

# CHAPTER 1

## Managerial Accounting

### ASSIGNMENT CLASSIFICATION TABLE

<u>Study Objectives</u>	<u>Self-Study Questions</u>	<u>Do It! Review</u>	<u>Exercises</u>	<u>A Problems</u>	<u>B Problems</u>
1. Explain the distinguishing features of managerial accounting.	1, 6, 7, 8	1	3, 7, 8		
2. Identify the three broad functions of management and the role of management accountants in an organizational structure.	3	1	5, 6		
3. Explain the importance of business ethics.	2, 10	1	4		
4. Identify changes and trends in managerial accounting.	4, 5, 9	2	9		

**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.	D-1, E-8	E-3, E-7				
2. Identify the three functions of management and the role of management accountants in an organizational structure.	D-1, E-5, E-6					
3. Explain the importance of business ethics.	D-1, E-4					
4. Identify changes trends in managerial accounting.	D-2, E-9					

## 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

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

### E1-3

	<u>Financial Accounting</u>	<u>Managerial Accounting</u>
<b>Primary users</b>	<b>External users</b>	<b>Internal users</b>
<b>Types of reports</b>	<b>Financial statements</b>	<b>Internal reports</b>
<b>Frequency of reports</b>	<b>Monthly, quarterly and annually</b>	<b>As frequently as needed</b>
<b>Purpose of reports</b>	<b>General-purpose</b>	<b>Special-purpose information for specific decisions</b>
<b>Content of reports</b>	<b>Generally accepted accounting principles</b>	<b>Relevance to decisions</b>
<b>Verification</b>	<b>Annual audit by CPA (chartered professional accountant)</b>	<b>No independent audits</b>

### E1-4

The four specific standards are:

- (1) **Competence**
- (2) **Confidentiality**
- (3) **Integrity**
- (4) **Objectivity**

### E1-5

- (a) (1) **Planning.**
- (b) (2) **Directing.**
- (c) (3) **Controlling.**

**SOLUTIONS TO EXERCISES (Continued)****E1-6**

- (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

**E1-7**

- |      |  |
|------|--|
| 1. F | 6. M ? This could easily be interpreted as F |
| 2. M | 7. F   |
| 3. F | 8. F   |
| 4. M | 9. M   |
| 5. F | 10. F  |

**E1-8**

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

## **SOLUTIONS TO EXERCISES (Continued)**

### **E1-9**

- (a) 3. Balanced scorecard**
- (b) 4. Value chain**
- (c) 2. Just-in-time inventory**
- (d) 1. Activity-based costing**

## SOLUTIONS TO CASES

<b>CASE 1-10</b>
------------------

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.

- |            |                                |  |
|------------|--------------------------------|--|
| <b>(a)</b> | <b><i>Hayley Geagea</i></b>    | <b>Needs information on sales, perhaps by salesperson and by territory.</b>  |
|            | <b><i>Luc Lemieux</i></b>      | <b>Needs cost information for his department.</b>  |
|            | <b><i>Gary Richardson</i></b>  | <b>Needs all accounting information.</b>   |
|            | <b><i>Manny Cordoza</i></b>    | <b>Needs product cost information.</b>   |
|            | <b><i>Patrick Dumoulin</i></b> | <b>Needs information on component costs and costs for his department.</b>  |
| <b>(b)</b> | <b><i>Hayley Geagea</i></b>    | <b>Income statement</b>  |
|            | <b><i>Luc Lemieux</i></b>      | <b>Specialized cost reports</b>  |
|            | <b><i>Gary Richardson</i></b>  | <b>All.</b>  |
|            | <b><i>Manny Cordoza</i></b>    | <b>Income statement and cost of goods manufactured schedule.</b>   |
|            | <b><i>Patrick Dumoulin</i></b> | <b>Specialized cost reports</b>  |
| <b>(c)</b> | <b><i>Hayley Geagea</i></b>    | <b>Sales by Territory—Detailed information, possibly by product line, issued daily or weekly.</b>  |
|            | <b><i>Luc Lemieux</i></b>      | <b>Cost of Computer Programs—Accumulated cost incurred for each major program used including maintenance and updates of program, issued monthly.</b> |
|            | <b><i>Gary Richardson</i></b>  | <b>Cost of Preparing Reports—Detailed analysis of all reports provided, their frequency, time, and estimated cost to prepare, issued monthly.</b>    |
|            | <b><i>Manny Cordoza</i></b>    | <b>Cost of Product—Detailed cost by product line, comparing actual with estimated costs. Issued as each batch of production is completed.</b>        |
|            | <b><i>Patrick Dumoulin</i></b> | <b>Cost of Product Design—Accumulated total costs of each new product, issued at end of each project.</b>  |

## **SOLUTIONS TO CASES (Continued)**

<b>CASE 1-11</b>
------------------

- (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.**



## **SOLUTION TO “ALL ABOUT YOU” ACTIVITY**

<b>CASE 1-12</b>
------------------

**Student responses will vary, especially since this is Chapter 1 and they will not have been introduced to more sophisticated accounting and business concepts. We have provided some examples that may represent common responses.**

- (a) Students can look in the companies’ annual reports’ financial statements to see amounts of net income.**
- (b) Students can look up online the relative cost of living, average housing and rent prices, public transit, and other costs for each city.**
- (c) Students can look in the companies’ annual reports to see how many years they have been in business, whether profitability has been rising or falling, and management’s discussion of its expectations for the future. They can also look up online to see what the companies’ stock prices have been over time.**
- (d) Students can look in the companies’ annual reports, websites, and news releases to see the size of their workforce and whether there have been any recent increases or decreases in staffing levels.**

## **SOLUTION TO DECISION-MAKING AT CURRENT DESIGNS**

<b>DM1-1</b>
--------------

**The answers to parts (a) and (b) may vary from student to student.**

- (a) Mike Cichanowski, CEO, needs to know the overall financial picture of the company. He also needs to have a general picture of sales by territory and product line, and of cost per unit by product line.**

**Diane Buswell, Controller, needs all accounting-related information.**

**Deb Welch, Purchasing Manager, needs to know the costs of the components for each product.**

**Bill Johnson, Sales Manager, needs to know sales by territory and product line.**

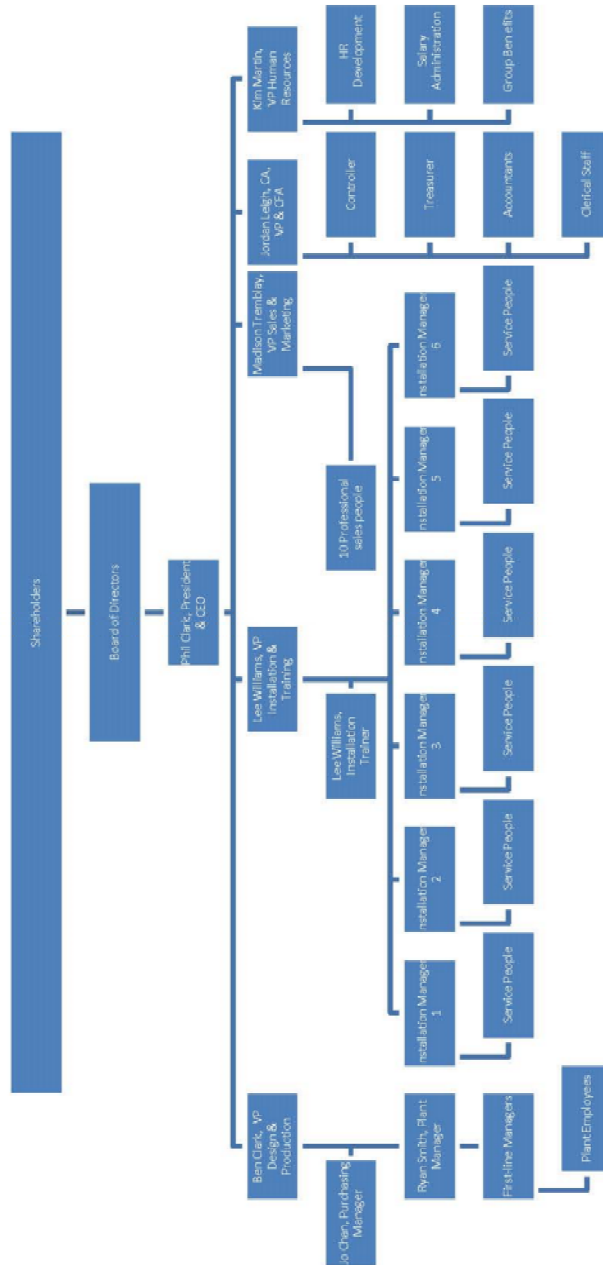
**Dave Thill, Kayak Plant Manager, needs to know all the costs of producing each type of kayak.**

**Rick Thrune, Production Manager for Composite Kayaks, needs to know the costs related to the composite kayak production.**

**DM1-1 (Continued)****(b)**

<b>Manager</b>	<b>Name of report</b>	<b>Information report would contain</b>	<b>How frequently should it be issued?</b>
<b>Mike Cichanowski</b>	<b>Analysis of proposed new product line</b>	<b>Projected revenues and expenses for a possible new product line</b>	<b>As needed and requested</b>
<b>Diane Buswell</b>	<b>Company-wide budget analysis</b>	<b>Revenues, expenses, and net income compared to the budgeted amounts for each</b>	<b>Monthly</b>
<b>Deb Welch</b>	<b>Purchasing History</b>	<b>List of items purchased and most recent cost for each item</b>	<b>Monthly or available on-line</b>
<b>Bill Johnson</b>	<b>Sales Summary</b>	<b>Sales by product line and by customer</b>	<b>Monthly or weekly</b>
<b>Dave Thill</b>	<b>Cost of Production Report</b>	<b>Direct materials, direct labor, and manufacturing overhead costs assigned to each product line</b>	<b>Monthly or weekly</b>
<b>Rick Thrune</b>	<b>Cost of Production Report for Composite Kayaks</b>	<b>Detailed direct material and direct labor costs for the composite kayaks</b>	<b>Weekly</b>

Waterways Continuing Problem  
SOLUTION CHAPTER 1



## Legal Notice

---

### Copyright



Copyright © 2015 by John Wiley & Sons Canada, Ltd. or related companies. All rights reserved.

The data contained in these files are protected by copyright. This manual is furnished under licence and may be used only in accordance with the terms of such licence.

The material provided herein may not be downloaded, reproduced, stored in a retrieval system, modified, made available on a network, used to create derivative works, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise without the prior written permission of John Wiley & Sons Canada, Ltd.

MMXIV xii F1