CHAPTER 1

Managerial Accounting

ASSIGNMENT CLASSIFICATION TABLE

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Study Objectives** |  | **Questions** |  | **Do It!****Review** |  | **Exercises** |  | **A****Problems** |  | **B****Problems** |
|  |  |  |  |  |  |  |  |  |  |  |
| \*1. Explain the distinguishing features of managerial accounting. |  | 1, 2, 3 |  | 15 |  | 17, 21, 22 |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| \*2. Identify the three functions of management and the role of management accountants in an organizational structure. |  | 4, 7, 8 |  | 15 |  | 19, 20 |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| \*3. Explain the importance of business ethics. |  | 5, 6, 9 |  | 15 |  | 18 |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| \*4. Identify changes and trends in managerial accounting. |  | 10, 11, 12, 13, 14 |  | 16 |  | 23 |  |  |  |  |
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**Correlation Chart between Bloom’s Taxonomy, Study Objectives and End-of-Chapter Exercises and Problems**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Study Objective** | **Knowledge** | **Comprehension** | **Application** | **Analysis** | **Synthesis** | **Evaluation** |
| **\* 1. Explain the distinguishing features of managerial accounting.** | **Q2, Q3, D15, E17, E21, E22** | **Q1** |  |  |  |  |  |
| **\* 2. Identify the three functions of management and the role of management accountants in an organizational structure.** | **Q4, D15, E19, E20** | **Q7, Q8** |  |  |  |  |  |
| **\* 3. Explain the importance of business ethics.** | **Q5, Q9, D15, E18** | **Q5, Q6** |  |  |  |  |  |  |  |
| **\* 4. Identify changes trends in managerial accounting.** | **Q10, Q11, Q12, Q13, D16, E23** | **Q14** |  |  |  |  |  |  |  |

BLOOM’S TAXONOMY TABLE

ANSWERS TO QUESTIONS

 1. (a) Disagree. Managerial accounting is a field of accounting that provides economic and financial information for managers and other internal users.

 (b) Carolina is incorrect. Managerial accounting applies to all types of businesses—service, merchandising, and manufacturing.

 2. (a) Financial accounting is concerned primarily with external users such as shareholders, creditors, and regulators. In contrast, managerial accounting is concerned primarily with internal users such as officers and managers.

 (b) Classified financial statements are the end product of financial accounting. The statements are prepared monthly, quarterly and annually. In managerial accounting, internal reports may be prepared daily, weekly, monthly, quarterly, annually, or as needed.

 (c) The purpose of financial accounting is to provide general-purpose information for all users. The purpose of managerial accounting is to provide special-purpose information for a particular user for a specific decision.

 3. Differences in the content of the reports are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Financial |  | Managerial |
|  | * Pertains to business as a whole and is highly aggregated.
* Limited to double-entry accounting and cost data.
* Generally accepted accounting principles.
 |  | * Pertains to subunits of the business and may be very detailed.
* May extend beyond double-entry accounting system to any relevant data.
* Standard is relevance to decisions.
 |

 In financial accounting, financial statements are verified annually through an external audit by an independent professional accountant such as a Chartered Accountant. There are no independent audits of internal reports issued by mana­gerial accountants.

 4. Jean-Marc should know that the management of an organization performs three broad functions:

 (1) Planning requires management to look ahead and to establish objectives.

 (2) Directing involves coordinating the diverse activities and human resources of a

 company to produce a smooth-running operation.

 (3) Controlling is the process of keeping the company’s activities on track.

5. (a) The four categories of ethical standards for management accountants are:

 Objectivity, confidentiality, competence, and integrity.

 (b) No. Management accountants should not condone unethical acts

 by others within their organization.

**Questions Chapter 1 (Continued)**

6. Systems and controls sometimes unwittingly create incentives for managers to take unethical actions. For example, companies prepare budgets to provide direction. Because the budget is also used as an evaluation tool, some managers try to “game’’ the budgeting process by underestimating their division’s predicted performance so that it will be easier to meet their performance targets. Or, if the budget is set at unattainable levels, managers sometimes take unethical actions to meet the targets in order to receive higher compensation or, in some cases, keep their jobs.

7. Disagree. Decision making is not a separate management function. Rather, decision making involves the exercise of good judgment in performing the three management functions explained in the answer to question four above.

8. Employees with line positions are directly involved in the company’s primary revenue-generating operating activities. Examples include plant managers and supervisors, and the vice president of operations. In contrast, employees with staff positions are not directly involved in revenue-generating operating activities, but rather serve in a support capacity to line employees. Examples include employees in finance, legal, and human resources.

9. CEOs and CFOs must now certify that financial statements give a fair presentation of the company’s operating results and its financial condition and that the company maintains an adequate system of internal controls. In addition, the composition of the board of directors and audit committees receives more scrutiny, and penalties for misconduct have increased.

10. The value chain refers to all activities associated with providing a product or service. For a manufacturer, this includes research and development, product design, acquisition of raw materials, production, sales and marketing, delivery, customer relations and subsequent service.

11. An enterprise resource planning (ERP) system is a software system that provides a comprehensive, centralized source of integrated information. Its primary benefits are that it replaces the many individual systems typically used for receivables, payables, inventory, human resources, etc. Also, it can be used to get information from, and provide information to, the company’s customers and suppliers.

12. In a just-in-time inventory system the company has no extra inventory stored. Consequently, if some units that are produced are defective, the company will not have enough units to deliver to customers.

13. Activity-based costing is an approach used to allocate overhead based on each product’s relative use of activities in making the product. Activity-based costing is beneficial because it results in more accurate product costing and in more careful scrutiny of all activities in the value chain.

**Questions Chapter 1 (Continued)**

14. The balanced scorecard is called “balanced” because it strives to not over emphasize any one performance measure, but rather uses both financial and non-financial measures to evaluate all aspects of a company’s operations in an integrated fashion.

SOLUTIONS TO DO IT! REVIEW

D1-1

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |

 1. False. Preparation of budgets is part of *managerial* accounting.

 2. False. Financial accounting reports pertain to the entity as a whole and are highly aggregated. It is *managerial* accounting reports that pertain to subunits of the business and are very detailed.

 3. False. *Financial* accounting must adhere to Generally Accepted Accounting Principles and are subject to an audit by chartered accountants.

 4. True.

 5. True.

 6. True.

D1-2

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|  |  |  |  |  |
|  |  |  |  |  |

 1. (f) Just-in-time (JIT) inventory

 2. (a) Activity-based costing

 3. (c) Total quality management (TQM)

 4. (d) Research and development, and product design

 5. (e) Service industries

 6. (b) Balanced scorecard

SOLUTIONS TO EXERCISES

E1-1

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Financial Accounting |  | Managerial Accounting |
|  |  |  |  |  |
| Primary users |  | External users |  | Internal users |
|  |  |  |  |  |
| Types of reports |  | Financial statements |  | Internal reports |
|  |  |  |  |  |
| Frequency of reports |  | Monthly, quarterly and annually |  | As frequently as needed |
|  |  |  |  |  |
| Purpose of reports |  | General-purpose |  | Special-purpose information for specific decisions |
|  |  |  |  |  |
| Content of reports |  | Generally accepted accounting principles |  | Relevance to decisions |
|  |  |  |  |  |
| Verification |  | Annual audit by Chartered Accountant |  | No independent audits |

E1-2

The four specific standards are:

(1) Competence

(2) Confidentiality

(3) Integrity

(4) Objectivity

E1-3

(a) (1) Planning.

(b) (2) Directing.

(c) (3) Controlling.

SOLUTIONS TO EXERCISES (Continued)

E1-4

(a) (6) Chief executive officer

(b) (5) Line position

(c) (2) Chief financial officer

(d) (1) Board of directors

(e) (7) Staff position

(f) (4) Controller

(g) (3) Treasurer

E1-5

 1. F

 2. M

 3. F

 4. M

 5. F

 6. M

 7. F

 8. F

 9. M

10. F

E1-6

 1. False. Financial accounting focuses on providing information to *external* users.

 2. True.

 3. False. Preparation of budgets is part of *managerial* accounting.

 4. False. Managerial accounting applies to service, merchandising and manufacturing companies.

 5. True.

 6. False. Managerial accounting reports are prepared as *frequently as needed*.

 7. True.

 8. True.

 9. False. *Financial* accounting reports must comply with Generally Accepted Accounting Principles.

SOLUTIONS TO EXERCISES (Continued)

10. False. Managerial accountants are expected to behave ethically, *and there is a* code of ethical standards for managerial accountants.

E1-7

 (a) 3. Balanced scorecard

 (b) 4. Value chain

 (c) 2. Just-in-time inventory

 (d) 1. Activity-based costing

SOLUTIONS TO CASES

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| --- |
|  CASE 1-10 |

Since the questions were fairly open-ended, the following are only suggested results. The class may be able to think of others, or of more items for each one.

(a) *Hayley Geagea* Needs information on sales, perhaps by salesperson and by territory.

 *Luc Lemieux* Needs cost information for his department.

 *Gary Richardson* Needs all accounting information.

 *Manny Cordoza* Needs product cost information.

 *Patrick Dumoulin* Needs information on component costs and costs for his department.

(b) *Hayley Geagea* Income statement

 *Luc Lemieux* None.

 *Gary Richardson* All.

 *Manny Cordoza* Income statement and cost of goods manufactured schedule.

 *Patrick Dumoulin* None.

(c) *Hayley Geagea* Sales by Territory—Detailed information, possibly by product line, issued daily or weekly.

 *Luc Lemieux* Cost of Computer Programs—Accumulated cost incurred for each major program used including maintenance and updates of program, issued monthly.

 *Gary Richardson* Cost of Preparing Reports—Detailed analysis of all reports provided, their frequency, time, and estimated cost to prepare, issued monthly.

 *Manny Cordoza* Cost of Product—Detailed cost by product line, comparing actual with estimated costs. Issued as each batch of production is completed.

 *Patrick Dumoulin* Cost of Product Design—Accumulated total costs of each new product, issued at end of each project.

SOLUTIONS TO CASES (Continued)

|  |
| --- |
|  CASE 1-11 |

(1) It is ethical to use different performance measures to evaluate employees, if and only if, the performance that is being measured is performance that is under the direct control or responsibility of the individual being evaluated. This is not as much an ethics problem as it is a management problem—management is responsible for putting systems in place that are fair to all employees.

(2) Firstly, a company can establish a Code of Conduct that provides guidelines to employees who are unsure of what should be done in questionable situations. Secondly, a company can practice transparent reporting—allow all employees to see the financial statements, and encourage them to question what they don’t understand, or what they think might not be right.

## WCP Solution CH 1WCP-1**Legal Notice**

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