CHAPTER 1
INTRODUCTION TO MANAGERIAL ACCOUNTING

DISCUSSION QUESTIONS

1. *Managerial accounting* is the provision of accounting information for internal users in a firm.

2. The three broad objectives of managerial accounting are planning, controlling, and decision making.

3. The users of managerial accounting information are generally managers and other employees of a firm. Managerial accounting information is typically not provided to outsiders but may be in selected cases. For example, a bank may require budgeting information for the next few years before agreeing to grant a loan.

4. A managerial accounting information system typically provides both financial and nonfinancial information. For example, financial information on cost of production is tracked. Other information, such as the number of warranty returns, may also be tracked by the management information system.

5. *Controlling* is sometimes called *performance evaluation*. It involves comparing the actual outcome with the expected outcome to see what differences, if any, exist.

6. Planning occurs first. It requires setting objectives and identifying the means of achieving those objectives. Then, the results of the plan are compared with the plan, which is called controlling. Clearly, it is also feedback, in that any impediments or unexpected occurrences are noted. This feedback is then used to develop the plan for the next period.

7. Managerial accounting is internally focused, does not follow mandatory rules, keeps track of both financial and nonfinancial information, emphasizes the future, and relies on a broad range of disciplines. Financial accounting is externally focused, follows externally imposed rules (such as GAAP), has an historical orientation, and provides information about the company as a whole.

8. Huge improvements in technology, transportation, and communication over the past 50 years have changed the world significantly. Managerial accountants have had to broaden their focus beyond simple financial reporting to include the gathering of information on all types of costs and of the value of the product or service to customers. These broader costs are used in planning and decision making.

9. *Customer value* is the difference between what a customer pays for a product or service and what the customer receives in return. The focus on customer value forces management accounting to look at many types of costs, not simply manufacturing cost. These may include the price of the good or service, maintenance costs, search costs, learning costs, and disposal costs.

10. Today's managerial accountant must understand many functions of the business, from manufacturing to marketing to distribution to customer service, in order to provide appropriate information for managing the value chain. Increased international trade means that the managerial accountant must be familiar not only with business practices and laws in their own country but also in the countries with which their company trades.

11. *Enterprise risk management* (ERM) refers to the formal process of identifying the factors or threats, both internal and external to the organization, that might prevent the organization from achieving its strategic objectives. The managerial accountant plays an increasingly important role in ERM by providing financial and nonfinancial measures of these threats and communicating them to high-level executives (e.g., chief risk officer, chief financial officer, board of directors) in the organization who manage these factors.

12. The *value chain* is the set of activities required to design, develop, produce, market, and deliver products and services to customers. It is important because it helps the company to understand its role in serving customers and to develop strategic competence.

13. *Line positions* are those that have direct responsibility for the basic objectives of an organization. These typically include producing and selling a product. Staff positions are supportive in nature (e.g., human resources, maintenance) and have only indirect responsibility for an organization's basic objectives.

14. Yes, the controller should be a member of senior management. This is because the controller, as the chief accountant for the firm, has a wealth of information needed by senior management in determining the strategic direction of the firm.

15. Ethical behaviour involves choosing actions that are right, proper, and just. It is possible to teach aspects of ethical behaviour in a managerial accounting classroom. Students need to see examples of right and wrong in business. These examples help them to recognize ethical dilemmas they will face later on the job.

16. One major theme or executive pressure common to many of the accounting scandals is a focus on the short-term future, rather than the long-term. For example, WorldCom wrongly decided to increase current period net income by inappropriately decreasing current period expenses (by recording more of the expenditures as an asset that would be expensed in small amounts each period rather than all at once in the current period). Oftentimes, the high-level executives that perpetrate such financial fraud are rewarded by incentives that overweight current-period net income performance relative to long-term net income performance. Another major theme common to many of the accounting and banking frauds is a lack of sufficient transparency, or clarification, in the types and timing of the information that is reported to parties outside of the organization. Some business experts also would argue that a third common theme underlying many of these scandals was the lack of sufficient oversight (i.e., watchdog mentality) by the perpetrating organization's auditors, board of directors, or both.

17. The Chartered Professional Accountant (CPA) is the Canadian professional accounting designation. The three previous forms of designation discussed are Certified Management Accountant, Chartered Accountant, and Certified General Accountant.

EXERCISES

Exercise 1–1

a. Decision making
b. Controlling
c. Planning
d. Decision making
e. Planning
f. Decision making

Exercise 1–2

a. Managerial accounting–oriented
b. Financial accounting–oriented
c. Managerial accounting–oriented
d. Financial accounting–oriented
e. Managerial accounting–oriented

Exercise 1–3

1. The total product is the laptop computer (Product) and its features (processing speed, disk drives, software packages, and so on), the service, the operating and maintenance requirements, and the delivery speed.

2. One company is emphasizing lower costs, and the other is attempting to differentiate its laptop by offering faster delivery and higher-quality service.

3. Confiar's service component and its delivery time appear to be better than Drantex's. Thus, the realization of these features appears to outweigh the additional sacrifice (the additional operating and maintenance cost) associated with the Confiar laptop. The implications for management accounting are straightforward. The management accounting information system should collect and report information about customer realization and sacrifice. Much of this information is external to the firm but clearly needed by management.

4. Better quality and shorter delivery time increase the value of what the customer receives, while lowering the price decreases the amount paid. In total, customer value has increased and presumably this should make the Drantex laptop much more competitive. This example illustrates how quality, time, and costs are essential competitive weapons. It also illustrates the importance of the management accounting system to collect and report data concerning these three dimensions.

Exercise 1–4

1. Joan Dennison is staff. She is in a support role—she prepares reports and analyzes them, which helps the line managers to make informed decisions. Her role is to help the line managers more effectively carry out their responsibilities.

   Steven Swasey is a line manager. He has direct responsibility for producing garden hoses. Clearly, one of the basic objectives for the existence of a manufacturing firm is to make a product. Thus, Steven has direct responsibility for a basic objective and, therefore, holds a line position.

2. Line functions typically have a direct role in the delivery of the product or service offered by a company, while the staff functions fill a support role. Staff function supports the line functions.

Exercise 1–5

It is obviously not ethical for Mary to agree to Peter's proposal; in fact, it is illegal. She should refuse to go along with this scheme, and she should contact a person more senior than Peter in the athletics and recreation department and inform them of his proposal. Her customers have an expectation that their employees and suppliers will act in an ethical manner and, if they do not, that they will be reported by anyone who knows.

Exercise 1–6

1. Brad is not behaving ethically in this situation. By delaying the marketing campaign by a month, he is simply deferring the problem to a later date: the end of next fiscal year. If he does not meet his numbers because of poor performance, he should not try to fool the system by taking action that may make it appear that he has succeeded.

2. Brad could employ any number of legitimate strategies to overcome his dilemma. That is, he could

   - generate much higher sales by increasing the number of calls made by salespeople;
   - cut back on major expenses that will not impact the capability of operating the division effectively.

Exercise 1–7

1. By the time most students graduate from high school, they have not had much exposure to business. Therefore, they do not have full knowledge of acceptable behaviour in the business environment. Students may not know that certain practices are unethical because they may not be familiar with the behavioural norms associated with these practices. Once students begin to learn business practices, they begin to see what ethical dilemmas can arise in a business context. They then are able to apply the moral training they have had to deal with the situations. Furthermore, evidence exists that ethical reasoning can be changed for the better. Thus, instruction in ethics can be a vital part of a business student's education.
2. Sacrificing self-interest is a choice that each person must make. Others may be influenced by those individuals who behave ethically. Individuals committed to ethical behaviour produce societies committed to ethical behaviour (not vice versa).
3. While this sounds noble, many would disagree that managers are first seeking to serve others and accept personal financial rewards as a by-product of a good job. Pursuit of self-interest and personal financial well-being is not necessarily unethical. It is only when this pursuit is done at the expense of the collective good that the behaviour becomes questionable.
4. It is often true that unethical firms and individuals suffer financially. In the long run, some evidence suggests that ethical behaviour does pay. It is doubtful, however, that every unethical firm or individual is wiped out financially. Too many notable exceptions to this statement exist (for example, the selling of drugs by organized crime).

Exercise 1–8

Clearly, John wrongly disclosed the confidential information to his employees when the information was not generally known and the employees were not at such a level that they ought to know this information. A manager has a duty to preserve the confidentiality of sensitive information about the company that the manager has learned as a result of their position.

The employees should not act on the information because it would be unethical for them to act on insider information. Knowing the information is not wrong on the part of the employees, but acting on it is.

Exercise 1–9

The approach being used by Reginald is ethically wrong. By insisting that junior staff not report all of their hours, he is misleading senior management not only of his performance, but also on the expected performance in the future by other managers.

Exercise 1–10

Answers will vary.

Exercise 1–11

Answers will vary.