***Managerial Accounting, 1e* (Cainas, Pope, Joszi)**

**Chapter 1 Managerial Accounting: An Information System**

Learning Objective 1.1

1) Financial accounting emphasizes relevant, detailed information that may be used to forecast future performance.

Answer: FALSE

Objective: 1

AACSB: Application of knowledge

2) Managerial accounting requires accountants to follow generally accepted accounting principles (GAAP) when producing operational reports.

Answer: FALSE

Objective: 1

AACSB: Application of knowledge

3) The annual tax return filed with the Internal Revenue Service (IRS) is an example of a report generated from a financial accounting system.

Answer: TRUE

Objective: 1

AACSB: Application of knowledge

4) The number of defective materials received from vendors could be directly reported for managerial accounting but not financial accounting.

Answer: TRUE

Objective: 1

AACSB: Reflective thinking

5) Financial accounting and managerial accounting differ in that:

A) financial reporting is focused on forecasted future performance.

B) managerial accounting reporting requirements are based on the needs of management.

C) managerial accounting information is primarily used by individuals external to the business.

D) financial reporting provides relevant and detailed information.

Answer: B

Objective: 1

AACSB: Application of knowledge

6) The objective of financial accounting is to:

A) provide summarized reports to external stakeholders for decision making.

B) provide detailed information to operational and upper-level managers for decision making.

C) generate reports that meet the needs of management.

D) emphasize current, relevant performance.

Answer: A

Objective: 1

AACSB: Application of knowledge

7) A report detailing the number of on-time deliveries by geographic area is most likely used by a(n):

A) investor.

B) upper-level manager.

C) vendor.

D) operations manager.

Answer: D

Objective: 1

AACSB: Reflective thinking

8) A staff accountant is provided with information about the projected profitability of a company's three product lines for the upcoming year.

What is NOT a reason this represents a managerial report?

A) The information was provided to an external user.

B) The report's focus is on forecasted future performance.

C) The information is detailed.

D) The data is related to both financial and operational functions.

Answer: A

Objective: 1

AACSB: Reflective thinking

9) Which of the following uses managerial accounting information?

A) City governments and universities.

B) An International consulting firm.

C) Small, individually owned business.

D) All of the above.

Answer: D

Objective: 1

AACSB: Reflective thinking

Learning Objective 1.2

1) Planning is a more important function than control because it is done first.

Answer: FALSE

Objective: 2

AACSB: Reflective thinking

2) Identify the appropriate order in which the specified managerial functions should be performed.

A) Implementing & Controlling; Planning; Decision Making

B) Decision Making; Implementing & Controlling; Planning

C) Planning; Implementing & Controlling; Decision Making

D) Implementing & Controlling; Decision Making; Planning

Answer: C

Objective: 2

AACSB: Application of knowledge

3) Decreasing costs by 5% this year is an example of a long-term goal.

Answer: FALSE

Objective: 2

AACSB: Application of knowledge

4) Which is NOT an example of an activity performed in the planning stage?

A) Compare the results of current year activities against the plan and investigate all significant deviations.

B) Review historical sales data for the business and its competitors.

C) Consider new products under development.

D) Obtain certain economic and industry data to understand the current marketplace conditions.

Answer: A

Objective: 2

AACSB: Reflective thinking

5) Control involves comparing the company's plan (budget) to the actual results achieved and investigating unusual differences.

Answer: TRUE

Objective: 2

AACSB: Application of knowledge

6) Operational decisions relate to which markets, customers, services, or products to provide.

Answer: FALSE

Objective: 2

AACSB: Application of knowledge

7) The current challenge with obtaining data for decision making is identifying both relevant and useful data.

Answer: TRUE

Objective: 2

AACSB: Application of knowledge

8) Information must be presented in the form of a report to be useful for decision making.

Answer: FALSE

Objective: 2

AACSB: Application of knowledge

9) Planning is to setting goals and objectives as Decision Making is to:

A) turning a business plan into action.

B) selecting a course of action for the business.

C) monitoring actual results against the plan.

D) identifying a strategic vision for the business.

Answer: B

Objective: 2

AACSB: Application of knowledge

Learning Objective 1.3

1) The information needs of operations and upper-level management are the same.

Answer: FALSE

Objective: 3

AACSB: Application of knowledge

2) Examples of daily reports received by operations managers include: payments received by customers, number of on-time deliveries, and customer satisfaction surveys.

Answer: TRUE

Objective: 3

AACSB: Reflective thinking

3) Upper-level managers are to "who are my biggest competitors?" as operations managers are to:

A) "are my employees performing efficiently and effectively?"

B) "do we require funding for upcoming warehouse upgrades?"

C) "should I provide additional services to customers?"

D) "what is my target market?"

Answer: A

Objective: 3

AACSB: Reflective thinking

Learning Objective 1.4

1) Managers use managerial accounting information to create value for planning and control decisions but not for product costing and non-routine decisions.

Answer: FALSE

Objective: 4

AACSB: Application of knowledge

2) Planning and control decisions should include analysis of both financial and non-financial information.

Answer: TRUE

Objective: 4

AACSB: Application of knowledge

3) Identify the characteristics of information necessary for successful decision making.

A) Nonfinancial, historical, and conservative.

B) Historical, conservative, and useful.

C) Timely, relevant, and useful.

D) Relevant, prospective, and qualitative.

Answer: C

Objective: 4

AACSB: Reflective thinking

4) A non-routine decision is to switching accounting software as a product costing decision is to:

A) considering expanding into a new state.

B) evaluating the results of advertising.

C) measuring customer satisfaction.

D) identifying the direct manufacturing costs.

Answer: D

Objective: 4

AACSB: Reflective thinking

5) Identify the decisions or actions that management would perform during the planning and control process.

A) Forecasting the profit at different sales levels; Identifying why production goals were not met

B) Evaluating a new technology platform; Forecasting profit at different sales levels

C) Evaluating a new technology platform; Buying or leasing new copier

D) Analyzing whether to buy or lease a new copier; Determining the direct costs and margin of various product lines

Answer: A

Objective: 4

AACSB: Reflective thinking

6) Which of the following is NOT an example of a question asked when making a non-routine decision?

A) Should we expand into the e-commerce (online) market?

B) What are the costs involved with manufacturing a product?

C) How should each of the products be priced to obtain a certain profit?

D) Should we automate our operations by investing in new technology?

Answer: B

Objective: 4

AACSB: Reflective thinking

Learning Objective 1.5

1) Prescriptive analytics is the simplest form of analytics that often summarizes past trends in the business.

Answer: FALSE

Objective: 5

AACSB: Application of knowledge

2) Why something happened is to diagnostic analytics as what is likely to happen is to:

A) predictive analytics.

B) descriptive analytics.

C) prescriptive analytics.

D) big data analytics.

Answer: A

Objective: 5

AACSB: Application of knowledge

3) Prescriptive analytics is to machine learning as descriptive analytics is to:

A) prediction models.

B) root cause analysis.

C) historical trends.

D) artificial intelligence.

Answer: C

Objective: 5

AACSB: Reflective thinking

4) Unstructured data is data that is not standardized and cannot be used in data analytics or decision making.

Answer: FALSE

Objective: 5

AACSB: Application of knowledge

5) Unstructured data is to customer reviews as structured data is to:

A) customer sales calls.

B) comments on social media.

C) digital photos.

D) customer purchase data.

Answer: D

Objective: 5

AACSB: Reflective thinking

Learning Objective 1.6

1) A managerial accounting system captures data (inputs), converts the data (process), and provides useful information for decision making (outputs). This is referred to as the IPO framework.

Answer: TRUE

Objective: 6

AACSB: Application of knowledge

2) Which of the following is NOT a correct statement regarding the input-process-output (IPO) framework?

A) It includes the acquisition and evaluation of only quantitative information.

B) It supports a data analytic approach to a management accounting system.

C) The results can assist with improved managerial decision making.

D) Emphasizes the importance of understanding how operations influence accounting information.

Answer: A

Objective: 6

AACSB: Application of knowledge

3) Identify the item that represents non-financial information that can be used as an input for decision making.

A) Materials cost.

B) Supplier quality.

C) Employee wages.

D) Selling price.

Answer: B

Objective: 6

AACSB: Reflective thinking

4) Qualitative information is easier to gather and analyze than? quantitative information.

Answer: FALSE

Objective: 6

AACSB: Application of knowledge

5) Technology has enabled data to be captured and processed much more efficiently.

Answer: TRUE

Objective: 6

AACSB: Application of knowledge

6) A performance report is an input to the managerial accounting system and compares budgeted amounts to actual amounts for decision making.

Answer: FALSE

Objective: 6

AACSB: Reflective thinking

7) Identify the qualitative information that could be used as an input in the decision making process.

A) Number of units sold; supplier quality

B) Online customer review comments; customer review ratings

C) Customer review rating; Number of units sold

D) Supplier quality; online customer review comments

Answer: D

Objective: 6

AACSB: Reflective thinking

8) Which of the following does NOT improve the usefulness of inputs in decision making?

A) Capturing relevant data.

B) Asking the right questions.

C) Collecting a large volume of relevant and irrelevant data.

D) Correct recording of data.

Answer: C

Objective: 6

AACSB: Application of knowledge

9) Which of the following would you not consider when evaluating the completeness and accuracy of the inputs into a managerial accounting system?

A) The policies and procedures of the competitor.

B) Reliability of software used to acquire the data.

C) The ability of employees to commit fraud or errors.

D) The skills and competencies of individuals if data is acquired manually.

Answer: A

Objective: 6

AACSB: Reflective thinking

10) An internal factor is to budgeting and financial planning as an external factor is to:

A) customer satisfaction.

B) the number of defective units.

C) job complexity.

D) gross domestic product (GDP) trends.

Answer: D

Objective: 6

AACSB: Application of knowledge

11) Major corporations use the technique of direct observation as the primary accounting system input to prepare financial statements.

Answer: FALSE

Objective: 6

AACSB: Application of knowledge

12) The cost-benefit constraint states that the cost of obtaining the inputs and processing into useful information for decision making must be less than the benefits obtained from the information.

Answer: TRUE

Objective: 6

AACSB: Application of knowledge

13) What are examples of methods used to obtain data (inputs)?

A) Product costing, planning and controlling, and decision making.

B) Descriptive analytics, diagnostic analytics, predictive analytics, prescriptive analytics.

C) Structured data, unstructured data, financial data, nonfinancial data.

D) Direct observation, interviewing, storyboarding.

Answer: D

Objective: 6

AACSB: Application of knowledge

14) Identify the statement that is true regarding information gathering.

A) The three means to gather managerial accounting data include direct observation, interviewing, and storyboarding.

B) Direct observation requires minimal time to acquire and record data.

C) The most valuable interview data comes from inexperienced or new individuals.

D) Storyboarding is typically performed one-on-one and results in a standardized report.

Answer: A

Objective: 6

AACSB: Application of knowledge

15) A company is looking to expand operations. Which of the following questions does upper-level management not need to consider when gathering information to make the decision to expand operations?

A) What are the additional costs that would be incurred?

B) What descriptive analytics are available to assist with the decision?

C) Do our competitors have a competitive advantage and are they expanding?

D) What are customer demands and preferences?

Answer: B

Objective: 6

AACSB: Reflective thinking

16) Technology has made it harder to perform a "what-if" or sensitivity analysis.

Answer: FALSE

Objective: 6

AACSB: Reflective thinking

17) What is NOT an example of a technology that has made processing data into information easier?

A) Spreadsheet programs (Microsoft Excel).

B) Journals and ledgers (General Journal).

C) Relational Databases (SAP).

D) Visualization Tools (Tableau).

Answer: B

Objective: 6

AACSB: Reflective thinking

18) Output from a management accounting system should be easily understood by management and can only take the form of financial statements.

Answer: FALSE

Objective: 6

AACSB: Application of knowledge

19) Identify the item that would not appear on a managerial report for a boat rental company.

A) Cost of gas

B) Cost of boat slip lease

C) Cost of inventory

D) Wages paid to hourly employees

Answer: C

Objective: 6

AACSB: Reflective thinking

20) Management believes increased competition in the market is causing lower sales and profits for a company. What is a potential cause of customer dissatisfaction that management should analyze further?

A) Problems with meeting scheduled deliveries.

B) Expansion of the market to new participants.

C) Increased social media advertising.

D) Focused training to up-skill current employees.

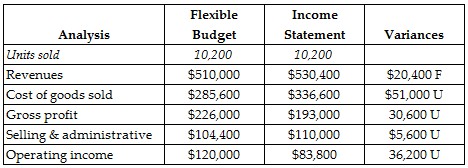
Answer: A

Objective: 6

AACSB: Reflective thinking

Learning Objective 1.7

1) The following table presents a comparison of the budgeted income statement and the actual income statement along with the calculation of the differences (variances).



Identify the statement that does not appropriately explain why you would or would not want to investigate the variance further.

A) The selling and administrative expenses should not be investigated further because it is the smallest variance.

B) Since a flexible budget was prepared, the only variances are due to changes in the selling price or in the cost per unit.

C) The revenue variance should be investigated to figure out why the average selling price was higher than expectations.

D) The gross profit and operating income variances do not need to be investigated further as they are functions of revenues, cost of goods sold, and selling & administrative expenses.

Answer: A

Objective: 7

AACSB: Reflective thinking

2) Cruise lines were forced to stop sailing during the COVID-19 pandemic. What is NOT an example of a one-time (non-recurring) cost that cruise lines had to incur to restart sailings?

A) Re-launch marketing costs.

B) Repositioning the cruise ship to sail out of new ports.

C) Implementation of new health and safety protocols.

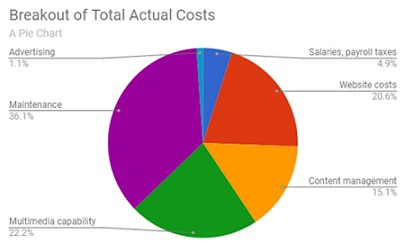
D) Purchasing food and beverages for sailing.

Answer: D

Objective: 7

AACSB: Reflective thinking

3) The following pie chart breaks down operating expenses by category.



Identify the statement that is false or unable to be answered based on the information provided within the pie chart.

A) Advertising and salaries are the categories with the lowest spending.

B) The company is most likely a service company.

C) Maintenance costs are lower than expectations.

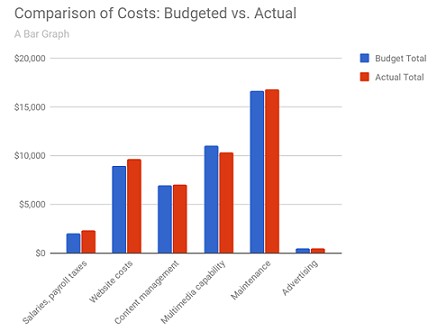
D) Examples of website costs could be the fee for the domain name and monthly hosting costs.

Answer: C

Objective: 7

AACSB: Reflective thinking

4) The following bar chart compares budgeted costs to actual costs.



Identify the false statement.

A) A line graph would be more helpful to show the differences between budgeted and actual costs across all categories.

B) Actual total costs exceeded total budgeted costs.

C) Multimedia capability is the only category with actual costs lower than expectations.

D) Maintenance costs are greater than the combined cost of content management, salaries, and advertising.

Answer: A

Objective: 7

AACSB: Reflective thinking

5) Erin is looking to start a bookstore. The following monthly costs are identified.

— Lease for bookstore $1000 per month

— Utilities are $150 per month

— Depreciation expense on furniture & fixtures is $520 per month

— Repairs and maintenance is $70 per month

— Average cost of each book sold $4 per book

— Average selling price of each book $13 per book

Assume, 130 books are sold in the first month. Which of the following statements is true?

A) The gross margin is $4 per book.

B) Total costs for the month are $1740.

C) The operating loss for the month is $570.

D) The bookstore needs to sell 60 more books to generate a profit.

Answer: C

Explanation: C)  **Monthly Income Statement**

|  |  |
| --- | --- |
| Sales (130 books x $13 per book) | $1690 |
| COGS (130 books x 4 per book) | 520 |
| Gross margin | 1170 |
| Rent expense | 1000 |
| Utilities | 150 |
| Depreciation expense | 520 |
| Repairs and maintenance expense | 70 |
| Operating income (loss) | (570) |

Objective: 7

AACSB: Analytical thinking

6) The following information is known about Ponte for the first year of operations.

|  |  |
| --- | --- |
| Sales | $25,000 |
| Cost of goods sold | 10,000 |
| Gross margin | 15,000 |
| Selling & administrative expenses | 10,000 |
| Operating income | 5,000 |

What other factors are not relevant to better understanding the results of the first year of operations?

A) Is Ponte responsible for correcting product defects after customers receive the products?

B) What is the bonus structure of the vendor supplying the materials?

C) What is the quality of the products?

D) Are there upcoming changes to regulations such as updates to the IRS Tax Code?

Answer: B

Objective: 7

AACSB: Reflective thinking

7) The following information is known about Lochs LLC for May:

|  |  |
| --- | --- |
| Operating income | $1000 |
| Cost of goods sold | $15,000 |
| Gross margin | $58,000 |

Which of the following statements is correct?

A) Sales are $16,000 and selling & administrative expenses are $43,000.

B) Sales are $59,000 and selling & administrative expenses are $43,000.

C) Sales are $16,000 and selling & administrative expenses are $57,000.

D) Sales are $73,000 and selling & administrative expenses are $57,000.

Answer: D

Explanation: D)  **Lochs LLC**

**Income Statement**

**Month of May**

|  |  |
| --- | --- |
| Sales | ??? |
| COGS | 15,000 |
| Gross margin | 58,000 |
| SG&A expenses | ??? |
| Operating income | 1000 |

Sales = COGS + Gross margin

= $15,000 + $58,000

= $73,000

SG&A expenses = Gross margin - operating income

= $58,000 - $1000

= $57,000

Objective: 7

AACSB: Analytical thinking

Learning Objective 1.8

1) Effectiveness refers to achieving the goals, whereas efficiency relates to the resources used to create the actual results.

Answer: TRUE

Objective: 8

AACSB: Application of knowledge

2) If a sales call center employee answers customer complaints in less average time per call than budgeted, but many customers have to call back because the employee did not properly resolve the customer's concern or problem, the employee was effective but inefficient.

Answer: FALSE

Objective: 8

AACSB: Application of knowledge

3) You write yourself a check to cover the bonus that you did not receive last year due to economic cutbacks in your company. This does not violate one of the IMA ethical standards.

Answer: FALSE

Objective: 8

AACSB: Ethical understanding and reasoning

4) Identify the four standards in the IMA's Statement of Ethical Professional Practice.

A) Confidentiality; Competence; Fairness; Justice

B) Confidentiality; Competence; Credibility; Fairness

C) Confidentiality; Competence; Credibility; Integrity

D) Competence; Credibility; Integrity; Relevance

Answer: C

Objective: 8

AACSB: Ethical understanding and reasoning

5) Confidentiality is to telling individuals outside of the business about information that is not public knowledge as Competence is to:

A) failing to record wages earned but unpaid because the employee does not understand accrual concepts.

B) not disclosing the fact that a manager's spouse is a significant owner of one of the Company's main suppliers.

C) withholding important relevant information related to a decision.

D) reporting higher meals and entertainment expenses for a recent business trip.

Answer: A

Objective: 8

AACSB: Ethical understanding and reasoning

6) Which of the following situations violates the confidentiality standard outlined in the IMA's Statement on Ethical Professional Practice?

A) You handwrite all financial statements because you do not know how to use Excel.

B) You write yourself a check to cover the bonus that you did not receive last year due to economic cutbacks in your company.

C) You tell your best friend about a new service line your company plans to release early next year.

D) You do not tell your boss that your sibling holds a significant amount of stock in the company.

Answer: C

Objective: 8

AACSB: Ethical understanding and reasoning

Learning Objective Appendix

1) The Statement of Cash Flows reports how much cash was earned and the liabilities owed for a period of time.

Answer: FALSE

Objective: Appx.

AACSB: Application of knowledge

2) The proper order of preparing financial statements is (1) income statement, (2) statement of retained earnings, (3) balance sheet, and (4) statement of cash flows.

Answer: TRUE

Objective: Appx.

AACSB: Application of knowledge

3) The balance sheet is the only financial statement that reports as of a point in time. The income statement, statement of retained earnings, and statement of cash flows all report over a period of time.

Answer: TRUE

Objective: Appx.

AACSB: Application of knowledge

4) Identify the transaction that increases net income.

A) Signed a note with the bank and received financing.

B) Recorded depreciation on equipment.

C) Prepaid for several months of advertising and recorded with prepaid advertising account.

D) Sold merchandise at more than cost.

Answer: D

Objective: Appx.

AACSB: Application of knowledge

5) Identify the transaction that results in an increase to one account and a decrease to another account.

A) Recorded depreciation on equipment.

B) Employees worked for the week but will be paid next week.

C) Purchased merchandise on credit.

D) Paid rent for the month.

Answer: D

Objective: Appx.

AACSB: Application of knowledge

6) Identify the improper account classification.

A) Accumulated Depreciation is a balance sheet account.

B) Unearned Revenue is an income statement account.

C) Gain on sale of the building is an income statement account.

D) Accounts payable is a balance sheet account.

Answer: B

Objective: Appx.

AACSB: Application of knowledge