: Chapter 02 - Question 18
18**)** Materiality is a fundamental consideration in the preparation and presentation of financial accounting reports. However, materiality has no role to play in the production of cost and management accounting reports as every detail is relevant.
a. True
Feedback: This statement is false. Information is material if omitting it or misstating it could influence decisions that users make. Therefore, if information will not influence users' decisions then that information is not material and can be safely left out of reports. Cost and management accounting reports should not include every tiny detail as the excessive data presented will result in information overload so that users' attention is diverted from the critical, decision-relevant details that will make a real difference to an organisation's future performance and achievements.
Page reference: 12-13, 32
*__b.__ False
Feedback: Information is material if omitting it or misstating it could influence decisions that users make. Therefore, if information will not influence users' decisions then that information is not material and can be safely left out of reports. Cost and management accounting reports should not include every tiny detail as the excessive data presented will result in information overload so that users' attention is diverted from the critical, decision-relevant details that will make a real difference to an organisation's future performance and achievements. You are therefore correct to conclude that this statement is false.
Page reference: 12-13, 32

Type: multiple choice question
Title: Chapter 02 - Question 19
19**)** Which one of the following statements is not true?
a. The cost accounting system is just an extension of the financial accounting system.
Feedback: This statement is true. The financial accounting system debits the cost of materials to the purchases account and credits trade payables or cash with the liability incurred or cash paid. The cost accounting system takes the debit in the purchases account and reallocates the cost of materials to jobs using those materials by crediting the purchases account and debiting each job with the cost of materials used. Therefore, the cost accounting system just breaks down the totals in the financial accounting system to allocate those costs to each cost object.
Page reference: 30
b. Cost and management accounting reports have both an internal and an external focus.
Feedback: This statement is true. Cost and management accounting reports present details of costs incurred internally and details of internal actions undertaken to promote products and services. However, business organisations do not exist in a vacuum and the activities of competitors, their promotional strategies, their products and their selling prices are of critical importance to an organisation. Business entities will adapt their selling and pricing strategies and their products to take account of competitors' actions so that their own products remain competitive in the market. Therefore, cost and management accounting reports have both an internal and an external focus.
Page reference: 31
c. Financial accounting reports present internal information to external parties.
Feedback: This statement is true. An organisation's annual report and accounts is based entirely on the details of assets, liabilities, equity, revenue and expenditure recorded in internal financial sources. This information is presented to external users to render an account of the organisation's activities during the financial year. Therefore, it is true to say that financial accounting reports present internal information to external parties.
Page reference: 31
*__d.__ Internal financial costs are the only information that entities require to set the selling prices of products and services.
Feedback: How much it costs to produce a product or deliver a service is clearly an important piece of information when setting a selling price for products and services. However, business organisations do not exist in a vacuum and the pricing policies of competitors is a very

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important consideration in setting a selling price for an organisation's own products. The market will not accept a higher price for a product that is effectively the same as another unless the product has additional features to justify that higher price. If an organisation is looking to gain market share, then it will set a lower selling price for its own products or services to take custom away from its competitors. In this situation, knowledge of competitors' selling prices is critical information. Therefore, internal financial costs are not the only information that entities require when setting selling prices for products and services.
Page reference: 31

Type: multiple choice question
Title: Chapter 02 - Question 20
20**)** Which one of the following statements is not true?
a. Cost and management accounting information is generated as frequently as required.
Feedback: This statement is true. Unlike financial accounting reports which are produced annually, cost and management accounting reports are produced as frequently as required for effective management of the operations of a business. Cost and management accounting reports are usually produced monthly but can be produced weekly or even daily when management of critical situations is required.
Page reference: 29
b. Accounting is the foundation of strategic and operational decision making.
Feedback: This statement is true. Cost accounting gathers costs, summarises them and allocates them to cost objects. These costs are then used by management to make decisions about selling prices, products to produce and products to discontinue among others. Costs are the basic blocks with which management build and monitor their strategic and operational plans for an organisation. Costs are the foundation of the decisions that management take in running an entity and in planning its future direction with a view to fulfilling its objectives in the short, medium and long term. Therefore it is true to say that accounting is the foundation of strategic and operational decision making.
Page reference: 27
*__c.__ Financial accounting and management accounting reports derive their financial information from completely diverse sources.
Feedback: Both financial accounting and cost and management accounting reports derive their numerical input from the same internal sources. Invoices received from suppliers for the provision of goods and services are used to summarise expenses in the financial accounting system and to determine, accumulate and allocate costs to cost objects in the cost and management accounting system. Therefore, financial and management accounting reports derive their cost/expense information from the same sources. While cost and management accounting also derive details of competitors' selling prices from external sources, it is not true to say that financial accounting and management accounting reports derive their financial information from completely diverse sources.
Page reference: 30-31
d. Costs are the foundation for decision making by management
Feedback: This statement is true. All business organisations are governed by their financial objectives. Business entities must make a profit and generate positive cash flows in order to survive in the medium to long term. To enable them to do so, costs are determined, accumulated and allocated to cost objects so that management can make decisions about the selling prices of goods and services that will generate the required profits and positive cash flows. Costs are also used to produce budgeted information in which organisations set out their financial objectives for the future. Comparisons of budgeted and actual income and expenditure are produced regularly to ensure that actual outcomes are going to plan. These comparisons of actual and budgeted income and expenditure are used to make decisions to bring the plan back on track or to exploit positive variances further. It is therefore true to say that costs are the foundation for decision making by management.
Page reference: 26

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Chapter 2

Group tutorial exercise

Think about a new business venture that you could set up. What sort of costing information would be required in planning such a business venture? What sources of information would you use to discover this costing information? As well as short-term information on costs, what longer-term strategic aims would your new business venture have?

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