CHAPTER 1: THE ACCOUNTANT’S ROLE IN THE

ORGANIZATION

*TRUE/FALSE*

1. Management accounting information focuses on external reporting.

 *Answer*: False

 Management accounting information focuses on *internal* reporting.

2. A good cost accounting system is narrowly focused on a continuous reduction of costs.

 *Answer*: False

 A good cost accounting system is broadly focused to provide information that helps managers at all levels implement, monitor, and evaluate company strategies.

3. Modern cost accounting plays a significant role in management decision making.

 *Answer*: True

4. The balance sheet, income statement, and statement of cash flows are used for financial accounting, but not for management accounting.

 *Answer*: False

 The balance sheet, income statement, and statement of cash flows are used for financial accounting and also for management accounting.

5. Financial accounting is broader in scope than management accounting.

 *Answer*: False

 Management accounting is broader in scope than financial accounting.

6. Cost accounting measures and reports short-term, long-term, financial, and nonfinancial information.

 *Answer*: True

7. Cost management provides information that helps increase value for customers.

 *Answer*: True

8. Just-in-time production and purchasing is a strategy used to reduce inventories.

 *Answer*: True

9. All strategies should be evaluated regarding the resources and capabilities of the company.

 *Answer*: True

10. The best-designed strategies are valuable whether or not they are effectively implemented.

 *Answer*: False

 Implementation is essential or the strategy is useless.

11. The key to a company’s success is creating value for customers while differentiating itself from its competitors.

 *Answer*: True

12. Developing a network of relationships with customers and suppliers is a valuable source of competitive advantage for a company.

 *Answer*: True

13. An important strategic decision is making the correct investments in productive assets.

 *Answer*: True

14. It is difficult to control activities without a budget.

 *Answer*: True

15. To take advantage of changing market opportunities, the annual budget should be strictly enforced.

 *Answer*: False

 To take advantage of changing market opportunities, the annual budget should be updated to reflect those changes.

16. A budget is a tool used to plan and express strategy.

 *Answer*: True

17. Linking rewards to performance is a major deterrent to good management performance.

 *Answer*: False

 Linking rewards to performance helps to motivate good management performance.

18. Employees pay little attention to how their performance is measured.

 *Answer*: False

 Employees are very aware of how their performance is measured.

19. A budget may be used as a planning tool, but not as a control tool.

 *Answer*: False

 A budget may be used as a planning tool and also as a control tool.

20. Financial accounting reports financial and nonfinancial information that helps managers implement company strategies.

 *Answer*: False

 *Management* accounting reports financial and nonfinancial information that helps managers implement company strategies.

21. Feedback links planning and control.

 *Answer*: True

22. Control includes deciding what feedback to provide that will help with future decision making.

 *Answer*: True

23. Attention-directing activities should focus on cost-reduction opportunities, and not on valued-adding opportunities.

 *Answer*: False

 Attention-directing activities should focus on cost-reduction opportunities and value-adding opportunities.

24. For strategic decisions, scorekeeping is the most prominent role played by management accounting.

 *Answer*: False

 For strategic decisions, *problem solving* is the most prominent role played by management accounting.

25. Management accountants often are simultaneously doing problem-solving, scorekeeping, and attention-directing activities.

 *Answer*: True

26. Management accounting is playing an increasingly important role by helping managers develop and implement strategy.

 *Answer*: True

27. An example of problem solving is evaluating bids from three different companies to supply a particular part used in manufacturing.

 *Answer*: True

28. Key success factors are geared to improving customer satisfaction.

 *Answer*: True

29. Value chain refers to its value to the employee.

 *Answer*: False

 Value chain refers to its value to the *customer*.

30. Companies have to follow strict guidelines when designing a management accounting system.

 *Answer*: False

 The design of a management accounting system should be guided by the challenges facing managers.

31. An effective way to cut costs is to eliminate activities that do not improve the product attributes that customers value.

 *Answer*: True

32. For optimal planning success it is best if each business function within the value chain is performed one at a time in sequence.

 *Answer*: False

 Optimally, success is achieved when two or more of the individual business functions work concurrently as a team.

33. For best results, cost management emphasizes independently coordinating supply chain activities within your company and not interfering with other companies.

 Answer: *False*

 Cost management emphasizes integrating and coordinating supply chain activities across all companies within the supply chain.

34. Tracking what is happening in other companies is illegal.

 *Answer*: False

 Tracking what is happening in other companies alerts managers to changes in their industry and can be accomplished in many legal ways such as visiting competitor’s Web sites and reviewing their financial statements.

35. Customer focus is a key ingredient in new product development.

 *Answer*: True

36. Technological innovation has led to shorter product-life cycles and a need to bring new products to market more rapidly.

 *Answer*: True

37. Key success factors include cost, quality, timeliness, and innovation.

 *Answer*: True

38. Customers are demanding increased levels of performance in all aspects of the value chain and the supply chain.

 *Answer*: True

39. When a particular aspect of employee performance is measured, employees pay more attention to it.

 *Answer*: True

40. It is generally easy to quantify expected benefits and costs when applying the cost-benefit approach.

 *Answer*: False

 It is challenging and generally costly to quantify expected benefits and costs when applying the cost-benefit approach.

41. The use of teams to achieve corporate objectives is increasing.

 *Answer*: True

42. By reporting and interpreting relevant data, the controller exerts an influence that impels management toward making informed decisions.

 *Answer*: True

43. The controller (also called the chief accounting officer) is the financial executive primarily responsible for both management accounting and financial accounting.

 *Answer*: True

44. Management accountants have important ethical responsibilities that are related to competence, confidentiality, integrity, and objectivity.

 *Answer*: True *Objective*: 9

*MULTIPLE CHOICE*

45. Management accounting

 a. focuses on estimating future revenues, costs, and other measures to forecast activities and their results.

 b. provides information about the company as a whole.

 c. reports information that has occurred in the past that is verifiable and reliable.

 d. provides information that is generally available only on a quarterly or annual basis.

 *Answer*: a

46. Financial accounting

 a. focuses on the future and includes activities such as preparing next year's operating budget.

 b. must comply with GAAP (generally accepted accounting principles).

 c. reports include detailed information on the various operating segments of the business such as product lines or departments.

 d. is prepared for the use of department heads and other employees.

 *Answer*: b

47. The person MOST likely to use ONLY financial accounting information is a

 a. factory shift supervisor.

 b. vice president of operations.

 c. current shareholder.

 d. department manager.

 *Answer*: c

48. The person MOST likely to use management accounting information is a(n)

 a. banker evaluating a credit application.

 b. shareholder evaluating a stock investment.

 c. governmental taxing authority.

 d. assembly department supervisor.

 *Answer*: d

49. Financial accounting provides the PRIMARY source of information

 a. for decision making in the finishing department.

 b. for improving customer service.

 c. for preparing the income statement for shareholders.

 d. for planning next year’s operating budget.

 *Answer*: c

50. Which of the following descriptors refers to management accounting information?

 a. It is verifiable and reliable.

 b. It is driven by rules.

 c. It is prepared for shareholders.

 d. It provides reasonable and timely estimates.

 *Answer*: d

51. Which of the following statements refers to management accounting information?

 a. There are no regulations governing the reports.

 b. The reports are generally delayed and historical.

 c. The audience tends to be stockholders, creditors, and tax authorities.

 d. It primarily measures and records business transactions.

 *Answer*: a

52. Which of the following groups would be LEAST likely to receive detailed management accounting reports?

 a. Stockholders

 b. Sales representatives

 c. Production supervisors

 d. Managers

 *Answer*: a

53. Management accounting information includes

 a. tabulated results of customer satisfaction surveys.

 b. the cost of producing a product.

 c. the percentage of units produced that are defective.

 d. all of the above.

 *Answer*: d

54. Cost accounting

 a. provides information on the efficiency of factory labor.

 b. provides information on the cost of servicing commercial customers.

 c. provides information on the performance of an operating division.

 d. all of the above.

 *Answer*: d

55. Which of the following types of information are used in management accounting?

 a. Financial information

 b. Nonfinancial information

 c. Information focused on the long term

 d. All of the above

 *Answer*: d

56. Modern cost accounting plays a role in

 a. planning new products.

 b. evaluating operational processes.

 c. controlling costs.

 d. all of the above.

 *Answer*: d

57. A data warehouse or infobarn

 a. is reserved for exclusive use by the CFO.

 b. is primarily used for financial reporting purposes.

 c. stores information used by different managers for multiple purposes.

 d. gathers only nonfinancial information.

 *Answer*: c

58. Cost accounting provides all EXCEPT

 a. information for management accounting and financial accounting.

 b. pricing information from marketing studies.

 c. financial information regarding the cost of acquiring resources.

 d. nonfinancial information regarding the cost of operational efficiencies.

 *Answer*: b

59. Management accounting includes

 a. implementing strategies.

 b. developing budgets.

 c. preparing special studies and forecasts.

 d. all of the above.

 *Answer*: d

60. Financial accounting is concerned PRIMARILY with

 a. external reporting to investors, creditors, and government authorities.

 b. cost planning and cost controls.

 c. profitability analysis.

 d. providing information for strategic and tactical decisions.

 *Answer*: a

61. Financial accounting provides a historical perspective, whereas management accounting emphasizes

 a. the future.

 b. past transactions.

 c. a current perspective.

 d. reports to shareholders.

 *Answer*: a

62. Which of the following is NOT a function of a management accounting system?

 a. Budget preparation

 b. Financial reporting

 c. Operational control

 d. Product and customer costing

 *Answer*: b

63. Strategy specifies

 a. how an organization matches its own capabilities with the opportunities in the marketplace.

 b. standard procedures to ensure quality products.

 c. incremental changes for improved performance.

 d. the demand created for products and services.

 *Answer*: a

64. Strategy is formulated by answering all of the following EXCEPT

 a. Who are our most important customers?

 b. Is industry demand growing or shrinking?

 c. How can we continue to reduce production costs?

 d. How sensitive are purchasers to price, quality, and service?

 *Answer*: c

65. Building resources and capabilities includes

 a. reducing available cash.

 b. keeping inventory information private from suppliers.

 c. building raw-material inventory levels.

 d. building a strong distribution network.

 *Answer*: d

66. Well-implemented just-in-time production and purchasing techniques

 a. result in large stockpiles of inventory to keep production running.

 b. strengthen a company’s ability to compete in the marketplace.

 c. increase reliance on long-term consumer forecasts.

 d. reduce a company’s competitive edge.

 *Answer*: b

67. Long-term productive assets include

 a. cash.

 b. manufacturing equipment and buildings.

 c. patents and trademarks.

 d. brand names.

 *Answer*: b

68. Computer-integrated manufacturing (CIM) plants allow management to do all EXCEPT

 a. create brand recognition.

 b. diagnose the reason for a defect.

 c. access timely and accurate information regarding production costs.

 d. respond faster to changes in customer preferences.

 *Answer*: a

69. The Internet and the World Wide Web are PRIMARILY used to

 a. create performance reports.

 b. collect cost data.

 c. enhance contact with customers and suppliers.

 d. prepare budget information.

 *Answer*: c

70. Investments in long-term productive assets include all EXCEPT

 a. investments in robotics.

 b. investments in information infrastructures.

 c. investments in a high-quality parts inventory.

 d. investments in Internet applications.

 *Answer*: c

71. In designing strategy, a company must match the opportunities and threats in the marketplace with

 a. those of the CFO (Chief Financial Officer).

 b. its resources and capabilities.

 c. branding opportunities.

 d. capabilities of current suppliers.

 *Answer*: b

72. The process of preparing a budget

 a. forces coordination and communication across business functions.

 b. increases accounting efficiencies.

 c. reduces overcapacity.

 d. promotes production automation.

 *Answer*: a

73. Control includes

 a. implementing planning decisions.

 b. evaluating performance.

 c. providing feedback to help with future decision making.

 d. all of the above.

 *Answer*: d

74. A budget

 a. is a quantitative expression of a proposed management plan.

 b. helps translate strategy into actions.

 c. aids in the coordination and communication among various business functions.

 d. does all of the above.

 *Answer*: d

75. A budget can serve

 a. as a planning tool.

 b. as a control tool.

 c. as a basis for preparing financial statements.

 d. both (a) and (b).

 *Answer*: d

76. Employees \_\_\_\_\_\_\_\_\_\_ how their performance is measured.

 a. pay close attention to

 b. pay no attention to

 c. rarely know

 d. both (b) and (c)

 *Answer*: a

77. Linking rewards to performance

 a. helps to motivate managers.

 b. allows companies to charge premium prices.

 c. should only be based on financial information.

 d. does all of the above.

 *Answer*: a

78. Control measures should

 a. be set and not changed until the next budget cycle.

 b. be flexible to allow for employees who are slackers.

 c. be kept confidential from employees so that competitors don’t have an opportunity to gain a competitive advantage.

 d. be linked by feedback to planning.

 *Answer*: d

79. A well-conceived plan allows managers the ability to

 a. not make decisions again until the next planning session.

 b. keep lower-level managers from implementing change.

 c. underestimate costs so that actual operating results will be favorable when comparisons are made.

 d. take advantage of unforeseen opportunities.

 *Answer*: d

80. For control decisions, emphasis is place on the \_\_\_\_\_\_\_\_\_\_ role(s) of management accounting.

 a. problem-solving

 b. scorekeeping

 c. attention-directing

 d. both (b) and (c)

 *Answer*: d

81. For strategic decisions, emphasis is placed on the \_\_\_\_\_\_\_\_\_\_ role(s) of management accounting.

 a. problem-solving

 b. scorekeeping

 c. attention-directing

 d. both (b) and (c)

 *Answer*: a

82. Tracking the type of product returned is a PRIMARY example of

 a. problem solving.

 b. scorekeeping.

 c. attention directing.

 d. both (a) and (b).

 *Answer*: c

83. A daily sales report is a PRIMARY example of

 a. problem solving.

 b. scorekeeping.

 c. attention directing.

 d. both (a) and (b).

 *Answer*: b

84. Making a recommendation regarding the leasing or purchasing of a fleet of vehicles is a PRIMARY example of

 a. problem solving.

 b. scorekeeping.

 c. attention directing.

 d. both (a) and (b).

 *Answer*: a

85. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ means reporting and interpreting information that helps managers to focus on operating problems, imperfections, inefficiencies, and opportunities.

 a. Scorekeeping

 b. Attention directing

 c. Problem solving

 d. None of the above

 *Answer*: b

86. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ identifies several available alternatives and often recommends the best course to follow.

 a. Scorekeeping

 b. Attention directing

 c. Problem solving

 d. None of the above

 *Answer*: c

87. Management accounting is considered successful when it

 a. helps creditors evaluate the company's performance.

 b. helps managers improve their decisions.

 c. is accurate.

 d. is relevant and reported annually.

 *Answer*: b

88. Strategy should focus PRIMARILY on the organization’s

 a. shareholders.

 b. customers.

 c. products.

 d. employees.

 *Answer*: b

89. Whose perceptions of the company's products or services are the most important to the manager?

 a. Board of directors' perception

 b. Customers' perception

 c. President's perception

 d. Stockholders' perception

 *Answer*: b

90. To be successful, a company needs to be

 a. customer driven.

 b. "driven" by the board of directors.

 c. employee driven.

 d. management driven.

 *Answer*: a

91. \_\_\_\_\_\_\_\_\_\_\_\_ is/are when a firm compares itself with the best practice of competitors or other comparable organizations.

 a. Value chain

 b. Supply chain

 c. Key success factors

 d. Benchmarking

 *Answer*: d

92. Place the four business functions in the order they appear along the value chain:

 A = Customer service

 B = Design

 C = Distribution

 D = Production

 a. A B D C

 b. A C D B

 c. B D C A

 d. B A D C

 *Answer*: c

93. R&D, production, and customer service are business functions that are all included as part of

 a. the value chain.

 b. benchmarking.

 c. marketing.

 d. the supply chain.

 *Answer*: a

94. The value chain is the sequence of business functions in which

 a. value is deducted from the products or services of an organization.

 b. value is proportionately added to the products or services of an organization.

 c. products and services are evaluated with respect to their value to the supply chain.

 d. usefulness is added to the products or services of an organization.

 *Answer*: d

95. \_\_\_\_\_\_\_\_\_\_ is the generation of, and experimentation with, ideas related to new products, services, or processes.

 a. Research and development

 b. Design of products, services, or processes

 c. Production

 d. Marketing

 *Answer*: a

96. \_\_\_\_\_\_\_\_\_\_ is the detailed planning and engineering of products, services, or processes.

 a. Distribution

 b. Design of products, services, or processes

 c. Production

 d. Marketing

 *Answer*: b

97. \_\_\_\_\_\_\_\_\_\_ is the acquisition, coordination, and assembly of resources to produce a product or deliver a service.

 a. Research and development

 b. Customer service

 c. Production

 d. Marketing

 *Answer*: c

98. \_\_\_\_\_\_\_\_\_\_ is the manner by which companies promote and sell their products or services to customers or perspective customers.

 a. Distribution

 b. Customer service

 c. Research and development

 d. Marketing

 *Answer*: d

99. \_\_\_\_\_\_\_\_\_\_ is the delivery of products or services to customers.

 a. Distribution

 b. Customer service

 c. Production

 d. Design of products, services, or processes

 *Answer*: a

100. \_\_\_\_\_\_\_\_\_\_ is the after-sale support provided to customers.

 a. Distribution

 b. Customer service

 c. Production

 d. Marketing

 *Answer*: b

101. \_\_\_\_\_\_\_\_\_\_ is an operational factor that directly affects the economic viability of the organization.

 a. Customer focus

 b. A key success factor

 c. Continuous improvement

 d. Supply chain

 *Answer*: b

102. \_\_\_\_\_\_\_\_\_\_ describe(s) the flow of goods, services, and information from the purchase of materials to the delivery of products to consumers, regardless of whether those activities occur in the same organization or with other organizations.

 a. Supply chain

 b. Key success factors

 c. Continuous improvement

 d. Customer focus

 *Answer*: a

103. Customers are demanding improved performance related to

 a. reduced costs.

 b. both reduced costs and increased quality.

 c. lower costs, improved quality, and improved customer service.

 d. lower costs, improved quality, improved customer service, and innovative products and services.

 *Answer*: d

104. The act of simply measuring and reporting information

 a. focuses the attention of employees on those processes.

 b. diverts employee’s attention to other activities.

 c. disproves the saying “What gets measured gets managed.”

 d. has no effect on employee behavior.

 *Answer*: a

105. Which statement is FALSE?

 a. “What gets measured gets managed.”

 b. People react to measurements.

 c. Employees spend more attention on those variables that are not getting measured.

 d. “If I can’t measure it, I can’t manage it.”

 *Answer*: c

106. The PRIMARY criterion when faced with a resource allocation decision is

 a. cost minimization.

 b. reduction in the amount of time required to perform a particular job.

 c. achievement of organizational goals.

 d. how well the alternative options help achieve organizational goals in relation to the costs incurred for these systems.

 *Answer*: d

107. The person(s) directly responsible for the attainment of organizational objectives is/are

 a. the treasurer.

 b. line management.

 c. the controller.

 d. the chief financial officer.

 *Answer*: b

108. As teamwork has become more prominent in the last few years, differences between staff and line management

 a. have increased.

 b. have become more important relative to promotions.

 c. have diminished.

 d. have only been evident in the employee reward system.

 *Answer*: c

109. The Institute of Management Accountants (IMA)

 a. is a professional organization of management accountants.

 b. is a professional organization of financial accountants.

 c. issues standards for management accounting.

 d. issues standards for financial accounting.

 *Answer*: a

110. Line management includes

 a. manufacturing managers.

 b. human-resource managers.

 c. information-technology managers.

 d. management-accounting managers.

 *Answer*: a

111. Staff management includes

 a. manufacturing managers.

 b. human-resource managers.

 c. purchasing managers.

 d. distribution managers.

 *Answer*: b

112. Responsibilities of a CFO include all EXCEPT

 a. providing financial reports to shareholders.

 b. managing short-term and long-term financing.

 c. investing in new equipment.

 d. preparing federal, state, and international tax returns.

 *Answer*: c

113. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_ is primarily responsible for management accounting and financial accounting.

 a. CFO (Chief Financial Officer)

 b. CIO (Chief Information Officer)

 c. treasurer

 d. controller

 *Answer*: d

114. All of the following report to the CFO EXCEPT the

 a. controller.

 b. tax department manager.

 c. production manager.

 d. treasurer.

 *Answer*: c

115. Management accounting is an integral part of the \_\_\_\_\_\_\_\_\_\_ function in an organization.

 a. treasurer’s

 b. controller’s

 c. internal audit

 d. president’s

 *Answer*: b

116. The Standards of Ethical Conduct for management accountants include concepts related to

 a. competence, performance, integrity, and reporting.

 b. competence, confidentiality, integrity, and objectivity.

 c. experience, integrity, reporting, and objectivity.

 d. none of the above as ethical issues do not affect management accountants.

 *Answer*: b *Objective*: 9

117. Ethical challenges for management accountants include

 a. whether to accept gifts from suppliers, knowing it is an effort to indirectly influence decisions.

 b. whether to report unfavorable department information that may result in unfavorable consequences for a friend.

 c. whether to file a tax return this year.

 d. both (a) and (b).

 *Answer*: d *Objective*: 9

*EXERCISES AND PROBLEMS*

118. For each report listed below, identify whether the major purpose of the report is for (1) routine internal reporting, (2) nonroutine internal reporting, or for (3) external reporting to investors and other outside parties.

 Required:

 a. Study detailing sale information of the top-ten selling products.

 b. Weekly report of total sales generated by each store in the metropolitan area.

 c. Annual Report sent to shareholders.

 d. Monthly report comparing budgeted sales by store to actual sales.

 Answer:

 a. (2) Nonroutine internal reporting

 b. (1) Routine internal reporting

 c. (3) External reporting to investors and other outside parties

 d. (1) Routine internal reporting

119. For each type of report listed below, identify one planning decision and one controlling decision for which the information would be helpful. Assume you are a Walgreen Company store.

 Required:

 a. Annual financial statements for the past three years.

 b. Report detailing sales by department by each hour of the day for the past week.

 c. Special study regarding increased road traffic due to the construction of a new shopping mall at a near-by intersection.

 Answer: Please note that answers will vary, but may include

 a. Planning: Decision by shareholder about whether to purchase more stock in the company.

 Control: Decision by bank to determine if financial ratios maintained in the line-of-credit (LOC) agreement warrant increasing the LOC amount.

 b. Planning: Decisions regarding future staffing needs.

 Control: Decision regarding whether the recent sales promotion led to an increase in revenue.

 c. Planning: Decision of the store manager about whether to change the types of retail items carried.

 Control: Decision of the store manager regarding performance of the analyst that prepared the special study.

120. For each of the following activities, identify whether the main role of accounting is (1) problem solving, (2) scorekeeping, or (3) attention directing.

 Required:

 a. Analyzing the impact of introducing a new product on production.

 b. Comparing results between actual costs and budgeted costs for each step of manufacturing a product.

 c. Preparing a report that analyzes changes in cost resulting from reducing the number of tubing sizes used during production from six down to two.

 d. Reporting sales by branch for the sales manager.

 Answer:

 a. (1) Problem solving

 b. (3) Attention directing

 c. (1) Problem solving

 d. (2) Scorekeeping

121. Classify each cost item into one of the business functions of the value chain, either (1) R&D, (2) Design, (3) Production, (4) Marketing, (5) Distribution, or (6) Customer service.

 Required:

 a. Cost of samples mailed to promote sales of a new product.

 b. Labor cost of workers in the manufacturing plant.

 c. Bonus paid to person with a 90% satisfaction rating in handling customers with complaints.

 d. Transportation costs for shipping products to retail outlets.

 Answer:

 a. (4) Marketing

 b. (3) Production

 c. (6) Customer service

 d. (5) Distribution

122. Classify each cost item of Ripon Printers into one of the business functions of the value chain, either (1) R&D, (2) Design, (3) Production, (4) Marketing, (5) Distribution, or (6) Customer service.

 Required:

 a. Cost of customer order forms.

 b. Cost of paper used in manufacture of books.

 c. Cost of paper used in packing cartons to ship books.

 d. Cost of paper used in display at national trade show.

 e. Depreciation of trucks used to transport books to college bookstores.

 f. Cost of the wood used to manufacture paper.

 g. Salary of the scientists attempting to find another source of printing ink.

 h. Cost of defining the book size so that a standard-sized box is filled to capacity.

 Answer:

 a. (4) Marketing

 b. (3) Production

 c. (5) Distribution

 d. (4) Marketing

 e. (5) Distribution

 f. (3) Production

 g. (1) Research and development

 h. (2) Design

123. For each of the following items, identify which of the three key management guidelines applies: (1) Cost-benefit approach, (2) Behavioral and technical considerations, or (3) Different costs for different purposes.

 Required:

 a. Considering the desirability of hiring another production supervisor.

 b. Introducing a new commission scale for salespersons.

 c. Deciding between the deluxe or the standard package of a new billing software package.

 d. Reporting total company sales to shareholders, but sales by store to the CFO.

 Answer:

 a. (1) Cost -benefit approach

 b. (2) Behavioral and technical considerations

 c. (1) Cost -benefit approach

 d. (3) Different costs for different purposes

*CRITICAL THINKING*

124. Describe management accounting and financial accounting.

 Answer:

 Management accounting provides information to internal decision makers of the business such as top executives, managers, sales representatives, and production supervisors. Its purpose is to help managers predict and evaluate future results. Reports are generated often and usually broken down into smaller reporting divisions such as department or product line. There are no rules to be complied with since these reports are for internal use only. Management accounting embraces more extensively such topics as the development and implementation of strategies and policies, budgeting, special studies and forecasts, influence on employee behavior, and nonfinancial as well as financial information.

 Financial accounting provides information to external decision makers such as investors and creditors. Its purpose is to present a fair picture of the financial condition of the company. Reports are generated quarterly or annually and report on the company as a whole. The financial statements must comply with GAAP (generally accepted accounting principles). A CPA audits, or verifies, that the GAAP are being followed.

125. Is financial accounting or management accounting more useful to an operations manager? Why?

 Answer:

 Management accounting is more useful to an operations manager because management accounting reports operating results by department or unit rather than for the company as a whole, it includes financial as well as nonfinancial data such as on-time deliveries and cycle times, and it includes quantitative as well as qualitative data such as the type of rework that was needed on defective units.

126. What is strategy? Briefly describe the two broad types of strategies that companies may choose to pursue.

 Answer:

 Strategy specifies how an organization matches its own capabilities with the opportunities in the marketplace to accomplish its objectives. In other words, strategy describes how a company will compete.

 Companies follow one of two broad strategies. One is provide a *quality* product or service at *low* prices. The other is to compete on their ability to offer a *unique* product or service that is generally offered at a *higher* price.

127. Briefly describe how managers make use of management accounting information.

 Answer:

 ONE: To choose *strategy*, to communicate it, and to determine how best to implement it.

 TWO: To *plan* business operations related to designing, producing, and marketing a product or service. This includes preparing budgets and determining the prices and cost of products and services. A company must know the cost of each product and service to decide which products to offer and whether to expand or discontinue product lines.

 THREE: To *control* business operations that include comparing actual results to the budgeted results and taking corrective action when needed.

 ,2,3

128. Briefly explain the planning and control activities in management accounting. How are these two activities linked to each other?

 Answer:

 Planning business operations relates to designing, producing, and marketing a product or service. This includes preparing budgets and determining the prices and cost of products and services. A company must know the cost of each product and service to decide which products to offer and whether to expand or discontinue product lines.

 Controlling business operations includes comparing actual results to the budgeted results and taking corrective action when needed.

 Feedback links planning and control. The control function provides information to assist in better future planning.

129. Explain how a budget can help management implement strategy.

 Answer:

 A budget is a planning tool, a quantitative expression of a plan of action. First actions are planned and then communicated to the entire organization.

 The budget also helps with coordination.

130. Explain how a customer focus can result in increased profits for a company.

 Answer:

 If customers who provide a company with the most profits are attracted, satisfied, and retained, profits will increase as a result.

131. Describe the value chain and how it can help organizations become more effective.

 Answer:

 A value chain is a sequence of business functions whose objective is to provide a product to a customer or provide an intermediate good or service in a larger value chain. These business functions include R&D, design, production, marketing, distribution, and customer service.

 An organization can become more effective by focusing on whether each link in the chain adds value from the customer's perspective and furthers the organization’s objectives.

132. In most organizations, customer satisfaction is one of the top priorities. As such, attention to customers is necessary for success. Briefly describe the four types of demands customers are currently placing on organizational performance.

 Answer:

 Cost: Organizations are under continuous pressure to reduce the cost of the products or services they sell to their customers.

 Quality: Customers are expecting higher levels of quality and are less tolerant of low quality than in the past.

 Time: Time has many components: the time taken to develop and bring new products to market; the speed at which an organization responds to customer requests; and the reliability with which promised delivery dates are met. Organizations are under pressure to complete activities faster and to meet promised delivery dates more reliably than in the past in order to increase customer satisfaction.

 Innovation: There is now heightened recognition that a continuing flow of innovative products or services is a prerequisite for the ongoing success of most organizations.

133. Management accounting helps managers focus on four key themes. Briefly describe each.

 Answer:

 1. Customer focus is particularly critical This theme is central. Customers are pivotal to the success of an organization. The number of organizations aiming to be "customer-driven" is large and increasing.

 2. Value-chain and supply-chain analysis This theme has two related aspects (1) treating each area of the business function as an essential and valued contributor, and (2) integrating and coordinating the efforts of all business functions in addition to developing the capabilities of each individual business function.

 3. Key success factors Customers are demanding ever-improving levels of performance regarding cost, quality, time, and innovation.

 4. Continuous improvement and benchmarking Continuous improvement by competitors creates a never-ending search for higher levels of performance within many organizations. Continuous improvement targets are often set by benchmarking.

134. Discuss the potential behavior implications of performance evaluation.

 Answer:

 As measurements are made on operations and, especially, on individuals and groups, the behavior of the individuals and groups are affected. People react to the measurements being made. They will focus on those variables or the behavior being measured and spend less attention on variables and behavior that are not measured. In addition, if managers attempt to introduce or redesign cost and performance measurement systems, people familiar with the previous system will resist. Management accountants must understand and anticipate the reactions of individuals to information and measurements. The design and introduction of new measurements and systems must be accompanied with an analysis of the likely reactions to the innovations.

135. How does a controller help “control” a company?

 Answer:

 By reporting and interpreting relevant data, the controller exerts a force or influence that impels management toward making better-informed decisions.

 The controller of Caterpillar described the job as “a business advisor to … help the team develop strategy and focus the team all the way through recommendations and implementation.”