# *Principles of Managerial Accounting 1st edition Openstax Solutions Manual*

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# Principles of Accounting

# Volume 2

## Managerial Accounting

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## *Principles of Accounting, Volume 2: Managerial Accounting*
## Chapter 1: Accounting as a Tool for Managers

**Multiple Choice**

1. **LO 1.1** The managers of an organization are responsible for performing several broad functions. They are _____.
   A. planning, controlling, and selling
   B. directing, controlling, and evaluating
   C. planning, evaluating, and manufacturing
   D. planning, controlling, and evaluating

Solution
D

2. **LO 1.1** Management accountants help the management of an organization in their planning function through _____.
   A. monitoring anti-theft systems
   B. strategic planning
   C. evaluating costs
   D. analyzing profits

Solution
B

3. **LO 1.1** Which of the following is a primary aspect of the evaluating function within an organization?
   A. comparing actual results against expected results for products, departments, divisions, or the company as a whole
   B. reviewing only the quantitative or financial results of the company
   C. setting goals
   D. putting controls in place for the upcoming year

Solution
A

4. **LO 1.1** During the control function, the measurements taken of the performance must be accurate enough to see _____.
   A. only positive results
   B. deviations and variances
   C. the primary focus
   D. only the negative results

Solution
B

5. **LO 1.1** Which of the following is **false** regarding strategic planning?
   A. It is the sole responsibility of supervisors.
   B. It will span many years.
   C. It should include both short-term and long-term goals.
   D. Strategic objectives will be diverse and vary from company to company.

Solution
A

6. **LO 1.2** Managerial accounting produces information:



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A. to meet the needs of external users
B. that is often focused on the future
C. to meet the needs of investors
D. that follows the rules of GAAP

Solution
B

7. **LO 1.2** Management accounting:
A. emphasizes special-purpose information
B. relates to the company as a whole
C. is limited to strictly cost figures
D. is controlled by GAAP

Solution
A

8. **LO 1.2** Internal users of accounting information would *not* include _____.
A. managers
B. employees
C. creditors
D. officers

Solution
C

9. **LO 1.2** External users of accounting information would include _____.
A. employees
B. managers
C. investors
D. supervisors

Solution
C

10. **LO 1.2** Which of the following statements is **incorrect**?
A. The practice of management accounting is fairly flexible.
B. The information gathered from management accounting is not required by law.
C. Management accounting focuses mainly on the internal user.
D. Reports produced using management accounting must follow GAAP.

Solution
D

11. **LO 1.3** The stockholders of a company are:
A. the owners
B. policy setters
C. responsible and liable for the financial well-being of the company
D. operating within the company as independent shareholders

Solution
A

12. **LO 1.3** The controller of a corporation:
A. reports to the CFO and is in charge of the finance side of the business
B. reports to the CFO and is in charge of the accounting side of the business
C. reports to the CEO and implements all cash policies
D. reports to the board of directors



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Solution
B

13. **LO 1.3** The Certified Financial Analyst (CFA) certification:
    A. only requires a high school diploma
    B. is administered by the AICPA
    C. consists of three separate exams that must be taken in succession
    D. is the most popular certification among accountants in the United States

Solution
C

14. **LO 1.3** The Certified Management Accountant (CMA) certification:
    A. signifies someone specializing in tax accounting
    B. requires an associate's degree and four years of work experience
    C. includes a two-part exam, education requirements, and a work experience requirement
    D. is offered to managers who take special courses in accounting

Solution
C

15. **LO 1.3** Which of the following terms means the ability to work in cross-functional teams in order to complete a task?
    A. supervisory skills
    B. conceptualization
    C. collaboration
    D. resource planning

Solution
C

16. **LO 1.3** Which of the following terms means knowing how a business is run and how it is influenced by external forces, and knowing and understanding the overall industry?
    A. commercial awareness
    B. conceptualization
    C. collaboration
    D. imagination

Solution
A

17. **LO 1.4** What is the law that protects investors from fraudulent financial accounting activity?
    A. FASB
    B. SACS
    C. SOX
    D. CPAS

Solution
C

18. **LO 1.4** What year was the Sarbanes-Oxley Act enacted?
    A. 2007
    B. 1992
    C. 1997
    D. 2002

Solution
D



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19. **LO 1.4** When a representative of an organization gives money to another business official in order to gain favor and/or manipulate a business decision, this is known as _____.
    A. whistleblowing
    B. bribery
    C. buyer debits
    D. face value

Solution
B

20. **LO 1.4** The law that specifically prohibits payments to foreign officials in order to attain business is known as _____.
    A. FCPA
    B. AICPA
    C. SOX
    D. IFRS

Solution
A

21. **LO 1.4** Which of the following is *not* a step in the outline for examining ethical issues?
    A. Establish the facts of the situation.
    B. Evaluate each course of action.
    C. Make a decision.
    D. Confirm decision with FASB.

Solution
D

22. **LO 1.5** Which of the following is *not* an objective used in the balanced scorecard approach?
    A. Customer
    B. Financial
    C. Vendor
    D. Learning and growth

Solution
C

23. **LO 1.5** Which of the following is *not* true regarding continuous improvement?
    A. It applies to both service and manufacturing companies.
    B. It is used to reduce performance costs.
    C. It rejects the idea of "good enough."
    D. It can be applied only to improve processes and products but not services and practices.

Solution
D

24. **LO 1.5** A company's attempts to utilize sustainable business practices with regard to its employees, the environment, and society are known as _____.
    A. a balanced scorecard
    B. corporate social responsibility
    C. total quality management
    D. value chain

Solution
B



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25. **LO 1.5** A process that is often linked to Six Sigma and is designed toward continuous improvement by eliminating waste is _____.
    A. kamikaze
    B. value chain
    C. total quality management
    D. kaizen

Solution
D

26. **LO 1.5** An inventory system that organizations use to increase efficiency and decrease waste is _____.
    A. corporate social responsibility
    B. just-in-time manufacturing
    C. total quality management
    D. Lean Six Sigma

Solution
B

27. **LO 1.5** A quality control program that depends on multiple team members for removing waste and diminishing defects within products is _____.
    A. kaizen
    B. total quality management
    C. Lean Six Sigma
    D. a balanced scorecard

Solution
C

**Questions**

1. **LO 1.1** Carlita believes an important part of the planning process for managers is being sure to position the company to achieve its goals. She thinks that positioning is an extensive concept and can depend on the right information and that managerial accountants assist in positioning the company. Is she correct? Explain.

Solution
Answers will vary but should include that cost analysis, branding, pricing, and competition all fall under positioning, and this information comes from the managerial accounting staff. It is used to plan for future processes.

2. **LO 1.1** What are some activities and tasks a manager might perform when engaging in the controlling function of management responsibilities?

Solution
Answers will vary. Responses may include putting in place ways to assess the company's success in meeting objectives and goals; monitoring the outcomes of objectives put into place, such as controlling theft of goods or cash; determining the appropriate controls to assess successful outcomes; deciding which ratio to use to measure inventory controls; deciding which performance measure or physical control is more appropriate; defining and administering the steps of a company's short-term and/or long-term planning to help operationalize day-to-day activities to meet corporate goals; and providing performance reports and control reports that report variances between plans and actual performance.



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3. **LO 1.1** If there are deviations from the stated goals and objectives, what steps can managers take to get back on track? Provide at least two specific examples.

Solution
Answers will vary but should include the following: Managers must determine what modifications and changes need to be made to operations to get back on track to meet the stated goals and objectives. Managers need to decide if stated goals and objectives should continue to be pursued as they are, or if they should be modified or completely scrapped. Examples may include revising inventory controls to include antitheft tags that trigger an alarm when inventory is moved from an approved location in order to reduce inventory losses; installing more cameras in more strategic locations to further reduce theft from shoplifting; revising the financial metrics such as ratios or other performance measurements to provide more meaningful and timely insight to help determine how to get back on track; investigating why market share has not changed as expected by talking to the sales force and analyzing market data; evaluating same-store sales to understand how to expand sales in accordance with goals and objectives; and investigating why a production process has experienced a bottleneck and how to relieve the pressure in that specific area, such as making sure appropriate raw materials are available in a timely manner to avoid machine shutdowns waiting on materials to arrive.

4. **LO 1.1** Explain how managerial accountants help managers plan, control, and evaluate.

Solution
Answers will vary. Responses should include the following. Managerial accountants help managers at all levels of the organization to plan, control, and evaluate. They help determine whether plans are measurable, what controls should be implemented to carry out a plan, and what the proper means are for evaluating the controls. Feedback is very important for each step, and the managerial accountants generate the reports and information needed to assess the results of the various evaluations, and they help interpret the results.

5. **LO 1.1** How do the subject matter of reports and the verification of reports differ between financial accounting and managerial accounting?

Solution
Reports generated from financial accounting are a compilation of a company's various transactions and contain aggregated information for the entire company in the form of financial statements. For publicly traded companies, these reports follow the rules set forth by the Financial Accounting Standards Board (FASB). In addition, the financial statements are verified by external auditors. Reports generated by managerial accounting are varied in nature because they are driven by the questions that need to be addressed by management. Different companies and different questions require different reports. Managerial accounting reports are therefore on a more detailed level, such as on a product or division level. There are no specific rules guiding the creation of these reports, and they are usually unaudited.

6. **LO 1.2** What is the purpose of management accounting?

Solution
The purpose of management accounting is to supply financial and nonfinancial information to the organization's management and other internal decision makers.

7. **LO 1.2** Who are the primary users of the information gathered by managerial accountants?

Solution
The primary users of information gathered by managerial accountants are internal users, including management, employees, and officers.



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8. **LO 1.2** What are the key differences between financial accounting and managerial accounting?

Solution
The key differences between financial accounting and managerial accounting are the users, types of reports, frequency of reports, purpose of reports, focus of reports, nature of reports, and verification.

9. **LO 1.3** Other than accounting skills, what six qualities must be prevalent in a managerial accountant?

Solution
Six qualities a managerial accountant should exhibit are commercial awareness, collaboration, effective communication, strong technology skills, analytical skills, and ethics.

10. **LO 1.3** Explain how having more than one of the accounting credentials would be beneficial to an accounting career.

Solution
While there are numerous options from which to select, we provide five samples here: Certified Public Accountant (CPA), Certified Management Accountant (CMA), Certified Internal Auditor (CIA), Chartered Financial Analyst (CFA), and Certified Financial Planner (CFP). Currently, there seems to be a preference for broadly trained accounting/financial practitioners. Practitioners with a broad background have more employment opportunities. In some cases, there is some overlap in preparing for the certification exams. Also, for some of the exams you get credit for other exams passed. For example, if you are a CPA, and you want to take the CFP exam, the requirements are often less rigorous.

**LO 1.3** Briefly discuss the chain of command for someone being hired into an organization as a staff managerial accountant.

Solution
The chain of command for someone being hired into an organization as a staff managerial accounting is: Management accounting supervisor → Controller → CFO → CEO → Board of Directors.

11. **LO 1.3** According to the information available at http://www.accounting.com/careers/, what are six different areas of accounting on which you can focus your career?

Solution
Six different areas of accounting on which you can focus your career are public accounting, financial accounting, auditing, government accounting, management accounting, and forensic accounting.

12. **LO 1.3** According to the information on management accounting available at http://www.accounting.com/careers/, what are some areas of specialization?

Solution
Specialization areas for management accountants includes budget analyst, financial analyst, accounting manager, controller, chief financial officer

13. **LO 1.3** Go to http://www.accounting.com/careers/ and look up your state to find projected job growth and projected salaries.

Solution
Answers will vary by state.

14. **LO 1.4** What other professional business organizations have a code of ethics?

Solution



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Examples of professional business organizations that have a code of ethics are: American Institute of Public Accountants, Association of Certified Fraud Examiners, Financial Executives Institute, American Marketing Association, and National Society of Professional Engineers.

15. **LO 1.4** How can having a bonus system based purely on sales goals create an environment that encourages unethical behavior?

Solution
Answers will vary. Basing bonuses purely on sales goals gives incentive to those receiving the bonuses to be unethical in order to achieve their bonuses.

16. **LO 1.4** What led to the United States Congress passing the public accounting reform act called Sarbanes-Oxley?

Solution
Several accounting scandals involving publicly traded companies (Enron, WorldCom, and Arthur Andersen) led to the act. It was aimed particularly at public accounting organizations that performed audits of publicly traded corporations.

17. **LO 1.5** What is an enterprise resource planning (ERP) system? What are the principal benefits of such a system?

Solution
Answers will vary. Responses should include the following. An ERP system helps companies streamline their operations and helps management respond quickly to change. While an ERP system is usually expensive to implement, the principal benefits include the alleviation of major complications that arise when business systems do not coordinate with each other and the ability to have one system that compartmentalizes different organizational functions into working units that share with each other when it is beneficial to managing the organization.

18. **LO 1.5** Describe what is meant by the term "balanced" in the term *balanced scorecard method*.

Solution
"Balanced" refers to using financial and nonfinancial measures in evaluating all attributes of the organization's procedures balanced across four perspectives: financial, customer, internal process, and learning and growth/capacity. It also refers to considering both high-level and low-level measures using the company's own strategic plan.

19. **LO 1.5** What is corporate social responsibility, and who are the stakeholders?

Solution
Corporate social responsibility refers to an organization's programs to evaluate and take responsibility for that organization's effects on environmental and social welfare. The stakeholders include owners, investors, employees, customers, partners, communities, competitors, media, and others.

**Exercise Set A**

EA1. **LO 1.2** Indicate whether each statement describes financial accounting or managerial accounting.

A. The information is directed at external users who are making decisions pertaining to investing, extending credit, and other decisions.
B. The principal users are the organization's managers.
C. The key focus is on the entity as a whole.
D. The rules and principles are very flexible.



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E. The information gathered is usually available after an independent audit has been completed.

Solution
A. Financial. B. Managerial. C. Financial. D. Managerial. E. Financial.

EA2. **LO 1.2** Identify the following as True or False:

A. Managerial accounting reports must comply with the rules set in place by the FASB.
B. Financial accounting reports are typically general-purpose reports.
C. Financial accounting reports pertain to the entity as a whole, whereas managerial accounting focuses more on subunits of the organization.
D. The main users of the financial accounting information are the internal users.
E. Managerial reports are prepared on an as-needed basis.
F. Financial accounting reports often must be audited at least annually by an independent auditor.

Solution
A. False. B. True. C. True. D. False. E. True. F. True.

EA3. **LO 1.2** Define each of these users of accounting information as an internal user of external user:

A. Management
B. Employees
C. Investors
D. Creditors
E. Customers
F. Tax authorities

Solution
A. Internal. B. Internal. C. External. D. External. E. External. F. External.

EA4. **LO 1.2** Discuss what information would be most useful for these users of accounting information:

A. Management
B. Employees
C. Investors
D. Creditors
E. Customers
F. Tax authorities

Solution
Answers will vary. Responses should mention that internal users will need more detailed information from managerial reports, while external users can only get information from the financial reports.

EA5. **LO 1.3** Taylor Speedy has prepared the following list of statements about managerial accounting, financial accounting, and the functions of management. Identify each statement as true or false.

A. Financial accounting centers on providing information to internal users.
B. Staff positions are directly involved in the company's primary revenue-generating activities.
C. Preparation of budgets is part of financial accounting.
D. Managerial accounting applies only to merchandising and manufacturing companies.



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E. Both managerial accounting and financial accounting deal with many of the same economic events.

Solution
A. False. B. False. C. False. D. False. E. True.

EA6. **LO 1.3** Match the term with the description:

| | | |
|---|---|---|
| A. Certified Public Accountant | i. | Specialist in corporate accounting management; favors financial analytics, budgeting, and strategic domains |
| B. Certified Financial Analyst | ii. | Considered the top tier in accounting certifications; must pass a four-part exam, with education and work experience requirements |
| C. Certified Management Accountant | iii. | Designation that is exclusively for auditors of the public sector |
| D. Certified Internal Auditor | iv. | Credential for auditors who work within organizations and is one of a few that is accepted worldwide |
| E. Certified Fraud Examiner | v. | Certification for those with a career in finance and investment areas |
| F. Certified Government Auditing Professional | vi. | Designation that proves proficiency in fraud prevention, detection, and deterrence |

Solution
A. ii. B. v. C. i. D. iv. E. vi. F. iii.

EA7. **LO 1.4** After the passage of the Sarbanes-Oxley Act in 2002, many new responsibilities were put into place for organizations and their management. What are the four significant issues that were addressed by the act and its provisions as presented in this chapter? How does the act and its various requirements help deter fraudulent activity?

Solution
The four include: Section 302, Section 404, Section 806, and Section 906

- Section 302: By having the CEO and CFO review and sign the annual reports, it ensures that they are aware of what is being reported and how the accounting system is being handled.
- Section 404: Having all financials audited by an independent auditor and an internal control audit will help ensure that the accounting is being looked at by someone who is independent of the company and that their internal control policies are in place and being followed.
- Section 806: Protection to whistleblowers will encourage those with information to come forward and feel safe in doing so.
- Section 906: The increase in penalties for fraudulent behavior will act as a deterrence.

EA8. **LO 1.4** Indicate whether each of the following statements is true or false.

A. Bribery in the world of business typically happens when an organization or representative of an organization gives financial benefits to an official to gain favor or manipulate a business decision.

B. The Foreign Corrupt Practices Act was implemented in the aftermath of disclosures that businesses were violating the IMA Code of Ethics.

C. Managers are required to follow specific rules issued by the IMA for internal financial reporting.

D. Ethics is more than obeying laws.

E. The Sarbanes-Oxley Act addressed public company accounting reform.



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Solution
A. True; B. False; C. False; D. True; E. True

EA9. **LO 1.5** Match each lean business method to the best description:

| | | |
|---|---|---|
| A. Just-in-time manufacturing | i. | The focus is on quality throughout the entire process. |
| B. Continuous improvements | ii. | Inventory is attained or produced only as needed. |
| C. Total quality management | iii. | A combined effort of team members is used to eliminate waste and defects. |
| D. Lean Six Sigma | iv. | All managers and employees are always looking for ways to improve operations. |

Solution
A. ii; B. i; C. iv; D. iii

EA10. **LO 1.5** For each of the activities listed, choose the manufacturing concept that applies: (i) just-in-time inventory, (ii) continuous improvement, or (iii) total quality management.

A. A company receives inventory daily based on customer orders.
B. Manufacturing factories have been arranged in such a fashion to reduce inefficiencies.
C. Companies organize customer focus groups in order to look at customer needs and expectations.
D. The entire production process is standardized and written down with procedures.
E. Each customer receives a survey of satisfaction with their product.
F. All orders are complete and shipped within three business days.

Solution
A. i. B. iii. C. ii. D. iii. E. ii. F. i.

EA11. **LO 1.5** Look up the definitions for the following terms:

A. Budget (Chapter 07: Budgeting; see https://cnx.org/contents/kg0cimBs@14.1:3i0u0m3T@9/Why-It-Matters)
B. Capital budget (Chapter 11: Capital Budgeting Decisions; see https://cnx.org/contents/kg0cimBs@14.1:64v5BSLc@4/Why-It-Matters)
C. Balanced scorecard (Chapter 12: Balanced Scorecard and Other Performance Measures; see https://cnx.org/contents/kg0cimBs@14.1:9cE4FaSo@4/Why-It-Matters)
D. Breakeven point (Chapter 3: Cost-Volume-Profit Analysis; see https://cnx.org/contents/kg0cimBs@14.1:r8wRuw9I@4/Why-It-Matters)

Provide examples of how each of these terms is used in your own life and how using these practices is useful.

Solution
Answers will vary. Sample answers: A. Budget: includes planning the amounts to be spent on food, rent, clothing, college costs, and so forth, and allows me to best utilize my inflows (income, gifts, etc.) to meet my spending and savings goals. B. Capital budget: includes planning for items that have a longer life or that are significantly more expensive than day-to-day expenses, such as buying a house or car, paying for school, paying for vacations. C. Balanced Scorecard: grades, job placement or advancement, meeting financial goals, meeting educational goals. Using a personal balanced scorecard allows for planning of all aspects of my life (personal, professional, educational, financial) and determining how to measure success in those areas. D. Break-even: overall budgeting as well as budgeting for specifics such as a car or house, performing what-if analysis such as what happens if I get a raise or take on a roommate to help with expenses. Understanding break-even analysis allows me to make a better budget, project



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what would happen if certain financial events occur and to more quickly respond to changes in my financial situation.

**Exercise Set B**

EB1. **LO 1.2** Indicate whether the statement describes reporting by the financial accounting function or the managerial accounting function of an organization.

A. The users of the report are managers who need a daily summary of work done each shift.
B. The report is a job cost sheet for jobs completed in a 24-hour period.
C. The annual report is released each year on the company's website.
D. The report is audited by the company's certified public accountant firm.
E. The report is prepared every day because the customer service manager needs information about inventory ready to be shipped to customers.

Solution
A. Managerial. B. Managerial. C. Financial. D. Financial. E. Managerial.

EB2. **LO 1.2** Identify the following as true or false:

A. Financial accounting reports are *not* released to external users.
B. Managerial accounting reports are *not* used by employees inside the organization.
C. Managerial accounting reports include only monetary information.
D. Financial accounting reports are monetary in nature.
E. If a result of a company's operations is nonmonetary in nature, it must be converted to monetary units for managerial reporting.
F. Tax authorities and government regulatory agencies are external users of financial information.

Solution
A. False. B. False. C. False. D. True. E. False. F. True.

EB3. **LO 1.2** Companies need to report both monetary and nonmonetary data and information.

A. Define these two terms and provide examples of each.
B. Discuss what sources are available that provide companies with both types of data and information.

Solution
A. Monetary: information relating to money or currency. An example is sales revenue in dollars. Nonmonetary: information not relating to money or currency, such as the quantity of material, number of employees, number of hours worked, or sales volume in number of units sold. B. Answers will vary but could include the following: Monetary sources are sales reports in dollars, income statements, balance sheets, cash flow statements, budgets for general and administrative expenses in dollars, journal entries, the general ledger, and so forth. Nonmonetary sources are sales reports in units sold, inventory reports showing units of raw materials on hand, data from human resources showing how many employees work in a plant or are assigned to each shift, payroll reports showing number of hours worked in a week, and so forth.

EB4. **LO 1.3** Marvin has been thinking about the fields of managerial and financial accounting and the functions of management within an organization. He has the following list of statements to understand. Identify them as true or false.

A. Managerial accounting reports are prepared only quarterly and annually.
B. Financial accounting reports are general-purpose reports.
C. Managerial accounting reports pertain to subunits of the business.
D. Managerial accounting reports must comply with GAAP.



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E. The company treasurer reports directly to the vice president of operations.

Solution
A. False. B. True. C. True. D. False. E. False.

EB5. **LO 1.3** Match the term with the description.

| | | |
|---|---|---|
| A. Chief Executive Officer | i. | has responsibilities that include transferring monies between accounts and monitoring deposits |
| B. Chief Financial Officer | ii. | the corporation officer who has the overall responsibility of the management of a company |
| C. Enrolled Agent | iii. | a corporate officer who reports to the chief executive officer and oversees all of the accounting and finance concerns of a company |
| D. Cash Management Accountant | iv. | the financial officer of a corporation reporting to the chief financial officer who is responsible for the accounting records and financial statements |
| E. Controller | v. | credential focusing on a career in taxation created by the IRS to signify significant knowledge of the US tax code |
| F. Financial Analyst | vi. | Someone who assists in preparing budgets, tracking actual costs and performs other tasks that support other management personnel in organizing forecasts and projections |

Solution
A. ii. B. iii. C. v. D. i. E. iv. F. vi.

EB6. **LO 1.4** The Foreign Corrupt Practices Act (FCPA) was implemented in 1977. Why was it enacted, and what are its major provisions?

Solution
The FCPA was enacted because US corporations were bribing foreign bureaucrats. The provisions of the law include prohibiting payments to foreign government officials to aid in attaining or retaining business. All US persons and foreign firms acting within the United States must comply with the law. Any corporations listing on US stock exchanges must comply with certain accounting provisions that ensure records fairly represent the transactions of the company and that the company maintains an acceptable system of internal controls. The act is broken down into the antibribery and accounting sections.

EB7. **LO 1.4** Indicate whether each of the following statements is true or false.

A. Section 302 of Sarbanes-Oxley requires the CEO and CFO to review all financial reports and sign the reports.

B. One of the three questions put forth by the Institute of Business Ethics is “Do I mind others knowing what I have done?”

C. Ethical issues may be faced on a small scale, such as making a business decision to produce excess inventory for the sole purpose of trying to influence managers’ bonuses.

D. A manager who spends excess budgeted funds remaining at the end of a fiscal year on unnecessary expenditures thinking that it is better to “use it than lose it” is acting ethically.

E. The Foreign Corrupt Practices Act was implemented in 2001 to protect investors by enhancing the accuracy and reliability of corporate financial statements and disclosures.

Solution



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A. True. B. True. C. True. D. False. E. False.

**Thought Provokers**

1. Table 1.3 Relating Managerial Accounting Functions to Various Business Majors shows how different areas within the business world use the information from managerial accountants. Think of the ways that the events coordinator for the United Way (a nonprofit charitable organization) would use each area (planning, controlling, and evaluation).

| Relating Managerial Accounting Functions to Various Business Majors | | | |
|---|---|---|---|
| | **Sales** | **Human Resources** | **Logistics** |
| **Planning** | What are our expected sales for each product in each geographic region?<br>How much should be budgeted for salaries and commissions for our salespeople? | How much should we budget for salary and wage increases for the year?<br>How much should we plan to spend on safety and training for the year? | Should we invest in radio-frequency identification (RFID) processors to enable computer tracking of inventory?<br>How much raw material should be ordered and delivered to ensure timely delivery of our finished products to our customers? |
| **Controlling** | Are we meeting expected sales growth in each region?<br>Are each of the salespeople meeting their sales projections? | Is our projected budget for wages and salaries sufficient?<br>Are we meeting our safety and training goals? | Are our products being delivered to our customers in a timely manner, and at what cost?<br>Are we dealing with stock-outs in inventory? If so, what is that costing us? |
| **Evaluating** | How do our actual sales compare to our forecasted or budgeted sales?<br>What sales promotions are our competitors offering, and what effect is it having on our market share? | Would it be cheaper to hire temporary employees to get through our "busy" season or to pay our current employees for overtime? | What are the cost differences in starting our own delivery service versus continuing to use other carriers?<br>Should we outsource the manufacturing of a component part or continue to make it ourselves? What are the price differences? |

Table 1.3 Relating Managerial Accounting Functions to Various Business Majors

Solution

Answers will vary. Responses should include creating and following a budget for the event being planned; tracking donations and guest lists for the event for controlling; after the event, evaluating whether donations and income outweigh the costs of the event, whether the event should be held elsewhere next time, whether different caterers should be used, and how it can be made better.

2. **LO 1.1** There are individuals who are under the impression that managerial accounting provides services mainly for manufacturing organizations. Are they correct? Explain.



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Solution
Answers will vary. Responses should indicate that the assumption that managerial accounting is only serving the manufacturing industry is incorrect. Managerial accounting is used in all industries.

3. **LO 1.3** Think about the organization chart in Figure 1.7 Sample Organizational Chart. Describe ways in which each of the accounting and managerial functions might overlap and complement each other.

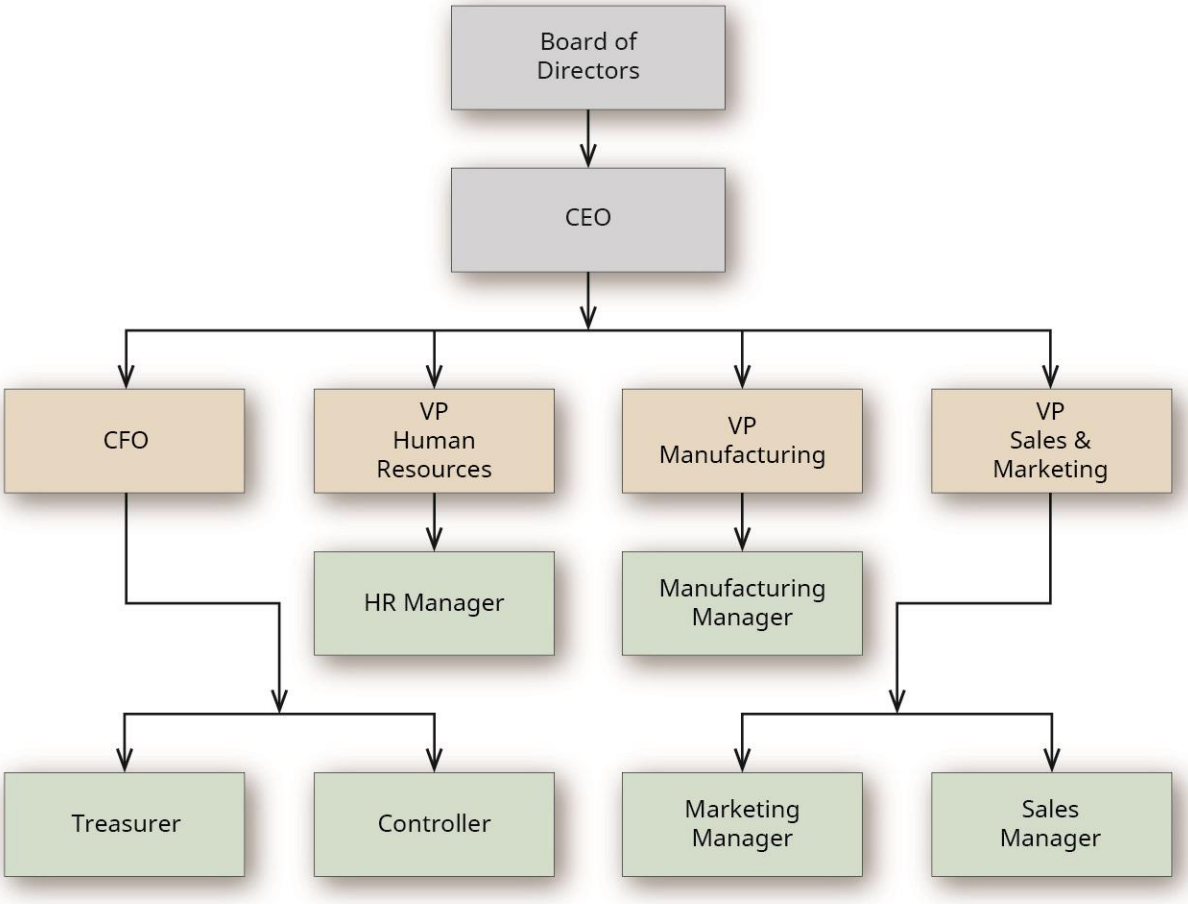



Figure 1.7 Sample Organizational Chart. (attribution: Copyright Rice University, OpenStax, under CC BY-NCSA 4.0 license)

Solution
Answers will vary. Responses may include comments such as the following: The board of directors relies on information provided by the CEO and CFO to help make long-term strategic decisions. The CFO relies on the controller and the managerial, financial, and tax accountants to reliably record daily activities of the organization to provide accurate historical information to the CFO. The managerial accountant will provide monetary and nonmonetary information to the controller, and the CFO will provide feedback and insight on how processes and production workflows are healthy or in need of assessment and refinement. The internal auditor will provide feedback on internal processes and assurance that the company's own policies and GAAP are being followed. The treasurer will help find ways to finance future operational projects and keep cash flows positive for day-to-day operating purposes.



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4. **LO 1.4** Controversy tends to surround the topic of whistleblowers. For example, should they be considered heroes or traitors? Many pro-whistleblowing policies have been enacted by the federal government to allow these individuals to reap significant monetary rewards for coming forward and giving information about behaviors and actions such as corporate fraud and unethical deeds. Many corporate whistleblowers face negative consequences of their actions, such as reassignment, revenge, and hate crimes, and are seen as traitors (e.g., Edward Snowden and Gina Gray). Yet Sherron Watkins and Cynthia Cooper were celebrated as heroes. Look up the stories of Sherron Watkins and Cynthia Cooper. Why do you think that some whistleblowers are vilified and others made to be heroes?

Solution
Answers will vary. On one hand, it is not uncommon for individuals, even as children, to dislike a "tattletale"; often, a whistleblower is viewed as a tattletale or someone who should have kept to his or her own job and not been concerned with what others in the company were doing. On the other hand, whistleblowers are often seen as heroes since they are the reason that one or more individuals who were participating in illegal activities are caught. In these instances, the whistleblower is seen as the hero who "saved" the owners of the company (investors) from those perpetrating the crimes. Without whistleblowers, the owners might have lost more money had the illegal activities continued.

**Feature Boxes**

Your Turn: Evaluating On-Campus versus Off-Campus Living

Solution
Planning:

- Creating a list of financial and nonfinancial goals to be accomplished in your next year in college
- Determining how much each alternative will cost, including utilities, food, and transportation, and creating a budget

Controlling:

- Using an expense recording app to monitor your expenses
- Monitoring the effectiveness of your study time as reflected in your grades
- Monitoring your physical health to measure if your living arrangements are conducive to staying healthy

Evaluating:

- Assessing the effectiveness of your living arrangements by measuring your grades, bank account, and general happiness

Financial:

- Cost of staying in dorm versus the cost of an apartment or house
- Estimate of differences in other costs, such as utilities, food, and additional transportation

Nonfinancial:

- Convenience of location of dorm versus apartment or house
- Quality of living experience including number of roommates, ability to have own room, study environment differences
- Length of rental term of dorm versus apartment or house
- Where you plan to live in the summer, what you plan to do during that time



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Think It Through: US Small Business Administration

Solution

1. Some steps to creating a small business (from the US Small Business Administration at www.sba.gov): conduct market research; write a business plan; fund the business; pick a business location; choose a business structure—corporation, partnership, and so on; choose your company name; register your business; get a federal and state tax ID; apply for licenses and permits; open a business bank account; open for business.
2. Top ten reasons a small business fails:[1]

| |
|---|
| 1. Starting for the wrong reason |
| 2. Insufficient capital |
| 3. Improper planning |
| 4. Poor management and leadership |
| 5. Expanding too quickly |
| 6. Failure to advertise and market |
| 7. Lack of differentiation |
| 8. Unwillingness to delegate |
| 9. Unprofitable business model |
| 10. Underestimating the competition |

3. All businesses, large or small, face many decisions on a daily basis. Some of those decisions are large, such as whether to buy a building or rent one, and others are small, such as how much to spend on pens for the office in a given month. To answer those questions, and most others that a business will face, there is a need for various types of information that can be used in making those business-type decisions. Knowledge of managerial accounting techniques will help a small business owner more properly evaluate alternatives and. therefore, potentially make better decisions.

Your Turn: Daryn's Dairy

Solution

Answers will vary. Sample answer:

Where would you gather the information? Where would you find this information?

- Current company sales information would be obtained from internal company reports and records that detail the sale of each type of ice cream including volume, cost, price, and profit per flavor.
- Sales of ice cream from other companies may be more difficult to obtain, but the footnotes and supplemental information to the annual reports of those companies being analyzed, as well as industry trade journals, would likely be good sources of information.

What types of information would you need?

- Some of the types of information that would be needed would be the volume of sales of each flavor (number of gallons), how long each flavor has been sold, whether seasonal or limited-edition flavors are produced and sold only once or are on a rotating basis, the size of the market being examined (number of households), whether the other companies sell similar products (organic, all natural, etc.), the median income of consumers or other

[1] Paul Chaney. "10 Reasons Small Companies Fail." *Small Business Trends*. July 28, 2016. https://smallbiztrends.com/2016/07/small-companies-fail.html



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information to assess the consumers' willingness to pay for organic products, and so forth.

How would Daryn's Dairy determine the impact of this type of change on the business?

- Management would evaluate the cost to expand into new stores in their current market compared to the potential revenues from selling their products in those stores in order to assess the ability of the potential expansion to generate a profit for the company.

If implemented, what information would Daryn's Dairy need to assess the success of the plan?

- Management would measure the profitability of selling any new products, expanding into new stores in their current market, or both to determine if the implementation of the plan was a success. If the plan is a success and the company is generating profits, the company will continue to figure out ways to improve efficiency and profitability. If the plan is not a success, the company will determine the reasons (cost to produce too high, sales price too high, volume too low, etc.) and make a new plan.

Think It Through: Projection Error

Solution

Answers will vary. Sample answer:

- The ethical considerations are that a decision could be made based on incorrect information.
- The results of telling the president of your error include (1) the ability to correct the projections and get the corrected information to the board, (2) the ability of the board to make a well-informed decision, and (3) possibly being reprimanded by the boss.

The results of not telling the president of your error include (1) the board making an important decision based on misleading information that has a significant impact on the business in either a positive or negative manner and (2) feeling badly for not letting the appropriate people know of the error.

Your Turn: Career Planning

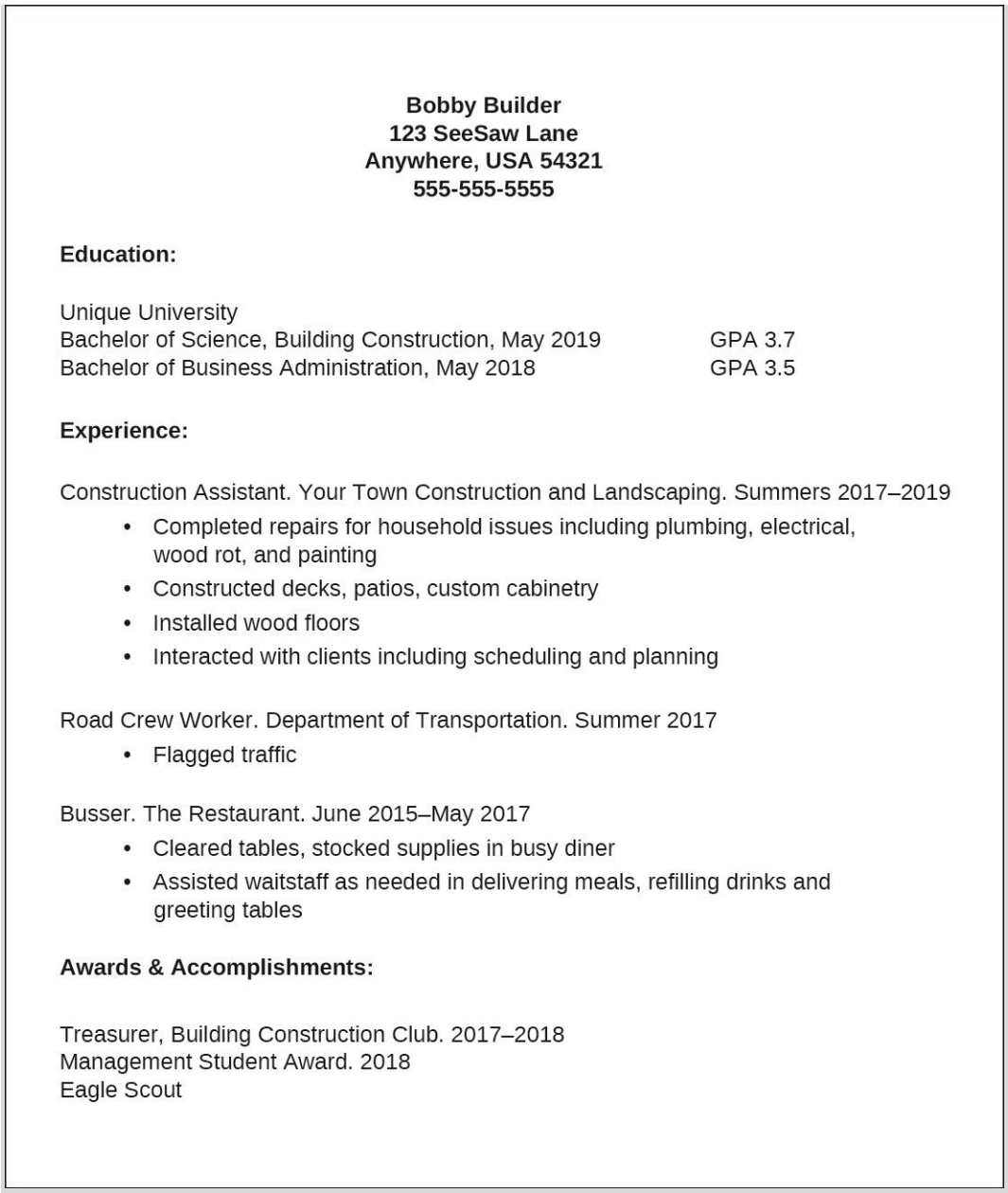
Solution

Answers will vary. Sample answer:

1. I would like to own my own home remodeling company. Steps to get there include the following:
    A. complete double major in business and building construction
    B. in the summers before graduation, work for a local handyman franchise
    C. after graduation, work for a home builder as a project manager
    D. while working, save money for five years to be used to start my own company
    E. put together a business plan
    F. start my own business six years after graduation
2. I would like to work for a national home builder such as Pulte or Toll Brothers. Ideally, I would have an internship with one of them during college. I would like to work for a national builder or a large regional builder because they already have a good business model and I could learn how that works.
3. My résumé needs to contain my education information such as the degree and my majors as well as classes that are pertinent to my career. It should also indicate all of my work experience and any particular skills or certifications I have achieved, such as Eagle Scout. An example of how this information may be presented on a résumé can be seen in Figure 1.10 Sample Résumé.



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**Bobby Builder**
**123 SeeSaw Lane**
**Anywhere, USA 54321**
**555-555-5555**

**Education:**

Unique University
Bachelor of Science, Building Construction, May 2019 GPA 3.7
Bachelor of Business Administration, May 2018 GPA 3.5

**Experience:**

Construction Assistant. Your Town Construction and Landscaping. Summers 2017–2019

- Completed repairs for household issues including plumbing, electrical, wood rot, and painting
- Constructed decks, patios, custom cabinetry
- Installed wood floors
- Interacted with clients including scheduling and planning

Road Crew Worker. Department of Transportation. Summer 2017

- Flagged traffic

Busser. The Restaurant. June 2015–May 2017

- Cleared tables, stocked supplies in busy diner
- Assisted waitstaff as needed in delivering meals, refilling drinks and greeting tables

**Awards & Accomplishments:**

Treasurer, Building Construction Club. 2017–2018
Management Student Award. 2018
Eagle Scout

Figure 1.10 Sample Résumé. (attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

Think It Through: Managing Cash Flow

Solution

Answers will vary. Sample answer:

1. The hops, barley, malt, oats, and yeast should be recorded in inventory, as they are part of the inventory of materials needed to make the beer. This would properly have these ingredients as an asset, which would be expensed when the beer is sold, rather than immediately. If the ingredients are recorded as an expense immediately, this will reduce net income and therefore taxes owed. However, to record the ingredients as an expense would be improper accounting. If these ingredients were recorded as expenses rather than assets, then materials inventory is understated



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on the balance sheet, and expenses and, therefore, net income are understated on the income statement.
2. The way to respond to this request is to point out to the CFO that these are ingredients in making the beer and therefore are inventory when purchased and not an expense until the beer is sold. This will let the CFO know that you are aware his request is not proper accounting.
3. This request is a violation of accounting principles regarding how inventory is to be recorded and when it is to be expensed. The request should be brought to the attention of another executive officer. Willingness to purposely misrepresent transactions and thus provide false information on the financial statements is an ethical matter.

Your Turn: Logistics Analyst

Solution
Answers will vary. Sample answer:
Ways to learn about the company and industry include the company website, press or news releases, industry trade journals, company internal documents such as procedure manuals and job descriptions, and conversations or interviews with fellow employees at various levels of the organization. The more knowledge you have regarding financial and managerial accounting, the better you can link the operations of the organizations to financial results and the more easily you can ascertain both efficiencies and inefficiencies in the organization.

Your Turn: Zaley's Machining Division

Solution
Answers will vary. Sample answer:

- Alex Freeman, technical specialist (supervises all computer programs), needs information on the hours and type of usage possibly by department or by individual to ascertain if the equipment is being used effectively or if the programs used by the company are appropriate or additions or deletions need to be made. In addition, this information is needed to address how much and what type of staffing he needs in his department.
- Emma Vlovski, sales manager (supervises all sales agents), would want information about the level and type of sales for the company as a whole as well as for the individual sales agents. She would want to know which products are selling well, which ones are not, which sales agents are being the most successful, and why they are more successful than the others. Emma would also want information on how the agents are compensated, as this may be tied to the sales agent's efforts to meet sales goals.
- Kayla McClaughley, cost accounting director (supervises all cost accountants), would want to know what tasks the cost accountants perform, how much time they spend on these tasks, and whether there are any redundancies in workload so that improvements in efficiency can be made. If any of the accountants has certifications such as CPA or CMA, she would want to know if they are keeping their certifications current through continuing professional education.
- Mwangi Kori, lead test engineer (oversees all new-product testing and design), would need information on the efficiency and effectiveness of each of the products tested, including success and failure rates. She would want information on how well the policies and procedures for design changes are being followed and if those policies and procedures need updating or rewriting.



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- Thomas Sanchez, production director (supervises all manufacturing employees), would want information on hours worked, pay rates, and training (past and ongoing) for the manufacturing employees. She would also want information on how each individual employee performs his or her role in the manufacturing environment. For example, are there particular employees who have fewer defects or down time in their part of the process than others?

Think It Through: Outsourcing

Solution

Answers will vary. Sample answer: There are several legal and economic advantages and disadvantages to outsourcing. Also, there are potential ethical issues. All of these need to be considered in making the decision to outsource.

**Potential advantages**: Potential material and labor cost advantages, potential compensation advantages (since you do not need as many employees and their benefits, you can concentrate on core activities), access to raw materials and skilled labor.

**Potential disadvantages**: Risk of losing control of sensitive data, privacy and intellectual property concerns, potential quality issues with the production turnaround, potential delivery problems, negative public response, and potential remaining employee morale issues.

In addition to the economic issues, you could spend several classes discussing the moral issues of firing productive workers.

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