

1. What type of accounting system is part of an organisation's management information system for internal use only?

- A. Financial accounting
- B. Management accounting**
- C. Governmental accounting
- D. All of the given answers

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.03 Describe the major differences between management accounting and financial accounting information  
Topic: Role of Management Accountant in Value Creation

2. Which of the following statement/s about management accounting is/are true?

- i. It is a part of an organisation's management information system.
- ii. It is relied on by managers to plan and control an organisation's operations.
- iii. It is relied on by external users to make investment decisions.

- A. i and ii**
- B. i, ii and iii
- C. iii
- D. ii

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.02 Define management accounting in terms of value creation  
Topic: Role of Management Accountant in Value Creation

3. Which of the following statement/s about management accounting is/are true?

- i. It is concerned only with information obtained from the accounting records.
- ii. It is concerned with financial and non-financial information.
- iii. It can provide information useful for making decisions.

- A. i
- B. i and ii
- C. ii and iii**
- D. ii

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.02 Define management accounting in terms of value creation  
Topic: Role of Management Accountant in Value Creation

4. A strategy is

- i. another name for a long-term objective
- ii. the same as an objective
- iii. a means by which an organisation plans to meet its mission and achieve its objectives

- A. i
- B. ii
- C. iii**
- D. i and ii

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.06 Explain the basic concepts of strategy and how management accounting systems can support strategies  
Topic: Fundamental Management Processes

5. Which of the following is not an objective of management accounting?

- A. Providing information for making decisions
- B. Providing information for planning
- C. Providing information for control
- D. Providing information for profit and loss statements**

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.06 Explain the basic concepts of strategy and how management accounting systems can support strategies  
Topic: Objectives of Management Accounting

6. Planning is

- A. comparing actual performance against targets
- B.** setting objectives and formulating plans for future operations
- C. measuring the performance of managers against preset targets
- D. motivating managers towards achieving organisational goals

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.07 Explain how planning and control mechanisms can be used to support resource management  
Topic: Fundamental Management Processes

7. 'Control' involves

- A. formulating details of operations and finances for the next financial year
- B.** comparing actual performance against targets
- C. deciding whether to expand activities
- D. All of the given answers

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.07 Explain how planning and control mechanisms can be used to support resource management  
Topic: Fundamental Management Processes

8. Part of the planning process involves

- A.** formulating details of operations and finances for the next financial year
- B. comparing actual performance against targets
- C. making a choice between available alternatives
- D. measuring the performance of managers against preset targets

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.07 Explain how planning and control mechanisms can be used to support resource management  
Topic: Fundamental Management Processes

9. The role of management accounting is to

- A. provide information to parties outside the organisation
- B.** provide information to managers within the organisation.
- C. provide information to government agencies.
- D. All of the given answers

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.02 Define management accounting in terms of value creation  
Topic: Objectives of Management Accounting

10. Budgeting can be used in an organisation to

- A. motivate managers to achieve organisational goals.
- B. control operations.
- C. provide managers with information for making decisions and planning.
- D.** All of the given answers

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.07 Explain how planning and control mechanisms can be used to support resource management  
Topic: Fundamental Management Processes

11. The benefits of management accounting information include

- A. improved decisions.
- B. more effective planning.
- C. greater efficiency of operations.
- D.** All of the given answers

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.09 Describe the factors that may influence the design of management accounting systems including behavioural issues, cost-benefit trade-offs and the implications of contingency and institutional theories  
Topic: Fundamental Management Processes

12. Management accounting

- A. must comply with Australian accounting standards.
- B.** focuses primarily on the needs of managers internal to the organisation.
- C. provides information for parties external to the organisation.
- D. involves reports focusing on the enterprise in its entirety.

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.02 Define management accounting in terms of value creation  
Topic: Difference between Management and Financial Accounting

13. Which of the following is necessary for management accounting information to be useful?

- A. It must report to external users.
- B. It must develop a framework of principles and guidelines.
- C.** It must adapt to accommodate changes in the business environment.
- D. It must focus on the enterprise in its entirety.

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.10 Identify the organisational responses and management accounting responses to changes in the business environment  
Topic: Difference between Management and Financial Accounting

14. Both financial and management accounting

- A.** draw on data from the organisation's basic information system.
- B. provide information for external users.
- C. must comply with Australian accounting standards.
- D. rely exclusively on historical data.

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.02 Define management accounting in terms of value creation  
Topic: Difference between Management and Financial Accounting

15. Which of the following statements regarding management accounting information is false?

- A. The cost of providing the information must be considered in the light of the benefits received from the information.
- B.** All information derived is necessary despite the cost.
- C. The information entails both costs and benefits.
- D. The cost of the information includes the time spent by the user to read, understand and use the information.

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.09 Describe the factors that may influence the design of management accounting systems including behavioural issues, cost-benefit trade-offs and the implications of contingency and institutional theories  
Topic: Fundamental Management Processes

16. A management accountant should be concerned with

- A. providing daily information on physical measures of operational performance.
- B. assisting in interdepartmental communications.
- C. developing and implementing information systems.
- D.** All of the given answers

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.04 Explain where management accountants are located in organisations  
Topic: Role of Management Accountant in Value Creation

17. The largest professional organisation for management accountants in Australia is the

- A.** CPA Australia.
- B. Australian Accounting Association.
- C. Institute of Chartered Accountants in Australia.
- D. Certified Institute of Management Accountants.

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.12 After studying the appendix, discuss the professional qualifications that are relevant to becoming an accountant, and the ethical standards to which accountants must adhere  
Topic: Role of Management Accountant in Value Creation

18. Which of the following does not represent the ethics of professional accountants?

- A. Competence and confidentiality
- B. Integrity and objectivity
- C. Professional skepticism and efficiency**
- D. Objectivity and confidentiality

AACSB: Ethics  
Difficulty: Easy

Learning Objective: 1.12 After studying the appendix, discuss the professional qualifications that are relevant to becoming an accountant, and the ethical standards to which accountants must adhere  
Topic: Ethics, Corporate Governance, and Corporate Social Responsibility

19. Which of the following statements regarding the competence of an accountant is true? The accountant must

- A. strive continually to improve technical services and keep knowledge up-to-date.**
- B. not breach the trust of clients and employers.
- C. not disclose information acquired in the course of professional work, except where there is a legal or professional duty to disclose.
- D. at all times safeguard the interest of the clients and employers, provided it does not conflict with their duty to the community.

AACSB: Ethics  
Difficulty: Easy

Learning Objective: 1.12 After studying the appendix, discuss the professional qualifications that are relevant to becoming an accountant, and the ethical standards to which accountants must adhere  
Topic: Role of Management Accountant in Value Creation

20. Which of the following statements is an element of confidentiality?

- i. Accountants must not disclose information acquired in the course of their work.
  - ii. Accountants must disclose information if there is a professional duty to do so.
  - iii. Accountants may not use information gained in the course of their work for their own or another's personal advantage.
- A. i
  - B. ii
  - C. iii
  - D. i, ii and iii**

AACSB: Ethics  
Difficulty: Easy

Learning Objective: 1.12 After studying the appendix, discuss the professional qualifications that are relevant to becoming an accountant, and the ethical standards to which accountants must adhere  
Topic: Ethics, Corporate Governance, and Corporate Social Responsibility

21. The focus of management accounting over time has changed. Which is the correct historical order for the following foci?

- i. Cost
  - ii. Profitability
  - iii. Resource management
  - iv. Waste reduction
- A. i, ii, iii and iv
  - B. ii, iii, i and iv
  - C. i, ii, iv and iii**
  - D. i, iii, iv and ii

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.11 After studying the appendix, describe how the focus of management accounting has evolved  
Topic: Fundamental Management Processes

22. Which of the following statement/s is/are false? Management accountants should

- i. help in the provision of physical data to managers.
  - ii. be included in the management of information systems.
  - iii. present their information in monetary terms only.
  - iv. help to ensure effective interdepartmental communications.
- A. i and ii
  - B. iii and iv
  - C. iii**
  - D. iv

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.03 Describe the major differences between management accounting and financial accounting information  
Topic: Role of Management Accountant in Value Creation

23. Which of the following are management accounting responses to the changing business environment?

- A. Activity-based costing.
- B. E-commerce.
- C. Supplier cost analysis.
- D. A and C.**

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.10 Identify the organisational responses and management accounting responses to changes in the business environment  
Topic: Difference between Management and Financial Accounting

24. Which of the following are ethical standards for management accountants?

- i. Competence
- ii. Objectivity
- iii. Confidentiality
- iv. Integrity

- A. i, ii, iii and iv**
- B. ii, iii and iv
- C. i, ii and iv
- D. i, iii and iv

AACSB: Ethics  
Difficulty: Easy

Learning Objective: 1.12 After studying the appendix, discuss the professional qualifications that are relevant to becoming an accountant, and the ethical standards to which accountants must adhere  
Topic: Ethics, Corporate Governance, and Corporate Social Responsibility

25. The costs of providing information to management should be less than the benefits. Which of the following are costs of management accounting information?

- i. Salary cost of management accounting personnel
- ii. Computer operating costs
- iii. Managers' time in reading and acting on the information

- A. i, ii and iii**
- B. ii and iii only
- C. i and iii only
- D. None of the given answers

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.09 Describe the factors that may influence the design of management accounting systems including behavioural issues, cost-benefit trade-offs and the implications of contingency and institutional theories  
Topic: Fundamental Management Processes

26. Which of the following statements is correct?

- A. The primary objective of a firm's management is to increase the firm's value.
- B. The management accounting system needs to accumulate information from both internal and external sources.
- C. Managers may be faced with a conflict between increasing customer value and increasing shareholder value.
- D. All the given statements are correct.**

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.02 Define management accounting in terms of value creation  
Topic: Role of Management Accountant in Value Creation

27. Strategies

- A. are directions that a firm intend to take in the long term.**
- B. describe the way the firm competes.
- C. are the same as objectives and goals.
- D. are independent of the firm's mission statement.

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.06 Explain the basic concepts of strategy and how management accounting systems can support strategies  
Topic: Fundamental Management Processes

28. Which of the following statements is correct?

- A. Management accounting is a subset of cost accounting.
- B.** Cost accounting is a subset of management accounting.
- C. Cost accounting is no longer required in today's competitive environment.
- D. Management accounting in today's environment is the same as it was many years ago.

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.03 Describe the major differences between management accounting and financial accounting information  
Topic: Role of Management Accountant in Value Creation

29. Which of the following is the most logical sequence for a *commencing* organisation?

- A. Control, feedback, planning
- B.** Planning, control, feedback
- C. Feedback (feedforward), planning, control, feedback
- D. Control, planning, feedback

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.07 Explain how planning and control mechanisms can be used to support resource management  
Topic: Fundamental Management Processes

30. Choose the statement that best completes this sentence: 'Traditional management accounting focuses on ...'

- A.** budgets, financial performance measures and cost control.
- B. financial performance measures, external reporting and cost elimination.
- C. non-financial performance measures, external reporting and cost control.
- D. external reporting, labour-related activity measures and cost elimination.

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.10 Identify the organisational responses and management accounting responses to changes in the business environment  
Topic: Fundamental Management Processes

31. Which of the following would *not* be likely as a consistent focus for a firm following a product differentiation strategy?

- A. Quality
- B. Delivery
- C. Product innovation
- D.** Cost reduction

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.06 Explain the basic concepts of strategy and how management accounting systems can support strategies  
Topic: Fundamental Management Processes

32. Choose the statement that best completes this sentence: 'All management accounting information ...'

- A. has a focus on past costs.
- B. has a focus on future costs.
- C.** is collected as required by internal management of the firm.
- D. is constrained by the requirements of the Australian Accounting Standards.

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.03 Describe the major differences between management accounting and financial accounting information  
Topic: Role of Management Accountant in Value Creation

33. Which of the following statements is correct?

- A. A financial controller is only responsible for financial accounting.
- B. The primary role of the finance function of an organisation is to liaise with banks and financial intuitions to obtain finance to fund operations.
- C.** In some organisations, management accountants are located in factories.
- D. Management accountants are responsible for external reporting as well as providing information to internal managers.

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.04 Explain where management accountants are located in organisations  
Topic: Role of Management Accountant in Value Creation

34. The 'vision' of an organisation

- A. refers to the desired future state of an organisation.
- B. refers to a statement that defines the purpose of the organisation.
- C. refers to specific statements of objective, upon which goals can be set.
- D. is only useful for non profit organisations.

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.06 Explain the basic concepts of strategy and how management accounting systems can support strategies  
Topic: Role of Management Accountant in Value Creation

35. Animus Ltd is a mining company. Which of the following is an example of a decision relating to formulating Animus Ltd's corporate strategy?

- A. Should Animus Ltd operate in the mining industry only, or expand to heavy machinery manufacturing and distribution?
- B. Should Animus Ltd compete based on price or product differentiation?
- C. Should Animus Ltd hire a new financial controller?
- D. Should Animus Ltd develop a new management accounting system?

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.06 Explain the basic concepts of strategy and how management accounting systems can support strategies  
Topic: Fundamental Management Processes

36. Animus Ltd is a mining company. Which of the following is an example of a business strategy decision?

- A. Should Animus Ltd operate in the mining industry only or expand to heavy machinery manufacturing and distribution?
- B. Should Animus Ltd compete based on price or product differentiation?
- C. Should Animus Ltd hire a new financial controller?
- D. Should Animus Ltd develop a new management accounting system?

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.06 Explain the basic concepts of strategy and how management accounting systems can support strategies  
Topic: Fundamental Management Processes

37. Animus Ltd is a mining company. Which of the following is an example of 'planning'?

- A. Awarding bonuses to Aimus Ltd's top performing executives
- B. Setting production targets for the company's new mines
- C. Developing correction actions to respond to lower-than-expected production levels in the existing mines
- D. Pursuing legal actions against environmental activists who stole mining equipment

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.07 Explain how planning and control mechanisms can be used to support resource management  
Topic: Fundamental Management Processes

38. Animus Ltd is a mining company. Which of the following is an example of 'control'?

- A. Awarding bonuses to Aimus Ltd's top performing executives
- B. Setting production targets for the company's new mines
- C. Developing correction actions to respond to lower-than-expected production levels in the existing mines.
- D. Pursuing legal actions against environmental activists who stole mining equipment.

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.07 Explain how planning and control mechanisms can be used to support resource management  
Topic: Fundamental Management Processes

39. Animus Ltd is a mining company operating in Australia. The company has recently developed a new environmental management accounting system. According to institutional theory

- A. the new system is likely to be the result of the Australian culture of being environmentally conscious and the fact that negative environmental impacts can result in significant fines to the company.
- B. the new system is likely to be the result of gaining legitimacy and to imitate other mining companies who are 'doing the right thing'.
- C. the new system is likely to be the result of stringent government regulations.
- D. the new system is likely to be the result of careful, rational, cost-benefit analysis.

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.09 Describe the factors that may influence the design of management accounting systems including behavioural issues, cost-benefit trade-offs and the implications of contingency and institutional theories  
Topic: Ethics, Corporate Governance, and Corporate Social Responsibility

40. Eddy Gunn is a management accountant. Which of the following is most likely to be Eddy's responsibility?

- A. Providing an environmental assurance report for his company's shareholders
- B. Compiling the company tax return
- C. Ensuring that the internal accounting system is compliant with generally accepted accounting standards
- D. Developing a production cost report for each of the company's three production lines**

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.03 Describe the major differences between management accounting and financial accounting information  
Topic: Objectives of Management Accounting

41. Which of the following is not a widely recognised professional accounting body?

- A. The Institute of Production Accountants**
- B. CPA Australia
- C. The Institute of Chartered Accountants
- D. The Institute of Management Accountants

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.12 After studying the appendix, discuss the professional qualifications that are relevant to becoming an accountant, and the ethical standards to which accountants must adhere  
Topic: Role of Management Accountant in Value Creation

42. Which of the following changes in the business environment have led to the emergence of virtual organisations?

- A. Rapid advances in technology
- B. Increases in outsourcing and reliance on various forms of business networks**
- C. Increased global mobility in labour
- D. Reliance on creating mutually strategic business alliances

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.01 Describe changes that have taken place in the business environment in recent years  
Topic: Expanding and Changing Role of Management Accounting

43. Which of the following changes in the business environment have led to more complicated relationships and business structures?

- A. Rapid advances in technology
- B. Increases in outsourcing and reliance on various forms of business networks
- C. Increased global mobility in labour
- D. Reliance on creating mutually strategic business alliances**

AACSB: Reflective  
Difficulty: Medium

Learning Objective: 1.01 Describe changes that have taken place in the business environment in recent years  
Topic: Role of Management Accountant in Value Creation

44. Management accounting focuses on

- A. compliance with the accounting standards.
- B. meeting the needs of external users.
- C. effective and efficient management of resources.**
- D. financial data only.

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.05 Describe the major processes that management accounting systems use to create value and manage resources  
Topic: Role of Management Accountant in Value Creation

45. Modern management accounting systems include techniques that support an organisation's

- A. strategy.**
- B. mission.
- C. goals.
- D. decisions.

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.07 Explain how planning and control mechanisms can be used to support resource management  
Topic: Fundamental Management Processes

46. If a firm's senior management decide to follow a differentiation strategy, their focus should be to NOT concentrate on



- A. product quality.
- B. product delivery.
- C. product innovation.
- D. product costs.**

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.07 Explain how planning and control mechanisms can be used to support resource management  
Topic: Fundamental Management Processes

47. The firm's primary accounting system that produces financial data for external users is governed by

- A. accounting standards.
- B. all of the choices are correct.**
- C. generally accepted accounting principles.
- D. traditional accounting conventions.

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.08 Explain how costing systems can provide information to support a range of operational and strategic decisions  
Topic: Difference between Management and Financial Accounting

48. Objectivity in management accounting

What is meant by the following statement? 'The objectivity of the management accounting process is largely a myth.'

AACSB: Communication  
AACSB: Reflective

Difficulty: Hard

Learning Objective: 1.02 Define management accounting in terms of value creation  
Topic: Role of Management Accountant in Value Creation

49. Management accounting and decision making

Give an example of management accounting information that could help a manager make each of the following decisions:

- i. The managing director of a car rental company is deciding whether to add luxury cars to the rental car fleet.
- ii. The production manager in an assembly plant is deciding whether to have routine maintenance performed on a machine weekly or fortnightly.
- iii. The manager of a department store is deciding on the number of security personnel to employ to reduce shoplifting.
- iv. The local council is deciding whether to build an addition to the local library.

Note: any correct answers are possible since only one example is requested.

- i. Estimates of any operating costs associated with the proposed luxury cars would be relevant. For example, estimates of the cost of petrol, routine maintenance and insurance on the new vehicles would be useful.
- ii. Data about the cost of maintaining the machine weekly or fortnightly would be relevant. In addition, the production manager should consider information about the likely rates of defective products under each maintenance alternative.
- iii. Estimates of the cost of lost merchandise due to shoplifting and the cost of employing security personnel would be relevant to this decision.
- iv. Estimates of the cost of building the library addition as well as estimated benefits to the population from having the addition would be useful. In estimating the benefits, some value judgments may need to be made about the benefits to the public from having additional library space and more books.

AACSB: Communication  
AACSB: Reflective

Difficulty: Hard

Learning Objective: 1.02 Define management accounting in terms of value creation  
Topic: Role of Management Accountant in Value Creation

50. Explain how the management accountant, with the use of computer technology, can provide information that will be useful for the management and control of operational tasks.

With the aid of computers, management accountants are able to provide information that is accurate, timely and relevant to the managers they are serving. For example they can provide information such as number of units produced, number of rejects and time lost on a daily basis, and ensure a regular flow of information between sales and production.

AACSB: Communication  
AACSB: Technical  
Difficulty: Hard

Learning Objective: 1.09 Describe the factors that may influence the design of management accounting systems including behavioural issues, cost-benefit trade-offs and the implications of contingency and institutional theories  
Topic: Globalisation and International Competition

51. 'As global competition increases, businesses are being pressured to reach higher levels of productivity to price their products and services competitively.' Explain how management accountants can play a role in helping management meet these challenges.

The systems that management accountants can help to develop are:

- i. Total quality management—builds a high level of quality into production and all management processes within an organisation.
- ii. Just-in-time management—an approach to inventory management whereby inventory that is required in production is delivered just in time to be used in the production process.
- iii. Activity-based management—focuses on identifying and eliminating activities that add no value to the product or service from the customer's perspective (e.g. reworking, spoilage).

AACSB: Communication  
AACSB: Reflective  
Difficulty: Hard

Learning Objective: 1.01 Describe changes that have taken place in the business environment in recent years  
Learning Objective: 1.11 After studying the appendix, describe how the focus of management accounting has evolved  
Topic: Globalisation and International Competition

52. List and define four ethical standards that are part of the IFAC's Code of Professional Conduct.

Note: Answers may include any four of the following:

- **Integrity.** Members must be straightforward and honest in professional and business relationships. Integrity also implies fair dealing and truthfulness.
- **Objectivity.** Members must not compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others.
- **Professional competence and due care.** Members must maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service, and act diligently in accordance with applicable technical and professional standards when providing their services.
- **Confidentiality.** Members must not disclose outside the firm or employing organisation confidential information acquired as a result of professional and business relationships without specific authority from the client or employer unless there is a legal duty to do so. Members must not use confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.
- **Professional behaviour.** Members must comply with relevant laws and regulations and avoid any action or omission that may bring discredit to the profession.

AACSB: Communication  
Difficulty: Hard

Learning Objective: 1.12 After studying the appendix, discuss the professional qualifications that are relevant to becoming an accountant, and the ethical standards to which accountants must adhere  
Topic: Ethics, Corporate Governance, and Corporate Social Responsibility

53. Jasmine Dol is a junior management accountant at Hey Hey Toys Ltd. Jasmine is given the task of compiling a cost-benefit analysis report on whether the company should purchase an expensive new machine from Beta Ltd, where her brother is the new sales manager. Jasmine did not tell anyone in Hey Hey Toys about her brother's new job. In preparing her report, Jasmine overstates the qualitative benefits and understates the costs associated with this new machine, in order to help her brother make his first sale as the new sales manager.

Discuss why and how Jasmine has deviated from the IFAC's code of ethics.

The following are some key points:

**Integrity** – Jasmine did not tell anyone about the conflict of interest, and therefore did not demonstrate 'integrity'

**Objectivity** – in overstating the benefits and understating the costs, Jasmine is clearly biased in her analysis, and is not acting in the company's best interests.

AACSB: Communication  
AACSB: Ethics  
Difficulty: Medium

Learning Objective: 1.12 After studying the appendix, discuss the professional qualifications that are relevant to becoming an accountant, and the ethical standards to which accountants must adhere  
Topic: Ethics, Corporate Governance, and Corporate Social Responsibility

54. Identify and contrast management accounting and financial accounting information

	Management accounting	Financial accounting
Users of information	Internal: managers and employees at all levels	External: shareholders, creditors, banks, securities exchange, trade unions and government agencies
Regulations	No accounting standards or external rules are imposed. Information is generated to satisfy managers' information needs	Accounting standards and corporations law regulate the content of external financial reports
Source of data	Both financial and non-financial data drawn from many sources—the core accounting system; physical and operational data from production systems; and market, customer and economic data from sources external to the organisation	Financial data almost exclusively drawn from the organisation's core transaction- based accounting system
Nature of the information	Past, current and future-oriented; subjective; relevant; timely; and supplied at various levels of detail to suit managers' specific needs	Past; reliable; verifiable; not timely; not always relevant; and highly aggregated

AACSB: Communication

AACSB: Reflective

Difficulty: Medium

Learning Objective: 1.03 Describe the major differences between management accounting and financial accounting information

Topic: Role of Management Accountant in Value Creation

55. Behavioural issues are not taken into consideration when developing management accounting systems.

FALSE

AACSB: Reflective

Difficulty: Medium

Learning Objective: 1.09 Describe the factors that may influence the design of management accounting systems including behavioural issues, cost-benefit trade-offs and the implications of contingency and institutional theories

Topic: Fundamental Management Processes

56. Organisations prepare a mission statement that describes the desired future position and/or goals of the organisation.

FALSE

AACSB: Reflective

Difficulty: Easy

Learning Objective: 1.06 Explain the basic concepts of strategy and how management accounting systems can support strategies

Topic: Role of Management Accountant in Value Creation

57. The systems and procedures implemented to provide regular information to assist with control are called control systems.

**TRUE**

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.07 Explain how planning and control mechanisms can be used to support resource management  
Topic: Fundamental Management Processes

58. When a firm adopts a strategy of being a low-cost producer and sells its products at a price lower than its competitors, the firm is said to be using a strategy of cost leadership.

**TRUE**

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.06 Explain the basic concepts of strategy and how management accounting systems can support strategies  
Topic: Fundamental Management Processes

59. The theory that suggests that a firm's management accounting system is influenced by factors such as the external environment and technology is called contingency theory.

**TRUE**

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.09 Describe the factors that may influence the design of management accounting systems including behavioural issues, cost-benefit trade-offs and the implications of contingency and institutional theories  
Topic: Globalisation and International Competition

60. There is no overlap between the two accounting streams management and financial accounting.

**FALSE**

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.03 Describe the major differences between management accounting and financial accounting information  
Topic: Difference between Management and Financial Accounting

61. The increased information needs of modern organisations have meant that management accounting has had to change its focus over the years.

**TRUE**

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.01 Describe changes that have taken place in the business environment in recent years  
Topic: Role of Management Accountant in Value Creation

62. The costing system is the part of the accounting information system that is common to both financial and management accounting.

**TRUE**

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.03 Describe the major differences between management accounting and financial accounting information  
Topic: Difference between Management and Financial Accounting

63. Accountants with a CPA qualification are only able to work as financial accountants.

**FALSE**

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.12 After studying the appendix, discuss the professional qualifications that are relevant to becoming an accountant, and the ethical standards to which accountants must adhere  
Topic: Some Implications for the Roles of Management Accountants

64. Staff management and line management both have indirect responsibilities to the operations of an organisation.

**FALSE**

AACSB: Reflective  
Difficulty: Easy

Learning Objective: 1.11 After studying the appendix, describe how the focus of management accounting has evolved  
Topic: Expanding and Changing Role of Management Accounting

65. Value creation is a central focus for managers and only refers to shareholder value.

**FALSE**

*AACSB: Reflective  
Difficulty: Easy*

*Learning Objective: 1.02 Define management accounting in terms of value creation  
Topic: Role of Management Accountant in Value Creation*

66. Senior accountants are also known as the finance manager or financial controller.

**TRUE**

*AACSB: Reflective  
Difficulty: Easy*

*Learning Objective: 1.04 Explain where management accountants are located in organisations  
Topic: Role of Management Accountant in Value Creation*

67. Budgets provide information to help manage resources and are supported by the financial accounting function.

**FALSE**

*AACSB: Reflective  
Difficulty: Easy*

*Learning Objective: 1.05 Describe the major processes that management accounting systems use to create value and manage resources  
Topic: Fundamental Management Processes*

68. Which of the following would **not** be part of a value chain for a fast food restaurant?

- A.** All the answers are correct
- B. Buying produce
- C. Mopping the floor
- D. Refilling the napkin dispensers
- E. Hiring new cooks

Accountants have wide areas of discretion in the selection, processing and recording of data. Various data can be used for different purposes. In addition, the same data can be used simultaneously for different purposes such as planning, decision making or controlling.

*AACSB: Reflective Thinking  
Difficulty: 2 Medium*

*Learning Objective: 1.02 Define management accounting in terms of value creation  
Topic: Role of Management Accountant in Value Creation*

69. Strategic cost management is

- A. the process of determining cost drivers.
- B. the recognition of the importance of cost relationships among the activities in the value chain.
- C. the process of managing cost relationships to the firm's advantage.
- D. cost-causing factors.
- E.** two of the answers are correct.

The recognition of the importance of cost relationships among the activities in the value chain and the process of managing cost relationships to the firms's advantage are the correct options.

*AACSB: Reflective Thinking  
Difficulty: 2 Medium*

*Learning Objective: 1.06 Explain the basic concepts of strategy and how management accounting systems can support strategies  
Topic: Fundamental Management Processes*

70. Managerial accounting activity comprises a set of tools, systems and perspectives that add value to an organisation by supporting five major objectives. Which one of these is **not** a supporting objective?

- A. Provide information for decision making and planning.
- B. Assist managers in directing and controlling operational activities.
- C. Motivate managers and other employees towards the organisation's goals.
- D. Assess an organisation's competitive position and long-term managerial efforts. .
- E.** Focus on activities that occur at the top level of the organisation.

*AACSB: Reflective Thinking  
Difficulty: 3 Hard*

*Learning Objective: 1.03 Describe the major differences between management accounting and financial accounting information  
Topic: Objectives of Management Accounting*

71. Because managerial accounting reports rarely solve decision problems, what function does a managerial accountant use to assist managers in understanding issues contained within the information produced?

A. Internal business solution function  
B. Learning and growth function  
C. Theoretical capacity function  
D. Customer function  
**E. Attention directing function**

*AACSB: Reflective Thinking  
Difficulty: 3 Hard  
Learning Objective: 1.03 Describe the major differences between management accounting and financial accounting information  
Topic: Objectives of Management Accounting*

72. Non-value-added costs are the costs of activities that can be eliminated with no deterioration of product quality, performance or perceived value.

**TRUE**

*AACSB: Reflective Thinking  
Difficulty: 1 Easy  
Learning Objective: 1.07 Explain how planning and control mechanisms can be used to support resource management  
Topic: Fundamental Management Processes*

73. Decision making requires managers to choose among the available alternatives.

**TRUE**

*AACSB: Reflective Thinking  
Difficulty: 1 Easy  
Learning Objective: 1.05 Describe the major processes that management accounting systems use to create value and manage resources  
Topic: Fundamental Management Processes*

74. Which of the following is **not** an ethical standard of managerial accounting?

- A. Competence  
B. Confidentiality  
**C. Efficiency**  
D. Integrity  
E. Credibility

*AACSB: Ethics  
Difficulty: 3 Hard  
Learning Objective: 1.12 After studying the appendix, discuss the professional qualifications that are relevant to becoming an accountant, and the ethical standards to which accountants must adhere  
Topic: Ethics, Corporate Governance, and Corporate Social Responsibility*

75. Give examples of each of the four primary management activities in the context of a national pizza franchise.

*AACSB: Reflective Thinking  
Difficulty: 3 Hard  
Learning Objective: 1.05 Describe the major processes that management accounting systems use to create value and manage resources  
Topic: Fundamental Management Processes*

76. Consider the descriptors that follow.

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

**Required:**

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

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

AACSB: Reflective Thinking  
Difficulty: 1 Easy

Learning Objective: 1.03 Describe the major differences between management accounting and financial accounting information  
Topic: Difference between Management and Financial Accounting

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

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

Darius has a policy that individual expenditures in excess of \$200 000 must be approved by the firm's board of directors. Franklin, unfortunately, missed the deadline to have the board consider this project at its regular September meeting. Not wanting to wait until the next meeting in December, he subdivided the project in two parts—construction and decorating (\$190 000) and equipment purchases (\$60,000)—neither of which needed board approval because of the dollar amounts involved. The project was recently completed and sales have begun to recover. Customers have raved about the new sales area, noting that it is far superior to those of Darius's competitors.

**Required:**

A. Would Franklin's approach of subdividing the project in two parts have any effect on the company's financial statements? Briefly explain.

B. Briefly discuss whether Franklin behaved in an ethical manner.

C. Which, if any, of the following standards of conduct would have applicability to Franklin's conduct: competence, confidentiality, integrity or credibility? Briefly explain.

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

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

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

AACSB: Ethics  
Difficulty: 3 Hard

Learning Objective: 1.12 After studying the appendix, discuss the professional qualifications that are relevant to becoming an accountant, and the ethical standards to which accountants must adhere  
Topic: Ethics, Corporate Governance, and Corporate Social Responsibility

Chapter 01 Test Bank – Static Summary

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