

Chapter 1—Introduction to Managerial Accounting

MULTIPLE CHOICE

1. Which of the following is an example of the management activity referred to as planning?
- a. developing a strategy to dispose of hazardous waste
 - b. deciding to eliminate an unprofitable segment of an organization
 - c. deciding to outsource an organization's payroll processing
 - d. deciding to upgrade outdated equipment

ANS: A PTS: 1 DIF: Medium REF: p.5
OBJ: 1.1 NAT: AACSB Analytic | IMA-Cost Management
MSC: Higher order; classifying

2. Developing a company strategy for responding to anticipated new markets is an example of which of the following?
- a. planning
 - b. controlling
 - c. decision making
 - d. delegating

ANS: A PTS: 1 DIF: Medium REF: p.5
OBJ: 1.1 NAT: AACSB Analytic | IMA-Cost Management
MSC: Higher order; classifying

3. Investigating production variances and adjusting the production process is an example of which of the following?
- a. planning
 - b. controlling
 - c. decision making
 - d. delegating

ANS: B PTS: 1 DIF: Medium REF: p.5
OBJ: 1.1 NAT: AACSB Analytic | IMA-Cost Management
MSC: Higher order; classifying

4. Which of the following is a characteristic of financial accounting?
- a. It has no mandatory rules.
 - b. It is internally focused.
 - c. It is concerned with the information about the firm as a whole.
 - d. It has an emphasis on the future.

ANS: C PTS: 1 DIF: Medium REF: p.6
OBJ: 1.2 NAT: AACSB Analytic | IMA-Cost Management
MSC: Higher order; classifying

5. Which of the following is an objective of management accounting?
- to prepare external reports for investors, creditors, government agencies, and other outside users
 - to provide information for the costing of services, products, and other objects of interest to management
 - to provide tax information for planning, controlling, evaluating, and continuous improvement
 - to provide information for investment decision making

ANS: B PTS: 1 DIF: Easy REF: p.6
OBJ: 1.1 NAT: AACSB Analytic | IMA-Cost Management
MSC: Higher order; exemplifying

6. Which of the following is a characteristic of management accounting?
- It provides objective financial information.
 - It must adhere to mandatory rules.
 - It has no mandatory rules.
 - Its main users are outside of the organization.

ANS: C PTS: 1 DIF: Easy REF: p.6
OBJ: 1.1 NAT: AACSB Analytic | IMA-Cost Management
MSC: Higher order; classifying

7. Which statement about management accounting reports is correct?
- The reports are prepared to meet the needs of decision makers within the firm.
 - The reports are prepared whenever stockholders request them.
 - The reports are prepared according to guidelines prepared by the Ontario Securities Commission (OSC).
 - The reports are prepared according to GAAP and IFRS.

ANS: A PTS: 1 DIF: Easy REF: p. 6
OBJ: 1.2 NAT: AACSB Analytic | IMA-Cost Management
MSC: Higher order; inferring

8. What is the primary objective of management accounting?
- to provide stockholders and potential investors with useful information for decision making
 - to provide banks and other creditors with information useful in making credit decisions
 - to provide management with information useful for planning and control of operations
 - to provide the Canada Revenue Agency with information about taxable income

ANS: C PTS: 1 DIF: Medium REF: p.6
OBJ: 1.2 NAT: AACSB Analytic | IMA-Cost Management
MSC: Higher order; exemplifying

9. Which of the following is a characteristic of activity-based costing?
- It is a traditional costing method.
 - It encourages process-value analysis.
 - It always results in a lower cost assigned to goods or services.
 - It assigns shared costs to jobs.

ANS: B PTS: 1 DIF: Medium REF: p.8
OBJ: 1.3 NAT: AACSB Analytic | IMA-Cost Management
MSC: Higher order; classifying

10. Which of the following is an example of a value-added activity?

- a. delivering products at the seller's convenience
- b. offering the customer a limited variety of products
- c. storing finished products
- d. providing excellent customer service

ANS: C PTS: 1 DIF: Medium REF: p.10

OBJ: 1.3 NAT: AACSB Analytic | IMA-Cost Management

MSC: Higher order; exemplifying

11. What does total quality management emphasize?

- a. 1% defects
- b. a lack of improvement
- c. the elimination of waste
- d. the status quo

ANS: C PTS: 1 DIF: Medium REF: p.11

OBJ: 1.3 NAT: AACSB Analytic | IMA-Cost Management

MSC: Remember

12. Which of the following employees would normally occupy a line position?

- a. the vice-president of marketing
- b. the controller
- c. the treasurer
- d. the purchasing manager

ANS: A PTS: 1 DIF: Medium REF: p.13

OBJ: 1.4 NAT: AACSB Analytic | IMA-Cost Management

MSC: Higher order; classifying

13. Which of the following employees would normally occupy a staff position?

- a. an assembly worker
- b. the cost accounting manager
- c. the factory manager
- d. the CEO

ANS: B PTS: 1 DIF: Medium REF: p.13

OBJ: 1.4 NAT: AACSB Analytic | IMA-Cost Management

MSC: Higher order; classifying

14. Which of the following employees would normally occupy a line position in a hospital?

- a. the manager of the cafeteria
- b. a hospital administrator
- c. the chief of surgery
- d. a staff nurse

ANS: C PTS: 1 DIF: Medium REF: p. 13

OBJ: 1.4 NAT: AACSB Analytic | IMA-Cost Management

MSC: Higher order; classifying

15. Which of the following activities does the controller of an organization participate in?
- controlling, planning, and assessing
 - decision making and assessing
 - planning, assessing, and decision making
 - planning, controlling, and decision making

ANS: D PTS: 1 DIF: Easy REF: p. 13
OBJ: 1.4 NAT: AACSB Analytic | IMA-Cost Management
MSC: Higher order; exemplifying

16. Which of the following is an objective of profit maximization?
- It should be the only goal of an organization.
 - It is an objective of financial accounting but not of management accounting.
 - It should be achieved through legal and ethical means.
 - It should outweigh the goal of product quality.

ANS: C PTS: 1 DIF: Challenging REF: p. 15
OBJ: 1.5 NAT: AACSB Ethics | IMA-Business Applications
MSC: Higher order; differentiating

17. Which of the following are included in the standards of ethical conduct for management accountants?
- competence, performance, respect for others, and observance
 - integrity, respect for others, performance, and confidence
 - confidence, confidentiality, objectivity, and observance
 - competence, confidentiality, integrity, and objectivity

ANS: D PTS: 1 DIF: Medium REF: p.15
OBJ: 1.1 NAT: AACSB Analytic | IMA-Cost Management
MSC: Higher order; classifying

18. Which of the following areas is NOT emphasized in the CMA examination?
- external auditing and business law
 - economics, finance, and management
 - decision analysis and information systems
 - financial accounting and reporting

ANS: A PTS: 1 DIF: Medium REF: p.18
OBJ: 1.6 NAT: AACSB Analytic | IMA-Cost Management
MSC: Higher order; comparing

19. What is a requirement for accountants who have a CA, CMA, or CGA designation?
- They are not the only people permitted to serve as external auditors.
 - They must pass a national examination and be licensed by the province or territory in which they practice.
 - They are not held responsible to provide assurance concerning the reliability of a firm's financial statements.
 - They can only work at public accounting firms.

ANS: B PTS: 1 DIF: Easy REF: p.18
OBJ: 1.6 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; attributing

20. Which accountants focus on external reports and auditing in Canada?

- a. Certified Public Accountants
- b. Certified Financial Accountants
- c. Chartered Accountants
- d. Certified Management Accountants

ANS: C PTS: 1 DIF: Easy REF: p. 18

OBJ: 1.6 NAT: AACSB Analytic | IMA-Cost Management

MSC: Higher order; classifying

TRUE/FALSE

1. Managerial accounting is designed primarily for external users.

ANS: F PTS: 1 DIF: Easy REF: p.4

OBJ: 1.1 NAT: AACSB Analytic | IMA-Cost Management

2. Management accounting information is important for both for-profit and not-for-profit organizations.

ANS: T PTS: 1 DIF: Medium REF: p. 4

OBJ: 1.1 NAT: AACSB Analytic | IMA-Cost Management

3. The managerial activity of monitoring a plan's implementation and taking corrective action as needed is referred to as decision making.

ANS: F PTS: 1 DIF: Medium REF: p. 5

OBJ: 1.1 NAT: AACSB Analytic | IMA-Cost Management

4. The process of choosing among competing alternatives is decision making.

ANS: T PTS: 1 DIF: Medium REF: p.5

OBJ: 1.1 NAT: AACSB Analytic | IMA-Cost Management

5. Both managerial and financial accounting are governed by GAAP and IFRS.

ANS: F PTS: 1 DIF: Easy REF: p.6

OBJ: 1.2 NAT: AACSB Analytic | IMA-Cost Management

6. Management accounting information is used only by manufacturing organizations.

ANS: F PTS: 1 DIF: Easy REF: p. 6

OBJ: 1.1 NAT: AACSB Analytic | IMA-Cost Management

7. Financial accounting has its emphasis on the future.

ANS: F PTS: 1 DIF: Easy REF: p.7

OBJ: 1.2 NAT: AACSB Analytic | IMA-Cost Management

8. Activity-based costing is a more detailed approach to determining the cost of goods and services.

ANS: T PTS: 1 DIF: Easy REF: p.8

OBJ: 1.3 NAT: AACSB Analytic | IMA-Cost Management

9. The value chain is the set of activities required to design, develop, produce, market, and deliver products and services to customers.

ANS: T PTS: 1 DIF: Challenging REF: p.9
OBJ: 1.3 NAT: AACSB Analytic | IMA-Cost Management

10. Time is **NOT** a crucial element in all phases of the value chain.

ANS: F PTS: 1 DIF: Challenging REF: p.9
OBJ: 1.4 NAT: AACSB Analytic | IMA-Cost Management

11. Excellent customer service is an example of a non-value-added activity.

ANS: F PTS: 1 DIF: Easy REF: p.11
OBJ: 1.3 NAT: AACSB Analytic | IMA-Cost Management

12. Positions that have direct responsibility for the basic objectives of an organization are referred to as staff positions.

ANS: F PTS: 1 DIF: Medium REF: p.13
OBJ: 1.4 NAT: AACSB Analytic | IMA-Cost Management

13. A cost accountant would normally occupy a staff position within an organization.

ANS: T PTS: 1 DIF: Easy REF: p. 13
OBJ: 1.4 NAT: AACSB Analytic | IMA-Cost Management

14. Virtually all management accounting practices were developed to assist managers in maximizing profits.

ANS: T PTS: 1 DIF: Challenging REF: p.15
OBJ: 1.5 NAT: AACSB Analytic | IMA-Cost Management

15. The belief that each member of a group bears some responsibility for the well-being of other members is a common principle underlying all ethical systems.

ANS: T PTS: 1 DIF: Medium REF: p.15
OBJ: 1.5 NAT: AACSB Ethics | IMA-Business Applications

16. The purpose of becoming a Chartered Accountant is to provide minimal professional qualification for internal auditors.

ANS: F PTS: 1 DIF: Easy REF: p. 18
OBJ: 1.6 NAT: AACSB Analytic | IMA-Cost Management

17. The four emphasized areas of the CMA examination reflect the needs of management accounting and highlight that management accounting has more of an interdisciplinary flavour than other areas of accounting.

ANS: T PTS: 1 DIF: Easy REF: p. 18
OBJ: 1.6 NAT: AACSB Analytic | IMA-Cost Management

MATCHING

Select the appropriate definition for each of the items listed below.

- | | |
|---------------------------|------------------------------------------|
| a. Financial accounting | j. Total quality management |
| b. Managerial accounting | k. Publicly traded companies |
| c. Planning | l. Staff positions |
| d. Controlling | m. Controller |
| e. Decision making | n. Treasurer |
| f. Value chain | o. Chartered Accountant (CA) |
| g. Continuous improvement | p. Ethical behaviour |
| h. Line positions | q. Certified General Accountant (CGA) |
| i. Lean accounting | r. Certified Management Accountant (CMA) |
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1. A management activity that involves the detailed formulation of action to achieve a particular end.
 2. The process of choosing among competing alternatives.
 3. The provision of accounting information for a company's internal users.
 4. The managerial activity of monitoring a plan's implementation and taking corrective action as needed.
 5. A type of accounting that is primarily concerned with producing information for external users.
 6. An accounting practice that organizes costs according to the value chain by focusing primarily on the elimination of waste. The objective is to provide information to managers that support this effort and to provide financial statements that better reflect overall performance, using financial and nonfinancial information.
 7. Searching for ways to increase the overall efficiency and productivity of activities by reducing waste, increasing quality, and reducing costs.
 8. Positions that have direct responsibility for the basic objectives of an organization.
 9. The set of activities required to design, develop, produce, market, and deliver products and services to customers.
 10. A management philosophy in which manufacturers strive to create an environment that will enable workers to manufacture perfect (zero-defect) products.
 11. Companies that issue stock traded on U.S. stock exchanges to which the Sarbanes-Oxley Act applies.
 12. Positions that are supportive in nature and have only indirect responsibility for an organization's basic objectives.
 13. The chief accounting officer in an organization.
 14. The individual responsible for the finance function; raises capital and manages cash and investments.
 15. Accountant who works as a business professional in public practice, industry, government, or education.
 16. Choosing actions that are right, proper, and just.
 17. A certified management accountant has passed a rigorous qualifying examination, met an experience requirement, and participates in continuing education.
 18. A certified accountant who is permitted (by law) to serve as an external auditor. CPAs must pass a national examination and be licensed by the province in which they practice.

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|-----------|----------------------------------------------|-----------|-----------|
| 1. ANS: C | PTS: 1 | DIF: Easy | REF: p. 5 |
| OBJ: 1.1 | NAT: AACSB Analytic IMA-Business Economics | | |
| 2. ANS: E | PTS: 1 | DIF: Easy | REF: p. 6 |
| OBJ: 1.1 | NAT: AACSB Analytic IMA-Business Economics | | |
| 3. ANS: B | PTS: 1 | DIF: Easy | REF: p. 4 |
| OBJ: 1.1 | NAT: AACSB Analytic IMA-Business Economics | | |
| 4. ANS: D | PTS: 1 | DIF: Easy | REF: p. 6 |
| OBJ: 1.1 | NAT: AACSB Analytic IMA-Business Economics | | |
| 5. ANS: A | PTS: 1 | DIF: Easy | REF: p. 6 |
| OBJ: 1.2 | NAT: AACSB Analytic IMA-Business Economics | | |

6.	ANS: I	PTS: 1	DIF: Easy	REF: p. 12
	OBJ: 1.3	NAT: AACSB Analytic IMA-Business Economics		
7.	ANS: G	PTS: 1	DIF: Easy	REF: p. 11
	OBJ: 1.3	NAT: AACSB Analytic IMA-Business Economics		
8.	ANS: H	PTS: 1	DIF: Easy	REF: p. 13
	OBJ: 1.4	NAT: AACSB Analytic IMA-Business Economics		
9.	ANS: F	PTS: 0	DIF: Easy	REF: p. 9
	OBJ: 1.3	NAT: AACSB Analytic IMA-Business Economics		
10.	ANS: J	PTS: 0	DIF: Easy	REF: p. 12
	OBJ: 1.3	NAT: AACSB Analytic IMA-Business Economics		
11.	ANS: K	PTS: 0	DIF: Easy	REF: p. 14
	OBJ: 1.4	NAT: AACSB Analytic IMA-Business Economics		
12.	ANS: L	PTS: 0	DIF: Easy	REF: p. 13
	OBJ: 1.4	NAT: AACSB Analytic IMA-Business Economics		
13.	ANS: M	PTS: 0	DIF: Easy	REF: p. 13
	OBJ: 1.4	NAT: AACSB Analytic IMA-Business Economics		
14.	ANS: N	PTS: 0	DIF: Easy	REF: p. 14
	OBJ: 1.4	NAT: AACSB Analytic IMA-Business Economics		
15.	ANS: O	PTS: 0	DIF: Easy	REF: p. 18
	OBJ: 1.6	NAT: AACSB Analytic IMA-Business Economics		
16.	ANS: P	PTS: 0	DIF: Easy	REF: p. 15
	OBJ: 1.5	NAT: AACSB Analytic IMA-Business Economics		
17.	ANS: R	PTS: 0	DIF: Easy	REF: p. 17
	OBJ: 1.5	NAT: AACSB Analytic IMA-Business Economics		
18.	ANS: Q	PTS: 0	DIF: Easy	REF: p. 17
	OBJ: 1.5	NAT: AACSB Analytic IMA-Business Economics		