

CHAPTER 1: Managerial Accounting & the Business Organization

TRUE/FALSE

1. Management accounting information focuses on external reporting.
2. Financial accounting is broader in scope than management accounting.
3. Cost accounting measures and reports short-term, long-term, financial, and nonfinancial information.
4. Cost management provides information that helps increase value for customers.
5. Just-in-time production and purchasing is a strategy used to reduce inventories.
6. The best-designed strategies are valuable whether or not they are effectively implemented.
8. It is easy to control activities without a budget.
9. To take advantage of changing market opportunities, the annual budget should be strictly enforced.
10. A budget is a tool used to plan and express strategy.
11. A budget may be used as a planning tool, but not as a control tool.
12. Financial accounting reports financial and nonfinancial information that helps managers implement company strategies.
13. Feedback links planning and control.
14. Control includes deciding what feedback to provide that will help with future decision making.
16. An example of problem solving is evaluating bids from three different companies to supply a particular part used in manufacturing.
18. Value chain refers to its value to the employee.
21. Key success factors include cost, quality, timeliness, and innovation.

MULTIPLE CHOICE

22. 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.
23. 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.
24. 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.
25. 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.
26. 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
27. Management accounting includes
 - a. implementing strategies.
 - b. developing budgets.
 - c. preparing special studies and forecasts.
 - d. all of the above.

28. The accountant for Local Corporation printed the following report for the month of January for a division (Amounts in \$1,000s)

	Budgeted Amount	Actual Amount
Revenues	\$25,000	\$21,000
Expenses	20,000	22,000
Net Income	\$5,000	(\$1,000)

In reviewing this report, management should give attention

- a. Primarily to revenues
- b. Primarily to expenses
- c. To both revenues and expenses

29 The Alpha Beta Gamma Fraternity held a Christmas party. The fraternity expected attendance of 200 persons and prepared the following budget:

Hotel room rental	\$600
Food	500
Entertainment	800
Decorations	300
Totals	\$2,200

After all bills for the party were paid, the total came to \$2,175. Details are \$600 for hotel room rental; \$475 for food; \$900 for entertainment; and \$200 for decorations. One hundred and ninety persons attended the party. Under the principle of management by exception, which costs should receive attention

- a. food
- b. entertainment
- c. decorations
- d. all of these costs

30. The Raleigh Company had inventories at the beginning and end of the year as follows (\$000 omitted):

	1/1	12/31
Raw materials	\$65	\$55
Work-in-process	96	90
Finished goods	50	55

During the year the following costs were incurred (\$000 omitted):

Raw materials purchased	\$400
Direct-labor payroll	220
Factory overhead	330

Raleigh's cost of goods manufactured was (\$000 omitted):

- a. \$921
- b. \$961
- c. \$966
- d. \$981

31. Starbucks has prepared a report that compares its actual profit last quarter for a particular store with the budgeted profit for that period. The report shows that the profit had been budgeted at \$150,000 but actual profit was only \$120,000. The function of this report is:

- a. Scorekeeping
- b. Attention Directing
- c. Problem Solving
- d. None of these

32. Starbucks has considered the possibility of adding some video games in selected stores. A report analyzes the expected additional costs and expected revenues from the video games. The report has the following purpose:

- a. Scorekeeping
- b. Attention Directing
- c. Problem Solving
- d. None of these

33. University Hospital has one employee who enters data about admissions of new patients into a computer system that accounts for room charges. Another employee enters information into a separate pharmacy system when drugs are issued to patients. When a patient checks out, it is necessary for another employee to get a pharmacy report and a room charge report – and add the total charges on the two reports - to determine the total amount the patient owes the hospital. University Hospital is expanding its building to accommodate more patients. When its patient load increases, University Hospital will need to hire additional personnel to enter information into its computer systems.

University Hospital can avoid adding personnel by buying a more efficient computer program that will replace its two current computer programs for room charges and pharmacy charges. The new program will cost \$100,000 and is expected to be used for 4 years, before being replaced. University hospital will make its decision by considering:

- a. Cost-benefit balance
- b. Behavioral considerations
- c. Scorekeeping
- d. None of these

34. Starbucks prepared a report showing the following:

Account	Budget	Actual	Variance
Sales	\$50,000	\$50,000	\$0
Labor costs	\$20,000	\$22,000	(\$2,000)
Etc.			

This type of report helps Starbucks with the following:

- a. Score-keeping
- b. Management by exception
- c. Ethical management
- d. None of these