CHAPTER 1

 Managerial Accounting

ASSIGNMENT CLASSIFICATION TABLE

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Study Objectives** |  | **Self-Study****Questions** |  | **Do It!****Review** |  | **Exercises** |  | **A****Problems** |  | **B****Problems** |
|  |  |  |  |  |  |  |  |  |  |  |
| \*1. Explain the distinguishing features of managerial accounting. |  | 1, 6, 7, 8 |  | 1 |  | 3, 4, 5 |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| \*2. Identify the three broad functions of management and the role of management accountants in an organizational structure. |  | 3 |  | 1 |  | 6, 7 |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| \*3. Explain the importance of business ethics. |  | 2, 10 |  | 1 |  | 8 |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| \*4. Identify changes and trends in managerial accounting. |  | 4, 5, 9 |  | 2 |  | 9 |  |  |  |  |
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**Correlation Chart between Bloom’s Taxonomy, Study Objectives and End-of-Chapter Exercises and Problems**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Study Objective** | **Knowledge** | **Comprehension** | **Application** | **Analysis** | **Synthesis** | **Evaluation** |
| **\* 1. Explain the distinguishing features of managerial accounting.** | **D-1, E-5** | **E-3, E-4** |  |  |  |  |  |
| **\* 2. Identify the three functions of management and the role of management accountants in an organizational structure.** | **D-1, E-6, E-7** |  |  |  |  |  |  |
| **\* 3. Explain the importance of business ethics.** | **D-1** | **E-8** |  |  |  |  |  |  |  |
| **\* 4. Identify changes trends in managerial accounting.** | **D-2, E-9** |  |  |  |  |  |  |  |  |

**A note about the correlation between CPA competencies and the end-of-chapter exercises and problems.**

**The CPA competencies are divided into enabling competencies and terminal competencies. Unless otherwise specified, the terminal competency being tested by the end-of-chapter material in this course is cpa-t003 (Management Accounting). The enabling competency being tested will differ between questions. The following questions test enabling competency cpa-e001 Professional and Ethical Behaviour:**

**E1.4,C1.11**

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BLOOM’S TAXONOMY TABLE

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| Legend**:** The following abbreviations will appear throughout the solutions manual file. |
|  |  |  |  |
| LO | Learning objective |   |
| BT | Bloom's Taxonomy |   |
|   | K | Knowledge |   |
|   | C | Comprehension |
|   | AP | Application |   |
|   | AN | Analysis |   |
|   | S | Synthesis |   |
|   | E | Evaluation |   |
| Difficulty: | Level of difficulty |   |
|   | S | Simple |   |
|   | M | Moderate |   |
|   | C | Complex |   |
| Time: | Estimated time to complete in minutes |
| AACSB | Association to Advance Collegiate Schools of Business |
|   | Communication | Communication |
|   | Ethics | Ethics |
|   | Analytic | Analytic |
|   | Tech. | Technology |
|   | Diversity | Diversity |
|   | Reflec. Thinking | Reflective Thinking |
| CPA CM | CPA Canada Competency Map |
|   | Ethics | Professional and Ethical Behaviour |
|   | PS and DM | Problem-Solving and Decision-Making |
|   | Comm. | Communication |
|   | Self-Mgt. | Self-Management |
|   | Team & Lead | Teamwork and Leadership |
|   | Reporting | Financial Reporting |
|   | Stat. & Gov. | Strategy and Governance |
|   | Mgt. Accounting | Management Accounting |
|   | Audit | Audit and Assurance |
|   | Finance | Finance |
|   | Tax |   | Taxation |

SOLUTIONS TO DO IT! REVIEW

DO IT! REVIEW 1.1

|  |  |  |  |  |
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 1. False. Preparation of budgets is part of *managerial* accounting.

 2. False. Financial accounting reports pertain to the entity as a whole and are highly aggregated. It is *managerial* accounting reports that pertain to subunits of the business and are very detailed.

 3. False. *Financial* accounting must adhere to generally accepted accounting principles and are subject to an audit by chartered professional accountants.

 4. True.

 5. True.

 6. True.

LO 1,2,3 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t003 CM: Mgt. Accounting

DO IT! REVIEW 1.2

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 1. f. Just-in-time (JIT) inventory

 2. a. Activity-based costing (ABC)

 3. c. Total quality management (TQM)

 4. d. Research and development, and product design

 5. e. Service industries

 6. b. Balanced scorecard

LO 4 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t003 CM: Mgt. Accounting

SOLUTIONS TO EXERCISES

EXERCISE 1.3

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Financial Accounting |  | Managerial Accounting |
|  |  |  |  |  |
| Primary users |  | External users |  | Internal users |
|  |  |  |  |  |
| Types of reports |  | Financial statements |  | Internal reports |
|  |  |  |  |  |
| Frequency of reports |  | Quarterly and annually |  | As frequently as needed |
|  |  |  |  |  |
| Purpose of reports |  | General-purpose |  | Special-purpose for specific decisions |
|  |  |  |  |  |
| Content of reports |  | Highly aggregatedGenerally accepted accounting principles |  | Very detailedRelevance to decisions |
|  |  |  |  |  |
| Verification |  | Annual audit by CPA (chartered professional accountant) |  | No independent audits |

LO 1 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t003 CM: Mgt. Accounting

EXERCISE 1.4

 1. F 6. M

 2. M 7. F

 3. F 8. F

 4. M 9. M

 5. F 10. F

LO 1 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t003 CM: Mgt. Accounting

SOLUTIONS TO EXERCISES (Continued)

EXERCISE 1.5

 1. False. Financial accounting focuses on providing information to *external* users.

 2. True.

 3. False. Preparation of budgets is part of *managerial* accounting.

 4. False. Managerial accounting applies to service, merchandising, and manufacturing companies.

 5. True.

 6. False. Managerial accounting reports are prepared as *frequently as needed*.

 7. True.

 8. True.

 9. False. *Financial* accounting reports must comply with generally accepted accounting principles.

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

LO 1 BT: K Difficulty: S Time: 10 min. AACSB: None CPA: cpa-t003 CM: Mgt. Accounting

EXERCISE 1.6

a. (1) Planning

b. (2) Directing

c. (3) Controlling

LO 2 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t003 CM: Mgt. Accounting

EXERCISE 1.7

a. (6) Chief executive officer

b. (5) Line position

c. (2) Chief financial officer

d. (1) Board of directors

e. (7) Staff position

f. (4) Controller

g. (3) Treasurer

LO 2 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t003 CM: Mgt. Accounting

SOLUTIONS TO EXERCISES (Continued)

EXERCISE 1.8

Following the implementation of the Sarbanes-Oxley Act, CEOs and CFOs must certify that the financial statements give a fair presentation of the company’s operating results and its financial condition. In addition, top managers must certify that the company maintains an adequate system of internal controls to safeguard the company’s assets and ensure accurate financial reports. Companies must pay more attention to the composition of the board of directors. In particular, members of the audit committee of the board of directors must all be entirely independent (that is, non-employees) and at least one must be a financial expert. The Sarbanes-Oxley Act increases the penalties for misconduct.

LO 3 BT: C Difficulty: M Time: 5 min. AACSB: Ethics CPA: cpa-t003 cpa-e001 CM: Mgt. Accounting; Ethics

EXERCISE 1.9

 a. 3. Balanced scorecard

 b. 4. Value chain

 c. 2. Just-in-time inventory

 d. 1. Activity-based costing

LO 4 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t003 CM: Mgt. Accounting

SOLUTIONS TO CASES

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| --- |
|  CASE 1.10 |

Since the questions were fairly open-ended, the following are only suggested results. The class may be able to think of others, or of more items for each one.

a. *Hayley Geagea* Needs information on sales, perhaps by salesperson and by territory

 *Luc Lemieux* Needs cost information for his department

 *Gary Richardson* Needs all accounting information

 *Manny Cordoza* Needs product cost information

 *Patrick Dumoulin* Needs information on component costs and costs for his department

b. *Hayley Geagea* Income statement

 *Luc Lemieux* Specialized cost reports

 *Gary Richardson* All

 *Manny Cordoza* Income statement and cost of goods manufactured schedule

 *Patrick Dumoulin* Specialized cost reports

c. *Hayley Geagea* Sales by territory—Detailed information, possibly by product line, issued daily or weekly

 *Luc Lemieux* Cost of computer programs—Accumulated cost incurred for each major program used including maintenance and updates of program, issued monthly

 *Gary Richardson* Cost of preparing reports—Detailed analysis of all reports provided, their frequency, time, and estimated cost to prepare, issued monthly

 *Manny Cordoza* Cost of product—Detailed cost by product line, comparing actual with estimated costs, issued as each batch of production is completed

 *Patrick Dumoulin* Cost of product design—Accumulated total costs of each new product, issued at end of each project

LO 1 BT: C Difficulty: M Time: 15 min AACSB: None CPA: cpa-t003 CM: Mgt. Accounting

SOLUTIONS TO CASES (Continued)

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| --- |
|  CASE 1.11 |

a. It is ethical to use different performance measures to evaluate employees, if and only if, the performance that is being measured is performance that is under the direct control or responsibility of the individual being evaluated. This is not as much an ethics problem as it is a management problem—management is responsible for putting systems in place that are fair to all employees.

b. First, a company can establish a code of conduct that provides guidelines to employees who are unsure of what should be done in questionable situations. Second, a company can practice transparent reporting—allow all employees to see the financial statements and encourage them to question what they do not understand, or what they think might not be right.

LO 3 BT: C Difficulty: M Time: 15 min. AACSB: Ethics CPA: cpa-t003 cpa-e001 CM: Mgt. Accounting; Ethics

SOLUTION TO “ALL ABOUT YOU” ACTIVITY

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| --- |
|  CASE 1.12 |

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

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

LO NA BT: C Difficulty: M Time: 10 min AACSB: None CPA: cpa-t003 CM: Mgt. Accounting

 SOLUTION TO DECISION-MAKING AT CURRENT DESIGNS

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| --- |
| DM1.1 |

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

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

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

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

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

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

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

DM1.1 (Continued)

 b.

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

LO 1, 2 BT: AN Difficulty: M Time: 45 min. AASB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

# LO 2 BT: K Difficulty: M Time: 20 min AACSB: None CPA: cpa-t003 CM: Mgt. AccountingWCP Solution CH 1SOLUTION TO DATA ANALYTICS IN ACTION

|  |
| --- |
| DA1.1 |

**a.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Sales in millions |  $9,435  |  $10,407  |  $11,084  |  $12,527  |  $13,793  |  $15,946  |
| Number of employees | 79,517 | 89,112 | 92,301 | 100,138 | 109,512 | 120,314 |
| Sales per employee |  $118,654  |  $116,786  |  $120,085  |  $125,097  |  $125,950  |  $132,537  |
|  |  |  |  |  |  |  |
|  | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Sales in millions |  $16,724  |  $18,117  |  $20,900  |  $23,311  |  $25,336  |  $26,145  |
| Number of employees | 128,313 | 137,054 | 152,854 | 162,450 | 171,839 | 174,386 |
| Sales per employee |  $130,338  |  $132,189  |  $136,732  |  $143,496  |  $147,440  |  $149,926  |

**DA1.1 (Continued)**

**b. The table of data used in the graphing appearing above the graph was calculated with an adjustment. To arrive at the amount of revenue for each employee, the amount of the sales that appears in the table had to be multiplied by 1,000,000 before the result is divided by the number of employees. For example, in 2007 $9,435,000,000 ($9,435 x 1,000,000) was divided by 79,517 employees to arrive at $118,654 revenue per employee.**

**c. Management should be pleased with the results. With the exception of 2008, 2013 and 2014 the graph depicts a steady increase in the amount of the revenue per employee for the ten-year period.**

# LO 4 BT: AN Difficulty: M Time: 30 min AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM