Chapter 1

EOC Questions and Solutions

**Copy edit: All dates should be changed to “2022-2023” throughout, including Ms, EOC, Widget Ms, and Art Ms.**

##

## Discussion Questions

### 1. What is meant by the cost-benefit constraint when developing managerial accounting systems?

Difficulty: Easy

Time on Task: 3 minutes

Objective: LO6

AACSB: Application of knowledge

Assignment: Homework

Solution:

The cost of obtaining the inputs and processing those inputs into information that is concise, easily understandable, and timely must be less than the benefits obtained from the information.

### 2. Differentiate between operational and strategic information needs.

Difficulty: Moderate

Time on Task: 4 minutes

Objective: LO2

AACSB: Reflective thinking

Assignment: Quiz, Test and Homework

Solution:

Different information is required for strategic and operational decisions. Strategic decisions, which are typically made by upper-level management, require information so that managers can determine with which markets, customers, services, or products they should operate. Operational decisions, in contrast, are typically made by operations management. Those managers require information on how to efficiently and effectively render services or provide product lines.

### 3. What is the difference between effectiveness and efficiency?

Difficulty: Easy

Time on Task: 3 minutes

Objective: LO8

AACSB: Reflective thinking

Assignment: Homework

Solution:

Effectiveness refers to achieving the goals, whereas efficiency relates to the resources used to create the actual results. Using The Lawn Care Company example, if the goal is to cut 30 lawns per month, but you cut only 18, you were not effective in reaching your target. If your costs (in both time and money) were less than anticipated for the 18 lawns that you did cut, you were efficient.

### 4. What are key differences between financial and managerial accounting?

Difficulty: Easy

Time on Task: 3 minutes

Objective: LO1

AACSB: Application of knowledge

Assignment: Homework

Solution:

Managerial accounting information is designed to provide management with detailed, relevant information that will help determine the future actions of the company. This is in contrast to financial accounting information, which adheres to Generally Accepted Accounting Principles (GAAP) and is used to produce summarized reports based on past performance.

### 5. Which actions are needed when analyzing and resolving potential ethical problems?

Difficulty: Difficult

Time on Task: 4 minutes

Objective: LO8

AACSB: Application of knowledge

Assignment: Homework

Solution:

First, it is important to fully research the relevant facts to obtain a full understanding of the ethical scenario. Then, you must apply a framework such as the Institute of Management Accountants’ (IMA’s) *Statement of Ethical Professional Practice*, keeping in mind the policies of the company, as well as applicable laws and regulations, to determine what your obligations are so as to maintain the highest standards of ethical conduct.

### 6. Describe the IMA’s *Statement of Ethical Professional Practice*.

Difficulty: Moderate

Time on Task: 6 minutes

Objective: LO8

AACSB: Application of knowledge

Assignment: Homework

Solution:

The IMA’s *Statement of Ethical Professional Practice* serves as a guideline for expected ethical behavior for all accounting professionals. The four main standards under the code of professional conduct require the members of the IMA to exhibit:

1. Competence—by maintaining their level of technical expertise in accounting and properly following applicable laws, policies, and procedures.
2. Confidentiality—by keeping all company information confidential from outside parties unless authorized or legally required to disclose that information.
3. Integrity—by being honest and trustworthy at all times, no matter what the circumstance.
4. Credibility—by presenting information fairly, objectively, and without bias to intended users of the information.

### 7. Explain the differences between the three means of gathering managerial accounting data.

Difficulty: Difficult

Time on Task: 5 minutes

Objective: LO6

AACSB: Reflective thinking

Assignment: Test

Solution:

The three means of gathering managerial accounting data include (1) direct observation, (2) interviewing, and (3) storyboarding.

1. With direct observation, you directly watch and record data. While this approach is perhaps the most accurate, it requires that you spend considerable time observing and tracking.
2. Interviewing requires meeting with individuals familiar with the process. If the people being interviewed are experienced, this approach can yield accurate enough internal information and may require less time to gather than the process of direct observation.
3. Storyboarding requires a facilitator to ask questions of several employees regarding which tasks are performed; the facilitator captures the answers on a board and ensures that all activities are documented according to the consensus of the group. This may be quite time intensive but can yield a more complete and visual picture that would justify the cost involved.

### 8. Explain the three primary uses of managerial accounting information.

Difficulty: Moderate

Time on Task: 4 minutes

Objective: LO4

AACSB: Application of knowledge

Assignment: Homework

Solution:

Managerial accounting provides the owners and managers of a company with useful information to make decisions in three areas: the cost of a service or product, planning and performance evaluation, and nonroutine special decisions. The information can be financial (in dollars) as well as nonfinancial, such as time, quality, and customer satisfaction.

### 9. What are three means of gathering managerial accounting data?

Difficulty: Easy

Time on Task: 3 minutes

Objective: LO6

AACSB: Application of knowledge

Assignment: Homework

Solution:

The three means of gathering managerial accounting data are direct observation, interviewing, and storyboarding.

### 10. How is management accounting information useful to the three functions of management?

Difficulty: Moderate

Time on Task: 4 minutes

Objective: LO4

AACSB: Reflective thinking

Assignment: Homework

Solution:

To plan, implement, and make decisions successfully, managers use managerial accounting information to create value through the process of identifying, measuring, reporting, and analyzing both financial and operating information for internal users. The output, or reports, generated from the managerial accounting system would also be relevant to managers. It is important that the reports created are easy to understand and ultimately help management make better decisions.

### 11. How are information needs different for higher and lower levels of management in an organization?

Difficulty: Moderate

Time on Task: 5 minutes

Objective: LO3

AACSB: Reflective thinking

Assignment: Homework

Solution:

Operational-levelmanagers need current, frequent, and perhaps even dailydetails to makeinformed, tactical decisions. Some needed information includes the specific costs of materials, labor, other production or direct service costs, and selling and administrative costs. Upper-level managers, in contrast, need summarized, infrequent reports about costs, profitability, innovations, market opportunities and threats, investments, and customer information.

### 12. The elements of the accounting information system are inputs, processes, and outputs. What are some inputs into the system?

Difficulty: Moderate

Time on Task: 4 minutes

Objective: LO6

AACSB: Application of knowledge

Assignment: Homework

Solution:

Inputs are unprocessed data items, including financial numbers, statistics, or other facts. Inputs can be quantitative or qualitative in nature. The data can relate to materials, employees, capacity, financing, suppliers, customers, or product lines.

### 13. With respect to the processing of managerial accounting information, how can efficiency be achieved with technology?

Difficulty: Moderate

Time on Task: 4 minutes

Objective: LO6

AACSB: Reflective thinking

Assignment: Homework

Solution:

Technology has enabled data to be processed extremely efficiently by using a database program, such as Microsoft Access, or a spreadsheet program, such as Microsoft Excel. Through the implementation of one or more of these programs, mathematical computations are seamless and data can be analyzed, manipulated, or summarized to meet the information needs of management. Additionally, a company can easily perform a “what-if” analysis or sensitivity analysis to show how sensitive calculations can be to certain changes in key assumptions.

### 14. One output of managerial reporting is an analysis of actual costs or a cost report. Provide three examples of cost items that could be found in a cost report for a bakery.

Difficulty: Difficult

Time on Task: 8 minutes

Objective: LO7

AACSB: Analytical thinking

Assignment: Homework

Solution:

Some items that could be included in a cost report for a bakery are:

* Cost per customer
* Cost of inputs into the products (e.g., sugar, butter, flour)
* Cost of utilities paid by the bakery (e.g., electric, gas, sewer)
* Depreciation expense
* Salaries paid to employees (sales associates, bakers, owners)

### 15. How are a budget and a simple performance report useful to analyze the results of operations?

Difficulty: Difficult

Time on Task: 5 minutes

Objective: LO7

AACSB: Reflective thinking

Assignment: Homework

Solution:

Budget and simple performance reports allow managers to examine the differences between the original plan and the actual results to understand whether the differences are within their control and likely to affect the company in the upcoming period as well. Management uses reports such as these to help identify problems and make changes that will improve results.

### 16. Besides a cost report, budget, and performance analysis, what are other outputs or tools available to management to achieve operational and strategic goals?

Difficulty: Moderate

Time on Task: 4 minutes

Objective: LO7

AACSB: Application of knowledge

Assignment: Test

Solution:

Although financial reports such as a budget or an income statement are important, information can be illustrated in the form of a chart, graph, or diagram. Often, an illustration can convey the information more clearly and concisely, emphasizing key points that might be buried if the reports contain strictly numerical values.

### 17. Give three examples of qualitative information that are relevant in managerial accounting but not captured and reported in financial accounting.

Difficulty: Moderate

Time on Task: 4 minutes

Objective: LO7

AACSB: Reflective thinking

Assignment: Quiz

Solution:

Nonfinancial data would still focus on the company’s critical success factors, but it is not found in a company’s regular accounting system. These metrics can include the quality of suppliers, quality of customer service, and time considerations.

### 18. Describe the three primary functions of managers within organizations that are necessary for long-term sustainability.

Difficulty: Easy

Time on Task: 3 minutes

Objective: LO7

AACSB: Reflective thinking

Assignment: Homework

Solution:

The three primary functions of managers within organizations include developing a strategic plan for the business, implementing and controlling the business plan, and making informed decisions about the business.

### 19. Describe the difference between structured and unstructured data. How does big data analysis use structured and unstructured data?

Difficulty: Easy

Time on Task: 5 minutes

Objective: LO5

AACSB: Reflective thinking

Assignment: Homework

Solution:

Structured data is uniform and exists in a record or file. This data is standardized for ease of processing and analysis. For example, transactional data (such as sales revenues) is structured data. Unstructured data is not standardized or cannot easily fit into a relational database. Text data (like comments left on social media sites) is an example of unstructured data. Big data analysis is the process of collecting and analyzing large amounts of digital data (both structured and unstructured) to discover patterns or insights that can be used by managers to make better business decisions.

###

### 20. Differentiate between descriptive analytics, diagnostic analytics, predictive analytics, and prescriptive analytics.

Difficulty: Easy

Time on Task: 5 minutes

Objective: LO5

AACSB: Reflective thinking

Assignment: Quiz

Solution:

Descriptive analytics are the simplest form of analytics, and often summarize past trends in the business. Descriptive analytics cannot tell a company why something happened; they only indicate what happened.

Diagnostic analytics are used to answer why something happened. Historical data are often measured against other data (both financial and nonfinancial) to drill down and gain a deeper understanding of what has occurred.

Predictive analytics help a company determine what is likely to happen in the future. It uses findings from both descriptive and diagnostic analytics to help predict future outcomes with reliable precision.

Prescriptive analytics are the most complex form of analytics and suggest future actions the company can take. Prescriptive analytics use advanced business rules and algorithms, statistical modeling, and machine learning to gather and analyze vast amounts of data, determine an action plan, and take corrective actions if necessary.

## Exercises

### 1. For each of the following decisions or actions, indicate which of the three areas of managerial accounting apply. Select the best option by placing the corresponding letter in the space provided.

Areas:

1. Product costing
2. Planning and control
3. Nonroutine decision making

Decisions or Actions by Management:

1. Consider opening another store across town
2. Identify why production goals were not met
3. Evaluate the results of various advertising alternatives
4. Determine the direct costs and margin of various product lines
5. Decide whether to pay bonuses to workers
6. Determine how much financing is needed as well as the type of financing
7. Forecast what profit will be at different levels of sales
8. Evaluate a new technology platform
9. Find which process is creating a bottleneck
10. Measure customer satisfaction
11. Buy or lease new equipment
12. Submit financial statements to outside users such as shareholders

Difficulty: Moderate

Time on Task: 1 minute each

Objective: LO4

AACSB: Analytical Thinking

Assignment: Varies, see chart below

Solution:

|  |  |  |  |
| --- | --- | --- | --- |
| **#** | **Question** | **Solution** | **Assignment** |
| 1 (i.) | Consider opening another store across town | c | Quiz |
| 1 (ii.) | Identify why production goals were not met | b | Quiz |
| 1 (iii.) | Evaluate the results of various advertising alternatives | c | Quiz |
| 1 (iv.) | Determine the direct costs and margin of various product lines | a | Quiz |
| 1 (v.) | Decide whether to pay bonuses to workers | b | Test |
| 1 (vi.) | Determine how much financing is needed as well as the type of financing | c | Test |
| 1 (vii.) | Forecast what profit will be at different levels of sales | b | Test |
| 1 (viii.) | Evaluate a new technology platform | c | Test |
| 1 (ix.) | Find which process is creating a bottleneck | c | Homework |
| 1 (x) | Measure customer satisfaction | b | Homework |
| 1 (xi.) | Buy or lease new equipment | c | Homework |
| 1 (xii.) | Submit financial statements to outside users such as shareholders | a | Homework |

### 2. For each of the following types of information, identify whether the information would be most applicable to financial (F) or managerial (M) accounting.

1. Income statement given to owners (for partnerships) and to shareholders (for corporations)
2. Report of the amount of time needed to complete each process, to deliver to customers, and to respond to customer complaints
3. Amount of sales by specific geographic locations, customers, and product or service lines
4. Tax return filed with Internal Revenue Service
5. Proposal for additional or new office space
6. Department store rating of suppliers with respect to quality and on-time delivery
7. For an airline, the amount of time that the airplanes are on the ground, number of delays, and number of empty seats by flights
8. Scheduling and costs of the various construction processes for a house, such as the foundation, framing, and interior finishing work
9. For a landscape company, the number of competitors and prices charged by them
10. For legal firm, the tasks performed by different levels of lawyers and by paralegals
11. For a bank, a report differentiating profits between commercial and residential loans
12. For a restaurant, the breakdown between direct materials (food), direct labor (food preparers and servers), and indirect costs (electricity, insurance, rent, depreciation)

Difficulty: Easy

Time on Task: 1 minute each

Objective: LO1

AACSB: Analytical Thinking

Assignment: Varies, see chart below

Solution: Varies, see chart below

|  |  |  |  |
| --- | --- | --- | --- |
| **#** | **Question** | **Solution** | **Assignment** |
| 1 (i.) | Income statement given to owners (for partnerships) and to shareholders (for corporations) | F | Quiz |
| 1 (ii.) | Report of the amount of time needed to complete each process, to deliver to customers, and to respond to customer complaints | M | Quiz |
| 1 (iii.) | Amount of sales by specific geographic locations, customers, and product or service lines | M | Quiz |
| 1 (iv.) | Tax return filed with Internal Revenue Service | F | Quiz |
| 1 (v.) | Proposal for additional or new office space | M | Test |
| 1 (vi.) | Department store rating of suppliers with respect to quality and on-time delivery | M | Test |
| 1 (vii.) | For an airline, the amount of time that the airplanes are on the ground, number of delays, and number of empty seats by flights | M | Test |
| 1 (viii.) | Scheduling and costs of the various construction processes for a house, such as the foundation, framing, and interior finishing work | M | Test |
| 1 (ix.) | For a landscape company, the number of competitors and prices charged by them | M | Homework |
| 1 (x) | For legal firm, the tasks performed by different levels of lawyers and by paralegals | M | Homework |
| 1 (xi.) | For a bank, a report differentiating profits between commercial and residential loans | M | Homework |
| 1 (xii.) | For a restaurant, the breakdown between direct materials (food), direct labor (food preparers and servers), and indirect costs (electricity, insurance, rent, depreciation) | M | Homework |

### 3. For each of the following, indicate whether the statement is True or False.

* 1. Storyboarding is a financial accounting chart of accounts used by major corporations to prepare financial statements.
	2. If a manager wants to visually report the frequency of supplier returns due to poor quality, wrong shipments, or incorrect prices, the manager could use a histogram to show the relative results.
	3. Lower level managers typically would receive frequent reports identifying issues such as employee absences, unused warehouse capacity, machine stoppage incidents, information security breaches, and vendor problems.
	4. Higher level managers typically would receive daily reports identifying payments made by each customer, number of on-time deliveries to customers, and surveys of customer satisfaction.
	5. If a company sends all outgoing correspondence by certified mail, the results would probably be very effective, but not efficient.
	6. If a sales call center employee answers customer complaints more quickly 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 efficient but ineffective.
	7. Projections of class enrollment for the upcoming period by a college would be recorded and reported under both financial and managerial accounting.
	8. The number of defective units in a manufacturing plant would be relevant for managerial accounting, but would not be reported under financial accounting.
	9. Managerial accounting emphasizes relevant data, cost-benefit analysis, and both quantitative and qualitative data.
	10. Manufacturers and retailers primarily use managerial accounting, but service firms do not need managerial accounting because they do not have products or inventory.
	11. Predictive analytics is the simplest form of analytics, and often summarizes past trends in the business.
	12. Text data (like comments left on social media sites) is an example of unstructured data.

Difficulty: Varies, see chart below

Time on Task: 1 minute

Objective: Varies, see chart below

AACSB: Analytical Thinking

Assignments:

3(a), 3(c) and 3(d) Quiz.

3(f), 3(g) and 3(h) Test.

All others Homework.

Solution: Varies, see chart below

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **#** | **Question** | **Solution** | **Difficulty** | **LO** |
| 3 (a) | Storyboarding is a flowchart financial accounting chart of accounts system technique used by major corporations to prepare financial statements. | False | Moderate | 6 |
| 3 (b) | If a manager wants to visually report the frequency of supplier returns due to poor quality, wrong shipments, or incorrect prices, the manager could use a histogram to show the relative results. | True | Easy | 6 |
| 3 (c) | Lower level managers typically would receive frequent reports identifying issues such as employee absences, unused warehouse capacity, machine stoppage incidents, information security breaches, and vendor problems. | True | Easy | 3 |
| 3 (d) | Higher- level managers typically would receive daily reports identifying payments made by each customer, number of on-time deliveries to customers, and surveys of customer satisfaction. | False | Easy | 3 |
| 3 (e) | If a company sends all outgoing correspondence by certified mail, the results would probably be very effective, but not efficient. | True | Easy | 8 |
| 3 (f) | If a sales call center employee answers customer complaints more quickly 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 efficient but ineffective. | True | Difficult | 8 |
| 3 (g) | Projections of class enrollment for the upcoming period by a college would be recorded and reported under both financial and managerial accounting. | False | Moderate | 1 |
| 3 (h) | The number of defective units in a manufacturing plant would be relevant for managerial accounting, but would not be directly reported under financial accounting. | True | Easy | 1 |
| 3 (i) | Managerial accounting emphasizes relevant data, cost-benefit analysis, and both quantitative and qualitative data. | True | Easy | 1 |
| 3 (j) | Manufacturers and retailers primarily use managerial accounting, but service firms do not need managerial accounting because they do not have products or inventory. | False | Moderate | 4 |
| 3 (k) | Predictive analytics is the simplest form of analytics, and often summarizes past trends in the business.  | False | Moderate | 5 |
| 3 (l) | Text data (like comments left on social media sites) is an example of unstructured data. | True | Moderate | 5 |

### 4. Suppose you are a recent accounting graduate and begin work for a well-known consulting firm, Shady Deals, Inc. As you are preparing the final journal entries and the financial statements for the year ended 12/31, you notice that the company is operating at a net loss of approximately $25,000 for the year. When you give the financial statements to your boss, the controller, he tells you to record some consulting revenue as of 12/31, since you knew you were going to perform these services for your customer in January. In addition, he tells you to wait to book certain expenses until January, when the bills are paid.

1. What are the ethical considerations with this situation?
2. If you were to follow your boss’s instructions, would you be violating the IMA’s *Statement of Ethical Professional Practice*? If so, which standards would you be violating?
3. What should you do in this situation?

Difficulty: Difficult

Time on Task: 15 minutes

Objective: LO8

AACSB: Ethical understanding and reasoning

Assignment: None

Solutions:

1. As an accountant, the primary function of your role is to ensure financial information is accurate and fairly represents the financial condition of the company. You must consider whether making the adjustments to revenue and expenses would alter the financial reports in a way that causes them to be inaccurate. The users of the financial statements will make decisions based on the information within them, and their decisions may change based on the adjustments suggested by the controller. Further, these adjustments could result in fraud. Fraud would occur if a user suffered a loss based on reliance on the statements because they contain false information about material (significant) fact(s) and there was an intent to deceive.
2. Yes, you would be violating three standards outlined in the IMA’s *Statement of Ethical Professional Practice*: integrity, credibility, and competence. The integrity standard requires members to be honest and trustworthy at all times, no matter what the circumstance. If you record these entries, even though you are being asked to do so by your boss, you are not being honest and trustworthy and, therefore, lack integrity. Further, you will lack credibility because you did not present information fairly, objectively, and without bias.

Finally, you violated the competence standard as there are two violations of Generally Accepted Accounting Principles (GAAP). (1) Revenue should be recorded when services are provided to customers, which occurs in January. (2) Expenses should be recorded when incurred, not when paid. Therefore, expenses should be recorded in December. Recording both of those journal entries would result in profit appearing higher than it actually is and would be misleading to users of the financial statements.

1. You should discuss your concerns with your boss. You should mention that you believe the financial statements may be inaccurate if these adjustments are made and you do not want to act without integrity or credibility. If your boss dismisses your concerns, you should report the misleading journal entries to a whistleblower hotline or internal counsel, if available.

## Problems

### 1. Refer to the lawn service company illustration in the chapter. Assume that the company wanted to offer an additional line of service covering fumigation, fertilizing, and landscaping. What information should the manager obtain? Try to be specific.

Difficulty: Moderate

Time on Task: 10 minutes

Objective: LO3, LO5

AACSB: Application of knowledge

Assignment: Homework

Solution:

The manager should obtain the following information in order to have the appropriate data to analyze and be able to determine whether to offer additional lines of service:

* + Obtain information regarding market opportunities and threats to be able to determine the following:
	+ Who are the biggest competitors for each service line? How would the company manage the challenge of sharing market space with these competitors?
	+ Is the market overcrowded, or is there room for entry and growth?
	+ What is the target market? Is the target market commercial, residential, or both? Further, does the target market consist of new customers or will you be adding the service(s) to existing customers’ current treatment?
* Obtain a cost analysis for each service. The manager should obtain a detailed breakdown of the variable and fixed costs as well as the product and labor costs.
* Obtain a profitability analysis for each service. The manager will need to estimate the pricing point necessary for each service line to break even as well as to make a profit.
* Obtain compliance and regulations information. The manager will need to determine if adding these services requires special licenses, processes, specialized personnel, or other resources (e.g., purchasing and disposing of fertilizer).
* Obtain equipment requirements information. The manager will need to assess if equipment currently owned by the company can be used in the new service lines or if more and/or different equipment is necessary.
* Obtain an analysis of current debt/equity levels to determine whether the company has funds available or means to borrow the capital necessary to finance expansion.

### 2. A home improvement store is interested in tracking why customers return merchandise. An employee suggests developing a spreadsheet to track the reasons for returns. He suggests that the return personnel tally the following: number customers who simply changed their minds; number of customers returning items that do not perform according to specifications; and number of customers who cite that they expected different functionality from the products.

1. Does the information regarding reasons for merchandise returns seem relevant for the store?
2. Keeping in mind the cost-benefit information constraint, does the suggestion seem appropriate? Will the costs of gathering and analyzing the data as well as the potential delay in serving customers justify the benefits to be derived from analyzing the results?

Difficulty: Moderate

Time on Task: 10 minutes

Objective: LO3/LO4

AACSB: Reflective thinking

Assignment: Test

Solutions:

1. Yes, the information is relevant and useful for the store for a variety of reasons. Most importantly, managers are not able to reduce the number of returns unless they are able to determine the main drivers for customers making returns.
	1. Customers changing their minds: Managers might not be able to draw any useful information from this reason. However, if part of a store employee’s salary is commission based and returns are focused on one associate, then this might indicate that the employee is purposefully making sales to customers with the knowledge they will return the products, just so the employee can meet commission goals.
	2. Product did not perform according to specifications: This reason could indicate that there is a quality control issue with the vendor. This information would be useful to store managers, as they might consider changing vendors.
	3. Expected different functionality: This could indicate an issue with data analytics of customer satisfaction and why products are not performing as expected.
2. When deciding to add a task or a procedure, a manager should be able to determine that the cost to perform the task/procedure will be less than the benefit realized. If the home improvement store has few returns that are not material to overall sales, then spending extra time tracking and analyzing return data may not be cost-effective because of the minimal amount of potential benefit to be realized. However, if the company is experiencing a heavy volume of returns (also known as *reverse logistics*), then it would be cost-effective to track return drivers so as to be able to reduce returns and, in turn, maximize profits. Additionally, to ensure that the cost of obtaining the information is minimal, the accounting information system used to track returns must already have the capability to include reasons for return, as having to contact customers who had previously returned a product to find out the reason for the return would not be cost-effective.

### 3. From a familiar setting, such as your classes or a job, describe a special decision made using managerial information, including both financial and nonfinancial information.

Difficulty: Moderate

Time on Task: 10 minutes

Objective: LO4

AACSB: Reflective thinking

Assignment: Homework

Solution:

Answers will vary based on the student's personal experiences.

### 4. For the following scenarios, indicate which of the four standards in the IMA’s *Statement of Ethical Professional Practice* is being violated: (1) competence; (2) confidentiality; (3) integrity; (4) credibility. Select all that apply.

* 1. You tell your brother-in-law about a new product your company has developed and plans to release early next year.
1. Your boss trusts you completely, and you currently write all of the company checks and reconcile the bank account. You decide to write yourself a check to cover the bonus that you did not receive last year due to economic cutbacks in your company.
2. Although you have passed the CPA exam, you decide not to attend any professional education classes because you are too busy at work.
3. When you prepare the financial statements for the year, you realize that the company is operating at a loss and are afraid that people will be laid off. You decide to revise your estimate for depreciation and bad debts so that you do not need to book as much expense for the year, which will allow your company to show a small profit for the year.
4. Since you do not know how to use Excel, you decide to prepare all calculations using a calculator and then type all financial reports in a word processing program.
5. You find out that the company you work for is dumping toxic waste in a river about 60 miles away. You decide to call the local newspaper and give it an anonymous tip regarding the illegal activity.
6. You work for a prominent bakery in the area that specializes in pies. Your brother-in-law owns an apple orchard, and although you can purchase the apples more inexpensively from a local supplier, you decide to give the bid to your brother-in-law’s company to help boost his sales.
7. Your company is trying to obtain a bank loan, and your boss has asked you to “make sure” your gross profit margins are 30%, even though realistically they have been 25% for this year. Feeling pressure, you decide to not include any information regarding sales returns or sales discounts for this year, and just report the gross sales for the year.

Difficulty: Moderate

Time on Task: 1 minute each

Objective: LO8

AACSB: Ethical understanding and reasoning

Assignment: Varies, see chart below

Solution:

|  |  |  |  |
| --- | --- | --- | --- |
| **#** | **Question** | **Solution** | **Assignment** |
| 4a | You tell your brother-in-law about a new product your company has developed and plans to release early next year. | 1, 2 | QuizTest |
| 4b | Your boss trusts you completely, and you currently write all of the company checks and reconcile the bank account. You decide to write yourself a check to cover the bonus that you did not receive last year due to economic cutbacks in your company. | 1, 3 | QuizTest |
| 4c | Although you have passed the CPA exam, you decide not to attend any professional education classes because you are too busy at work. | 1, 3 | QuizTest |
| 4d | When you prepare the financial statements for the year, you realize that the company is operating at a loss and are afraid that people will be laid off. You decide to revise your estimate for depreciation and bad debts so that you do not need to book as much expense for the year, which will allow your company to show a small profit for the year. | 1, 3, 4 | QuizTest |
| 4e | Since you do not know how to use Excel, you decide to prepare all calculations using a calculator and then type all financial reports in a word processing program. | 1 | TestHomework |
| 4f | You find out that the company you work for is dumping toxic waste in a river about 60 miles away. You decide to call the local newspaper and give it an anonymous tip regarding the illegal activity. | 1, 2 | TestHomework |
| 4g | You work for a prominent bakery in the area that specializes in pies. Your brother-in-law owns an apple orchard, and although you can purchase the apples more inexpensively from a local supplier, you decide to give the bid to your brother-in-law’s company to help boost his sales. | 1, 3 | TestHomework |
| 4h | Your company is trying to obtain a bank loan, and your boss has asked you to “make sure” your gross profit margins are 30%, even though realistically they have been 25% for this year. Feeling pressure, you decide to not include any information regarding sales returns or sales discounts for this year, and just report the gross sales for the year. | 1, 3, 4 | TestHomework |
| The IMA’s *Statement of Ethical Professional Practice* serves as a guideline for expected ethical behavior for all accounting professionals. There are four main standards under the code of professional conduct.The IMA’s *Statement of Ethical Professional Practice* requires members to exhibit:* Competence—by maintaining their level of technical expertise in accounting and properly following applicable laws, policies, and procedures.
* Confidentiality—by keeping all company information confidential from outside parties unless authorized or legally required to disclose that information.
* Integrity—by being honest and trustworthy at all times, no matter what the circumstance.
* Credibility—by presenting information fairly, objectively, and without bias to intended users of the information.
 |

###

### 5. Paul wants to start a barbershop. He would like to have an extra $450 per month to help with his house payments. He has found a location that will rent him space for $425 per month, plus an additional $100 for electricity and water. He will need a capital investment of $360 for the necessary clippers and equipment that he will depreciate over the first year in equal amounts. In addition, he will need small items such as towels, combs, and so on. This cost will be about $240 per year. He adds $100 per month for miscellaneous expense items that may pop up throughout the month.



1. Help Paul fill in the budget forecast that will show his monthly and yearly revenues with the numbers outlined in the problem statement.
2. How much does he need in gross revenue per month to obtain the $450 profit per month?
3. If he charges $12 per haircut, how many haircuts will he need to perform to make his $450 profit per month?
4. Using the principles in a sensitivity budget, what would Paul have to charge to perform only 75 haircuts and still reach his $450 profit per month?
5. How many haircuts must be done to make $600 profit per month, assuming he charges $15 per haircut?
6. For data analytics and visualization, create a pie chart to analyze Paul’s expenses.
7. In the predictive analytics performed in steps (b) to (e), what other nonfinancial information would be useful for decision making?

Difficulty: Moderate

Time on Task: 25 minutes

Objective: LO7, L05

AACSB: Application of knowledge

Assignment: Homework

Solutions:



\* Depreciation calculation: Initial investment of $360 for clippers and equipment. Useful life of one year with no salvage. Monthly depreciation is calculated as $360/12 months = $30 per month.

1. To realize $450 profit per month, Paul must earn $1,125 in revenue each month ($450 monthly profit + $675 monthly expenses = $1,125 monthly gross revenue).
2. To realize $450 profit per month, Paul must earn $1,125 in revenue each month. To earn at least $1,125 of revenue, Paul must perform 94 haircuts ($1,125 / $12 per haircut = 93.75 haircuts) if he prices each haircut at $12 per cut.
3. To realize $1,125 gross revenue monthly while performing 75 haircuts, Paul will need to charge $15 per cut ($1,125 gross revenue / 75 haircuts = $15 per cut).
4. This question requires you to perform two calculations:

First, you must determine how much monthly gross revenue Paul must earn to realize $600 profit per month. Paul must earn $1,275 in revenue each month ($600 monthly profit + $675 monthly expenses = $1,275 monthly gross revenue).

Second, once you have calculated monthly gross revenue, you can determine the number of haircuts required to achieve the goal. To realize $1,275 monthly gross revenue while charging $15 per haircut, Paul will have to perform 85 cuts per month ($1,275 / $15 per cut = 85 cuts)



1. Some examples of nonfinancial information include customer trends, employee expertise, demographics, and competition.

### 6**.** Indicate whether each of the following is True or False.

1. The main objective of general financial accounting is to provide management with information to budget for the future and for the IRS to tax corporations.
2. Financial statements allow analysis among companies for a period and across time for the same company.
3. The normal revenue recognition point is at the point of sale or service.
4. The balance sheet shows how much cash was earned and the liabilities owed for a period of time.
5. The following accounts are all reported on the income statement: gain on sale of land, unearned revenue, accumulated depreciation, interest expense, and retained earnings.
6. Companies with public stock are required to report earnings per share (EPS) so that common stock owners can understand their portion of the income that the company earned for the year.
7. All of the following statements give information for a period of time: cash flow, income statement, and statement of retained earnings.
8. Collections from sales of merchandise, rent payments, and payment for the purchase of supplies and salaries are cash flow operating activities.
9. Accrual basis accounting better reflects the revenues and expenses for the period than does cash basis accounting.
10. The proper order of preparing financial statements is (1) cash flow statement, (2) statement of retained earnings, (3) balance sheet, and (4) income statement.
11. Borrowing from the bank and issuing stock are cash flow financing activities.
12. Purchases of land and equipment with cash are cash flow investing activities.

Difficulty: Moderate

Time on Task: 10 minutes

Objective: Appendix A

AACSB: Analytical Thinking

Assignment:

6(c), 6(i), and 6(g) Quiz

6(e), 6(j) and 6(l) Test

All other homework.

Solution:

a. False

b. True

c. True

d. False

e. False

f. True

g. True

h. True

i. True

j. False

k. True

l. True

### 7. Classify each of the following as pertaining to the **income statement** or the **balance sheet.** If it is a balance sheet account, choose the proper **category.** A balance sheet and income statement example are provided for you.

Current Asset (CA)

Investments (I)

Property, Plant and Equipment (PP&E)

Intangible Assets (IA)

Current Liabilities (CL)

Long-Term Liabilities (LL)

Stockholders’ Equity (SE)

|  |  |  |  |
| --- | --- | --- | --- |
| **Accounts** | **Income Statement** | **Balance Sheet** | **Balance Sheet Category** |
| Accounts Payable |   | **X** | **CL** |
| Accounts Receivable |   |   |   |
| Accumulated Depreciation |   |   |   |
| Allowance for Doubtful Accounts |   |   |   |
| Bad Debts Expense/Credit Losses |  **X** |   |   |
| Bonds Payable |   |   |   |
| Buildings |   |   |   |
| Cash |   |   |   |
| Common Stock |   |   |   |
| Cost of Goods Sold |   |   |   |
| Depreciation Expense |   |   |   |
| Equipment |   |   |   |
| Gain on Sale of Building |   |   |   |
| Goodwill |   |   |   |
| Interest Payable |   |   |   |
| Inventory |   |   |   |
| Investments |   |   |   |
| Land |   |   |   |
| Loss on Sale of Equipment |   |   |   |
| Mortgage Payable |   |   |   |
| Patents |   |   |   |
| Prepaid Rent |   |   |   |
| Rent Expense |   |   |   |
| Retained Earnings |   |   |   |
| Salaries Expense |   |   |   |
| Salaries Payable |   |   |   |
| Sales |   |   |   |
| Supplies |  |  |  |
| Unearned Revenue |   |   |   |
| Warranty Obligation |   |   |   |

Difficulty: Moderate

Time on Task: 10 minutes

Objective: Appendix A

AACSB: Analytical Thinking

Assignment: Homework, Quiz and Test

Solution:

|  |  |  |  |
| --- | --- | --- | --- |
| **Accounts** | **Income Statement** | **Balance Sheet** | **Balance Sheet Category** |
| Accounts Payable |   | **X** | **CL** |
| Accounts Receivable |   | **X** | **CA** |
| Accumulated Depreciation |   | **X** |  **PP&E\*** |
| Allowance for Doubtful Accounts |   | **X** |  **CA\*** |
| Bad Debts Expense/Credit Losses |  **X** |   |   |
| Bonds Payable |   | **X** |  **LL** |
| Buildings |   | **X** |  **PP&E** |
| Cash |   | **X** |  **CA** |
| Common Stock |   | **X** |  **SE** |
| Cost of Goods Sold |  **X** |   |  |
| Depreciation Expense |  **X** |   |  |
| Equipment |   | **X** |  **PP&E** |
| Gain on Sale of Building |  **X** |   |  |
| Goodwill |   | **X** |  **IA** |
| Interest Payable |   | **X** |  **CL** |
| Inventory |   | **X** |  **CA** |
| Investments |   | **X** |  **I** |
| Land |   | **X** |  **PP&E** |
| Loss on Sale of Equipment |  **X** |   |  |
| Mortgage Payable |   | **X** |  **LL** |
| Patents |   | **X** |  **IA** |
| Prepaid Rent |   | **X** |  **CA** |
| Rent Expense |  **X** |   |  |
| Retained Earnings |   | **X** |  **SE** |
| Salaries Expense |  **X** |   |  |
| Salaries Payable |   | **X** |  **CL** |
| Sales |  **X** |   |  |
| Supplies |   | **X** |  **CA** |
| Unearned Revenue |   | **X** |  **CL** |
| Warranty Obligation |   | **X** |  **CL** |
| *\*These accounts are contra-assets.* |

###

###

### 8. For the following events, in the spaces provided, fill in the numbers of the account(s) increased and decreased when recording the entry in the first grid. Accounts may be used more than once, and some accounts need not be used. Each event does not require an increase AND a decrease in an account.

1. Cash
2. Notes Payable
3. Notes Receivable
4. Interest Expense
5. Interest Receivable
6. Interest Revenue
7. Interest Payable
8. Accumulated Depreciation
9. Sales
10. Rent Expense
11. Inventory
12. Salaries Expense
13. Cost of Goods Sold
14. Depreciation Expense
15. Salaries Payable
16. Accounts Payable
17. Accounts Receivable
18. Equipment
19. Prepaid Insurance
20. Unearned Revenue

|  |  |  |
| --- | --- | --- |
| **Transactions** | **# of Account Increased** | **# of Account Decreased** |
| a. Employees worked for the week but will be paid next week |  |  |
| b. Signed a note with the bank and received financing |  |  |
| c. Purchased merchandise on credit |  |  |
| d. Sold merchandise on credit at more than the cost |  |  |
| e. Recorded depreciation on equipment |  |  |
| f. Bought equipment, giving small down payment and signing note for the rest |  |  |
| g. Paid off earlier credit purchase of merchandise |  |  |
| h. Paid rent for the month |  |  |
| i. Prepaid for several months of insurance |  |  |
| j. Collected amount for future delivery of magazines |  |  |

Difficulty: Moderate

Time on Task: 14 minutes

Objective: Appendix A

AACSB: Analytical Thinking

Assignment: Homework, Quiz and Test

Solutions:

|  |  |  |
| --- | --- | --- |
| **Transactions** | **# of Account Increased** | **# of Account Decreased** |
| a. Employees worked for the week but will be paid next week | 12, 15 |  |
| b. Signed a note with the bank and received financing | 1, 2 |  |
| c. Purchased merchandise on credit | 11, 16 |  |
| d. Sold merchandise on credit at more than the cost | 9, 13, 17 | 11 |
| e. Recorded depreciation on equipment | 8, 14 |  |
| f. Bought equipment, giving small down payment and signing note for the rest | 2, 18 | 1 |
| g. Paid off earlier credit purchase of merchandise |  | 1, 16 |
| h. Paid rent for the month | 10 | 1 |
| i. Prepaid for several months of insurance | 19 | 1 |
| j. Collected amount for future delivery of magazines | 1, 20 |  |

### 9. For the following events, in the spaces provided, fill in theeffect on net income on the Income Statement. Use:

+ for increase

– for decrease

0 for no net effect

|  |  |
| --- | --- |
| **Transactions** | **Net Income****(Income Statement)**  |
| a. Employees worked for the week but will be paid next week |  |
| b. Signed a note with the bank and received financing |  |
| c. Purchased merchandise on credit; keep perpetual records in inventory |  |
| d. Sold merchandise on credit at more than the cost |  |
| e. Recorded depreciation on equipment |  |
| f. Bought equipment, giving small down payment and signing note for the rest |  |
| g. Paid off earlier credit purchase of merchandise |  |
| h. Paid for rent used during the month |  |
| i. Prepaid for several months of insurance; recorded with prepaid insurance account |  |
| j. Collected amount for future delivery of magazines; recorded with unearned revenue account |  |

Difficulty: Moderate

Time on Task: 12 minutes

Objective: Appendix A

AACSB: Analytical Thinking

Assignment: Homework, Quiz and Test

Solution:

|  |  |
| --- | --- |
| **Transactions** | **Net Income****(Income Statement)**  |
| a. Employees worked for the week but will be paid next week | – |
| b. Signed a note with the bank and received financing | 0 |
| c. Purchased merchandise on credit; keep perpetual records in inventory | 0 |
| d. Sold merchandise on credit at more than the cost | + |
| e. Recorded depreciation on equipment | – |
| f. Bought equipment, giving small down payment and signing note for the rest | 0 |
| g. Paid off earlier credit purchase of merchandise | 0 |
| h. Paid for rent used during the month | – |
| i. Prepaid for several months of insurance; recorded with prepaid insurance account | 0 |
| j. Collected amount for future delivery of magazines; recorded with unearned revenue account | 0 |

### 10. The following is known about Pedro Company, which has a January fiscal year end:

|  |  |  |
| --- | --- | --- |
| **Balance Sheet Data** | **1/31/22** | **1/31/23** |
| Retained Earnings  | $400 | $1,100 |
| Investments | $600 | $900 |
| Long-Term Liabilities | $700 | ?? |
| Property, Plant, and Equipment | ?? | $1,100 |
| Current Liabilities | $300 | $400 |
| Intangible Assets | $900 | $1,000 |
| Capital Stock | $1,200 | $1,300 |
| Current Assets | $500 | $600 |

Answer the following questions

1. What were Long-Term Liabilities on 1/31/23?
2. What was the total of Property, Plant, and Equipment on 1/31/22?
3. What was Stockholders’ Equity on 1/31/23?

Difficulty: Moderate

Time on Task: 5 minutes

Objective: Appendix A

AACSB: Analytical Thinking

Assignment: Homework

Solutions:

1. Explanation: The accounting equation must stay in balance.

Assets = Liabilities + Stockholder’s Equity

Current Assets + Investments + Property, Plant and Equipment + Intangible Assets = Current Liabilities + Long-Term Liabilities [missing value] + Capital Stock + Retained Earnings

600 + 900 + 1,100 + 1,000 = 400 + Long-Term Liabilities + 1,300 + 1,100

3,600 = Long-Term Liabilities + 2,800

Long-Term Liabilities = 800

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Current Assets** | **+** | **Investments** | **+** | **Property, Plant and Equipment** | **+** | **Intangible Assets** | **=** | **Current Liabilities** | **+** | **Long-Term Liabilities** | **+** | **Capital Stock** | **+** | **Retained Earnings** |
| 600 | **+** | 900 | **+** | 1,100 | **+** | 1,000 | = | 400 | **+** | Long-Term Liabilities | **+** | 1,300 | **+** | 1,100 |
|  |  |  |  |  |  | 3,600 | = | 2,800 | **+** | Long-Term Liabilities |  |  |  |  |
|  |  |  |  |  |  | 800 | = | Long-Term Liabilities |  |  |  |  |  |  |

1. Explanation: The accounting equation must stay in balance.

Assets = Liabilities + Stockholder’s Equity

Current Assets + Investments + Property, Plant and Equipment + Intangible Assets = Current Liabilities + Long-Term Liabilities [missing value] + Capital Stock + Retained Earnings

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Current Assets** | **+** | **Investments** | **+** | **Property, Plant and Equipment** | **+** | **Intangible Assets** | **=** | **Current Liabilities** | **+** | **Long-Term Liabilities** | **+** | **Capital Stock** | **+** | **Retained Earnings** |

1. Explanation: Stockholder’s Equity = Capital Stock + Retained Earnings

Stockholder’s Equity = 1,300 + 1,100

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Stockholder's Equity** | **=** | **Capital Stock** | **+** | **Retained** **Earnings** |
| Stockholder's Equity | = | 1,300 | **+** | 1,100 |
| Stockholder's Equity | = | 2,400 |  |  |