Managerial Accounting The Cornerstone of Business Decision Making 8th edition Mowen Solutions Manual

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1 INTRODUCTION TO MANAGERIAL ACCOUNTING

DISCUSSION QUESTIONS

1. Managerial accounting provides accounting information for internal users in a firm. Specifically, managerial accounting identifies, collects, measures, classifies, and reports financial and nonfinancial information that is useful to internal users in planning, controlling, and decision making. Managerial accounting also has no mandatory rules, emphasizes the future, and is multidisciplinary.
2. The three broad objectives of managerial accounting are to provide information for planning, controlling, and decision making.
3. The users of managerial accounting information are generally managers and other employees of a firm. Managerial accounting information is typically not provided to outsiders but may be in selected cases. For example, a bank may require budgeting information for the next few years before agreeing to grant a loan.
4. A managerial accounting system typically provides both financial and nonfinancial information. For example, financial information on cost of production is tracked. Other information, such as the number of warranty returns, may also be tracked by the management information system.
5. Controlling involves comparing the expected performance with the actual performance to see what differences, if any, exist.
6. Planning occurs first. Planning requires setting objectives and identifying the means of achieving those objectives. Then, the results of the plan are compared with the plan, which is called *controlling*. Clearly, it is also feedback, in that any impediments or unexpected occurrences are noted. This feedback is then used to develop the plan for the next period.
7. Managerial accounting is internally focused, does not follow mandatory rules, keeps track of both financial and nonfinancial information, emphasizes the future, and relies on a broad range of disciplines. Financial accounting, on the other hand, is externally focused, follows externally imposed rules (such as GAAP), has a historical orientation, and provides information about the company as a whole.
8. Managerial accountants have had to broaden their focus beyond simple financial reporting to include the gathering of information on all types of costs and of the value of the product or service to customers. These broader costs are used in planning and decision making.
9. Customer value is the difference between what a customer receives and what the customer gives up when buying a product or service. The focus on customer value forces management accounting to look at many types of costs, not simply manufacturing cost. These may include the price of the good or service, maintenance costs, search costs, learning costs, and disposal costs.
10. The value chain is the set of activities required to design, develop, produce, market, and deliver products and services to customers. It is important because it helps the company to understand its role in serving customers and to develop strategic competence.
11. Today's managerial accountant must understand many functions of the business, from manufacturing to marketing to distribution to customer service, in order to provide appropriate information for managing the value chain. Increased international trade means the managerial accountant must be familiar with not only business practices and laws in his or her own country but also in the countries with which the company trades.

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12. Enterprise risk management (ERM) refers to the formal process of identifying the factors or threats, both internal and external to the organization, that might prevent the organization from achieving its strategic objectives. The managerial accountant plays an increasingly important role in ERM by providing financial and nonfinancial measures of these threats and communicating them to high-level executives (e.g., chief risk officer, chief financial officer, board of directors) in the organization who manage these factors.

13. Line positions are those that have direct responsibility for the basic objectives of an organization. These typically include producing and selling a product. Staff positions are supportive in nature (e.g., human resources, maintenance) and have only indirect responsibility for an organization's basic objectives.

14. Yes, the controller should be a member of top management. This is because the controller, as the chief accountant for the firm, has a wealth of information needed by top management in determining the strategic direction of the firm.

15. Ethical behavior involves choosing actions that are right, proper, and just. Yes, it is possible to teach aspects of ethical behavior in a managerial accounting classroom. Students need to see examples of right and wrong behavior in business. These examples help them to recognize ethical dilemmas later on the job.

16. One major theme or executive pressure common to many of the recent accounting scandals is a focus on the short term, rather than the long term. For example, WorldCom wrongly decided to increase current period net income by inappropriately decreasing current period expenses (by recording more of the expenditures as an asset that would be expensed in small amounts each period rather than all at once in the current period). Often, the high-level executives that perpetrate such financial fraud are rewarded by incentives that overweight current period net income performance relative to long-term net income performance. Another major theme common to many of the accounting and banking frauds is a lack of sufficient transparency, or clarity, in the types and timing of the information that is reported to parties outside of the organization. Some business experts also would argue that a third common theme underlying many of these scandals was the lack of sufficient oversight (i.e., watchdog mentality) by the perpetrating organization's auditors, board of directors, or both.

17. The three forms of certification discussed are the Certified Management Accountant, the Certified Public Accountant, and the Certified Internal Auditor. While all three are appropriate to the accountant within the company, only the CMA exam is interdisciplinary and covers the broad range of subjects faced by the managerial accountant.

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MULTIPLE-CHOICE QUESTIONS

1-1. **c**

1-2. **b**

1-3. **a**

1-4. **b**

1-5. **e**

1-6. **e**

1-7. **d**

1-8. **d**

1-9. **b**

1-10. **e**

1-11. **d**

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EXERCISES

E 1-12

a. Decision making
b. Controlling
c. Planning
d. Decision making
e. Planning
f. Decision making

E 1-13

a. Managerial accounting oriented
b. Financial accounting oriented
c. Managerial accounting oriented
d. Financial accounting oriented
e. Managerial accounting oriented

E 1-14

1. **The total product is the product and its features (processing speed, disk drives, software packages, and so on), the service, the operating and maintenance requirements, and the delivery speed.**

2. **One company is emphasizing low costs, and the other is attempting to differentiate its PC by offering faster delivery and higher-quality service.**

3. **The Confiar's service component and its delivery time appear to be better than Drantex's. Thus, the realization of these features appears to outweigh the additional sacrifice (the additional operating and maintenance cost) associated with the Confiar PC. The implications for management accounting are straightforward. The management accounting information system should collect and report information about customer realization and sacrifice. Much of this information is external to the firm but clearly needed by management.**

4. **Better quality and shorter delivery time increase the value of what the customer receives, while lowering the price decreases the amount paid. In total, customer value has increased, and presumably, this should make the Drantex PC much more competitive. This example illustrates how quality, time, and costs are essential competitive weapons. It also illustrates how critical it is for the management accounting system to collect and report data concerning these three dimensions.**

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E 1-15

Joan Dennison is staff. She is in a support role—she prepares reports and helps explain and interpret them. Her role is to help the line managers more effectively carry out their responsibilities.

Steven Swasey is a line manager. He has direct responsibility for producing a garden hose. Clearly, one of the basic objectives for the existence of a manufacturing firm is to make a product. Thus, Steven has direct responsibility for a basic objective and holds a line position.

E 1-16

No, it is not ethical for Steve to demand a kickback from Dave. Dave should not agree to this unethical proposal. This brief situation actually happened to Dave, a friend of one of the authors. The author advised Dave not to accept the deal. Dave then checked with his lawyer who bluntly told him the deal was illegal. Dave did not accept. In addition to rejecting Steve's unethical offer, Dave might consider reporting the unethical offer to relevant key stakeholders, such as Steve's superiors in the university's Athletic Department, university's Office of the Provost, or president. Hopefully, university administrators would be interested in learning of one (or more) of its employees damaging the integrity of its bidding process with key business partners such as Dave's printing shop. If Dave were a management accountant, he should consider the IMA's Statement of Ethical Professional Practice and what it says about avoiding and reporting such unethical behavior (e.g., see the first standard under Integrity and the second under Credibility).

E 1-17

A manager has a responsibility to the company as well as society. If the manager lays off the employees, he or she ignores both of these responsibilities. In effect, the manager would be pursuing self-interest at the expense of the company and the salespeople. While pursuit of self-interest is not necessarily unethical, it can be if it harms others. In this case, the manager's action could result in lower profits for the company because sales may decrease and unnecessary training costs will be incurred when the positions are refilled the following year. Similarly, it is unjust to penalize productive employees simply to earn a bonus. The right choice is to retain the three salespeople. In ethical terms, the manager is not behaving with integrity.

The reward system, in part, encouraged this behavior. Apparently, the manager is paid a bonus if profits exceed 10% of planned profits. By basing rewards on a measure such as short-run profits, the company has given the manager an incentive to manipulate earnings in the short run. One way of manipulating annual earnings is to reduce or defer discretionary expenditures.

This type of behavior can be discouraged by proper matching of expenses with revenues and by expanding the performance measures to include long-run factors like market share, productivity, and personnel development. The accounting system

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can also be used to track trends (e.g., training costs over time). Moreover, managers can be required to provide extensive justification for significant changes in discretionary expenses.

E 1-18

1. **By the time most students graduate from high school, they have not had much exposure to business. Therefore, they do not have full knowledge of acceptable behavior for the business environment. Students may not know that certain practices are unethical because they may not be familiar with the behavioral norms associated with these practices. Once students begin to learn business practices, they begin to see what ethical dilemmas can arise in a business context. Then they are able to apply the moral training they have had to deal with the situations. Furthermore, evidence exists that ethical reasoning can be changed for the better. Thus, instruction in ethics can be a vital part of a student's education.**
2. **Sacrificing self-interest is a choice that each person must make. Others may be influenced by those individuals who behave ethically. Individuals committed to ethical behavior produce societies committed to ethical behavior.**
3. **While this sounds noble, many would disagree that managers are first seeking to serve others and accept personal financial rewards as a by-product of a good job. Pursuit of self-interest and personal financial well-being is not necessarily unethical. It is only when this pursuit is done at the expense of the collective good that the behavior becomes questionable.**
4. **It is often true that unethical firms and individuals suffer financially. In the long run, some evidence suggests that ethical behavior does pay. It is doubtful, however, that every unethical firm or individual is wiped out financially. Too many notable exceptions to this statement exist (e.g., the selling of drugs by organized crime).**
5. **While some unethical behavior might be highly visible, many discoveries of unethical behavior reveal that the unethical behavior spanned long time periods, often multiple years. For example, the fake account scandal at Wells Fargo was publicly announced in 2016, but had been building internally for several years. This scandal eventually revealed that over 5,000 Wells Fargo employees were fired for opening millions of customer accounts without customer knowledge or consent. The scandal cost Wells Fargo—an historic and long respected banking giant in the United States—billions of dollars in fines, regulatory fees, legal and risk management expenses, stock price valuation decreases, and reputational damage. Therefore, some evidence exists that suggests that unethical behavior is not usually highly visible and, thus, not quickly detected or, ultimately corrected.**

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E 1-19

The employees should not follow the suggestion of their boss to purchase more shares in anticipation of a buyout. This is insider trading and is illegal. Insider trading is prohibited by many corporate codes of ethics. Even when it is not explicitly prohibited by the corporate code of ethics, it is still wrong and illegal.

E 1-20

Answers will vary.

E 1-21

1. **Answers will vary. However, some companies discuss various environmental issues, such as rising sea levels, greenhouse gas emissions, or pollution (e.g., of water, air, soil, landfills, etc.) as having important ethical consequences to their key stakeholders (customers, employees, community members near their facilities, etc.). Other companies discuss various social issues, such as worker safety, child labor, and human rights as having important ethical consequences to their key stakeholders (employees and suppliers). Finally, yet other companies discuss various governance issues, such as company performance measures and employee compensation, as having important ethical consequences to their key stakeholders (executives and other employees) as the actions that are measured and rewarded (as part of governance's compensation oversight) typically reflect the items of greatest interest to the company. Of course, successes (or failures) in identifying and managing the ethical consequences of any environmental, social, or governance ultimately have materially significant impacts on company shareholders.**
2. **Again answers will vary. However, companies are generally increasing use of data analytics (e.g., descriptive, diagnostic, predictive, or prescriptive approaches) in various ways to capture and analyze data regarding their environmental, social, or governance performance. In addition, companies often utilize various static and dynamic data visualization techniques (e.g., dashboards, charts) to communicate their ESG performance to key stakeholders within their ESG reports. Finally, Chapter 2 discusses data analytics (including Exhibit 2.2) in more detail.**

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Instructor Manual

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Purpose and Perspective of the Chapter

The purpose of this chapter is to explain the benefit of managerial accounting and how it provides managers with information that improves decisions and creates organizational value.

Chapter Objectives

The following objectives are addressed in this chapter:

01.01. Explain the meaning of managerial accounting.
01.02. Explain the differences between managerial accounting and financial accounting.
01.03. Explain the current focus of managerial accounting.
01.04. Describe the role of managerial accountants in an organization.
01.05. Explain the importance of ethical behavior for managers and managerial accountants.
01.06. Identify three forms of certification available to managerial accountants.

What's New in This Chapter

The following elements are improvements in this chapter from the previous edition:

- *Revised and updated chapter materials as needed for the changes in the edition*
- *Made minor modification of the learning objectives*
- *Added some content under "Ethical Behavior"*
- *Updated the CMA exam details*
- *Added a new multiple-choice question (1-7)*
- *Added Exercise 1-21*

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Chapter Outline

The following outline organizes activities (including any existing discussion questions in PowerPoints or other supplements) and assessments by chapter (and therefore by topic) so that you can see how all the content relates to the topics covered in the text.

I. The Meaning of Managerial Accounting (01.01, PPT Slide 3)

a. Managerial accounting is the provision of accounting information for a company's internal users and is not bound by generally accepted accounting principles (GAAP).
b. Managerial accounting has three broad objectives:
   - To provide information for planning the organization's actions
   - To provide information for controlling the organization's actions
   - To provide information for making effective decisions
c. Managers and empowered workers need comprehensive, up-to-date information for the activities—planning, controlling, and decision making.

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d. The detailed formulation of action to achieve a particular end is the management activity called planning. Planning requires setting objectives and identifying methods to achieve those objectives.
e. The managerial activity of monitoring a plan's implementation and taking corrective action as needed is referred to as controlling. Control is usually achieved by comparing actual performance with expected performance. This information can be used to evaluate or correct the steps being taken to implement a plan.
f. The process of choosing among competing alternatives is called decision making.
g. **Discussion Activity 1: 30 minutes in total. The scenario is given in PPT Slide 10 and the related discussion questions are given below.**
    - Who needs the managerial accounting information in an organization?

II. Financial Accounting and Managerial Accounting (01.02, PPT Slide 12)

a. There are two basic kinds of accounting information systems: financial accounting and managerial accounting. The company's accounting system should be designed to provide both financial and managerial accounting information.
b. Financial accounting is primarily concerned with producing information (financial statements) for external users, including investors, creditors, customers, suppliers, government agencies, and labor unions. This information has a historical orientation and is used for such things as investment decisions, stewardship evaluation, monitoring activity, and regulatory measures.
c. Financial statements must conform to certain rules and conventions that are defined by the following agencies.
    - Securities and Exchange Commission (SEC)
    - Financial Accounting Standards Board (FASB)
    - International Accounting Standards Board (IASB)
d. Managerial accounting identifies, collects, measures, classifies, and reports financial and non-financial information that is useful to internal users in planning, controlling, and decision making.
e. Comparison of financial and managerial accounting
    - *Targeted users.* Managerial accounting focuses on providing information for internal users, while financial accounting focuses on providing information for external users.
    - *Restrictions on inputs and processes.* Managerial accounting is not subject to the requirements of generally accepted accounting principles (set by the FASB) that must be followed for financial reporting, whereas the inputs and processes of financial accounting are well defined. Unlike financial accounting, managerial accounting has no official body that

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prescribes the format, content, and rules for selecting inputs and processes and preparing reports.

- *Type of information.* The restrictions imposed by financial accounting tend to produce objective and verifiable financial information. For managerial accounting, information may be financial and non-financial and maybe much more subjective.
- *Time orientation.* Financial accounting has a historical orientation. It records and reports events that have already occurred. Although managerial accounting also records and reports events that have already occurred, it strongly emphasizes providing information about future events.
- *Degree of aggregation.* Managerial accounting provides measures and internal reports used to evaluate the performance of entities, product lines, departments, and managers. Essentially, detailed information is needed and provided. Financial accounting, on the other hand, focuses on overall firm performance, providing a more aggregated viewpoint.
- *Breadth.* Managerial accounting is much broader than financial accounting. It includes aspects of managerial economics, industrial engineering, and management science as well as numerous other areas.

f. **Knowledge Check Activity 1: 10 minutes in total. Answer the multiple-choice question given below in PPT Slide 17.**
   - Which of the following is true about managerial accounting?
     a. It must follow externally imposed rules.
     b. Its information has a historical orientation.
     c. It produces information for internal users.
     d. Its information is used in stewardship evaluation and regulatory measures.

III. Current Focus of Managerial Accounting (01.03, PPT Slide 19)

a. Effective managerial accounting systems also must advance to provide information that helps improve companies' planning control and decision-making activities in the constantly evolving global business environment.
b. Important uses of managerial accounting resulting from advances
   - New methods of estimating product and service cost and profitability
   - Growing use of data analytics in conducting and communicating managerial accounting analyses
   - Understanding customer orientation
   - Evaluating the business from a cross-functional perspective
   - Providing useful information to improve total quality and measure the timeliness and efficiency of organizational performance
c. New methods of costing products and services
   - Today's companies need focused, accurate information on the cost of the products and services they produce.

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- Activity-based costing (ABC) represents one such more detailed approach to determining the cost of goods and services.

d. Data analytics
   - Managerial accounting analyses and utilizes various data analytic perspectives and techniques to create financial insights for improved decision-making across the company.
   - Managerial accountants utilize data analytics to communicate the results of their decision recommendations to decision-makers across the company

e. The Institute of Management Accountants (IMA) created the IMA Management Accounting Competency Framework to explain the exciting roles and interconnected skills and abilities, including data governance, data analytics, and data visualization expected of successful managerial accountants.

f. Customer orientation: Customer value is a key focus because firms can establish a competitive advantage by creating better customer value for the same or lower cost than competitors or creating equivalent value for a lower cost than that of competitors. Customer value is the difference between what a customer receives and what the customer gives up when buying a product or service.

g. Strategic positioning: Effective cost information can help the company identify strategies that increase customer value and, in so doing, create a sustainable competitive advantage.
   - Cost leadership: Provide the same or better value to the customers at a lower cost than the competitors
   - Superior products through differentiation: Increase customer value by providing something to the customers that is not provided by the competitors

h. Successful pursuit of cost leadership and/or differentiation strategies requires an understanding of a firm's value chain. The value chain is the set of activities required to design, develop, produce, market, and deliver products and services as well as provide support services to customers.

i. Cross-functional perspective: In managing the value chain, a managerial accountant must understand and measure many functions of the business. Contemporary approaches to costing may include initial design and engineering costs as well as manufacturing costs and the costs of distribution, sales, and service.

j. Continuous improvement is the continual search for ways to increase the overall efficiency and productivity of activities by reducing waste, increasing quality, and managing costs.

k. Philosophy of total quality management
   - Refers to manufacturers striving to create an environment that will enable workers to manufacture perfect (zero-defect) products

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- Has replaced "acceptable quality" attitudes of the past
- Has created a demand for a managerial accounting system that provides information about quality

l. Lean accounting organizes costs according to the value chain and collects both financial and non-financial information.
m. Enterprise Risk Management (ERM) is a formal way for managerial accountants to identify and respond to the most important threats and business opportunities facing the organization.
n. Corporate Sustainability Reporting (CSR) represents how organizations choose to communicate the results of their various business sustainability practices to key internal and external stakeholders.
o. Time is a crucial element in all phases of the value chain. Firms reduce time to market by compressing design, implementation, and production cycles.
p. Improving efficiency is also a vital concern. Both financial and non-financial measures of efficiency are needed. Cost is a critical measure of efficiency. Trends in costs over time and measures of productivity changes can provide important measures of the efficacy of continuous improvement decisions.
q. **Knowledge Check Activity 2: 10 minutes in total. Answer the multiple-choice question given below in PPT Slide 36.**
    - The notion of "continuous improvement" is most closely associated with which of the following areas of managerial accounting focus?
        a. Cross-functional perspective
        b. Customer orientation
        c. Total quality management

IV. The Role of the Managerial Accountant (01.04, PPT Slide 38)

a. Managerial accountants assist those individuals who are responsible for carrying out an organization's basic objectives by providing them with various types of performance measurement information.
b. Positions that have direct responsibility for the basic objectives of an organization are referred to as line positions. Positions that are supportive and have only indirect responsibility for an organization's basic objectives are called staff positions.
c. The controller, or chief accounting officer, supervises all accounting functions and reports directly to the general manager and chief operating officer (COO).
d. The treasurer is responsible for the finance function.
e. **Knowledge Check Activity 3: 10 minutes in total. Answer the multiple-choice question given below in PPT Slide 40.**

    - Which of the following positions have direct responsibility for the basic objectives of an organization?
        a. Line positions

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b. Staff positions
c. Straight positions
d. Activity positions

V. Managerial Accounting and Ethical Conduct (01.05, PPT Slide 42)

a. The objective of profit maximization should be constrained by the requirement that profits be achieved through legal and ethical means.
b. Ethical behavior involves choosing actions that are right, proper, and just.
c. Behavior can be right or wrong, it can be proper or improper, and the decisions we make can be fair or unfair.
d. Companies in business for the long term find that it pays to treat all of their constituents with honesty and loyalty.
e. To promote ethical behavior by managers and employees, organizations commonly establish standards of conduct referred to as Company Codes of Conduct.
f. Important parts of corporate codes of conduct are integrity, the performance of duties, and compliance with the rule of law.
g. They also uniformly prohibit the acceptance of kickbacks and improper gifts, insider trading, and misappropriation of corporate information and assets.
h. Organizations establish standards of conduct for their managers and employees; professional associations also establish ethical standards.
i. Both the American Institute of Certified Public Accountants (AICPA) and the Institute of Management Accountants (IMA) have established ethical standards for accountants.
j. **Discussion Activity 2: 30 minutes in total. The scenario is given in the PPT Slide 46 and related discussion questions are given below.**
    - How do groups like the IMA attempt to teach ethics? Discuss.

VI. Certification (01.06, PPT Slide 48)

a. The accounting profession offers three major forms of certification to managerial accountants:
    - Certificate in Management Accounting
    - Certificate in Public Accounting
    - Certificate in Internal Auditing
b. The Certificate in Management Accounting is designed to meet the specific needs of managerial accountants.
c. A Certified Management Accountant (CMA) has passed a rigorous qualifying examination, met the experience requirement, and participated in continuing education.
d. The Certificate in Public Accounting (CPA) is the oldest and most well-known certification in accounting.

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e. The purpose of the certificate is to provide minimal professional qualifications for external auditors.
f. Only a Certified Public Accountant (CPA) is permitted (by law) to serve as an external auditor.
g. CPAs must pass a national examination and be licensed by the state in which they practice.
h. The other certification available to internal accountants is the Certificate in Internal Auditing.
i. Internal auditing differs from external auditing and managerial accounting, and many internal auditors felt a need for a specialized certification.
j. The Certified Internal Auditor (CIA) has passed a comprehensive examination designed to ensure technical competence and has two years of experience.
k. **Knowledge Check Activity 4: 10 minutes in total. Answer the multiple-choice question given below in PPT Slide 53.**
    - Which of the following groups requires members to pass an examination as part of becoming a member?
        a. Certified Management Accountant
        b. Certified Internal Auditor
        c. Certified Public Accountant
        d. All of the above

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