# CHAPTER 1

## MANAGERIAL ACCOUNTING

### Summary of Question TYPES by STUDY Objectives and LEVEL OF DIFFICULTY

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item** | **SO** | **LOD** | **Item** | **SO** | **LOD** | **Item** | **SO** | **LOD** | **Item** | **SO** | **LOD** | **Item** | **SO** | **LOD** |
| **True-False Statements** | | | | | | | | | | | | | | |
| 1. | 1 | E | 9. | 1 | E | 17. | 2 | E | 25. | 2 | E | 33. | 4 | E |
| 2. | 1 | E | 10. | 1 | E | 18. | 2 | E | 26. | 3 | E | 34. | 4 | E |
| 3. | 1 | E | 11. | 1 | E | 19. | 2 | E | 27. | 3 | E | 35. | 4 | E |
| 4. | 1 | E | 12. | 1 | E | 20. | 2 | E | 28. | 3 | E | 36. | 4 | E |
| 5. | 1 | E | 13. | 1 | E | 21. | 2 | E | 29. | 4 | E | 37. | 4 | E |
| 6. | 1 | E | 14. | 1 | E | 22. | 2 | E | 30. | 4 | E | 38. | 4 | E |
| 7. | 1 | E | 15. | 1 | E | 23. | 2 | E | 31. | 4 | E |  |  |  |
| 8. | 1 | E | 16. | 2 | E | 24. | 2 | E | 32. | 4 | E |  |  |  |
| **Multiple Choice Questions** | | | | | | | | | | | | | | |
| 39. | 1 | E | 54. | 1 | E | 69. | 3 | E | 84. | 4 | E | 99. | 4 | E |
| 40. | 1 | E | 55. | 1 | E | 70. | 3 | E | 85. | 4 | E | 100. | 4 | E |
| 41. | 1 | E | 56. | 1 | E | 71. | 3 | E | 86. | 4 | E | 101. | 4 | M |
| 42. | 1 | E | 57. | 1 | E | 72. | 3 | E | 87. | 4 | E | 102. | 4 | E |
| 43. | 1 | E | 58. | 1 | E | 73. | 3 | M | 88. | 4 | E | 103. | 4 | E |
| 44. | 1 | E | 59. | 2 | E | 74. | 3 | E | 89. | 4 | E | 104. | 4 | E |
| 45. | 1 | E | 60. | 2 | E | 75. | 3 | E | 90. | 4 | E | 105. | 4 | E |
| 46. | 1 | E | 61. | 2 | E | 76. | 3 | E | 91. | 4 | E | 106. | 4 | E |
| 47. | 1 | E | 62. | 2 | E | 77. | 3 | E | 92. | 4 | E | 107. | 4 | E |
| 48. | 1 | E | 63. | 2 | E | 78. | 4 | E | 93. | 4 | E | 108. | 4 | E |
| 49. | 1 | E | 64. | 2 | E | 79. | 4 | E | 94. | 4 | E | 109. | 4 | E |
| 50. | 1 | E | 65. | 2 | E | 80. | 4 | E | 95. | 4 | E |  |  |  |
| 51. | 1 | E | 66. | 2 | E | 81. | 4 | M | 96. | 4 | M |  |  |  |
| 52. | 1 | E | 67. | 2 | E | 82. | 4 | E | 97. | 4 | E |  |  |  |
| 53. | 1 | E | 68. | 2 | E | 83. | 4 | E | 98. | 4 | M |  |  |  |
| **Brief Exercises** | | | | | | | | | | | | | | |
| 110. | 1 | M | 112. | 2 | E | 114. | 4 | E | 116. | 4 | M |  |  |  |
| 111. | 2 | E | 113. | 4 | E | 115. | 4 | E |  |  |  |  |  |  |
| **Exercises** | | | | | | | | | | | | | | |
| 117. | 1 | E | 119. | 1,4 | M | 121. | 2 | E | 123. | 3 | E | 125. | 4 | M |
| 118. | 1,2 | M | 120. | 2 | E | 122. | 2 | E | 124. | 3 | M |  |  |  |
| **Completion Statements** | | | | | | | | | | | | | | |
| 126. | 1 | E | 128. | 1 | E | 130. | 2 | E |  |  |  |  |  |  |
| 127. | 1 | E | 129. | 2 | E | 131. | 2 | E |  |  |  |  |  |  |
| **Matching** | | | | | | | | | | | | | | |
| 132. | 4 | E |  |  |  |  |  |  |  |  |  |  |  |  |
| **Short-Answer Essay** | | | | | | | | | | | | | | |
| 133. | 1 | M | 134. | 3 | M |  |  |  |  |  |  |  |  |  |

Note: E = Easy M = Medium H = Hard

### Summary of Question TYPES by STUDY Objectives and Bloom’s Taxonomy

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item** | **SO** | **BT** | **Item** | **SO** | **BT** | **Item** | **SO** | **BT** | **Item** | **SO** | **BT** | **Item** | **SO** | **BT** |
| **True-False Statements** | | | | | | | | | | | | | | |
| 1. | 1 | C | 9. | 1 | K | 17. | 2 | C | 25. | 2 | K | 33. | 4 | K |
| 2. | 1 | K | 10. | 1 | K | 18. | 2 | K | 26. | 3 | K | 34. | 4 | K |
| 3. | 1 | K | 11. | 1 | C | 19. | 2 | K | 27. | 3 | K | 35. | 4 | K |
| 4. | 1 | K | 12. | 1 | K | 20. | 2 | C | 28. | 3 | K | 36. | 4 | K |
| 5. | 1 | K | 13. | 1 | K | 21. | 2 | K | 29. | 4 | K | 37. | 4 | K |
| 6. | 1 | K | 14. | 1 | C | 22. | 2 | K | 30. | 4 | K | 38. | 4 | C |
| 7. | 1 | K | 15. | 1 | C | 23. | 2 | K | 31. | 4 | K |  |  |  |
| 8. | 1 | C | 16. | 2 | K | 24. | 2 | K | 32. | 4 | K |  |  |  |
| **Multiple Choice Questions** | | | | | | | | | | | | | | |
| 39. | 1 | K | 54. | 1 | K | 69. | 3 | K | 84. | 4 | K | 99. | 4 | C |
| 40. | 1 | C | 55. | 1 | K | 70. | 3 | K | 85. | 4 | K | 100. | 4 | C |
| 41. | 1 | K | 56. | 1 | K | 71. | 3 | K | 86. | 4 | K | 101. | 4 | AN |
| 42. | 1 | C | 57. | 1 | K | 72. | 3 | K | 87. | 4 | C | 102. | 4 | K |
| 43. | 1 | K | 58. | 1 | K | 73. | 3 | C | 88. | 4 | C | 103. | 4 | K |
| 44. | 1 | C | 59. | 2 | K | 74. | 3 | K | 89. | 4 | K | 104. | 4 | C |
| 45. | 1 | K | 60. | 2 | K | 75. | 3 | K | 90. | 4 | K | 105. | 4 | K |
| 46. | 1 | C | 61. | 2 | K | 76. | 3 | C | 91. | 4 | C | 106. | 4 | K |
| 47. | 1 | C | 62. | 2 | C | 77. | 3 | C | 92. | 4 | C | 107. | 4 | K |
| 48. | 1 | K | 63. | 2 | K | 78. | 4 | K | 93. | 4 | K | 108. | 4 | K |
| 49. | 1 | K | 64. | 2 | C | 79. | 4 | K | 94. | 4 | K | 109. | 4 | K |
| 50. | 1 | K | 65. | 2 | K | 80. | 4 | K | 95. | 4 | K |  |  |  |
| 51. | 1 | C | 66. | 2 | C | 81. | 4 | C | 96. | 4 | C |  |  |  |
| 52. | 1 | K | 67. | 2 | K | 82. | 4 | C | 97. | 4 | K |  |  |  |
| 53. | 1 | K | 68. | 2 | K | 83. | 4 | C | 98. | 4 | C |  |  |  |
| **Brief Exercises** | | | | | | | | | | | | | | |
| 110. | 1 | C | 112. | 2 | C | 114. | 4 | C | 116. | 4 | C |  |  |  |
| 111. | 2 | C | 113. | 4 | K | 115. | 4 | K |  |  |  |  |  |  |
| **Exercises** | | | | | | | | | | | | | | |
| 117. | 1 | C | 119. | 1,4 | C | 121. | 2 | AN | 123. | 3 | C | 125. | 4 | AN |
| 118. | 1,2 | AN | 120. | 2 | C | 122. | 2 | K | 124. | 3 | AN |  |  |  |
| **Completion Statements** | | | | | | | | | | | | | | |
| 126. | 1 | K | 128. | 1 | K | 130. | 2 | K |  |  |  |  |  |  |
| 127. | 1 | K | 129. | 2 | K | 131. | 2 | K |  |  |  |  |  |  |
| **Matching** | | | | | | | | | | | | | | |
| 132. | 4 | K |  |  |  |  |  |  |  |  |  |  |  |  |
| **Short-Answer Essay** | | | | | | | | | | | | | | |
| 133. | 1 | C | 134. | 3 | AN |  |  |  |  |  |  |  |  |  |

Note: AN = Analysis C = Comprehension K = Knowledge

**SUMMARY OF STUDY OBJECTIVES BY QUESTION TYPE**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Item | Type | Item | Type | Item | Type | Item | Type | Item | Type | Item | Type | Item | Type |
| **Study Objective 1** | | | | | | | | | | | | | |
| 1. | TF | 8. | TF | 15. | TF | 45. | MC | 52. | MC | 110. | BE | 133. | SAE |
| 2. | TF | 9. | TF | 39. | MC | 46. | MC | 53. | MC | 117. | Ex |  |  |
| 3. | TF | 10. | TF | 40. | MC | 47. | MC | 54. | MC | 118. | Ex |  |  |
| 4. | TF | 11. | TF | 41. | MC | 48. | MC | 55. | MC | 119. | Ex |  |  |
| 5. | TF | 12. | TF | 42. | MC | 49. | MC | 56. | MC | 126. | C |  |  |
| 6. | TF | 13. | TF | 43. | MC | 50. | MC | 57. | MC | 127. | C |  |  |
| 7. | TF | 14. | TF | 44. | MC | 51. | MC | 58. | MC | 128. | C |  |  |
| Study Objective 2 | | | | | | | | | | | | | |
| 16. | TF | 21. | TF | 59. | MC | 64. | MC | 111. | BE | 122. | Ex |  |  |
| 17. | TF | 22. | TF | 60. | MC | 65. | MC | 112. | BE | 129. | C |  |  |
| 18. | TF | 23. | TF | 61. | MC | 66. | MC | 118. | Ex | 130. | C |  |  |
| 19. | TF | 24. | TF | 62. | MC | 67. | MC | 120. | Ex | 131. | C |  |  |
| 20. | TF | 25. | TF | 63. | MC | 68. | MC | 121. | Ex |  |  |  |  |
| Study Objective 3 | | | | | | | | | | | | | |
| 26. | TF | 69. | MC | 72. | MC | 75. | MC | 123. | Ex |  |  |  |  |
| 27. | TF | 70. | MC | 73. | MC | 76. | MC | 124. | Ex |  |  |  |  |
| 28. | TF | 71. | MC | 74. | MC | 77. | MC | 134. | SAE |  |  |  |  |
| **Study Objective 4** | | | | | | | | | | | | | |
| 29. | TF | 36. | TF | 82. | MC | 89. | MC | 96. | MC | 103. | MC | 113. | BE |
| 30. | TF | 37. | TF | 83. | MC | 90. | MC | 97. | MC | 104. | MC | 114. | BE |
| 31. | TF | 38. | TF | 84. | MC | 91. | MC | 98. | MC | 105. | MC | 115. | BE |
| 32. | TF | 78. | MC | 85. | MC | 92. | MC | 99. | MC | 106. | MC | 116. | BE |
| 33. | TF | 79. | MC | 86. | MC | 93. | MC | 100. | MC | 107. | MC | 119. | Ex |
| 34. | TF | 80. | MC | 87. | MC | 94. | MC | 101. | MC | 108. | MC | 125. | Ex |
| 35. | TF | 81. | MC | 88. | MC | 95. | MC | 102. | MC | 109. | MC | 132. | Ma |

Note: TF = True-False C = Completion BE = Brief Exercise

MC = Multiple Choice Ex = Exercise SAE = Short Answer Essay

Ma = Matching

**CHAPTER STUDY OBJECTIVES**

1. ***Explain the distinguishing features of managerial accounting.*** The distinguishing features of managerial accounting are:

* Primary users of reports—internal users, who are officers, department heads, managers, and supervisors in the company
* Type and frequency of reports—internal reports that are issued as frequently as the need arises
* Purpose of reports—to provide special-purpose information for a particular user for a specific decision
* Content of reports—pertains to subunits of the entity and may be very detailed; may extend beyond double-entry accounting systems; the reporting standard is relevant to the decision being made
* Verification of reports—no independent audits.

2. ***Identify the three broad functions of management and the role of management accountants in an organizational structure.*** The three functions are planning, directing, and controlling. Planning requires management to look ahead and to establish objectives. Directing and motivating involves coordinating the diverse activities and human resources of a company to produce a smooth-running operation. Controlling is the process of keeping the activities on track.

3. ***Explain the importance of business ethics.*** All employees in an organization are expected to act ethically in their business activities. In Canada, three professional accounting organizations—The Society of Management Accountants of Canada (SMAC), The Canadian Institute of Chartered Accountants (CICA), and The Certified General Accountants Association of Canada (CGA-Canada) promote high standards of ethics in the accounting profession. These standards of ethics can be used as guidelines in dealing with the public and the association’s members. The Code of Professional Ethics provides the codes of conduct regarding competence, confidentiality, integrity, and objectivity.

4. ***Identify changes and trends in managerial accounting.*** Managerial accounting has experienced many changes in recent years. Among these are a shift toward addressing the needs of service companies and improving practices to better meet the needs of managers. Improved practices include a focus on managing the value chain through techniques such as just-in-time inventory, and technological applications such as enterprise resource planning (ERP). In addition, techniques have been developed to improve decision making, such as the theory of constraints and activity-based costing (ABC). Finally, the balanced scorecard is now used by many companies in order to attain a more comprehensive view of the company’s operations.

### TRUE-FALSE STATEMENTS

1. Reports prepared in managerial accounting are general-purpose reports, whereas reports prepared in financial accounting are usually special-purpose reports.

2. Managerial accounting information generally pertains to an entity as a whole and is very detailed.

3. Managerial accounting applies only to manufacturing companies.

4. Determining the unit cost of manufacturing a product is an output of managerial accounting.

5. Managerial accounting internal reports are prepared less frequently than are classified financial statements.

6. Management accounting is a sub-discipline within accounting focusing solely on the provision of economic and financial information for external users.

7. A primary outcome of managerial accounting is the determination of costs for manufactured items and services.

8. Fundamentally, managerial accounting applies best to the manufacturing context.

9. Companies rely upon management accountants to collect non-financial information in order to assess how well the companies’ resources are being used.

10. Management accounting is a discipline with a rather narrow scope for career advancement.

11. Management accounting and financial accounting, while in the same field, are mutually exclusive disciplines.

12. The verification process for managerial accounting requires an independent audit by chartered accountants.

13. Detailed reports scrutinized by managerial accountants include those focused on business sub-units.

14. The content of managerial accountants’ reports is very detailed and includes non-financial data relevant to business decision-making.

15. Given the decision to employ straight-line amortization or a usage-based amortization method, the management accountant’s need to report the most relevant economic information to external users will determine which method is used.

16. The management function of planning is mainly concerned with setting goals and objectives for the entity.

17. An organization chart in a manufacturing company replaces the chart of accounts.

18. Directing is the process of determining whether planned goals are being met.

19. Decision-making is an integral part of the planning, directing, and motivating functions, but not of the controlling function.

20. Organization charts are common in companies but not relevant to managerial accounting.

21. The term “line position” is interchangeable with “staff position.”

22. The CFO has overall responsibility for managing the business.

23. Employees with staff positions serve other employees, while those with line positions work directly in line with the company’s revenue generating goals.

24. The CEO is directly responsible for the company’s complement of accounting and financial goals.

25. The controller, treasurer, and internal audit staff are direct reports of the CFO.

26. Generally Accepted Accounting Principles (GAAP) form the backbone of managerial accounting conventions, and local and/or regional standards and professional judgement allow for variations among practitioners.

27. The Sarbanes-Oxley Act in the U.S. and similar legislation in Canada aims to guide ethical standards used in management accounting practices.

28. The triple bottom line focuses on assessing a company’s performance in three areas: people, planet, and profit.

29. Whereas management accountants used to be responsible for strategic cost management, their modern-day responsibilities are more focused on collecting and reporting costs to management.

30. Activity-based costing is a method of allocating overhead costs to products.

31. The theory of constraints is used to measure performance.

32. The focus of a TQM system is to reduce defects in finished products.

33. The balanced scorecard approach attempts to maintain as little inventory on hand as possible.

34. The value chain is affected by technology through business-to-business on the Internet.

35. A value chain refers to all the activities associated with providing a product or service.

36. Lean manufacturing is being used less often by manufacturing firms.

37. Lean manufacturing is in contrast to traditional mass-production operations.

38. Firms that use large amounts of direct labour to produce their products are apt to use lean manufacturing.

##### ANSWERS TO TRUE-FALSE STATEMENTS

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** |
| 1. | F | 8. | F | 15. | F | 22. | F | 29. | F | 36. | F |
| 2. | F | 9. | T | 16. | T | 23. | T | 30. | T | 37. | T |
| 3. | F | 10. | F | 17. | F | 24. | F | 31. | F | 38. | F |
| 4. | T | 11. | F | 18. | F | 25. | T | 32. | T |  |  |
| 5. | F | 12. | F | 19. | F | 26. | F | 33. | F |  |  |
| 6. | F | 13. | T | 20. | F | 27. | F | 34. | T |  |  |
| 7. | T | 14. | T | 21. | F | 28. | T | 35. | T |  |  |

**MULTIPLE CHOICE QUESTIONS**

39. Managerial accounting

a) is concerned with costing products.

b) is governed by generally accepted accounting principles.

c) pertains to the entity as a whole and is highly aggregated.

d) places emphasis on special-purpose information.

40. Managerial accounting information is generally prepared for

a) stockholders.

b) managers.

c) regulatory agencies.

d) investors.

41. Managerial accounting information

a) pertains to the entity as a whole and is highly aggregated.

b) must be prepared according to generally accepted accounting principles.

c) pertains to subunits of the entity and may be very detailed.

d) is prepared only once a year.

42. The major reporting standard for management accounting is

a) the Standards of Ethical Conduct for Practitioners of Management Accounting and Financial Management.

b) the Sarbanes-Oxley Act of 2002.

c) relevance to decisions.

d) generally accepted accounting principles.

43. Managerial accounting is also called

a) inside reporting.

b) cost accounting.

c) management accounting.

d) strategic management.

44. Which of the following is NOT an internal user?

a) corporate officers

b) staff employees

c) stockholders

d) department manager

45. Which of the following is NOT part of managerial accounting?

a) determining whether planned goals are being met

b) reporting financial information to the shareholders

c) calculating product costs

d) controlling costs

46. Which of the following uses managerial accounting?

a) manufacturing and service entities, but not merchandising

b) profit-oriented businesses only

c) service, manufacturing, and merchandising entities

d) only manufacturing entities

47. Which one of the following tasks would NOT be performed by a management accountant?

a) being concerned with the impact of cost and volume on profits

b) strategic cost management

c) assisting in budget planning

d) preparing reports primarily for external users

48. How often are internal managerial reports communicated?

a) as frequently as needed

b) annually

c) during every audit by the company’s ca

d) monthly

49. Which description identifies financial statements that are prepared for external users?

a) external reports

b) special-purpose

c) user-specific

d) general-purpose

50. Which term describes managerial accounting reports?

a) GAAP reports

b) special-purpose

c) general-purpose

d) regulatory reports

51. Which of the following statements about internal reports is true?

a) Most internal reports are summarized rather than detailed.

b) Internal reports focus on general purpose needs of users.

c) The content of internal reports extends beyond the double-entry accounting system.

d) Internal reports are often very general.

52. Which one of the following describes internal reports?

a) They are often audited by CAs.

b) They must be prepared according to GAAP.

c) They are aggregated.

d) They are detailed.

53. Which of the following reports would management find useful in decision making?

a) monthly reports on activities to the Board of Directors

b) quarterly reporting to the Toronto Stock Exchange

c) specific purpose statements on services delivered

d) audited financial information in the annual report to shareholders

54. How often should management receive or prepare reports on its *internal* process activities?

a) on a fixed time basis

b) as often as is necessary

c) never more than monthly

d) weekly

55. How often should management receive or prepare reports on its *external* business process activities?

a) as they correspond to external financial reporting

b) never more than monthly

c) according to the company’s business cycle

d) as often as is necessary

56. A company must inform readers of its annual report of

a) all changes in financial accounting policies.

b) results of any overseas activities.

c) all changes in internal accounting information.

d) changes to management’s bonus system.

57. How could management information assist in motivating its employees?

a) keeping track of quality improvements

b) showing the company’s percent of market share

c) showing statistics on plant safety

d) All areas would benefit from providing internal management information.

58. In establishing a good internal reporting system, a company should

a) ensure that these reports agree to generally accepted accounting principles.

b) have the Board of Directors agree to the information provided.

c) establish clearly understood standards of performance.

d) All of the above are valid reasons.

59. What broad functions do the management of an organization perform?

a) directing, manufacturing, and controlling

b) planning, directing, and controlling

c) planning, directing, and selling

d) planning, manufacturing and controlling

60. Which one of the following involves coordinating a company’s activities to produce a smooth-running operation?

a) auditing

b) controlling

c) planning

d) directing

61. Which one of the following does the planning function involve?

a) analyzing financial statements

b) setting goals and objectives for an entity

c) hiring the right people for a particular job

d) coordinating the accounting information system

62. Which one of the following is true concerning the managerial function of controlling?

a) It includes performance evaluation by management.

b) It is concerned mainly with operating a manufacturing segment.

c) It is performed only by the controller of a company.

d) It includes hiring and training employees.

63. Which of the following represents two management functions?

a) regulating and directing

b) controlling and directing

c) controlling and auditing

d) auditing and planning

64. Which management function is a manager performing when objectives are being established?

a) regulating

b) planning

c) motivating

d) directing

65. The organization chart of a company shows

a) the interrelationships of activities within a company.

b) the delegation of authority within a company.

c) the delegation of responsibility within a company.

d) all of the above.

66. Which function is achieved when a manager is determining whether planned goals are being met?

a) controlling

b) motivating

c) planning

d) directing

67. What activities and responsibilities are NOT associated with management’s functions?

a) planning

b) accountability

c) controlling

d) directing

68. Directing includes

a) providing a framework for management to have criteria to terminate employees when needed.

b) running a department under quality control standards universally accepted.

c) coordinating a company’s diverse activities and human resources to produce a smooth-running operation.

d) developing a performance ranking system to give certain high performers good raises.

69. Which of the following is true?

a) Managerial accountants are the employees who are principally responsible for ethical behaviour.

b) Investment losses have been precipitated by lax ethical standards.

c) Corporate fraud was found to have decreased between the years 1998 and 2003.

d) Expense account abuse has been cited as one of the rarest forms of unethical employee behaviour.

70. Choose the INCORRECT answer.

a) While generally not encouraged, lapses in ethical behaviour are irrelevant to a company’s operating income.

b) Proper incentives need to be implemented to foster an ethical business environment.

c) Manufacturing companies need to establish effective and realistic production goals for their processes.

d) As a result of the Sarbanes-Oxley Act, companies now pay more attention to the composition of the board of directors.

71. Which is the best definition of fraud?

a) unknowingly misrepresenting the facts

b) using business supplies for personal use

c) the intentional misstatement of facts

d) misappropriating funds for personal financial gain

72. Which of the following is true?

a) Dissatisfied employees cite a decline in ethical behaviour is a result of a change in corporate culture.

b) Unethical corporate behaviour occurs only in the United States because of its capitalistic environment.

c) Unethical behaviour rarely causes a decline in investor confidence.

d) Unethical actions are reasonable in an environment wherein unreasonable budgets and targets have been set.

73. The production manager at ABC Inc. is responsible for formulating the budget for his department. He will be evaluated on his ability to control costs. After considerable thought, he arrives at his best estimate of costs, and then adds a further 10% to the projections. Chances are he has inflated the cost projections because

a) that is the way it has always been done.

b) conservative accounting practise requires that he not under report expenses.

c) by overestimating expenses, it will make it easier for him to come in under budget and receive a favourable evaluation.

d) none of the above.

74. In Canada, which of the following professional accounting organizations play an important role in promoting high standards of ethics in the accounting profession?

a) Chartered Professional Accountants of Canada (CPA Canada)

b) The Financial Planning Standards Council (FPSC)

c) The Canadian Institute of Financial Planning (CIFP)

d) all of the above

75. The Ontario Securities Commission introduced regulations governing the composition and duties of audit committees, as well as their members’ behaviour. The new rules

a) are as robust as parallel rules required by the U.S. Sarbanes-Oxley Act.

b) were adopted by all provincial and territorial securities regulators, except for British Columbia’s.

c) were introduced in conjunction with the Canadian Securities Administrators.

d) all of the above.

76. A company acting ethically must adapt its *external* reports to any changes required

a) instantly.

b) as it is appropriate for its business cycle.

c) as stipulated by the CPA Canada handbook and GAAP.

d) if they are considered pertinent to its business activities.

77. A company acting ethically must adapt its *internal* reports to any changes required

a) instantly.

b) as it is appropriate for its business cycle.

c) as stipulated by the CPA Canada handbook and GAAP.

d) if they are considered pertinent to its business activities.

78. Which one of the following managerial accounting approaches attempts to allocate manufacturing overhead in a more meaningful fashion?

a) theory of constraints

b) just-in-time inventory

c) activity-based costing

d) total-quality management

79. Which one of the following is NOT a main component of the value chain sequence?

a) ERP

b) sales and marketing

c) production

d) customer relations

80. What is one primary benefit of an enterprise resource planning (ERP) system?

a) It reduces inventory levels.

b) It permits companies to be more streamlined in production.

c) It replaces research and development in a company.

d) It requires an increased emphasis on product quality.

81. One of the advantages of a just-in-time inventory system is that it reduces inventory quantities. Why is this considered to be a benefit?

a) Carrying inventory incurs storage costs, hence reducing inventory quantities reduces costs.

b) Carrying large inventory raises the risk that customers will want an item that you do not have.

c) Carrying large inventory reduces the risk that customers will want an item that you do not have.

d) none of the above

82. What is “balanced” in the balanced scorecard approach?

a) the number of products produced

b) the emphasis on financial and non-financial performance measurements

c) the amount of costs allocated to products

d) the number of defects found on each product

83. For what purpose is the theory of constraints used?

a) to reduce product defects

b) to balance performance measurement

c) to identify and manage constraints that bottle-neck operations

d) to reduce inventory levels

84. In Canada the three different professional accounting designations that merged into CPA Canada are

a) CPA, CA, CMA.

b) CMA, CGA, CPA.

c) CA, CMA, CGA.

d) MA, CPA, CA.

85. Which of the following is a reason for the reorganization of the three accounting bodies in Canada into one, CPA Canada?

a) There was conflict within the standard setting process between the three accounting bodies.

b) Extensive competition between the three organizations was causing friction.

c) The reorganization was mandated by the Canadian government.

d) A larger unified profession would mean a more prominent and cohesive Canadian presence internationally.

86. Choose the correct statement.

a) CGA stands for Certified Generic Accountant.

b) CMA stands for Certified Managing Accountant.

c) CA stands for Chartered Accountant.

d) CPA stands for Certified Professional Accountant.

87. Which of the following statements is true?

a) In recent decades, the Canadian economy in general has shifted towards an emphasis on providing services rather than goods. This trend has reduced the importance of managerial accounting.

b) In recent decades, the Canadian economy in general has shifted towards an emphasis on providing goods rather than services. This trend has reduced the importance of managerial accounting.

c) In recent decades, the Canadian economy in general has shifted towards an emphasis on providing services rather than goods. This trend has not reduced the importance of managerial accounting.

d) In recent decades, the Canadian economy in general has shifted towards an emphasis on providing goods rather than services. This trend has not reduced the importance of managerial accounting.

88. Which of the following is an accounting question a service company may face?

a) whether to purchase new equipment

b) how much to charge for various services

c) how efficient and productive individual staff members are

d) all of the above

89. For a manufacturing company, the activities in the value chain would NOT include

a) research and development.

b) purchase of raw materials.

c) customer relations.

d) performance evaluation.

90. What term describes all activities associated with providing a product or service?

a) the manufacturing chain

b) the product chain

c) the supply chain

d) the value chain

91. How do most companies manage their value chain?

a) by using activity-based costing

b) by creating enterprise resource planning systems

c) using an action plan

d) using total quality management systems

92. How have many companies significantly lowered inventory levels and costs?

a) They use activity-based costing.

b) They utilize an enterprise resource planning system.

c) They have a just-in-time method.

d) They focus on a total quality management system.

93. Some companies implement systems to reduce defects in finished products with the goal of achieving zero defects. What are these systems called?

a) activity-based costing systems

b) enterprise resource planning systems

c) value chain systems

d) total quality management systems

94. In order to obtain more accurate product costs, how do many companies allocate overhead?

a) They use activity-based costing.

b) They use enterprise resource planning systems.

c) They use just-in-time methods.

d) They use total quality management systems.

95. Many companies now manufacture products that are untouched by human hands. What do they use to achieve this?

a) activity-based costing

b) computer-integrated manufacturing

c) enterprise resource planning systems

d) total quality management systems

96. Which one of the following characteristics would likely be associated with a just-in-time inventory method?

a) ending inventory of work in process that would allow several production runs

b) a backlog of inventory orders not yet shipped

c) minimal finished goods inventory on hand

d) an understanding with customers that they may come to the showroom and select from inventory on hand

97. What is value chain management best defined as?

a) a large chain that keeps the machines from falling on the production floor

b) management decisions that affect how quickly the production run occurs

c) the incremental value of costs associated with hiring a new production floor leader

d) all activities associated with providing a product or service

98. Which one of the following is an example of activity-based costing?

a) monitoring the salaries of managers that do untimely quality control checks

b) keeping close track of shrinkage associated with thefts off the showroom floor

c) insuring that management is closely working with the local union on keeping labour costs in line

d) allocating the set up cost associated with getting a machine ready for a production run

99. Bottlenecks are

a) the point at which the finished product leaves the factory.

b) constraints that limit the company’s potential profitability.

c) the point at which a company’s plan is put into action.

d) are factors that consume a great deal of managers’ attention, but have little impact on the company as a whole.

## 100. For what reason is a product cost primarily tracked?

a) to keep up with current cost trends to bring products to market

b) to effectively allocate the cost of products to measure profitability

c) to determine what amounts are necessary for allocating overhead

d) to keep management’s bonuses increasing every year

101. Which one of the following is an activity NOTassociated with TQM?

a) Tightening the bolts on a chassis so that the frame will not drop out.

b) Redesigning the gas tank after learning fuel efficiency standards are not being met.

c) Verifying the 10 check points associated with producing the highest quality loaf of bread.

d) Ensuring that the mattress just manufactured meets the standard of comfort of a random factory line worker.

102. The theory of constraints is

a) a theory that the benefit of making a change in a production process should be weighed against the cost of making that change.

b) that even the best suggestions for improvement are likely to be rejected due to opposition from those who have to implement the changes.

c) a specific approach used to identify and manage constraints in order to achieve the company’s goals.

d) not applicable to service operations.

103. What is ERP?

a) efficient resource procurement

b) earnings reporting policies

c) enterprise resource planning

d) effective resource procurement

104. A balanced scorecard is

a) a performance-measurement approach that uses both financial and non-financial measures to evaluate a company’s operations in an integrated way.

b) a tool used to measure the benefits and costs of implementing a new strategy.

c) used only by small organizations that cannot afford more expensive methods of evaluating their operations.

d) focuses on non-financial measures in order to balance the many other financial reports companies use to evaluate their operations.

105. Which component of a company’s value chain would benefit most from internal management information?

a) complaints from its customers over services offered

b) bonuses paid to managers of the company

c) the company’s efforts to develop new services

d) All such components would benefit from internal management information.

106. Managerial accounting has become more important in service industries due to

a) the decline of the manufacturing sector has freed up many accountants.

b) service delivery is extremely complex and requires proper monitoring.

c) the economy has become more service-oriented recently.

d) the increase in complexity in computer systems requires accounting specialists.

107. The five steps in the lean thinking model, in order are:

a) 1. Define value, 2. Identify the pull factors, 3. Identify the value stream, 4. Make the value stream flow, 5. Revise until perfection is achieved.

b) 1. Define value, 2. Identify the value stream, 3. Make the value stream flow, 4. Implement a pull system, 5. Strive for perfection.

c) 1. Identify unproductive activities that need to be reduced, 2. Identify push factors causing those unproductive activities, 3. Develop operations so that the work flows smoothly, 4. Strive for perfection, 5. Evaluate the value that has been added.

d) 1. Identify push factors, 2. Develop strategies to turn those factors into pull factors, 3. Assess the value added by steps one and two, 4. Strive for perfection, 5. Repeat the process on a regular basis.

108. Step one in the lean thinking model requires

a) target costing, that is determining the acceptable cost the customer is willing to pay.

b) an assessment of the potential value that can be added to the firm by adopting the lean manufacturing concept.

c) identifying processes that do not add value to the manufacturing process.

d) identifying push factors that can be converted to pull factors.

109. Step two in the lean thinking model

a) deals with push and pull factors.

b) is the central element in understanding how a company can evaluate what is value-added and what is waste.

c) is always the most time consuming.

d) can be excluded if step one is done correctly.

**ANSWERS TO MULTIPLE CHOICE QUESTIONS**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** |
| 39. | d | 50. | b | 61. | b | 72. | a | 83. | c | 94. | a | 105. | d |
| 40. | b | 51. | c | 62. | a | 73. | c | 84. | c | 95. | b | 106. | b |
| 41. | c | 52. | d | 63. | b | 74. | a | 85. | d | 96. | c | 107. | b |
| 42. | a | 53. | c | 64. | b | 75. | d | 86. | c | 97. | d | 108. | a |
| 43. | c | 54. | b | 65. | d | 76. | c | 87. | c | 98. | d | 109. | b |
| 44. | c | 55. | d | 66. | a | 77. | d | 88. | d | 99. | b |  |  |
| 45. | b | 56. | a | 67. | b | 78. | c | 89. | d | 100. | b |  |  |
| 46. | c | 57. | d | 68. | c | 79. | a | 90. | d | 101. | a |  |  |
| 47. | d | 58. | c | 69. | b | 80. | b | 91. | b | 102. | c |  |  |
| 48. | a | 59. | b | 70. | a | 81. | a | 92. | c | 103. | c |  |  |
| 49. | d | 60. | b | 71. | c | 82. | b | 93. | d | 104. | a |  |  |

### BRIEF Exercises

**Brief Exercise 110**

The Cheepencheerful Bakery Company produces muffins that it sells to hotel chains in the city. It generally breaks even at the end of the year but not always. It only knows this when the company’s external accountants prepare financial statements that are used by the bank and to file tax returns. The company does its best to keep its costs down and as a result doesn’t pay its employees very much.

When the president’s wife, who is the bookkeeper, decided to retire, the president advertised for her replacement. He felt he could find someone who would work for slightly more than minimum wage. This would be in line with his desire to keep costs down.

Comment on the president’s desire to keep his costs down by hiring a poorly paid accountant for his organization.

**Solution 110**

The president is being short-sighted in his desire to keep costs low in critical area of his company.

As president, he is responsible for planning, directing, and controlling the company’s activities. For a medium sized company, it is difficult for one person to accomplish all of these objectives effectively.

A professionally trained accountant with the proper training and accreditation can assist the president in these areas.

The accountant can help plan targets for profitability and return on assets used in the business. Once these targets are set, the accountant can then help direct the day-to-day activities to ensure the company’s internal procedures are operating efficiently. The accountant can also implement effective internal managerial accounting procedures to ensure that the organizations activities are properly controlled.

**Brief Exercise 111**

Preparation of a budget at the beginning of a period entails looking at last year’s results, making adjustments for any changes in prices and activity in the current year and anticipating consumer demand levels based on economic activity and historical trends. The process of preparing a budget is part of which management function? The process of comparing actual results to budget is part of which other management function?

**Solution 111**

The process of preparing a budget is part of planning while the process of comparing a budget to actual is part of control.

**Brief Exercise 112**

Activities in a warehouse may include materials and inventory handling, staffing and scheduling, setting up production runs, and managing quality. The management of these activities is part of which one of the key three management functions: planning, directing, or controlling?

**Solution 112**

directing

**Brief Exercise 113**

What are the eight steps in the value chain for a manufacturing company?

**Solution 113**

research and development, product design, acquisition of raw materials, sales and marketing, delivery, customer relations, and subsequent service.

**Brief Exercise 114**

A manufacturing company produces a product that first must be cut into a specific size, then sanded, and finally painted. The cutting process can produce five units in an hour, the sanding process produces three units in an hour, and the painting process can produce ten units in an hour. Which process is the bottleneck?

**Solution 114**

the sanding process

**Brief Exercise 115**

What are the four perspectives used in a balanced scorecard?

**Solution 115**

financial, customer, internal business process, and learning and growth.

**Brief Exercise 116**

Better Built Boats Ltd. Is a company that manufactures boats and sells them through a series of dealers nationwide. It is publically traded and has always had a “clean bill of health’ from its auditors. It prides itself on building high quality boats and considers that its customers view it as an “ethical’ company.

It also has good internal information that it uses to ensure that its cost per boat is within the appropriate guidelines in order to ensure profitability.

Recently, the CPA handbook has instituted a change in accounting policy that would make it more expensive to offer such products as boats to the public. For the following users of the company’s financial information, describe how such changes could affect financial information provided:

a. The Board of Directors of the company

b. The Vice-President of Sales

c. The Production Manager of the company

d. The company’s Finance Manager

e. The company’s Corporate Controller

**Solution 116**

a. The Board, through its Audit Committee, would have to ensure that all financial information reported to external stakeholders was consistent with the new changes.

b. Likely little effect on the sales VP other than explaining to dealers why there may have to be an increase in price of the boats should they become more expensive to manufacture as a result of the new regulations.

c. The PM would likely expect modification to internal data provided on manufacturing processes to incorporate the changes required.

d. May be concerned with ensuring that there is sufficient capital available to adjust to the new changes.

e. Must ensure that both internal and external information is adjusted to reflect the changes on the company’s data systems as a result of the changes.

**EXERCISES**

##### Exercise 117

Financial accounting information and managerial accounting information have a number of distinguishing characteristics:

\_\_\_\_ 1. Reporting standard is relevant to the decision to be made

\_\_\_\_ 2. Classified financial statements

\_\_\_\_ 3. Reports generally pertain to the company as a whole

\_\_\_\_ 4. Reports generally pertain to subunits

\_\_\_\_ 5. Reports issued quarterly or annually

\_\_\_\_ 6. General-purpose reports

\_\_\_\_ 7. Reports are used internally

\_\_\_\_ 8. Prepared in accordance with generally accepted accounting principles

\_\_\_\_ 9. Special purpose reports

\_\_\_\_ 10. Limited to historical cost data

**Instructions**

For each of the characteristics listed, indicate which characteristics are more closely related to financial accounting by placing the letter "F" in the space to the left of the item and indicate those characteristics which are more closely associated with managerial accounting by placing the letter "M" to the left of the item

##### Solution 117 (4–5 min.)

1. M

2. F

3. F

4. M

5. F

6. F

7. M

8. F

9. M

10. F

**Exercise 118**

Are planning and controlling synonymous terms?

**Solution 118**

In everyday usage of the terms, they are often synonymous. In the accounting, budgeting, business context they are distinct functions.

**Planning** requires management to look ahead and to establish objectives. These objectives are often diverse: maximizing short-term profits and market share, maintaining a commitment to environmental protection, and contributing to social programs. A key objective of management is to add valueto the business under its control. Value is usually measured by the trading price of the company’s shares and by the potential selling price of the company.

**Controlling** is the process of keeping the company’s planned activities on track. In controlling operations, managers determine whether planned goals are being achieved. When there are deviations from targets, managers must decide how to remedy the situation.

**Exercise 119**

Misty River Spas offers weekly luxury spa packages to members of the fashion industry. After a good start to its operations, it started to experience a drop in sales. It found that it was operating at less than 100% capacity and started a major marketing campaign to get more customers.

The company’s controller noticed that customers would often leave the spa after only four or five days. This was confusing as they had paid for the entire week and were not entitled to refunds. The controller found that these people would complain about waiting time between spa activities and even a shortage of products in the facilities.

The marketing manager simply said that if they attained more customers, these problems would eventually disappear. Besides, when a customer leaves early, the company does not incur any additional costs of delivering services.

Comment on the company’s efforts to attain more customers without looking into its internal activities.

**Solution 119**

A company is effective when it delivers what it promises. When services do not follow expectations, customers are lost and reputations suffer. A business such as a spa will survive by delivering what it offers in an effective manner. This will ensure good word-of-mouth advertising from happy customers. Simply attempting to increase top-line sales without caring about the cost of services offered will eventually have long-term consequences.

Good organizations keep information on their internal activities and track where they are succeeding in delivering their products or services to a standard that has been set and expected by customers.

In the case of Misty River, the company clearly needs to look at the results of its internal activities and find out why customers are leaving and what can be done to keep them. Only then can the company expect to attain more customers and ensure that their experience in the spa is a positive one.

**Exercise 120**

List the activities performed by the controller of an organization.

**Solution 120**

internal and external accounting and financial reporting, reporting income tax information and employee payroll remittances, cost accounting, budgeting, internal auditing, systems management, management of staff members.

**Exercise 121**

How do the roles of financial vice-president, controller, and treasurer differ?

**Solution 121**

The financial VP reports to the president of the company, and supervises both the controller and treasurer. The treasurer supervises the financing function, has custody of physical assets, and manages the company’s cash and investments. The controller supervises the inputs and outputs of the accounting information system.

**Exercise 122**

Explain the differences between a staff position and a line position.

**Solution 122**

A line position works directly to perform the basic revenue objectives of a company so that it can generate revenues and stay in business, like a salesperson. A staff position has indirect responsibility for the company’s basic objectives and provides necessary support functions for other employees in their line functions, as in the case of a Human Resources professional.

### Exercise 123

### Your manager asks you to help him prepare the budget for your division. He estimates that total expenses will equal $100,000, but he reports $120,000. He argues that it will make it easier to keep costs within budget, and that everyone does it. What is the ethical issue in this case?

### Solution 123

The manager is knowingly reporting false information that could mislead the users of that information. Not everyone may know that the budget numbers have some “slack” built into them.

**Exercise 124**

What is competence in reference to the IMA’s Statement of Ethical Professional Practice, and why is it a consideration?

**Solution 124**

Management accountants have a responsibility to

* maintain professional competence.
* perform professional duties in accordance with relevant laws, regulations, and technical standards.
* prepare complete and clear reports and recommendations.
* communicate professional limitations that would preclude responsible judgment or successful performance of an activity.

When management accountants are asked to perform a task, it is expected that they have the ability to complete the task. Accordingly, individuals must maintain and upgrade their abilities and perform the required task to the best of their abilities. If for any reason the accountant is not able to complete the required task he/she should acknowledge that fact.

### Accountants are daily entrusted with sensitive company information, and information relating to external vendors and internal employees and customers. Accountants must honour this trust by not disclosing confidential information without the company’s, vendor’s, employee’s, or customer’s permission, unless legally required to do so. Further, accountants need to ascertain that checks and balances are working so that their subordinates are also upholding this confidentiality requirement. Accountants may not use or even appear to use confidential information acquired in their work for financial or illegal advantage.

**Exercise 125**

Stodgy Industries Ltd. has barely made a profit over the past few years and is looking for ways to improve its results. It has hired a consultant who has suggested that the company introduce a concept called the Balanced Scorecard. This involves looking into all aspects of a company’s activities and seeks to integrate them into a cohesive manner that can focus on corporate goals.

The company’s president has called in the vice president of sales and vice president of production to discuss how the company can establish goals and meet those targets. The consultant says that there is a critical person missing from the meeting, which is the company’s controller.

Explain why or why not the controller is a critical component of any desire to introduce a Balanced Scorecard in an organization

**Solution 125**

A Balanced Scorecard seeks to establish a series of goals that an organization can set that will enable it to attain a comprehensive target. This target can have both financial (profit) or non-financial (quality) targets that need to be monitored along the way. Both of these two broad components require adequate tracking of data generated through the company’s activities.

Generally, vice presidents of sales and production are focused mostly on their own areas and activities; the controller is the one person who has information available on both areas. The controller can work with these two people and help determine the information that they will need to meet their goals. Without effective information, it is unlikely that the company’s implementation of a Balanced Scorecard will offer expected results.

### COMPLETION STATEMENTS

126. Financial accounting information is prepared mainly for \_\_\_ users while managerial accounting information is prepared primarily for \_\_\_ users.

127. The types of reports prepared in managerial accounting are often \_\_\_-purpose reports prepared for a specific decision.

128. Managerial accounting reports generally pertain to \_\_\_ of an entity and may be very detailed.

129. Three broad managerial functions are: (1) \_\_\_, (2) \_\_\_ and \_\_\_, and (3) \_\_\_.

130. The \_\_\_ function is concerned with setting goals and objectives for the entity.

131. Exercising good judgment in performing the managerial functions and choosing among alternative courses of action is called \_\_\_.

##### ANSWERS TO COMPLETION STATEMENTS

126. external, internal

127. special

128. subunits

129. planning, directing and motivating, controlling

130. planning

131. decision-making

**MATCHING**

132. A list of managerial accounting terms appears below:

1. Theory of constraints
2. Activity-based costing
3. Just-in-time inventory
4. Balanced scorecard
5. Value chain
6. Enterprise resource planning (ERP)

**Instructions**

Match each of the terms with the statement that best describes the term.

1. \_\_\_\_\_\_ A system that provides a comprehensive, centralized, integrated source of information used to manage all major business processes.

2. \_\_\_\_\_\_ The group of activities associated with providing a product or service.

3. \_\_\_\_\_\_ An approach used to reduce the cost associated with handling and holding inventory by reducing the amount of inventory on hand.

4. \_\_\_\_\_\_ A method used to allocate overhead to products based on each product’s use of the activities that cause the incurrence of the overhead cost.

5. \_\_\_\_\_\_ An approach used to identify those factors that limit a company’s productive capacity and to address those limitations so as to maximize profitability.

6. \_\_\_\_\_\_ A performance-measurement technique that attempts to consider and evaluate all aspects of performance using financial and non-financial measures in an integrated fashion.

**ANSWER TO MATCHING**

1. f

2. e

3. c

4. b

5. a

6. d

**SHORT-ANSWER ESSAY QUESTIONS**

##### SAE 133

Both financial and managerial accounting are concerned with the economic events of an enterprise. Similarities between financial and managerial accounting do exist, but they do have different focus. Briefly distinguish between financial and managerial accounting as they relate to (1) the primary users, (2) the type and frequency of reports, (3) the purpose of reports, and (4) the content of reports.

##### Solution 133

Financial accounting is primarily concerned with external users such as stockholders and creditors, while the primary users of managerial accounting are those within the company (internal users) such as officers, managers, supervisors, etc. Quarterly and annual classified financial statements are the end product of financial accounting. Internal reports, prepared as often as needed are the result of managerial accounting. The financial statements produced by financial accounting are general-purpose reports which are highly aggregated, pertain to the enterprise as a whole, and are constrained by generally accepted accounting principles. The internal reports prepared by management accountants are special-purpose reports which are detailed, pertain to subunits of the enterprise, and may contain any information relevant to the decision at hand.

##### SAE 134 (Ethics)

Million Dollar Mills is a textile manufacturing firm. The company carefully prepares all financial statements in accordance with GAAP, and gives a copy of all financial statements to each department. In addition, the company keeps records on quality control, safety, and environmental pollution by the company. It then prepares "scorecards" for each department indicating their performance. Recently, the financial impact of the second set of information was added, and the information has been used in the evaluation of employees for merit pay and promotions.

At the most recent employee meeting, Tyler Hanes, marketing manager, expressed his discomfort with the system. He said that there was no guarantee that the second set of information was fair, since there were no generally accepted principles for this kind of information. He also said that it was kind of like keeping two sets of books—one following all legal requirements, and the other one actually used by the company.

**Instructions**

a. Is it ethical to evaluate managers in the way described? Explain briefly.

b. Name at least two safeguards the company could build into its system to ensure the ethical treatment of employees.

##### Solution 134

a. It is ethical for a company to use all available data in order to evaluate managers, and even to collect data not routinely available. In fact, such a method seems preferable to one in which the company may only use specified financial data in its evaluation of a manager's performance. It does not imply a departure from GAAP, nor that the company does not actually use the information prepared according to GAAP. It supplements the standard reports, it does not replace them.

b. The company should make certain that the appropriate information is calculated in the same way each period. All the relevant data should be collected and reported each period. New data should be limited. The qualitative information should be complemented, not replaced, by the regular financial information.

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