

CHAPTER 1 COVERAGE OF LEARNING OBJECTIVES

LEARNING OBJECTIVE	FUNDA- MENTAL ASSIGN- MENT MATERIAL	CRITICAL THINKING EXERCISES AND EXERCISES	PROBLEMS	CASES, EXCEL, COLLAB., & INTERNET EXERCISES
LO1: Describe the major users and uses of accounting information.	A1, B1	28, 29, 33	39, 40, 42	55
LO2: Describe the cost-benefit and behavioral issues involved in designing an accounting system.			41, 43	
LO3: Explain the role of budgets and performance reports in planning and control.	A2, B2	32	45	53
LO4: Discuss the role accountants play in the company's value chain functions.	A1, B1	30, 31, 34, 35, 36	39, 42, 44	
LO5: Explain why accounting is important in a variety of career paths.		30, 31		52, 55
LO6: Identify current trends in management accounting.				54
LO7: Explain why ethics and standards of ethical conduct are important to accountants.	A3, B3	37, 38	47, 48, 49	51, 52, 55

CHAPTER 1

Managerial Accounting, the Business Organization, and Professional Ethics

1-A1 (10-15 min.)

Information is often useful for more than one function, so the following classifications for each activity are not definitive but serve as a starting point for discussion:

1. Scorekeeping. A depreciation schedule is used in preparing financial statements to report the results of activities.
2. Problem solving. Helps a manager assess the impact of a purchase decision.
3. Scorekeeping. Reports on the results of an operation. Could also be attention directing if scrap is an area that might require management attention.
4. Attention directing. Focuses attention on areas that need attention.
5. Attention directing. Helps managers learn about the information contained in a performance report.
6. Scorekeeping. The statement reports what has happened. Could also be attention directing if the report highlights a problem or issue.
7. Problem solving. Assuming the cost comparison is to help the manager decide between two alternatives, this is problem solving.
8. Attention directing. Variances point out areas where results differ from expectations. Interpreting them directs attention to possible causes of the differences.
9. Problem solving. Aids a decision about where to make parts.
10. Attention directing and problem solving. Budgeting involves making decisions about planned activities -- hence, aiding problem solving. Budgets also direct attention to areas of opportunity or concern --hence, directing attention. Reporting against the budget also has a scorekeeping dimension.

1-A2 (15-20 min.)

1.	Budgeted Amounts	Actual Amounts	Deviations or Variances
Room rental	\$ 140	\$ 140	\$ 0
Food	700	865	165U
Entertainment	600	600	0
Decorations	220	260	40U
Total	\$1,660	\$1,865	\$205U

2. Because of the management by exception rule, room rental and entertainment require no explanation. The actual expenditure for food exceeded the budget by \$165. Of this \$165, \$150 is explained by attendance of 15 persons more than budgeted (at a budget of \$10 per person for food) and \$15 is explained by expenditures above \$10 per person.

Actual expenditures for decorations were \$40 more than the budget. The decorations committee should be asked for an explanation of the excess expenditures.

1-A3 (10 min.)

All of the situations raise possibilities for violation of the integrity standard. In addition, the manager in each situation must address an additional ethical standard:

1. The General Mills manager must respect the confidentiality standard. He or she should not disclose any information about the new cereal.
2. Felix must address his level of competence for the assignment. If his supervisor knows his level of expertise and wants an analysis from a "layperson" point of view, he should do it. However, if the supervisor expects an expert analysis, Felix must disclose his lack of competence.
3. The credibility standard should cause Mary Sue to decline to omit the information from the budget. It is relevant information, and its omission may mislead readers of the budget.

1-B1 (15-20 min.)

Information is often useful for more than one function, so the following classifications for each activity are not definitive but serve as a starting point for discussion:

1. Problem solving. Provides information for deciding between two alternative courses of action.
2. Scorekeeping. Recording what has happened. If amounts are compared with expectations, this could also serve an attention-directing function.
3. Problem solving. Helps a manager decide among alternatives.
4. Attention directing. Directs attention to the use of overtime labor. Also scorekeeping.
5. Problem solving. Provides information to managers for deciding whether to move corporate headquarters.
6. Attention directing. Directs attention to why nursing costs increased.
7. Attention directing. Directs attention to areas where actual results differed from the budget.
8. Problem solving. Helps the vice-president decide which course of action is best.
9. Problem solving. Produces information to help the marketing department make a decision about a marketing campaign.
10. Scorekeeping. Records actual overtime costs. If results are compared with expectations, also attention directing.
11. Attention directing. Directs attention to stores with either high or low ratios of advertising expenses to sales.
12. Attention directing. Directs attention to causes of returns of the drug.
13. Attention directing or problem solving, depending on the use of the schedule. If it is to identify areas of high fuel usage it is attention directing. If it is to plan for purchases of fuel, it is problem solving.
14. Scorekeeping. Records items needed for financial statements.

1-B2 (10-15 min.)

1 & 2.	Budget	Actual	Variance
Sales	\$75,000	\$74,600	\$ 400U
Costs:			
Fireworks	\$36,000	\$35,500	\$500F
Labor	15,000	18,000	3,000U
Other	8,000	7,910	90F
Total cost	59,000	61,410	2,410U
Profit	\$16,000	\$13,190	\$2,810U

3. The cost of fireworks was $\$500 \div \$36,000 = 1.4\%$ under budget while sales was just $400 \div \$75,000 = .5\%$ under budget. Did fireworks suppliers lower their prices? Were selling prices set higher than expected? There should be some explanation for the lower cost of fireworks.
The labor cost was $\$3,000 \div \$15,000 = 20\%$ over budget. Sales and other costs were close to budget in percentage terms. Why was labor cost much higher than expected?

1-B3 (15 - 20 min.)

1. A code of conduct is a document specifying the ethical standards of an organization .
2. Different companies include different elements in their codes of conduct. Some of the items included in companies' codes of conduct include maintaining a dress code, avoiding illegal drugs, following instructions of superiors, being reliable and prompt, maintaining confidentiality, not accepting personal gifts from stakeholders as a result of company role, avoiding racial or sexual discrimination, avoiding conflict of interest, complying with laws and regulations, not using organization's property for personal use, and reporting illegal or questionable activity. Some companies have a simple code with little detail, and others have long lists of rules and regulations regarding appropriate conduct. The key is that the code of conduct must fit with the corporate culture.
3. Simply having a code of conduct does not guarantee ethical behavior by employees. Most important is top management's ethical example and its support of the code of conduct. A company's performance evaluation and reward system must be consistent with its code of conduct. If unethical actions are rewarded, they will be encouraged even if they violate the code of conduct.

- 1-1 Internal managers and external parties use accounting information:
- a. Internal reporting is used by managers for planning and controlling operations, special decision-making, and long-range planning.
 - b. External reporting is used by stockholders, investors, taxing authorities, government regulators, and other interested parties.
- 1-2 The emphasis of financial accounting has traditionally been on the historical data presented in the external reports. Management accounting is more future-oriented and emphasizes planning, control, and decision-making.
- 1-3 The branch of accounting described in the quotation is management accounting.
- 1-4 Scorekeeping is the recording (including accumulation and classification) of data for a later evaluation of performance. Attention directing is the reporting and interpretation of information for the purpose of focusing on inefficiencies of operation, opportunities for improvement, and imperfections and operating problems. Problem solving is analysis of alternative courses of action to evaluate the best course of action.
- 1-5 No. GAAP applies to financial reporting for external users. Internal accounting reports are not restricted by GAAP.
- 1-6 Yes, though the act covers more than foreign bribes. The Foreign Corrupt Practices Act applies to all publicly-held companies and covers the quality of internal accounting control and other matters as well as bribes.
- 1-7 Many managers believe that the costs of applying the provisions of the Sarbanes-Oxley act are greater than the benefits. This is especially true about the mandated auditing of companies' internal control systems.
- 1-8 Users cannot easily observe the quality of accounting information. Thus, they rely on the integrity of accountants to be sure the information is accurate. If accountants do not have a reputation for integrity, the information they produce will not have value to users.
- 1-9 No. The ethics developed as a student carry over into one's professional life. Integrity is important at all stages of development. Students who use unethical means to achieve success are likely to try similar methods when in business.
- 1-10 Public accounting firms, law firms, management consultants, real estate firms, transportation companies, banks, insurance companies, and hotels are examples of service organizations. Service organizations tend to be labor intensive, have outputs that are difficult to define and measure, and have both inputs and outputs that are difficult or impossible to store.
- 1-11 Two considerations are cost-benefit balance and behavioral effects. Cost-benefit balance refers to how well an accounting system helps achieve management's goals in

relation to the cost of the system. The behavioral-effects consideration specifies that an accounting system should be judged by how it will affect the behavior (that is, decisions) of managers.

1-12 Yes. Measurement and recording is an integral part of management. For example, cash receipts and disbursements must be traced, and receivables and payables must be recorded in order to manage operating activities such as sales and purchases.

1-13 A budget is a quantitative expression of a plan of action; a performance report compares actual results with the budget; and a variance measures the differences between budget and actual.

1-14 No. Management by exception means that management directs more attention to those areas that seem to be out of control and less to areas that are functioning as planned. This method is an efficient way for managers to decide where to put their time and effort.

1-15 Information that is relevant for decisions about a product depends on the product's life-cycle stage. Therefore, to prepare and interpret information, accountants should be aware of the current stage of a product's life cycle.

1-16 The six functions are: (1) research and development – generation and experimentation with new ideas for products, services, or processes; (2) product, service, and process design – detailed design and engineering of products, services, or processes; (3) production – use of resources to produce a product or service; (4) marketing - informing customers of the value and features of products or services; (5) distribution – delivering products or services to customers; and (6) customer service – support provided to customers after a sale.

1-17 No. Some functions in the value chain may not be present in some organizations and not all of the functions are of equal importance to the success of all organizations. Measurement and reporting should focus on those functions that enable a company to gain and maintain a competitive edge.

1-18 Line managers are directly responsible for the production and sale of goods or services. Staff managers have an advisory function – they support line managers.

1-19 Management accountants are the information specialists. In non-hierarchical companies, they are more directly involved with managers and are often parts of cross-functional teams.

1-20 A treasurer is concerned mainly with the company's financial matters, the controller with operating matters. In large organizations, there are sufficient activities associated with both financial and operating matters to justify two separate positions. In a small organization the same person might be both treasurer and controller.

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