Chapter 1: The Changing Role of Managerial Accounting in a Dynamic Business Environment

MULTIPLE CHOICE QUESTIONS

1. Which of the following statements about managerial accountants is false?
   A. Managerial accountants more and more are considered "business partners."
   B. Managerial accountants often are part of cross-functional teams.
   C. An increasing number of organizations are segregating managerial accountants in separate managerial-accounting departments.
   D. In a number of companies, managerial accountants make significant business decisions and resolve operating problems.
   E. The role of managerial accountants has changed considerably over the past decade.

   Answer: C   LO: 1   Type: RC

2. The day-to-day work of management teams will typically comprise all of the following activities except:
   A. decision making.
   B. planning.
   C. cost minimizing.
   D. directing operational activities.
   E. controlling.

   Answer: C   LO: 2   Type: RC

3. Which of the following functions is best described as choosing among available alternatives?
   A. Decision making.
   B. Planning.
   C. Directing operational activities.
   D. Controlling.
   E. Budgeting.

   Answer: A   LO: 2   Type: RC

4. Which of the following managerial functions involves a detailed financial and operational description of anticipated operations?
   A. Decision making.
   B. Planning.
   C. Directing operational activities.
   D. Controlling.
   E. Measuring.

   Answer: B   LO: 2   Type: RC

5. Which of the following involves the coordination of daily business functions within an organization?
   A. Decision making.
   B. Planning.
   C. Directing operational activities.
   D. Controlling.
   E. Motivating.

   Answer: C   LO: 2   Type: RC

6. Titan Company has set various goals, and management is now taking appropriate action to ensure that the firm achieves these goals. One such action is to reduce outlays for overhead, which have exceeded budgeted amounts. Which of the following functions best describes this process?
   A. Decision making.
   B. Planning.
   C. Coordinating.
   D. Controlling.
   E. Organizing.

   Answer: D   LO: 2   Type: N

7. Which of the following is <u>not</u> an objective of managerial accounting?
   A. Providing information for decision making and planning.
   B. Assisting in directing and controlling operations.
   C. Maximizing profits and minimizing costs.
   D. Measuring the performance of managers and subunits.
   E. Motivating managers toward the organization's goals.

   Answer: C   LO: 3   Type: RC

8. The role of managerial accounting information in assisting management is a(n):
   A. financial-directing role.
   B. attention-directing role.
   C. planning and controlling role.
   D. organizational role.
   E. problem-solving role.

   Answer: B   LO: 3   Type: RC

9. Employee empowerment involves encouraging and authorizing workers to take initiatives to:
   A. improve operations.
   B. reduce costs.
   C. improve product quality.
   D. improve customer service.
   E. all of the above.

   Answer: E   LO: 3   Type: RC

10. The process of encouraging and authorizing workers to take appropriate initiatives to improve the overall firm is commonly known as:
    A. planning and control.
    B. employee empowerment.
    C. personnel aggressiveness.
    D. decision making.
    E. problem recognition and solution.

    Answer: B   LO: 3   Type: RC

11. Which of the following business models considers financial, customer, internal operating, and other measures in the evaluation of performance?
    A. Deterministic simulation.
    B. Balanced scorecard.
    C. Payoff matrix.
    D. Decision tree.
    E. Chart of operating performance (COP).

    Answer: B   LO: 3   Type: RC

12. Which of the following perspectives is normally absent in a balanced scorecard?
    A. Financial.
    B. Customer.
    C. Internal operations.
    D. Learning and innovation/growth.
    E. None of the above.

    Answer: E   LO: 3   Type: RC

13. Managerial accounting:
    A. focuses only on historical data.
    B. is governed by GAAP.
    C. focuses primarily on the needs of personnel within the organization.
    D. provides information for parties external to the organization.
    E. focuses on financial statements and other financial reports.

    Answer: C   LO: 4   Type: RC

14. Managerial accounting:
    A. is unregulated.
    B. produces information that is useful only for manufacturing organizations.
    C. is based exclusively on historical data.
    D. is regulated by the Securities and Exchange Commission (SEC).
    E. generally focuses on reporting information about the enterprise in its entirety rather than by subunits.

    Answer: A   LO: 4   Type: N

15. Which of the following would likely be considered an internal user of accounting information rather than an external user?
    A. Stockholders.
    B. Consumer groups.
    C. Lenders.
    D. Middle-level managers.
    E. Government agencies.

    Answer: D LO: 4 Type: RC

16. All of the following entities would have a need for managerial accounting information <u>except</u>:
    A. Dell Computer.
    B. The Los Angeles Dodgers baseball club.
    C. Office Depot.
    D. The Federal Bureau of Investigation (FBI).
    E. None of the above responses is correct, as all of these entities would use managerial accounting information.

    Answer: E LO: 4 Type: N

17. Which of the following choices correctly depicts whether Bank of America, Microsoft, and Florida State University would have a need for managerial accounting?

	Bank of America	Microsoft	Florida State University
A.	Yes	Yes	No
B.	Yes	No	Yes
C.	Yes	Yes	Yes
D.	No	Yes	No
E.	No	Yes	Yes

    Answer: C LO: 4 Type: N

18. Financial accounting focuses primarily on reporting:
    A. to parties outside of an organization.
    B. to parties within an organization.
    C. to an organization's board of directors.
    D. to financial institutions.
    E. for financial institutions.

    Answer: A LO: 4 Type: RC

19. Which of the following statements represents a similarity between financial and managerial accounting?
    A. Both are useful in providing information for external users.
    B. Both are governed by GAAP.
    C. Both draw upon data from an organization's accounting system.
    D. Both rely heavily on published financial statements.
    E. Both are solely concerned with historical transactions.

    Answer: C LO: 4 Type: N

20. Which of the following employees at American Airlines would <u>not</u> be considered as holding a line position?
    A. Pilot.
    B. Chief financial officer (CFO).
    C. Flight attendant.
    D. Ticket agent.
    E. Baggage handler.

    Answer: B   LO: 5   Type: N

21. Which of the following employees would be considered as holding a line position?
    A. The controller of Exxon Corporation.
    B. The vice-president for government relations of Microsoft.
    C. The manager of food and beverage services at Disney's Magic Kingdom.
    D. A secretary employed by Hewlett-Packard.
    E. None of the above.

    Answer: C   LO: 5   Type: N

22. Which of the following employees at Starbucks would likely be considered as holding a staff position?
    A. The company's chief operating officer (COO).
    B. The manager of a store located in Kansas City, Missouri.
    C. The company's lead, in-house attorney.
    D. The company's chief financial officer (CFO).
    E. Both the company's lead, in-house attorney and the chief financial officer.

    Answer: E   LO: 5   Type: N

23. The chief managerial and financial accountant of an organization is the:
    A. chief executive officer (CEO).
    B. treasurer.
    C. vice-president of accounting.
    D. internal auditor.
    E. chief financial officer (CFO).

    Answer: E   LO: 5   Type: RC

24. Which of the following typically does <u>not</u> relate to the role of a controller?
    A. A controller supervises the accounting department.
    B. A controller safeguards an organization's assets.
    C. A controller oversees the preparation of reports required by governmental authorities.
    D. A controller normally assumes a narrow role within the organization, often preventing the individual's rise to top management ranks.
    E. Choices "B" and "D" above.

    Answer: E   LO: 6   Type: RC

25. A controller is normally involved with:
    A. preparing financial statements.
    B. managing investments.
    C. raising capital.
    D. safeguarding assets.
    E. managing the firm's credit policy.

    Answer: A   LO: 6   Type: RC

26. Which of the following is <u>not</u> a function of the treasurer?
    A. Safeguarding assets.
    B. Managing investments.
    C. Preparing financial statements.
    D. Being responsible for an entity's credit policy.
    E. Raising capital.

    Answer: C   LO: 6   Type: RC

27. Managerial accountants:
    A. often work on cross-functional teams.
    B. are located throughout an organization.
    C. are found throughout an organization and work on cross-functional teams.
    D. are found primarily at lower levels of the organizational hierarchy.
    E. are found primarily at higher levels of the organizational hierarchy.

    Answer: C   LO: 6   Type: RC

28. The two dimensions of managerial accounting are:
    A. a decision-facilitating dimension and a decision-influencing dimension.
    B. a decision-facilitating dimension and a financial-influencing dimension.
    C. a decision-influencing dimension and a cost-minimizing dimension.
    D. a cost-minimizing dimension and a profit-maximizing dimension.
    E. a decision-influencing dimension and a profit-maximizing dimension.

    Answer: A   LO: 7   Type: RC

29. Much of managerial accounting information is based on:
    A. a cost-benefit theme.
    B. profit maximization.
    C. cost minimization.
    D. the generation of external information.
    E. effectiveness but not efficiency.

    Answer: A   LO: 7   Type: N

30. Which of the following is <u>not</u> normally considered to be an element of e-business?
    A. E-budgeting.
    B. Supply-chain management.
    C. E-commerce.
    D. Balanced scorecards.
    E. Choices "B" and "D" above.

    Answer: D LO: 7 Type: RC

31. Managerial accounting has changed in recent years because of:
    A. the growth of e-business.
    B. increased global competition.
    C. the emergence of new industries.
    D. an increased focus on the customer.
    E. all of the above factors.

    Answer: E LO: 7 Type: RC

32. Managerial accounting has changed in recent years because of:
    A. a growing service economy in the United States.
    B. the growing popularity of cross-functional teams.
    C. computer-integrated manufacturing (CIM).
    D. time-based competition.
    E. all of the above factors.

    Answer: E LO: 7 Type: RC

33. Which of the following statement(s) about just-in-time (JIT) inventory management is (are) true?

    I. The emphasis of JIT is on "pull" manufacturing.
    II. Raw materials are purchased just in time to be used in production.
    III. JIT is an inventory technique that focuses on reduction of both inventory and related inventory costs.

    A. I only.
    B. II only.
    C. III only.
    D. II and III.
    E. I, II, and III.

    Answer: E LO: 7 Type: RC

34. Ohio Corporation recently implemented a just-in-time (JIT) production system along with a series of continuous improvement programs. If the firm is now considering adopting a total quality management (TQM) program, it would likely find that TQM:
    A. is consistent with both JIT and continuous improvement.
    B. is consistent with JIT but inconsistent with continuous improvement.
    C. is consistent with continuous improvement but inconsistent with JIT.
    D. is inconsistent with both JIT and continuous improvement.
    E. is an antiquated management technique.

    Answer: A   LO: 7   Type: N

35. Cost management systems tend to focus on an organization's:
    A. machines.
    B. employees.
    C. activities.
    D. customers.
    E. rules and regulations.

    Answer: C   LO: 7   Type: RC

36. The value chain of a manufacturer would tend to include activities related to:
    A. manufacturing.
    B. research and development.
    C. product design.
    D. marketing.
    E. all of the above.

    Answer: E   LO: 8   Type: RC

37. Which of the following choices correctly depicts activities that would be included in a manufacturer's value chain?

	Research and Development	Marketing	Distribution
A.	Yes	Yes	No
B.	Yes	No	Yes
C.	Yes	Yes	Yes
D.	No	Yes	No
E.	No	Yes	Yes

    Answer: C   LO: 8   Type: RC

38. Which of the preceding activities would likely <u>not</u> be considered part of The Gap clothing company's value chain?
    A. Designing a new product line.
    B. Locating and then negotiating terms with a clothing manufacturer.
    C. Marketing an existing product line.
    D. Distributing goods from regional warehouses to local stores.
    E. All of the above activities would be an element in the company's value chain.

    Answer: E   LO: 8   Type: RC

39. The activities performed by a manufacturing organization could be categorized as pre-production (such as research and development and product design), production-related, and post-production (such as marketing and customer service). Which activities should the firm focus on if management understands the value chain concept and desires to meet organizational goals?
    A. Pre-production activities.
    B. Production-related activities.
    C. Post-production activities.
    D. Pre-production, production-related, and post-production activities.
    E. Pre-production and production-related activities.

    Answer: D LO: 8 Type: N

40. In order for a company to achieve a sustainable competitive advantage, it must perform value chain activities:
    A. at the same quality level as competitors, at the same cost.
    B. at the same quality level as competitors, but at a lower cost.
    C. at a higher quality level than competitors, at a higher cost.
    D. at a higher quality level than competitors, but at no greater cost.
    E. at either the same quality level as competitors, but at a lower cost, <u>or</u> at a higher quality level than competitors, but at no greater cost.

    Answer: E LO: 8 Type: RC

41. The process of managing the various activities in the value chain, along with the associated costs, is commonly known as:
    A. activity-based costing.
    B. strategic cost management.
    C. total quality management.
    D. computer-integrated costing.
    E. sound management practices (SMP).

    Answer: B LO: 8 Type: RC

42. A company has a bottleneck operation that slows production. Which of the following tools or approaches could the firm use to determine the most cost-effective ways to eliminate this problem?
    A. Linear programming.
    B. Theory of constraints.
    C. Decision-tree diagrams.
    D. Payoff matrices.
    E. Strategic path analysis (SPA).

    Answer: B LO: 8 Type: RC

43. Which of the following can be linked to the relatively recent wave of corporate scandals?
    A. Greedy corporate executives.
    B. Managers who make over-reaching business deals.
    C. Lack of oversight by companies' audit boards and boards of directors.
    D. Shoddy work by external auditors.
    E. All of the above.

    Answer: E LO: 9 Type: RC

44. Which of the following acts strives to improve corporate governance and the quality of corporate accounting/reporting?
    A. Robinson-Patman.
    B. Taft-Hartley.
    C. Sarbanes-Oxley.
    D. Bush-Cheney.
    E. Franks-Ashcroft.

    Answer: C LO: 9 Type: RC

45. Which of the following statements about the ethical climate of business is <u>false</u>?
    A. Greedy corporate executives are, in part, to blame for the relatively recent rash of corporate scandals.
    B. Unethical business behavior can have a negative impact on our economy.
    C. The Sarbanes-Oxley Act strives to improve the overall quality of corporate reporting.
    D. The Robinson-Patman Act strives to improve the overall quality of corporate reporting.
    E. Corporate scandals have served as the accounting profession’s wake-up call to pay increased attention to ethical issues in the conduct of business.

    Answer: D LO: 9 Type: RC

46. Which of the following is <u>not</u> an ethical standard of managerial accounting?
    A. Competence.
    B. Confidentiality.
    C. Efficiency.
    D. Integrity.
    E. Credibility.

    Answer: C LO: 9 Type: RC

47. Which of the following is <u>not</u> an element of competency?
    A. To develop appropriate knowledge about a particular subject.
    B. To perform duties in accordance with relevant laws.
    C. To perform duties in accordance with relevant technical standards.
    D. To refrain from engaging in an activity that would discredit the accounting profession.
    E. To prepare clear reports after an analysis of relevant and reliable information.

    Answer: D LO: 9 Type: RC

48. Assume that a managerial accountant regularly communicates with business associates to avoid conflicts of interest and advises relevant parties of potential conflicts. In so doing, the accountant will have applied the ethical standard of:
    A. objectivity.
    B. confidentiality.
    C. integrity.
    D. credibility.
    E. unified behavior.

    Answer: C LO: 9 Type: RC

EXERCISES

Managers and Decisions

49. Present several examples of managerial accounting information that could help a manager make each of the following decisions:
    A. A manufacturing company is currently making a part that is a production headache. The firm is deciding whether to abandon production and buy the part from an outside supplier.
    B. An operator of fast-food restaurants is deciding whether to open a new store in Dallas.

    LO: 1 Type: N

    Answer:
    Note: Many correct answers are possible.

    A. The cost of each alternative (make vs. buy) would be needed along with information about suppliers that pertains to reliability and product quality (e.g., testimonials from a supplier's current customers that cite any problems with on-time deliveries, product stockouts, or abnormally high spoilage rates of purchased goods). Given the company is currently making the part, what would happen to the facilities if the firm begins to purchase from outside suppliers? Could the facilities be subleased, used for other profitable products, or downsized (with equipment being sold)? What would happen to existing employees—would there be any layoffs and how much would the company save?

    B. The manager needs information about construction or leasing costs along with figures that focus on subsequent operating costs. Also, projected sales, market share figures, and data about competitors would be helpful.

Balanced Scorecard

50. Continental Overnight operates an overnight package delivery service that competes with Federal Express and United Parcel Service (UPS). Top management is considering the use of a balanced scorecard to evaluate operations.
    A. What is a balanced scorecard and other than customer-satisfaction measures, what are its typical key components?
    B. List four customer-satisfaction measures that Continental might use to evaluate performance.

    LO: 3 Type: RC, N

    Answer:
    A. The balanced scorecard is a business model that helps to assess a firm's competitive position and ensures that the firm is progressing toward long-term survival. Balanced scorecards differ from organization to organization; however, in addition to customer-satisfaction measures, most have a combination of financial measures, internal operating measures, and measures of innovation/growth and learning.

    B. Customer-satisfaction measures could include number of packages delivered, market share, number of packages lost or damaged, number of customer complaints, average wait time when calling and scheduling a package pickup, and response time to customer problems.

Financial and Managerial Accounting

51. Consider the descriptors that follow.

    1. Is heavily involved with the recordkeeping and reporting of assets, liabilities, and stockholders' equity.
    2. Focuses on planning, control, decision making, and performance evaluation.
    3. Is heavily regulated.
    4. A field that is becoming more "cross-functional" in nature.
    5. Much of the field is based on costs and benefits.
    6. Is involved almost exclusively with past transactions and events.
    7. Much of the information provided is directed toward stockholders, financial analysts, creditors, and other external parties.
    8. Tends to focus more on subunits within an entity rather than the organization as a whole.
    9. May become involved with measures of customer satisfaction, and the amount of actual cost incurred vs. budgeted targets.

    Required:
    Determine whether the descriptors are most closely associated with financial accounting or managerial accounting.

    LO: 2, 3, 4, 6 Type: RC

Answer:

1. Financial accounting
2. Managerial accounting
3. Financial accounting
4. Managerial accounting
5. Managerial accounting
6. Financial accounting
7. Financial accounting
8. Managerial accounting
9. Managerial accounting

Management Decision, Ethics

52. Ken Franklin is the sales manager of Davidson Enterprises, a very profitable distributor of office furniture to local businesses. A recent economic downturn has created an extremely tight cash position, and the company has been hurt by the bankruptcy of two key customers.

In late October, anticipating an economic recovery, Franklin began an extensive remodeling of the company's sales floor. Construction costs, decorating, and equipment purchases are projected to cost $250,000.

Davidson has a policy that individual expenditures in excess of $200,000 must be approved by the firm's board of directors. Franklin, unfortunately, missed the deadline to have the board consider this project at its regular September meeting. Not wanting to wait until the next meeting in December, he subdivided the project in two parts—construction and decorating ($190,000) and equipment purchases ($60,000)—neither of which needed board approval because of the dollar amounts involved.

The project was recently completed and sales have begun to recover. Customers have raved about the new sales area, noting that it is far superior to those of Davidson's competitors.

Required:

A. Would Franklin's approach of subdividing the project in two parts have any effect on the company's financial statements? Briefly explain.
B. Briefly discuss whether Franklin behaved in an ethical manner.
C. Which, if any, of the following standards of conduct would have applicability to Franklin's conduct: competence, confidentiality, integrity, or credibility? Briefly explain.

LO: 9 Type: N

Answer:

A. Although some extra processing is involved because of the "separate" projects, the same total costs will be incurred for the same assets. Thus, there is no impact on the financial statements, which serve to summarize financial activity.

B. Franklin behaved in an unethical manner. Even though business is recovering and customers seem more than satisfied with the new sales area, Franklin knowingly bypassed stated company policy. The project is being done in a single phase, and is comprised of construction, decorating, and equipment acquisition. This is really one project; yet his accounting treatment implies otherwise.

C. Two standards are relevant here. Integrity holds that managers refrain from engaging in any conduct that would prejudice the ethical performance of duties. Additionally, credibility recognizes that managers have a responsibility to communicate information fairly and objectively, and disclose all relevant information that could reasonably be expected to influence a user's understanding of the reports and data presented.

Possible Ethics Issues

53. Many professions have adopted a series of ethical standards to provide guidance for their memberships. The Institute of Management Accountants (IMA), for example, has published standards that focus on competence, confidentiality, integrity, and credibility. In light of these standards, consider the three cases that follow.

Case A—Leston Corporation has experienced serious financial difficulties in recent years. John Young, the company's chief financial officer, has just learned that a major competitor was likely to file for bankruptcy; however, he failed to disclose this information at a board meeting held later that day when a plant closure decision was being discussed. The board evaluated several proposals during the session that focused on improving Leston's financial position.

Case B—QBX Company manufactures fertilizer from various raw materials, including a raw material know as Felstar. Paul Kelly, the firm's purchasing manager, purposely acquired a lower grade of Felstar than normal because of a very attractive price. The lower-grade product resulted in increased usage during the manufacturing process but had no effect on the fertilizer's overall quality. An end-of-period report showed that QBX profited from Kelly's actions, with the overall savings in purchase price more than offsetting the cost of added consumption.

Case C—Central Distributing has a participative budgeting process, allowing employees to have a say in projected sales targets for the upcoming period. These targets are reflected in a series of performance reports that compare actual sales achieved against targeted amounts. Hillary Baxter submitted very low sales targets because, as she confided in a colleague, "I always want to look good in terms of meeting targets, even if anticipated sales and closures don't materialize."

Required:
Evaluate the three cases and determine the ethical issues, if any, that are involved. Cite the IMA's standards if appropriate.

LO: 9 Type: N

Answer:
Case A: Young had an obligation to inform the other board members about the likely bankruptcy, particularly in light of the company's financial situation and the topics under discussion at the meeting. The information could have affected the board's thinking on several matters. Two of the IMA standards are relevant here: competence and credibility. Competence notes, in part, that members provide decision-support information that is accurate and timely. Additionally, credibility holds that members disclose all relevant information that could influence a user's understanding of an analysis. Young's silence violates both of these ethical standards.

Case B: Kelly did not violate any ethical standards. The acquisition of sub-par material was a sound business decision, particularly since QBX prospered financially and quality of the end product did not suffer.

Case C: Baxter engaged in a somewhat common practice known as padding the budget; nevertheless, one can conclude that such a practice is inconsistent with the ethical standards of credibility and competence. Baxter is not providing full knowledge of the sales situation by setting targets that are purposely low, thus possibly misleading managers who attempt to analyze her performance. Additionally, competence is involved because the information provided in setting the sales targets is inaccurate.

DISCUSSION QUESTIONS

Managerial Accounting vs. Financial Accounting

54. Briefly distinguish between managerial accounting and financial accounting. Be sure to comment on the general focus, users, and regulation related to the two fields.

    LO: 4 Type: RC

    Answer:
    Managerial accounting is concerned with providing information to personnel within an organization so that they can plan, make decisions, evaluate performance, and control operations. There are no rules and regulations associated with this field since the information is intended solely for use within the firm.

    Financial accounting, in contrast, focuses on financial statements and other financial reports. This area deals with reporting to groups outside of an organization (e.g., stockholders, lenders, government agencies) so that some assessment of profitability and overall financial health can be made. Given the large number of firms in our economy and the varying level of user sophistication, the field is heavily regulated (by the Financial Accounting Standards Board and, to a lesser degree, by the Securities and Exchange Commission).

Cross-Functional Teams and Time-Based Competition

55. Cross-functional teams and time-based competition are two themes of contemporary management accounting. Briefly explain these two concepts.

    LO: 7 Type: RC

Answer:
Cross-functional teams involve bringing together individuals from a variety of different fields (marketing, design, accounting, production, purchasing, human resources) for an "interdisciplinary approach" to addressing management issues. Such an approach varies from that used in the past when each of the individual disciplines tended to stick to their own turf. Cross-functional teams add value to the organization by meeting the firm and customer's needs in the most effective manner possible.

Time-based competition relates to "doing things faster" to gain a competitive edge. Bringing a new product to market faster than a rival firm, responding to customer concerns and problems faster than the competition, and reducing production downtime are a few of its key elements.

The Value Chain

56. The value chain is a key component of contemporary management accounting. Define the term "value chain" and explain how it would relate to an airline.

LO: 8   Type: RC, N

Answer:
The value chain is a set of activities that work together to create value for an organization. With a manufacturer, for instance, activities that range in scope from securing raw materials, to production, to delivery of products will culminate in goods that boost a firm's bottom-line profitability.

Activities in a value chain for an airline would include reservations and ticketing, maintenance, baggage handling, marketing, customer service, frequent-flyer programs, and, of course, flight operations.