

Managerial Accounting: Making Decisions and Motivating Performance (Datar/Rajan)
Chapter 1 The Manager and Management Accounting

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Learning Objective 1-1

1) Managers use management accounting information to do all of the following **except**:

- A) collect.
- B) analyze.
- C) perform.
- D) categorize.
- E) summarize.

Answer: C

Diff: 2 Page Ref: 2

LO: 1-1

EOC: E1-28

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

2) Managers make cost management decisions to increase the value of products and services they provide to customers and to achieve organizational goals. Which of the following is **not** an example of an effective cost management decision?

- A) The decision to enter a new market.
- B) A decision to change the design of a product.
- C) The decision to implement new organizational processes.
- D) Information and the accounting systems themselves.
- E) Decisions to use the information from accounting systems.

Answer: D

Diff: 2 Page Ref: 2

LO: 1-1

EOC: E1-21

AACSB: Analytic Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

3) Management accounting:

- A) focuses on measuring, analyzing, and reporting financial and nonfinancial information to help managers estimate future revenue, costs, and other measures to forecast activities and formulate strategies to increase the competitive advantage of the organization.
- B) financial-information purpose is to communicate organization's financial position to investors, banks, regulators, and suppliers.
- C) focus and emphasis is on past-oriented reports.
- D) rules of measurement reporting require financial statements to be prepared in accordance of GAAP.
- E) behavioral information primarily reports economic events, but also influences behavior because

manager's compensation is often based on reported financial data.

Answer: A

Diff: 2 Page Ref: 2

LO: 1-1

EOC: E1-21

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

4) Financial accounting:

A) focuses on reporting financial information to managers of the organization.

B) financial statements must comply with Generally Accepted Accounting Principles (GAAP).

C) focus and emphasis is on future-oriented reports.

D) rules of measurement are internal measures and reports do not have to follow GAAP, but are based on cost-benefit analysis.

E) behavioral implications are designed primarily to influence the behavior of managers and other employees.

Answer: B

Diff: 2 Page Ref: 2

LO: 1-1

EOC: E1-1

AACSB: Reflective Thinking Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

5) An Enterprise Resource Planning (ERP) system is:

A) a cost-management system that specifically focuses on strategic issues.

B) a single database that collects data and feeds it into applications that support each of the company's business activities, such as purchasing, production, distribution, and sales.

C) a sequence of business functions in which customer usefulness is added to products.

D) a strategy that integrates people and technology in all business functions to deepen relationships with customers, partners, and distributors.

E) an integrated philosophy of management for continuously improving the quality of products and processes.

Answer: B

Diff: 2 Page Ref: 2

LO: 1-1

EOC: E1-15

AACSB: Use of Information Technology

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

6) Users of management accounting information include:

A) banks.

B) investors.

C) suppliers.

D) regulators.

E) managers of the organization.

Answer: E

Diff: 1 Page Ref: 3

LO: 1-1

EOC: E1-7

AACSB: Analytic Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

7) Financial accounting managers are more concerned about:

- A) future-oriented budgets.
- B) past-oriented reports.
- C) reports that do not follow GAPP.
- D) reports that are based on cost-benefit analysis.
- E) utilizing information to help managers make decisions to achieve organizational goals.

Answer: B

Diff: 3 Page Ref: 3

LO: 1-1

EOC: E1-15

AACSB: Reflective Thinking Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

8) _____ measures, analyzes and reports financial information and nonfinancial information that helps managers make decisions to fulfill the goals of an organization.

- A) Financial Accounting
- B) Management Accounting
- C) Cost Accounting
- D) Cost Management
- E) Account Auditing

Answer: B

Diff: 1 Page Ref: 2

LO: 1-1

EOC: E1-14

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

9) Financial accounting reports financial information to internal parties.

Answer: FALSE

Explanation: External users such as investors, banks, regulators, and suppliers use financial accounting reports.

Diff: 1 Page Ref: 3

LO: 1-1

EOC: E1-1

AACSB: Reflective Thinking Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

10) There is no difference in the goals of financial accounting and management accounting.

Answer: FALSE

Explanation: Financial accounting and management accounting have different goals. Financial accounting focuses on reporting financial information to external parties, for example investors, government, agencies, banks and suppliers. Management accounting measures analyzes, and reports financial and nonfinancial information that helps managers make decisions to fulfill the goals of an organization.

Diff: 1 Page Ref: 2

LO: 1-1

EOC: E1-2

AACSB: Reflective Thinking Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts and principles.

MA-1: Describe the basics of managerial accounting and its function within an organization.

11) Managers use management accounting information to develop, communicate, and implement strategy.

Answer: TRUE

Diff: 1 Page Ref: 2

LO: 1-1

EOC: E1-14

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

12) Managers use management accounting information to develop, communicate, and implement strategy.

Answer: TRUE

Diff: 1 Page Ref: 2

LO: 1-1

EOC: E1-14

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

13) The purpose of information in financial accounting is to communicate the organization's financial position to investors, banks, regulators, and other outside parties.

Answer: TRUE

Diff: 1 Page Ref: 3

LO: 1-1

EOC: E1-21

AACSB: Communication Abilities

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

14) Discuss the major differences between management accounting and financial accounting. In your analysis, discuss who benefits from the reports or statements and discuss the differences between the individuals that use the accounting information. Be specific.

Answer: Management accounting data is typically used by the internal employees within the organization. For example, the managers, supervisors, and employees benefit from the reports because these internal reports could be used to implement new processes, other planning and control decisions, or the development of goals.

Financial accounting data is typically used by individuals or groups outside of the company that has an interest in the financial position at the company. For example, banks, stockholders, or regulatory agencies could use this information to make a decision about the organization.

Diff: 2 Page Ref: 3

LO: 1-1

EOC: E1-18

AACSB: Reflective Thinking Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts and principles.

MA-1: Describe the basics of managerial accounting and its function within an organization.

Learning Objective 1-2

1) Strategic cost management describes cost management that:

- A) is not consistent with organizational goals.
- B) does not relate to ethical practices.
- C) has no focus on the organization.
- D) specifically focuses on strategic issues.
- E) does not specifically focus on strategic issues.

Answer: D

Diff: 2 Page Ref: 4

LO: 1-2

EOC: E1-21

AACSB: Reflective Thinking Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

2) Which of the following is **not** one of the six primary business functions that managerial accountants use to create value for their customers?

- A) Research and development (R&D).
- B) Design of products and processes.
- C) Production and marketing.
- D) Distribution and customer service.
- E) Profit focus versus customer service.

Answer: E

Diff: 1 Page Ref: 3

LO: 1-2

EOC: E1-11; E1-12; E1-13

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

3) Which of the following statements concerning an organization's strategy is **not** true?

- A) A strategy specifies how an organization matches its own capabilities with the opportunities in the marketplace to accomplish its objectives.
- B) Management accountants provide input to help managers formulate strategy.
- C) A good strategy will always overcome poor implementation.
- D) Businesses usually follow one of two broad strategies: (1) offering a quality product at a low price, and (2) offering a unique product or service priced higher than the competition.
- E) None of these are true.

Answer: C

Diff: 2 Page Ref: 3

LO: 1-2

EOC: E1-22

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

- 4) Management accountants work closely with other managers to develop strategies. Which of the following is **not** a source of competitive advantage they share to develop those strategies?
- A) Share company interdepartmental costs at meetings.
 - B) Share productivity reports.
 - C) Share best practices at meetings so other managers learn new and innovative strategies.
 - D) Share and understand the efficiency advantage relative to their competitors.
 - E) Share only time to attend luncheons and meetings, but never discuss interdepartmental information.

Answer: E

Diff: 2 Page Ref: 4

LO: 1-2

EOC: E1-22

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

- 5) Some managerial accountants at companies choose to focus on a product differentiation strategy. Which of the following is **not** a characteristic of this strategy?

- A) Offer unique products.
- B) Offer different services.
- C) Offer lower-priced products or services.
- D) Offer less-popular products or services.
- E) Offer higher-priced products or services.

Answer: C

Diff: 1 Page Ref: 3

LO: 1-2

EOC: E1-13; E1-23

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

- 6) The managers at Apple are successful because they offer consumers unique and different products. Which strategy do they use to attract and retain customers?

- A) A cost leadership strategy.
- B) A product differentiation strategy.
- C) A low-cost leadership strategy.
- D) A low-product leadership strategy.
- E) That is what they do, there is no strategy.

Answer: B

Diff: 1 Page Ref: 3

LO: 1-2

EOC: E1-22

AACSB: Reflective Thinking Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

7) The managers at Vanguard follow a cost leadership strategy. Which of the following is a characteristic of their strategy?

- A) Provide consumers unique products.
- B) Provide consumers different products.
- C) Provide consumers quality products or services at low prices by effective cost management.
- D) Products are higher priced and less popular products or services than their competitors.
- E) Provide budgets versus strategies and make more money by charging higher prices.

Answer: C

Diff: 3 Page Ref: 3

LO: 1-2

EOC: E1-21

AACSB: Analytic Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

8) A _____ is used to specify how a managerial accountant at an organization matches the capabilities with opportunities in the marketplace to accomplish their objectives. It also helps managers gain a competitive advantage at their company.

- A) goal
- B) ethic
- C) focus
- D) strategy
- E) production

Answer: D

Diff: 2 Page Ref: 3

LO: 1-2

EOC: E1-21

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

9) The best-designed strategies and the best-developed capabilities are useless unless they are effectively executed.

Answer: TRUE

Diff: 1 Page Ref: 4

LO: 1-2

EOC: E1-22

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

10) The term strategy describes how an organization will compete and it describes the opportunities that managers should pursue.

Answer: TRUE

Diff: 1 Page Ref: 3

LO: 1-2

EOC: E1-22

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

11) List and discuss the two broad strategies that managers use to achieve organizational goals. Provide an example of each strategy.

Answer: The two broad strategies include (1) cost leadership strategy, and (2) product differentiation strategy. An example of the cost leadership strategy is evident at Southwest Airlines because they offer their consumers products at prices that are lower than the competitor prices. An example of an organization that implements the product differentiation strategy is Apple. The managers at the organization offer consumers products that are unique and different than the products at a competitor.

Diff: 1 Page Ref: 3

LO: 1-2

EOC: E1-14

AACSB: Analytic Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

12) Define strategy and explain why strategic decisions are important to a management accountant.

Answer: The organization's strategy describes how it will compete in the marketplace. It is also important to a management accountant because it permits them to discover opportunities its managers should seek and pursue. Strategy specifies how an organization matches its own capabilities with the opportunities in the company to accomplish its objectives.

Diff: 1 Page Ref: 3

LO: 1-1

EOC: E1-21; E1-22

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

Learning Objective 1-3

1) Which of the following is **not** a way for a company to improve customer response time?

- A) An increase in capacity of bottleneck operations.
- B) Decrease in response time to consumer requests.
- C) Faster delivery procedures.
- D) Produce the product quicker.
- E) Effective management accounting information.

Answer: B

Diff: 2 Page Ref: 7

LO: 1-3

EOC: E1-14

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

2) Trader Joe's is known for delivering unique products to consumers at reasonable prices. Which of the following is **not** one of the strategies they use to attract and retain consumers?

- A) Delivers unique products at reasonable prices.
- B) Offers low-cost, high-end staples to attract and retain consumers.
- C) Minimize cost to attract and retain consumers with brand items.
- D) Maximize cost to attract and retain consumers with brand items.
- E) Implements precise, just-in-time ordering with daily distribution trips.

Answer: D

Diff: 3 Page Ref: 7

LO: 1-3

EOC: E1-14

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

3) Which of the following is **not** a key success factor that managerial accountants use to promote sustainability in their organizations?

- A) Cost.
- B) Efficiency.
- C) Quality.
- D) Time.
- E) Relevance.

Answer: E

Diff: 2 Page Ref: 8

LO: 1-3

EOC: E1-14; E1-15

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

4) Sustainability:

A) is the development of employment opportunities to decrease the national job deficit.

B) is a political term that corporate controllers use only at global manufacturing operations when they refer to ethical standards of production.

C) is the development and implementation of strategies to achieve long-term financial, social, and environmental performance.

D) is a technique that is used only when the organization outsources operations in global operations.

E) is a step in the decision-making process that managers only use to enhance ethical standards in their organizations.

Answer: C

Diff: 3 Page Ref: 8

LO: 1-3

EOC: E1-4

AACSB: Reflective Thinking Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

5) Which of the following is **not** a way that a manager at a manufacturing firm can improve the performance level in the organization?

A) A focus on the value-chain.

B) A focus on supply-chain operations.

C) A focus only on budgeting to improve all performance levels in the organization.

D) A focus on customer service and the distribution channels to enhance operations.

E) A focus on marketing strategies to develop new products and services.

Answer: C

Diff: 1 Page Ref: 8-9

LO: 1-3

EOC: E1-17

AACSB: Reflective Thinking Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

6) When managers generate and experiment with ideas related to new products, services or processes. this is:

A) research and development.

B) design of products and processes.

C) production.

D) marketing.

E) distribution.

Answer: A

Diff: 2 Page Ref: 5

LO: 1-3

EOC: E1-21

AACSB: Analytic Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

7) Processing orders and shipping products or services to customers is:

- A) marketing.
- B) production.
- C) distribution.
- D) research and development.
- E) design of products and processes.

Answer: C

Diff: 1 Page Ref: 5

LO: 1-3

EOC: E1-13; E1-14; E1-15

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

8) To lower costs and increase efficiency at Nike, the decision makers moved its operations to China and Mexico. This is known as:

- A) outsourcing.
- B) managing.
- C) controlling.
- D) developing.
- E) implementing.

Answer: A

Diff: 1 Page Ref: 6

LO: 1-3

EOC: E1-29

AACSB: Dynamics of the Global Economy

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

9) The _____ contains six primary business functions in modern organizations.

- A) value chain
- B) design chain
- C) product chain
- D) production chain
- E) organizational chain

Answer: A

Diff: 1 Page Ref: 4

LO: 1-3

EOC: E1-11; E1-12; E1-13

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

10) The time it takes for companies to develop new products and services and bring them to market is:

- A) delay.
- B) new-product development time.
- C) distribution time.
- D) important dimension.
- E) increased pace.

Answer: B

Diff: 2 Page Ref: 7

LO: 1-3

EOC: E1-14

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

11) The _____ is an administration function that includes the human resource management function of training front-line workers.

- A) design function
- B) distribution function
- C) production function
- D) marketing function
- E) customer service function

Answer: C

Diff: 2 Page Ref: 5

LO: 1-3

EOC: E1-14; E1-15

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

12) The _____ function is the function of analyzing, reporting, and accounting for those resources spent in different marketing channels; while the _____ function includes the human resource management function of training front-line workers.

- A) distribution; marketing
- B) marketing; production
- C) customer service; distribution
- D) marketing; customer service
- E) production; customer service

Answer: B

Diff: 3 Page Ref: 5

LO: 1-3

EOC: E1-14; E1-15

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

13) Included in the _____ is the function of analyzing, reporting, and accounting for resources spent in different marketing channels.

- A) marketing function
- B) distribution function
- C) process function
- D) planning function
- E) production function

Answer: A

Diff: 2 Page Ref: 5

LO: 1-3

EOC: E1-11; E1-12; E1-13

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

14) The strategy that integrates people and technology in all business functions to enhance relationships with customers, partners, and distributors is:

- A) supply-chain analysis.
- B) customer relationship management.
- C) value-chain analysis.
- D) continuous quality improvement.
- E) cost leadership.

Answer: B

Diff: 1 Page Ref: 5

LO: 1-3

EOC: E1-11; E1-12; E1-13

AACSB: Use of Information Technology

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

15) In reference to value-chain analysis, design of products and processes includes the detailed planning, engineering, and testing of products and processes.

Answer: TRUE

Diff: 1 Page Ref: 4

LO: 1-3

EOC: E1-14

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

16) When managers track the costs that are incurred in each value-chain category, their goal is to ensure the profitability of the organization.

Answer: TRUE

Diff: 2 Page Ref: 5

LO: 1-3

EOC: E1-11; E1-12; E1-13

AACSB: Analytic Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

17) The most important functions in the value-chain analysis that managers use to please consumers include research and development (R&D), the design of products and processes, production, marketing, distribution and customer service.

Answer: TRUE

Diff: 1 Page Ref: 4-5

LO: 1-3

EOC: E1-11, E1-12, E1-13

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

18) Companies feel pressure to reduce costs as a result of increased global competition.

Answer: TRUE

Diff: 2 Page Ref: 6

LO: 1-3

EOC: E1-29

AACSB: Dynamics of the Global Economy

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

19) Successful strategy implementation only requires value-chain and supply-chain analysis to support long-term value.

Answer: FALSE

Explanation: Successful strategy implementation requires more than value-chain and supply-chain analysis and execution of key success factors. The decisions managers make help them to develop, integrate, and implement their strategies.

Diff: 3 Page Ref: 8

LO: 1-3

EOC: E1-17

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

20) Competitive information serves as a benchmark.

Answer: TRUE

Diff: 2 Page Ref: 8

LO: 1-3

EOC: E1-17

AACSB: Reflective Thinking Skills

21) 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.

Item:

- a. cost of free food mailed to promote sales of a new organic food product
- b. labor cost of workers in the construction plant
- c. bonus paid to a person with a 80% 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

Diff: 2 Page Ref: 4-5

LO: 1-3

EOC: E1-12

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

22) 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.

Item:

- a. cost of customer order forms
- b. cost of paper used to manufacture 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 management scientists attempting to find another source of information technology
- h. cost of refining the package size to specific dress sizes 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

Diff: 3 Page Ref: 4-5

LO: 1-3

EOC: E1-11

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

23) 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 organizations' objectives.

Diff: 3 Page Ref: 4-5

LO: 1-3

EOC: E1-11

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

24) Explain why it is important for managers to account for all of the costs incurred in each value-chain category. What is their goal? Be specific.

Answer: Student responses are expected to vary based on their perceptions. Managers track the costs that are incurred in each value-chain category to determine if there is a way to reduce costs and add value to the organization. Recall that managers strive to achieve organizational goals by implementing cost effective strategies that add value and reduce costs in the organization.

Recall that managers process economic data when they collect, categorize, summarize, and analyze data. They also use accounting systems to provide data about activities, the business, or the area they oversee. They use this data and review the management accounting information to track costs, analyze costs, and determine if they can reduce costs or change a process that could enhance the company.

An efficient manager can identify whether or not products could be purchased cheaper from a different supplier. A good manager has the ability to identify opportunities to create value and reduce costs. They implement cost-benefit tradeoffs and they strive to meet or exceed operational goals.

Diff: 3 Page Ref: 4-5

LO: 1-3

EOC: E1-11

AACSB: Reflective Thinking Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

25) What can a managerial accountant at a company do to counteract the impact of increased global competition and strive to ensure the company remains competitive in the marketplace?

Answer: Companies are forced to evaluate value chain and supply chain operations to improve performance by developing strategies to remain competitive in industry. An organization can save money when they lower its product costs by outsourcing its business functions to other countries.

Diff: 2 Page Ref: 6

LO: 1-3

EOC: E1-3

AACSB: Multinational and Diversity Understanding/Training

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

Learning Objective 1-4

1) Which of the following is **not** true about a managerial accountant that links rewards to performance?

- A) Not used to motivate managers.
- B) Allows companies to charge premium prices.
- C) Should only be based on financial information.
- D) Recognizes managers for a well-done job.
- E) Rewards managers by salary, bonuses, and performance.

Answer: A

Diff: 1 Page Ref: 10

LO: 1-4

EOC: E1-14

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

2) How do managers calculate a target cost for the selling price of a product?

- A) Add net sales to gross sales.
- B) Subtract net sales from the cost.
- C) Subtract the operating cost per unit of the product.
- D) Subtract the operating income per unit of target product.
- E) Add the net sales to the operating income per unit and subtract costs.

Answer: D

Diff: 3 Page Ref: 6

LO: 1-4

EOC: E1-24

AACSB: Analytic Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

3) A budget:

- A) is the qualitative expression of a proposed plan of action by management.
- B) is the band range of relevant activity level or volume in which there is a specific relationship between the level of activity or volume and the cost in question.
- C) occurs when purchase materials and components are converted into various finished goods.
- D) is a benchmark against which actual performance can be prepared.
- E) comprises taking actions that implement the planning decisions, deciding how to evaluate performance, and providing feedback and learning to help future decision making.

Answer: D

Diff: 2 Page Ref: 10

LO: 1-4

EOC: E1-16

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

4) Planning:

A) is the band range of relevant activity level or volume in which there is a specific relationship between the level of activity or volume and the cost in question.

B) occurs when purchase materials and components are converted into various finished goods.

C) is the band or range of normal activity level or volume in which there is a specific relationship between the level of activity or volume and the cost in question.

D) is a general term that encompasses tracing direct costs to a cost object and allocating indirect costs to a cost object.

E) comprises taking actions that implement the planning decisions, deciding how to evaluate performance, and providing feedback and learning to help future decision making.

Answer: E

Diff: 2 Page Ref: 9

LO: 1-4

EOC: E1-14

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

5) Which of the following is **not** true about the five-step decision making process?

A) Identifies the problems and uncertainties.

B) Obtains information.

C) Makes predictions about the future.

D) Helps managers make decisions.

E) Managers cannot evaluate performances or learn.

Answer: E

Diff: 1 Page Ref: 12

LO: 1-4

EOC: E1-15

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

6) A recent Performance Report from Baker's Chocolate Factory revealed the budgeted amount of chocolate crisps was 1,000; and, they actually sold 900 chocolate crisps. Compute the difference. Was the difference favorable or unfavorable?

A) 100; favorable

B) 100; unfavorable

C) 110; favorable

D) 110; unfavorable

E) 111; favorable

Answer: B

Explanation: B) $[1,000 - 900] = 100$ unfavorable

Diff: 1 Page Ref: 10

LO: 1-4

EOC: E1-27

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

7) A recent Performance Report from Baker's Chocolate Factory revealed that there were budgeted revenues in October, 2012, of \$2,000,000; and, the actual revenues were \$2,110,000. Is the difference favorable or unfavorable?

- A) \$1.05; favorable
- B) \$1.05; unfavorable
- C) \$110,000 favorable
- D) \$110,000 unfavorable
- E) \$4,110,000; favorable

Answer: C

Explanation: C) [$\$2,110,000 - \$2,000,000$] = \$110,000 favorable

Diff: 2 Page Ref: 10

LO: 1-4

EOC: E1-27

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

8) Complete a performance report for the month of October, 2012, for the Management Scientist Quarterly, a national publication, showing four columns: 1) Actual Result; 2) Budgeted Amount; 3) Difference: Actual Result minus Budgeted Amount; 4) Difference as a Percentage of Budgeted Amount. Compute the difference of the actual result compared to the budgeted amount. What is the difference as a percentage of the budgeted amount? Include the following information in the performance report:

Actual Pages Sold	650
Budgeted Advertising Pages	550
Actual Advertising Revenue	3,500
Budgeted Advertising Revenue	4,000,000

Answer: The performance report should look something like the following:

	Actual Result (1)	Budgeted Amount (2)	Difference (Actual Result – Budgeted Amount) (3) = (1) - (2)	Difference as a Percentage of Budgeted Amount (4) = (3)/(2)
Advertising Pages Sold	650	550	50 pages favorable	11% Favorable
Average rate per page (Advertising Revenues) / (Advertising Pages Sold)	\$8,000	\$9,000	\$1,000 Unfavorable	11.11% Unfavorable
Advertising Revenues	\$3,850,000	\$4,000,000	\$150,000 Unfavorable	22.11% Unfavorable

Explanation: The overall 22.11% unfavorable difference in advertising revenue is caused by offsetting differences in advertising pages sold (favorable) and the average rate per page (unfavorable). The performance report highlights the favorable increase in the advertising pages sold. While the percentage drop in advertising revenue per page is also dramatic, management might want to investigate the reasons behind such a drop. Some possibilities include: aggressive price reductions to obtain revenue, or some aggressive competition, or an unrealistic budget.

Diff: 3 Page Ref: 10

LO: 1-4

EOC: E1-27; 1-28

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

9) The comparison of _____ performance to _____ performance, this is known as the control or postdecision role of information.

- A) low; high
- B) actual; budgeted
- C) real; superficial
- D) known; unknown
- E) new; existing

Answer: B

Diff: 3 Page Ref: 10

LO: 1-4

EOC: E1-16

AACSB: Analytic Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

10) _____ can lead to changes in goals, strategies, and the ways decision alternatives are identified, and the range of information collected when making predictions, and can lead to changes in managers.

- A) Learning
- B) Performance
- C) Accounting
- D) Recording
- E) Costs

Answer: A

Diff: 3 Page Ref: 10

LO: 1-4

EOC: E1-17; E1-18

AACSB: Reflective Thinking Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

11) _____ comprises the actions that implement the planning decisions, deciding how to evaluate performance, and providing feedback and learning to help future decision making.

- A) Ethics
- B) Control
- C) Planning
- D) Financial accounting
- E) Management accounting

Answer: B

Diff: 3 Page Ref: 10

LO: 1-4

EOC: E1-6; E1-16

AACSB: Analytic Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

12) The number one planning tool when implementing strategy is a budget.

Answer: TRUE

Diff: 1 Page Ref: 9

LO: 1-4

EOC: E1-14

AACSB: Reflective Thinking Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

13) One of the five steps in the decision-making process is to obtain information.

Answer: TRUE

Diff: 1 Page Ref: 12

LO: 1-4

EOC: E1-17

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

14) The planning and control activities are **never** flexible enough so managers cannot seize sudden opportunities unforeseen at the time the plan is formulated.

Answer: FALSE

Explanation: The planning and control activities **MUST** be flexible enough so that managers can seize sudden opportunities unforeseen at the time the plan is formulated.

Diff: 2 Page Ref: 11

LO: 1-4

EOC: E1-16

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

15) Management accounting information helps managers calculate a target cost for the product's selling price by subtracting the operating income per unit of product that the company desires to earn from the sale of the product [target price].

Answer: TRUE

Diff: 3 Page Ref: 6

LO: 1-4

EOC: E1-24

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

16) In order, list the five steps in the decision-making process.

Answer: (1) Identify the problem and uncertainties; (2) Obtain information; (3) Make predictions about the future; (4) Make decisions by choosing among the alternatives; (5) Implement the decision, evaluate performance, and learn.

Diff: 2 Page Ref: 12

LO: 1-4

EOC: E1-17

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

17) Explain how a budget can help management implement an effective strategy.

Answer: A budget serves as much as a control tool as a planning tool. A budget is a benchmark against which actual performance can be compared. A budget is a planning tool, a quantitative expression of a plan of action. It is the most important planning tool that a manager can utilize to implement strategic planning goals. First, actions are planned and then they are coordinated and communicated to the entire organization.

Diff: 3 Page Ref: 10

LO: 1-4

EOC: E1-20

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

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

Answer: The planning and control activities must be flexible enough so that managers can seize sudden opportunities unforeseen at the time the plan is formulated. 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.

Diff: 3 Page Ref: 11

LO: 1-4

EOC: E1-16

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

Learning Objective 1-5

1) Which of the following is **not** a true statement about a manager that utilizes the cost-benefit approach?

- A) Senior managers could spend resources if the expected benefits to the company exceed the expected costs.
- B) Senior managers can compare the expected benefits to the expected costs associated with a project.
- C) Senior managers can compare the expected benefits, exercise judgment, and make decisions when they use this approach.
- D) Senior managers are unable to compare the expected benefits to the expected costs associated with a project.
- E) Senior managers should spend resources if the expected benefits to the company exceed the expected costs.

Answer: D

Diff: 2 Page Ref: 12

LO: 1-5

EOC: E1-17; E1-23

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

2) A manager at Best Buy had a television advertising expense in 2013. The company is required to report the expense to external shareholders. According to GAAP, when is the manager at Best Buy required to show the expense?

- A) 2012
- B) 2013
- C) 2014
- D) 2015
- E) 2016

Answer: B

Explanation: B) Generally Accepted Accounting Principles (GAAP) require this immediate expensing for external reporting purposes.

Diff: 3 Page Ref: 12-13

LO: 1-5

EOC: E1-27

AACSB: Analytic Skills

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

3) When workers underperform, behavioral considerations suggest:

- A) managers write up the workers immediately.
- B) managers send written reports that highlight their underperformance.
- C) managers discuss with workers ways to improve performance actions.
- D) managers should terminate the employee without taking other actions.
- E) managers should ignore the underperformance and go on with business.

Answer: C

Diff: 3 Page Ref: 12

LO: 1-5

EOC: E1-23

AACSB: Communication Abilities

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

4) A manager can install a budgeting system to replace the old accounting system and to develop formal planning methods. Which of the following is **not** a correct statement or benefit of implementing the new budgeting system to trace costs?

- A) It compels managers to plan ahead.
- B) It compares actual to budgeted information.
- C) Managers learn and take action to make different decisions to improve firm performance.
- D) Managers can take corrective action with information discovered from budgeting.
- E) Time spent on implementing budgeting process is always easy to quantify.

Answer: E

Diff: 3 Page Ref: 12

LO: 1-5

EOC: E1-17; E1-23; E1-24

AACSB: Analytic Skills

Learning Outcome: MA-14: Discuss basic budgeting concepts and identify and prepare the budgets that comprise the master budget.

5) The cost-benefit approach helps managers make certain economic decisions about purchasing new software, or the decision to keep an old software package. In making such decisions, senior managers keep _____ and _____ considerations in mind.

- A) technical; behavioral
- B) vacation; benefit
- C) non-cost; non-technical
- D) technical; non-behavioral
- E) none of these are true

Answer: A

Diff: 3 Page Ref: 12

LO: 1-5

EOC: E1-23; E1-24

AACSB: Use of Information Technology

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

6) _____ have a behavioral affect by motivating and rewarding employees for achieving organizational goals.

- A) Costs
- B) Controls
- C) Technologies
- D) Budgets
- E) Distributions

Answer: D

Diff: 2 Page Ref: 12

LO: 1-5

EOC: E1-23; E1-24

AACSB: Reflective Thinking Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

7) _____ is primarily a human activity that should focus on encouraging individuals to do their jobs better.

- A) Reporting
- B) Management
- C) Functioning
- D) Doing
- E) Learning

Answer: B

Diff: 2 Page Ref: 12

LO: 1-5

EOC: E1-18

AACSB: Reflective Thinking Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

8) The only guideline that helps management accountants provide the most value to their company in strategic and operational decision making is the cost-benefit approach.

Answer: FALSE

Explanation: Three guidelines help management accountants provide the most value to their companies in strategic and operational decision making: (1) employ a cost-benefit approach, (2) give full recognition to behavioral and technical considerations, and (3) use different costs for different purposes.

Diff: 2 Page Ref: 12

LO: 1-5

EOC: E1-23; E1-24

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

9) In reference to behavioral and technical considerations, it is fair to say that technical considerations do **not** help managers make wise economic decisions.

Answer: FALSE

Explanation: The technical considerations help managers make wise economic decisions by providing them with the desired information in an appropriate format and at the preferred frequency.

Diff: 1 Page Ref: 12

LO: 1-5

EOC: E1-21; E1-22

AACSB: Use of Information Technology

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

10) An organization that provides external reporting to shareholders is **not** required to show a television advertising cost as an expense for the product in the income statement in the year that those costs are incurred.

Answer: FALSE

Explanation: For external reporting to shareholders, television advertising costs for this product are fully expensed in the income statement in the year they are incurred. However, for internal purposes of evaluating management performance, the television advertising costs could be capitalized and then amortized or written off as expenses over several years.

Diff: 3 Page Ref: 12-13

LO: 1-5

EOC: E1-27

AACSB: Analytic Skills

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

MA-3: Define basic managerial accounting concepts and prepare income statements for different types of organizations.

11) A cost concept is typically used for the external reporting purpose of accounting and may **not** be an appropriate concept for the internal or routine reporting to managers.

Answer: TRUE

Diff: 3 Page Ref: 12

LO: 1-5

EOC: E1-18

AACSB: Analytic Skills

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

12) Discuss the cost-benefit approach guideline management accountants use to provide value in strategic-decision making scenarios.

Answer: Management accountants continue to face resource allocation decisions. The cost-benefit approach should be used in making these decisions. Resources should be spent if the expected benefits to the company exceed the expected costs. The expected benefits and costs may not be easy to quantify, but it is a useful approach for making resource allocation decisions.

Diff: 3 Page Ref: 12

LO: 1-5

EOC: E1-24

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

Learning Objective 1-6

1) Line management:

- A) is also known as staff management.
- B) is directly responsible for achieving the goals of the organization.
- C) is never responsible for achieving the goals of the organization.
- D) is not responsible for achieving the financial goals of the organization because that is the job of the CFO.
- E) never have organizational goals to achieve.

Answer: B

Diff: 1 Page Ref: 13

LO: 1-6

EOC: E1-1; E1-2

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

2) Which of the following is true about the modern concept of controllership?

- A) The controller does not affect the entire company.
- B) Has no influence on employee behavior.
- C) Does not attend meetings with other managers.
- D) The controller affects the entire company.
- E) Does not exert a force that impels line managers toward better decisions.

Answer: D

Diff: 2 Page Ref: 13

LO: 1-6

EOC: E1-25

AACSB: Reflective Thinking Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

3) Organization charts:

- A) do not show reporting relationships.
- B) show informal reporting relationships.
- C) are never understood, and they are never written.
- D) show formal reporting relationships.
- E) are understood, but never written.

Answer: D

Diff: 2 Page Ref: 14

LO: 1-6

EOC: Case Study

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

4) The term used to describe the concept that includes providing financial information for reports to managers and shareholders, and oversight to the overall operations of the accounting system is:

- A) internal audit.
- B) external audit.
- C) controllership.
- D) treasury.
- E) funding.

Answer: C

Diff: 2 Page Ref: 13

LO: 1-6

EOC: E1-25

AACSB: Communication Abilities

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

5) The term used to describe the oversight in banking and short- and long-term financing, investments, and cash management is:

- A) risk management.
- B) internal audit.
- C) controllership.
- D) treasury.
- E) funding.

Answer: D

Diff: 2 Page Ref: 13

LO: 1-6

EOC: E1-25

AACSB: Analytic Skills

Learning Outcome: FA-1: Define accounting terms, accounting concepts, and principles.

6) The _____ is the financial executive primarily responsible for management accounting and financial accounting.

- A) treasurer
- B) controller
- C) manager
- D) COO (Chief Operating Officer)
- E) CIO (Chief Information Officer)

Answer: B

Diff: 1 Page Ref: 13

LO: 1-6

EOC: E1-25

AACSB: Analytic Skills

Learning Outcome: FA-2: Describe the components of and prepare the four basic financial statements.

7) The main purpose of an organizational chart is to show the formal reporting relationships at an organization.

Answer: TRUE

Diff: 1 Page Ref: 14

LO: 1-6

EOC: Case Study

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

8) Although modern controllers have line authority over only their own departments, the modern concept of controllership maintains that the controller affects the entire company.

Answer: TRUE

Diff: 3 Page Ref: 13

LO: 1-6

EOC: E1-19

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

9) Regional controllers have a functional responsibility to the corporate controller to align accounting policies and practices.

Answer: TRUE

Diff: 2 Page Ref: 14

LO: 1-6

EOC: E1-19; E1-25

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

10) Successful management accountants only possess one skill and that is their ability to communicate in the organization.

Answer: FALSE

Explanation: The successful management accountant possesses several skills and characteristics that reach well beyond basic analytical abilities.

Diff: 3 Page Ref: 14

LO: 1-6

EOC: E1-21

AACSB: Communication Abilities

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

11) Management accountants do **not** work in teams because they are **not** a business partner at the firm.

Answer: FALSE

Explanation: Management accountants must work well in cross-functional teams and as a business partner.

Diff: 2 Page Ref: 15

LO: 1-6

EOC: E1-21

AACSB: Analytic Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

12) The informal relationships in organizations between friends and other managers are **not** important when managers attempt to implement their decisions.

Answer: FALSE

Explanation: In most organizations, there are formal relationships that must be understood when managers attempt to implement their decisions.

Diff: 2 Page Ref: 14

LO: 1-6

EOC: E1-7

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Discuss the legal, ethical, and business concepts that affect managerial accounting.

13) Write a brief essay and summarize the different duties, responsibilities, and the basic skills of a Chief Financial Officer (CFO) and a Corporate Controller. Discuss some of the responsibilities that are typical in each role. Be specific.

Answer: Student answers are expected to vary. Students should discuss that the Chief Financial Officer (CFO) is responsible for controllership, treasury, risk-management, taxation responsibilities, investor relations, internal audit, and organizational structure. The Corporate Controller is also known as a Chief Management Accounting Executive. Typically, corporate controllers have line authority over their own departments. The controller reports and interprets data within the entire organization.

Diff: 2 Page Ref: 13

LO: 1-6

EOC: E1-25

AACSB: Reflective Thinking Skills

Learning Outcome: MA-1: Describe the basics of managerial accounting and its function within an organization.

Learning Objective 1-7

1) Which of the following is **not** an ethical behavior of Practitioner's of Management Accounting and Financial Managers?

A) Maintains an appropriate level of professional expertise by continually developing knowledge and skills.

B) Performs professional duties in accordance with relevant laws, regulations, and technical standards.

C) Provides decision support information and recommendations that are accurate, clear, concise, and timely.

D) Permits the executives to accept bribes to award supply contracts to foreign firms.

E) Ensures that all employees understand that value is quickly destroyed by unethical behavior in other countries.

Answer: D

Diff: 1 Page Ref: 17

LO: 1-7

EOC: E1-25

AACSB: Ethical Understanding and Reasoning Abilities

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

2) The act that requires CEOs and CFOs to certify that their financial statements fairly represent the results of operations is the:

A) Taft Hartley Act.

B) Uniform Electronics Act.

C) Jumpstart our Business Act.

D) United States Justice Act.

E) Sarbanes Oxley Act.

Answer: E

Diff: 2 Page Ref: 16

LO: 1-7

EOC: E1-26

AACSB: Ethical Understanding and Reasoning Abilities

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

3) Which of the following is an example of an accountant that does **not** adhere to special ethical obligation?

- A) Ensure tough ethical standards at the organization.
- B) Criminal penalties to managers that do not follow ethical standards.
- C) Criminal penalties to employees that do not follow ethical standards.
- D) Failure to provide a process for employees to report violations of illegal acts.
- E) Ensures that the CFO certifies that the financial statements fairly represent the results of operations.

Answer: D

Diff: 2 Page Ref: 15

LO: 1-7

EOC: E1-28

AACSB: Ethical Understanding and Reasoning Abilities

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

4) Which of the following is **not** a standard of ethical professional practice as outlined by the Institute of Management Accountants?

- A) Principles.
- B) Standards.
- C) Competence.
- D) Confidence.
- E) Illegal acts.

Answer: E

Diff: 1 Page Ref: 17

LO: 1-7

EOC: E1-28

AACSB: Ethical Understanding and Reasoning Abilities

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

5) The Sarbanes-Oxley Act authorizes the Public Company Accounting Oversight Board to:

- A) permit audit firms to provide tax services to audit clients.
- B) permit audit firms to provide consulting services to audit clients.
- C) oversee, review, and investigate the work of the auditors.
- D) permit audit firms to provide other advisory services to audit clients.
- E) avoid the oversight, review, and investigation of auditors.

Answer: C

Diff: 1 Page Ref: 16

LO: 1-7

EOC: E1-25

AACSB: Ethical Understanding and Reasoning Abilities

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

6) IMA's overarching ethical principles include: Honesty, Fairness, Objectivity, and Responsibility.

Answer: TRUE

Diff: 3 Page Ref: 17

LO: 1-7

EOC: E1-29

AACSB: Ethical Understanding and Reasoning Abilities

Learning Outcome: MA-2: Describe the basics of managerial accounting and its function within an organization.

7) Professional accounting organizations, which represent management accountants in many countries, promote high ethical standards.

Answer: TRUE

Diff: 3 Page Ref: 16

LO: 1-7

EOC: E1-28

AACSB: Multinational and Diversity Understanding/Training

Learning Outcome: MA-2: Describe the basics of managerial accounting and its function within an organization.

8) In the resolution of ethical conflict between a managerial accountant and the firm, a managerial accountant should **not** contact his or her personal attorney concerning rights and obligations.

Answer: FALSE

Explanation: Management accountants should consult their own attorney as to legal obligations and rights concerning the ethical conflict.

Diff: 2 Page Ref: 18

LO: 1-7

EOC: E1-29

AACSB: Ethical Understanding and Reasoning Abilities

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

9) Practitioners of Management and Financial Management at pharmaceutical companies are **not** bound by standards of ethical behavior.

Answer: FALSE

Explanation: Practitioners of management accounting and financial management have an obligation to the public, their profession, the organizations they serve, and themselves to maintain the highest standards of ethical conduct.

Diff: 1 Page Ref: 17

LO: 1-7

EOC: E1-19; E1-26

AACSB: Ethical Understanding and Reasoning Abilities

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

10) Accountants have special ethical obligations in organizations to ensure the organization does **not** have a weak structure.

Answer: TRUE

Diff: 1 Page Ref: 15

LO: 1-7

EOC: E1-17

AACSB: Ethical Understanding and Reasoning Abilities

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

11) In the United States, the Institute of Management Accountants (IMA) issues ethical guidelines.

Answer: TRUE

Diff: 1 Page Ref: 16

LO: 1-7

EOC: E1-26; E1-27

AACSB: Ethical Understanding and Reasoning Abilities

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

12) Ethics form the basic foundation of any well-functioning economy.

Answer: TRUE

Diff: 1 Page Ref: 15

LO: 1-7

EOC: E1-19

AACSB: Ethical Understanding and Reasoning Abilities

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

13) What are the four standards of ethical conduct for management accountants. List each standard and provide an example that demonstrates compliance with that standard.

Answer:

1. Competence: Maintain an appropriate level of professional expertise by continually developing knowledge and skills.
2. Confidentiality: Refrain from using confidential information for unethical or illegal advantage.
3. Integrity: Abstain from engaging in or supporting any activity that might discredit the profession.
4. Credibility: Communicate information fairly and objectively.

Diff: 3 Page Ref: 17

LO: 1-7

EOC: E1-10

AACSB: Ethical Understanding and Reasoning Abilities

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

14) What should a managerial accountant do when faced with ethical issues that arise in their organizations?

Answer: Most professional accounting organizations around the globe issue statements about professional ethics. Management accountants must abide by standards, rules, and laws within their country and organizational standards and policies.

Diff: 2 Page Ref: 16

LO: 1-7

EOC: E1-29

AACSB: Multinational and Diversity Understanding/Training

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.

15) You have been employed as an entry-level management accountant at a pharmaceutical manufacturing firm for less than one year. You suspect that your immediate supervisor is involved in a significant fraud that involves diverting company assets to personal use. Briefly describe the steps that you might take to resolve this dilemma.

Answer: First, the management accountant should review internal company policies and procedures that relate to resolutions of ethical issues in the workplace. The management accountant must comply with these policies and procedures to ensure all facts in the case are accurate; and, they are not based on rumors or inaccurate information.

If the management accountant is unable to resolve the situation internally, the next step is to report the facts to a supervisor or manager in the organization. The management accountant should also clarify the relevant ethical issues with an objective advisor (e.g., Institute of Management Accountant's hotline). Next, the management accountant consults their attorney to discuss the individual rights and responsibilities. If the management accountant is unable to resolve the ethical dilemma, the management accountant could be forced to resign and write an informative letter to an appropriate representative of the organization, and perhaps notify other parties.

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EOC: E1-24

AACSB: Ethical Understanding and Reasoning Abilities

Learning Outcome: MA-2: Discuss the legal, ethical, and business concepts that affect managerial accounting.