CHAPTER 1

Solutions to Problems

**Problem 1.1**

The Information Age has provided business with an increased quantity and improved quality of the information that is available in real time for planning, decision making, and control. As a result, more people in the organization are now involved in decision making, and timelier and more accurate decisions can be made.

This has also facilitated an expansion in the scope of business decisions beyond cost accounting to include strategic performance measurement, risk management, connecting strategy with operations, looking to the future, and environmental awareness. In response, accounting practices have expanded to include systems that measure and support this new realm of business practices, such as: value-based management, quality management, environmental accounting, activity-based management, strategic management and lean accounting.

**Problem 1.2**

Arising from the Industrial Revolution were large, complex companies that were characterized by multiple product lines, automation and complex processes, and large-scale operations. As organizations became more diversified and decentralized, more emphasis was placed on measuring profitability and addressing other issues such as performance measurement, quality management, and customer service. This created a need for different and more accurate information for decision making.

It is quite possible that many companies could not succeed in our current business environment without having the benefit of management accounting to assist in planning, decision making and control.

**Problem 1.3**

a) Scorekeeping

b) Problem solving

c) Problem solving

d) Decision making

e) Scorekeeping

f) Scorekeeping

**Problem 1.4**

a) Scorekeeping

b) Scorekeeping

c) Problem solving

d) Decision making

e) Decision making

f) Problem solving

**Problem 1.5**

a) Planning, control

b) Planning, control

c) Control, decision-making

d) Control

e) Planning, decision-making

f) Control

g) Control

h) Planning, control, decision-making

**Problem 1.6**

a) The way a company costs its products is an internal issue and does not concern external shareholders.

b) It was not necessary to report these changes to external stakeholders because the changes would not have impacted the final results reported in the financial statements. In the future, the effect should be increased profit assuming the new costing method provides for more accurate pricing.

**Problem 1.7**

The best action Chang could take would be to engage external auditors to review the statements for accuracy and reliability. But that could be expensive, so she may first want to discuss with Mr. Rosen any anomalies that might have arisen during the year, such as

a) Have all the year-end accruals been recorded correctly?

b) Were there any significant changes in accounting methods, like depreciation or inventory?

c) Were there any significant events that might have an impact on profit (flood, inflation, market conditions)?

**Problem 1.8**

Both are correct. The financial indicators that Aldo is proposing are important for assessing past performance and are considered lagging indicators. Non-financial measures, as proposed by Belinda, are leading indicators and are better for showing trends. They help to predict future performance.

In reality, both financial and non-financial performance measures are important in evaluating divisional performance as indicated by the popular balance scorecard.