***Introduction to Management Accounting, 16e* (Horngren)**

**Chapter 1 Managerial Accounting, the Business Organization, and Professional Ethics**

1.1 Questions

1) Which credential is associated with management accountants?

A) CPA

B) CMA

C) CFP

D) IMA

Answer: B

Diff: 1

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

2) The largest U.S. association of professional accountants whose major interest is management accounting is the \_\_\_\_\_\_\_\_.

A) American Institute of Certified Public Accountants

B) American Institute of Certified Management Accountants

C) Institute of Management Accountants

D) American Institute of Management Accountants

Answer: C

Diff: 1

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

3) \_\_\_\_\_\_\_\_ is the field that produces information used primarily by managers within an organization.

A) Financial accounting

B) Management accounting

C) Internal auditing

D) External auditing

Answer: B

Diff: 1

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

4) The primary users of management accounting information are \_\_\_\_\_\_\_\_.

A) bankers

B) governmental regulatory bodies

C) managers in organizations

D) managerial accountants

Answer: C

Diff: 1

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

5) \_\_\_\_\_\_\_\_ is the field of accounting that develops information for external parties such as stockholders, suppliers, banks and governmental regulatory bodies.

A) Auditing

B) Internal auditing

C) Management accounting

D) Financial accounting

Answer: D

Diff: 1

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

6) Which of the following statements about management accounting is FALSE?

A) Management accounting is the process of identifying, measuring, accumulating, analyzing, preparing, interpreting and communicating information.

B) Management accounting helps managers fulfill organizational objectives.

C) Management accounting is used by managerial accountants to make strategic and operational decisions.

D) Management accounting produces information for managers in an organization.

Answer: C

Diff: 1

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

7) When comparing management accounting and financial accounting, which of the following statements is FALSE?

A) Management accounting has a future orientation whereas financial accounting has a past orientation.

B) Management accounting prepares detailed reports whereas financial accounting prepares summary reports.

C) Management accountants are constrained by the principles of reporting promulgated by the Institute of Management Accountants whereas financial accountants are constrained by Generally Accepted Accounting Principles.

D) Behavioral considerations are of primary importance in management accounting, but not in financial accounting.

Answer: C

Diff: 1

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

8) Generally Accepted Accounting Principles are most closely connected to \_\_\_\_\_\_\_\_.

A) management accounting

B) financial accounting

C) internal auditing

D) management auditing

Answer: B

Diff: 1

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

9) Who provides assurance to external users about the reliability of a company's financial statements?

A) Certified Management Accountants and Certified Public Accountants

B) Chartered Management Accountants and Certified Management Accountants

C) Certified Public Accountants and Chartered Management Accountants

D) Certified Public Accountants and Chartered Accountants

Answer: D

Diff: 1

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

10) Financial reports prepared by financial accountants focus on \_\_\_\_\_\_\_\_. Financial reports prepared by management accountants focus on \_\_\_\_\_\_\_\_.

A) segments of the organization such as departments and divisions; segments of the organization such as departments and divisions

B) the organization as a whole; the organization as a whole

C) the organization as a whole; segments of the organization such as departments and divisions

D) segments of the organization such as departments and divisions; the organization as a whole

Answer: C

Diff: 2

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

11) Which of the following organizations oversees the CMA Exam?

A) American Institute of Certified Public Accountants

B) Chartered Accountants Institute

C) Institute of Management Accountants

D) American Institute of Certified Management Accountants

Answer: C

Diff: 1

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

12) Generally Accepted Accounting Principles play an important role in management accounting.

Answer: FALSE

Diff: 1

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

13) Behavioral considerations are of primary importance in financial accounting.

Answer: FALSE

Diff: 1

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

14) Financial accounting reports are usually prepared for a period of one year or less.

Answer: TRUE

Diff: 1

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

15) Reports prepared by managerial accountants have a past orientation.

Answer: FALSE

Diff: 1

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

16) In some countries outside the United States, independent auditors are called chartered accountants.

Answer: TRUE

Diff: 1

LO: 1-1

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

1.2 Questions

1) \_\_\_\_\_\_\_\_ information helps managers focus on operating problems, imperfections, inefficiencies and opportunities.

A) Scorekeeping

B) Attention directing

C) Problem solving

D) Performance

Answer: B

Diff: 1

LO: 1-2

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

2) Problem solving information would NOT be used in which of the following situations?

A) decision to make or buy parts for a manufactured product

B) decision to replace equipment

C) decision to add or drop a division

D) evaluating the operating performance of a segment in the current year

Answer: D

Diff: 2

LO: 1-2

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

3) Investigating the reasons for the variances on a department's performance report is an example of \_\_\_\_\_\_\_\_.

A) scorekeeping

B) attention directing

C) problem solving

D) auditing

Answer: B

Diff: 2

LO: 1-2

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

4) \_\_\_\_\_\_\_\_ is the classification, accumulation, and reporting of data that help users understand and evaluate organizational performance.

A) Scorekeeping

B) Attention directing

C) Problem solving

D) Cost accounting

Answer: A

Diff: 1

LO: 1-2

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

5) What type of information is used in making nonroutine decisions, such as the decision to replace a traditional assembly line with fully automated robots?

A) scorekeeping information

B) attention directing information

C) problem solving information

D) auditing information

Answer: C

Diff: 2

LO: 1-2

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

6) How is accounting information prepared by management accountants used within an organization?

A) to help operating managers make decisions

B) to plan an organization's operations

C) to control an organization's operations

D) all of the above

Answer: D

Diff: 1

LO: 1-2

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

7) What are accounting systems?

A) The process used to streamline production processes

B) The process used to generate performance measures

C) Formal mechanisms for gathering, organizing and communicating information about an organization's activities

D) none of the above

Answer: C

Diff: 1

LO: 1-2

AACSB: Reflective thinking skills, Use of information technology

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

8) \_\_\_\_\_\_\_\_ involves an analysis of alternative courses of action and the identification of the best course of action to follow.

A) Scorekeeping

B) Attention directing

C) Problem-solving

D) Internal auditing

Answer: C

Diff: 1

LO: 1-2

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

9) Starbucks generates many financial reports to evaluate the operating performance of each store at the end of each quarter. The financial reports are an example of \_\_\_\_\_\_\_\_.

A) scorekeeping

B) attention directing

C) problem-solving

D) management auditing

Answer: A

Diff: 1

LO: 1-2

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

10) Starbucks experiments with adding ice cream sundaes to its menu at several stores in the state of Washington Financial reports are prepared showing revenues and costs for the new menu item. Based on the reports, management at the corporate office will then decide whether to permanently add or remove the new menu item. The financial reports are an example of \_\_\_\_\_\_\_\_ information.

A) scorekeeping

B) attention directing

C) problem-solving

D) management auditing

Answer: C

Diff: 2

LO: 1-2

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

11) Companies produce most \_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_ information on a routine basis such as every day, every month or every quarter.

A) scorekeeping; problem-solving

B) scorekeeping; attention directing

C) problem-solving; attention directing

D) interim reports; problem-solving

Answer: B

Diff: 1

LO: 1-2

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

12) A company is setting the price on a special order of a manufactured product routinely made. What type of information is needed to set the price?

A) scorekeeping

B) attention directing

C) problem-solving

D) interim reports

Answer: C

Diff: 2

LO: 1-2

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

13) A company is unsure whether it is more cost efficient to make or buy a component used in a manufactured product that is mass produced. What type of information is needed to make this decision?

A) scorekeeping

B) attention directing

C) problem-solving

D) management auditing

Answer: C

Diff: 2

LO: 1-2

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

14) A company is considering whether to change the mix of products sold. They think it would be more profitable to emphasize the products with the highest profit per unit. What type of information is needed to answer this question?

A) scorekeeping

B) attention directing

C) problem-solving

D) internal auditing

Answer: C

Diff: 2

LO: 1-2

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

15) Planning refers to \_\_\_\_\_\_\_\_.

A) the implementation of organizational plans

B) the use of performance reports to evaluate the attainment of organizational objectives

C) setting organizational objectives and establishing the path to attain them

D) an analysis of alternative courses of action

Answer: C

Diff: 1

LO: 1-2

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

16) Taco Bell wants to increase profitability of stores in the Midwest by adding new menu items and increasing advertising. This is an experiment and the company is unsure if these actions will be fruitful. On the part of management, this is an example of \_\_\_\_\_\_\_\_.

A) control

B) scorekeeping

C) feedback

D) planning

Answer: D

Diff: 2

LO: 1-2

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

17) Southern Chicken is expanding the menu items offered in order to increase profitability. Management will evaluate the profitability of each new menu item after six months. Menu items that are profitable will be retained and the others will be discontinued. On the part of management, the evaluation and subsequent actions after six months is an example of \_\_\_\_\_\_\_\_.

A) management auditing

B) internal auditing

C) planning

D) control

Answer: D

Diff: 1

LO: 1-2

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

18) A manager using information to decide whether to add or drop a product is an example of problem solving.

Answer: TRUE

Diff: 2

LO: 1-2

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

19) Most scorecard and attention-directing information is produced on a nonroutine basis.

Answer: FALSE

Diff: 2

LO: 1-2

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

1.3 Questions

1) A(n) \_\_\_\_\_\_\_\_ is a review to determine whether the policies and procedures specified by top management have been implemented by lower managers.

A) management audit

B) internal audit

C) internal control

D) internal accounting control

Answer: A

Diff: 1

LO: 1-3

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

2) The Foreign Corrupt Practices Act requires \_\_\_\_\_\_\_\_.

A) companies to cease conducting business with companies in some foreign countries

B) companies to reject bribes from companies in foreign countries

C) companies to have an appropriate system of internal controls

D) companies to prepare a separate report on their accounting information system

Answer: C

Diff: 2

LO: 1-3

AACSB: Dynamics of the global economy

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

3) Performance reports compare actual results to \_\_\_\_\_\_\_\_. Performance reports also report \_\_\_\_\_\_\_\_.

A) budgeted results; bonuses awarded

B) objectives; variances

C) planned results; variances

D) projected results; stock options granted

Answer: C

Diff: 1

LO: 1-3

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

4) To evaluate managers' decisions and the productivity of organizational units, organizations use \_\_\_\_\_\_\_\_.

A) annual financial statements

B) quarterly financial statements

C) bimonthly financial statements

D) performance reports

Answer: D

Diff: 1

LO: 1-3

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

5) An unfavorable variance occurs on a performance report when \_\_\_\_\_\_\_\_.

A) the actual cost is less than the budgeted cost

B) the actual revenue is greater than the budgeted revenue

C) the actual profit is greater than the budgeted profit

D) the actual revenue is less than the budgeted revenue

Answer: D

Diff: 2

LO: 1-3

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

6) A favorable variance occurs on a performance report when \_\_\_\_\_\_\_\_.

A) the actual cost is greater than the budgeted cost

B) the actual revenue is less than the budgeted revenue

C) the actual profit is less than the budgeted profit

D) the actual profit is greater than the budgeted profit

Answer: D

Diff: 2

LO: 1-3

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

7) Who is the primary user of performance reports used to plan and control operations?

A) management accountants

B) CPAs

C) operating managers

D) chartered accountants

Answer: C

Diff: 1

LO: 1-3

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

8) When designing an accounting information system for management, which governmental regulations are NOT important?

A) Sarbanes-Oxley Act

B) Foreign Corrupt Practices Act

C) Tax rules promulgated by Internal Revenue Service

D) Six Sigma Act

Answer: D

Diff: 1

LO: 1-3

AACSB: Reflective thinking skills, Use of information technology

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

9) What types of variances should be investigated when looking at performance reports?

A) all variances

B) only favorable and unfavorable variances that are large in size

C) only unfavorable variances that are large in size

D) only favorable variances that are large in size

Answer: B

Diff: 2

LO: 1-3

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

10) A budget \_\_\_\_\_\_\_\_.

A) is a quantitative expression of a plan of action

B) provides feedback by comparing actual results with planned results

C) includes deviations from planned results

D) ignores areas that are presumed to be running smoothly

Answer: A

Diff: 1

LO: 1-3

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

11) Management-by-exception means that managers should \_\_\_\_\_\_\_\_.

A) concentrate on areas that deviate from the plan

B) in the absence of other evidence, presume that areas that conform with plans are running smoothly

C) A and B

D) none of the above

Answer: C

Diff: 1

LO: 1-3

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

12) The Helium Company held a Christmas party. The company expected attendance of 100 people and prepared the following budget:

Hotel room rental $500

Food 500

Entertainment 800

Decorations 300

Total Costs $2,100

One hundred people attended the party. The following costs were incurred:

Hotel room rental $575

Food 640

Entertainment 750

Decorations 350

Total Costs $2,315

What is the variance for total costs?

A) $215 Unfavorable

B) $215 Favorable

C) $25 Favorable

D) $140 Unfavorable

Answer: A

Diff: 2

LO: 1-3

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

13) The Hermanski Company held a Christmas party. The company expected attendance of 100 people and prepared the following budget:

Hotel room rental $600

Food 500

Entertainment 800

Decorations 300

Total Costs $2,200

One hundred people attended the party. The costs incurred were:

Hotel room rental $575

Food 640

Entertainment 750

Decorations 350

Total Costs $2,315

What is the primary reason for the variance in total costs?

A) Hotel room rent cost more than expected.

B) Food cost more than expected.

C) Entertainment cost more than expected.

D) Decorations cost less than expected.

Answer: B

Diff: 2

LO: 1-3

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

14) USA Bank held a party. USA Bank expected attendance of 100 people and prepared the following budget:

Hotel room rental $600

Food 500

Entertainment 800

Decorations 300

Total Costs $2,200

One hundred people attended the party. The following costs were incurred:

Hotel room rental $575

Food 640

Entertainment 750

Decorations 350

Total Costs $2,315

What is the variance for the cost of food?

A) $115 Unfavorable

B) $140 Favorable

C) $115 Favorable

D) $140 Unfavorable

Answer: D

Diff: 2

LO: 1-3

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

15) A fraternity held a party. The fraternity prepared the following budget for 25 expected attendees:

Room rental $150

Food 250

Entertainment 150

Decorations 75

Total Costs $625

Twenty-five people attended the party. The following costs were incurred:

Room rental $240

Food 320

Entertainment 125

Decorations 75

Total Costs $760

What is the variance for total costs?

A) $90 Unfavorable

B) $135 Unfavorable

C) $135 Favorable

D) $70 Unfavorable

Answer: B

Diff: 2

LO: 1-3

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

16) A sorority held a party. The sorority prepared the following budget for 25 expected attendees:

Room rental $270

Food 250

Entertainment 150

Decorations 75

Total Costs $745

Twenty-five people attended the party. The costs incurred were:

Room rental $140

Food 320

Entertainment 125

Decorations 75

Total Costs $660

What is the variance for the room rental cost?

A) $85 Unfavorable

B) $85 Favorable

C) $130 Favorable

D) $130 Unfavorable

Answer: C

Diff: 2

LO: 1-3

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

17) Variances are deviations from planned results.

Answer: TRUE

Diff: 1

LO: 1-3

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

18) Management by exception is the practice of ignoring areas that deviate from the plan.

Answer: FALSE

Diff: 1

LO: 1-3

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

19) A budget is a qualitative expression of a plan of action.

Answer: FALSE

Diff: 1

LO: 1-3

AACSB: Reflective thinking skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

20) The management accountant prepares the following performance report for a company's first year of operations:

Budget Actual Variance

Sales $100,000 $110,000 ?

Cost of Goods Sold 50,000 45,000 ?

Selling Expenses 20,000 19,000 ?

Administrative Expenses 10,000 11,000 ?

Operating Income $20,000 $35,000 ?

Required:

A) Compute variances for each line item on the income statement. Also indicate if the variances are favorable or unfavorable.

Answer:

A)

Budget Actual Variance

Sales $100,000 $110,000 $10,000 F

Cost of Goods Sold 50,000 45,000 5,000 F

Selling Expenses 20,000 19,000 1,000 F

Administrative Expenses 10,000 11,000 1,000 U

Operating Income $20,000 $35,000 $15,000 F

Diff: 2

LO: 1-3

AACSB: Analytic skills

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

1.4 Questions

1) Which of the following items should be considered by managers when designing accounting systems?

A) cost-benefit balances

B) behavioral implications

C) cost-benefit balances and behavioral implications

D) none of the above

Answer: C

Diff: 1

LO: 1-4

AACSB: Reflective thinking skills, Use of information technology

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

2) \_\_\_\_\_\_\_\_ is (are) the primary consideration in choosing among accounting systems.

A) Simplicity

B) Behavioral implications

C) The cost-benefit balance

D) Simplicity and behavioral implications

Answer: C

Diff: 1

LO: 1-4

AACSB: Reflective thinking skills, Use of information technology

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

3) \_\_\_\_\_\_\_\_ is (are) the accounting system's effect on the behavior and the decisions of managers.

A) Simplicity

B) Behavioral implications

C) The cost-benefit balance

D) The code of ethics

Answer: B

Diff: 1

LO: 1-4

AACSB: Reflective thinking skills, Use of information technology

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

4) When designing an accounting information system, the cost to acquire additional information should be incurred \_\_\_\_\_\_\_\_.

A) at all times so the operating manager has more information to make decisions

B) when information overload does not occur

C) at all times because the benefit cannot be quantified

D) when the expected benefit of an improved decision exceeds the cost of the information

Answer: D

Diff: 2

LO: 1-4

AACSB: Reflective thinking skills, Use of information technology

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

5) When developing a price for a new product, the price must cover \_\_\_\_\_\_\_\_.

A) costs in phase-out and product development cycles only

B) costs in mature market and introduction to market cycles only

C) costs in product development and phase-out cycles plus direct production costs

D) costs incurred in all stages of the product life cycle

Answer: D

Diff: 2

LO: 1-4

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

6) During the product development stage of the product life cycle, companies typically experience \_\_\_\_\_\_\_\_.

A) revenues and no costs

B) costs and no revenues

C) both costs and revenues

D) neither costs nor revenues

Answer: B

Diff: 2

LO: 1-4

AACSB: Analytic skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

7) When does a company earn the majority of revenue for a product that goes through the product life cycle?

A) phase-out of product and introduction to market stages

B) introduction to market and mature market stages

C) product development and mature market stages

D) mature market and phase-out of product stages

Answer: B

Diff: 2

LO: 1-4

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

8) Which stage of the product life cycle has a stable sales level?

A) product development stage

B) introduction to market stage

C) mature market stage

D) phase-out of product stage

Answer: C

Diff: 2

LO: 1-4

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

9) The various stages through which a product passes are called the \_\_\_\_\_\_\_\_.

A) value chain

B) product life cycle

C) performance plan

D) product performance plan

Answer: B

Diff: 1

LO: 1-4

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

10) Product life cycles may range from a few months to many years.

Answer: TRUE

Diff: 1

LO: 1-4

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

11) The product life cycle for an automobile is usually a few months.

Answer: FALSE

Diff: 1

LO: 1-4

AACSB: Analytic skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

12) The cost-benefit balance is the primary consideration in choosing among accounting systems.

Answer: TRUE

Diff: 1

LO: 1-4

AACSB: Reflective thinking skills, Use of information technology

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

13) The behavioral implications of an accounting system refer to the system's effects on the firm's customers.

Answer: FALSE

Diff: 1

LO: 1-4

AACSB: Reflective thinking skills, Use of information technology

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

14) Additional costly information should be acquired when the expected benefit of an improved decision exceeds the cost of the information.

Answer: TRUE

Diff: 1

LO: 1-4

AACSB: Reflective thinking skills, Use of information technology

Learning Outcome: Describe the basics of managerial accounting and its function within an organization

1.5 Questions

1) Marketing is the function of the value chain that involves \_\_\_\_\_\_\_\_.

A) the mechanism by which a company delivers products or services to the customer

B) the manner by which individuals or groups learn about the value and features of products or services

C) selling activities and delivery activities

D) selling activities and customer service

Answer: B

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

2) Distribution is the function of the value chain that involves \_\_\_\_\_\_\_\_.

A) the mechanism by which a company delivers products or services to the customer

B) the manner by which individuals or groups learn about the value and features of products or services

C) the support activities provided to the customer

D) none of the above

Answer: A

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

3) Research and development is the function of a value chain that involves \_\_\_\_\_\_\_\_.

A) the detailed design and engineering of products, services or processes

B) the generation of ideas related to new products, services or processes

C) the generation of ideas related to new products only

D) the detailed design and engineering of new processes

Answer: B

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

4) The detailed design and engineering of products, services or processes is called the \_\_\_\_\_\_\_\_ function in the value chain.

A) research and development

B) design

C) engineering

D) production

Answer: B

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

5) The function of the value chain that provides support activities to the customer is called \_\_\_\_\_\_\_\_.

A) marketing

B) distribution

C) customer service

D) consumer relations

Answer: C

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

6) Advertising is an example of the \_\_\_\_\_\_\_\_ function of the value chain.

A) distribution

B) selling

C) marketing

D) promotion

Answer: C

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

7) A telephone hotline is established for customers to call with questions about a new electronic device. This is an example of the \_\_\_\_\_\_\_\_ function in the \_\_\_\_\_\_\_\_.

A) marketing; value chain

B) distribution; value chain

C) customer service; value chain

D) marketing; product life cycle

Answer: C

Diff: 2

LO: 1-5

AACSB: Analytic skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

8) An example of a staff department at a clothing manufacturer is the \_\_\_\_\_\_\_\_.

A) pressing department

B) cutting department

C) sewing department

D) maintenance department

Answer: D

Diff: 2

LO: 1-5

AACSB: Analytic skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

9) According to the Financial Executives Institute, a function of the controller is \_\_\_\_\_\_\_\_.

A) investments

B) short-term financing

C) provision of capital

D) reporting and interpreting

Answer: D

Diff: 2

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

10) According to the Financial Executives Institute, a function of the treasurer is \_\_\_\_\_\_\_\_.

A) reporting and interpreting

B) short-term financing

C) protection of assets

D) government reporting

Answer: B

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

11) The \_\_\_\_\_\_\_\_ is mainly concerned with the company's operating matters whereas the \_\_\_\_\_\_\_\_ is mainly concerned with the company's financial matters.

A) treasurer; controller

B) controller; treasurer

C) managerial accountant; financial accountant

D) chief executive officer; chief financial officer

Answer: B

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

12) Accountants play a role in supporting \_\_\_\_\_\_\_\_ of the value-chain functions.

A) some

B) none

C) about half

D) all

Answer: D

Diff: 2

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

13) A new weight loss product is sold by a mail-order system. The mail-order system is an example of the \_\_\_\_\_\_\_\_ function in the value chain.

A) marketing

B) production

C) customer service

D) distribution

Answer: D

Diff: 2

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

14) Each value chain function should focus on activities that \_\_\_\_\_\_\_\_.

A) create profits for the seller

B) create bonuses for top management

C) create higher stock prices for the company's stock

D) create value for the customer

Answer: D

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

15) What type of managers is directly involved with making and selling an organization's products?

A) staff managers

B) line managers

C) management accountants

D) accounting managers

Answer: B

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

16) What type of managers supports line managers by providing information and advice?

A) staff managers

B) operating managers

C) assembly room managers

D) welding room managers

Answer: A

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

17) In a typical manufacturing factory, staff functions do NOT include \_\_\_\_\_\_\_\_.

A) inspection

B) storeroom

C) maintenance

D) welding

Answer: D

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

18) In a typical manufacturing factory, line functions do NOT include \_\_\_\_\_\_\_\_.

A) purchasing

B) stamping

C) welding

D) assembly

Answer: A

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

19) The value chain refers to the various stages through which a product passes.

Answer: FALSE

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

20) Accountants support only some of the value-chain functions.

Answer: FALSE

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

21) Line managers are directly involved with making and selling the organization's products or services.

Answer: TRUE

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

22) Staff managers give advice to line managers and have authority over line managers.

Answer: FALSE

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

23) The maintenance department provides line support to the welding department in a factory.

Answer: FALSE

Diff: 2

LO: 1-5

AACSB: Analytic skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

24) Specialization by individuals in organizations is being replaced by decision-making by cross-functional teams.

Answer: TRUE

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

25) One of a controller's responsibilities is risk management.

Answer: FALSE

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

26) One of a treasurer's responsibilities is tax administration.

Answer: FALSE

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

27) The controller is primarily concerned with a company's financial matters and the treasurer is concerned with a company's operating matters.

Answer: FALSE

Diff: 1

LO: 1-5

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

1.6 Questions

1) Which of the following is a major factor causing changes in management accounting today?

A) additional value chain functions

B) small advances in technology

C) shift to manufacturing-based economy

D) increased global competition

Answer: D

Diff: 1

LO: 1-6

AACSB: Dynamics of the global economy, Use of information technology

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

2) Which company is NOT a service organization?

A) Affiliated Dermatologists

B) Michael Flynn Dentistry

C) Lowe's Home Improvement Store

D) United Internists

Answer: C

Diff: 1

LO: 1-6

AACSB: Analytic skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

3) All service organizations are similar in that \_\_\_\_\_\_\_\_.

A) they are labor intensive

B) output is easy to measure

C) major inputs and outputs can be stored

D) they are capital intensive

Answer: A

Diff: 1

LO: 1-6

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

4) Wal-Mart buys Halloween candy from a candy company in Hershey, Pennsylvania. This is an example of a(n) \_\_\_\_\_\_\_\_.

A) A2B transaction

B) B2B transaction

C) B2C transaction

D) C2B transaction

Answer: B

Diff: 1

LO: 1-6

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

5) Which statement is FALSE concerning Enterprise Resource Planning (ERP) systems?

A) Accounting is one part of an ERP system.

B) Accountants must work with operating managers throughout the organization to ensure that the ERP system provides the financial information that managers need.

C) ERP systems support all functional areas of a company.

D) SAP is not a provider of ERP systems.

Answer: D

Diff: 1

LO: 1-6

AACSB: Use of information technology

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

6) Which of the following is NOT a new direction in business process management?

A) JIT philosophy

B) XBRL

C) Six Sigma

D) TQM

Answer: B

Diff: 1

LO: 1-6

AACSB: Use of information technology

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

7) Which statement about service organizations is FALSE?

A) Service organizations include law firms, banks, insurance companies and hospitals.

B) Service organizations do not make or sell tangible goods.

C) The service sector accounts for the majority of the employment in the United States.

D) Managers in service organizations do not need as much accounting information as their counterparts in other types of organizations.

Answer: D

Diff: 2

LO: 1-6

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

8) Examples of business process reengineering do NOT include \_\_\_\_\_\_\_\_.

A) computer-aided design

B) computer-aided manufacturing

C) robots

D) labor-intensive machines

Answer: D

Diff: 2

LO: 1-6

AACSB: Reflective thinking skills, Use of information technology

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

9) What is lean manufacturing?

A) eliminating the time products spend in activities that do not add value

B) reducing the time products spend in the production process

C) reducing the amount of inventories by ordering raw materials only when needed and making products only when ordered by customers

D) continuous process improvements to eliminate waste from the entire enterprise

Answer: D

Diff: 2

LO: 1-6

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

10) Which statement about TQM is FALSE?

A) TQM focuses on product quality.

B) TQM minimizes costs by maximizing quality.

C) TQM focuses on the prevention of defects and on customer satisfaction

D) Management accountants have no role in the application of TQM.

Answer: D

Diff: 1

LO: 1-6

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

11) What is Six Sigma?

A) a process improvement to eliminate waste from the entire enterprise

B) a process improvement to reduce the time products spend in the production process

C) a process improvement to reduce the time products spend in activities that do not add value

D) a data-driven approach to eliminate defects in any process

Answer: D

Diff: 2

LO: 1-6

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

12) Why do changes in business process management affect management accounting?

A) Management accountants are experts in designing plant layout changes.

B) Management accountants specialize in designing manufacturing cells to streamline production processes.

C) They all affect product costs and management accountants measure product costs.

D) They all affect the number of workers employed and management accountants are involved in human resources.

Answer: C

Diff: 1

LO: 1-6

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

13) Which statement about JIT is FALSE?

A) JIT minimizes inventories of raw materials, work in process and finished goods.

B) JIT eliminates non-value-added activities such as inspection.

C) JIT decreases the amount of time products spend in the production process.

D) JIT focuses on customer satisfaction and the prevention of defects.

Answer: D

Diff: 2

LO: 1-6

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

14) A chemical plant has changed the production process for several chemicals. Computers now run the new equipment and robots have replaced most of the workers. What new activities should the accounting system undertake now?

A) Develop new product costs using new equipment and robots.

B) Develop fringe benefit packages for remaining workers.

C) Develop schedules for production setups and runs.

D) Develop uses for idle plant capacity.

Answer: A

Diff: 2

LO: 1-6

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

15) The essence of the just-in-time philosophy is to eliminate waste.

Answer: TRUE

Diff: 1

LO: 1-6

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

16) Computer-integrated manufacturing systems do not use robots.

Answer: FALSE

Diff: 1

LO: 1-6

AACSB: Use of information technology, Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

17) XBRL is an integrated information system that supports all functional areas of a business.

Answer: FALSE

Diff: 1

LO: 1-6

AACSB: Use of information technology, Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

18) Many companies derive their competitive advantage from their information, not their physical facilities.

Answer: TRUE

Diff: 1

LO: 1-6

AACSB: Reflective thinking skills

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

1.7 Questions

1) Here is a statement from the Statement of Ethical Professional Practice drafted by the Institute of Management Accountants: "Each member has a responsibility to perform professional duties in accordance with relevant laws, regulations and technical standards." This statement comes from the \_\_\_\_\_\_\_\_ standard.

A) credibility

B) confidentiality

C) competence

D) professional responsibility

Answer: C

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

2) According to the Statement of Ethical Professional Practice drafted by the IMA, the standard of integrity states that each member has a responsibility to \_\_\_\_\_\_\_\_.

A) communicate information fairly and objectively

B) mitigate actual conflicts of interest

C) recognize and communicate professional limitations or other constraints that would preclude responsible judgment or successful performance of an activity

D) disclose delays or deficiencies in information

Answer: B

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

3) This is a statement from the IMA's Statement of Ethical Professional Practice: "Each member has a responsibility to communicate information fairly and objectively." This statement comes from the \_\_\_\_\_\_\_\_ standard.

A) competence

B) confidentiality

C) integrity

D) credibility

Answer: D

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

4) According to the IMA's Statement of Ethical Professional Practice, the standard of credibility includes \_\_\_\_\_\_\_\_.

A) continually developing the accountant's knowledge and skills

B) mitigating actual conflicts of interest

C) disclosing all relevant information that could reasonably be expected to influence an intended user's understanding of the reports

D) refraining from engaging in any conduct that would prejudice carrying out duties ethically

Answer: C

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

5) Susanna is the management accountant at Slow Company. Her close friend, Leslie, is a shareholder in Slow Company. Leslie asks Susanna for information about Slow Company that is typically available only to executive officers in the company. If Susanna shares this information with Leslie, Susanna violates the IMA's ethical standard of \_\_\_\_\_\_\_\_.

A) competence

B) confidentiality

C) integrity

D) objectivity

Answer: B

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

6) Jennifer is the management accountant in Beck Company. A supplier to Beck Company offers Jennifer free tickets to several NASCAR races. If Jennifer accepts the supplier's offer, she violates the IMA's ethical standard of \_\_\_\_\_\_\_\_.

A) competence

B) confidentiality

C) credibility

D) integrity

Answer: D

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

7) The IMA's ethical standard of confidentiality does NOT require each member to \_\_\_\_\_\_\_\_.

A) keep information confidential except when disclosure is authorized or legally required

B) inform all relevant parties regarding appropriate use of confidential information

C) refrain from using confidential information for unethical or illegal advantage

D) provide confidential decision support information and recommendations that are accurate, clear, concise and timely

Answer: D

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

8) The IMA's ethical standard for integrity includes all of the following EXCEPT \_\_\_\_\_\_\_\_.

A) each member has a responsibility to mitigate actual conflicts of interest

B) each member has a responsibility to refrain from engaging in any conduct that would prejudice carrying out duties ethically

C) each member has a responsibility to abstain from engaging in or supporting any activity that would discredit the profession

D) each member has a responsibility to monitor subordinates' activities to ensure compliance with the ethical standard

Answer: D

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

9) According to the IMA's Statement of Ethical Professional Practice, the standard of credibility requires \_\_\_\_\_\_\_\_.

A) mitigating actual conflicts of interest

B) maintaining an appropriate level of professional expertise by continually developing knowledge and skills

C) communicating information fairly and objectively

D) performing professional duties in accordance with relevant laws, regulations and technical standards

Answer: C

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

10) The Institute of Management Accountants has adopted a set of standards for ethical conduct which includes \_\_\_\_\_\_\_\_.

A) competence, integrity, confidentiality and objectivity

B) competence, confidentiality, credibility and objectivity

C) competence, confidentiality, credibility and integrity

D) competence, integrity, morality and confidentiality

Answer: C

Diff: 1

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

11) You are a management accountant in a large company. You have observed unethical behavior by your immediate supervisor. In accordance with the guidelines offered by the IMA, which of the following courses of action should NOT be taken?

A) Follow the organization's established policies on the resolution of ethical conflict.

B) Discuss the issue with your immediate supervisor.

C) Consult your own attorney.

D) Initiate a confidential discussion with an IMA Ethics Counselor.

Answer: B

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

12) Scott is a management accountant in a large company. Scott observed unethical behavior by a coworker who is also a management accountant. The coworker is a relative of the company's president and he always receives preferential treatment. Scott observed the coworker putting office supplies and small pieces of electronic equipment in his briefcase. The company does not have a code of ethics or a set of policies for ethical problems. According to the IMA, what course of action should Scott take?

A) He should report the observation to the police. The coworker is stealing from the company.

B) He should report the observation to his immediate supervisor.

C) He should report the observation to the Securities and Exchange Commission.

D) He should do nothing.

Answer: B

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities, Reflective Thinking

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

13) According to the Financial Executive, which of the following situations create pressures for unethical behavior?

A) emphasis on long-term results

B) upward trends in the economy

C) ignoring small lapses in ethical behavior

D) rising stock prices

Answer: C

Diff: 1

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

14) John is a management accountant at DAP Inc. John has reason to believe that his immediate supervisor (the controller), the chief financial officer and the company president are engaged in accounting fraud that involves overstating assets and understating liabilities. The company does not have a code of ethics or a set of policies for ethical problems. According to the guidelines offered by the IMA, what should John do?

A) Report the suspected wrongdoings to the local police.

B) Discuss the suspected wrongdoings with his immediate supervisor.

C) Discuss the suspected wrongdoings with the company president.

D) Report the suspected wrongdoings to the audit committee or the board of directors.

Answer: D

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities, Reflective Thinking

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

15) According to the Institute of Management Accountants, management accountants should follow several ethical principles that include \_\_\_\_\_\_\_\_.

A) honesty, fairness, respect and compassion

B) honesty, fairness, responsibility and objectivity

C) honesty, competence, confidentiality and integrity

D) competence, confidentiality, integrity and honesty

Answer: B

Diff: 1

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

16) The IMA's ethical standard for confidentiality includes all of the following EXCEPT \_\_\_\_\_\_\_\_.

A) keep information confidential except when disclosure is authorized or legally required

B) inform all relevant parties regarding appropriate use of confidential information. Monitor subordinates' activities to ensure compliance

C) refrain from using confidential information for unethical or illegal advantage

D) refrain from engaging in any conduct that would prejudice carrying out duties ethically

Answer: D

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

17) An IMA ethical standard states, "Each member has a responsibility to disclose delays or deficiencies in information, timeliness, processing or internal controls in conformance with organizational policy and or applicable law." This statement comes from the \_\_\_\_\_\_\_\_ standard.

A) integrity

B) confidentiality

C) competence

D) credibility

Answer: D

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

18) If an employee observes unethical behavior in an organization, the employee is first obligated to \_\_\_\_\_\_\_\_.

A) report the behavior to the police

B) report the behavior to his or her supervisor

C) report the behavior to the Securities and Exchange Commission

D) follow the company's policies for unethical behavior

Answer: D

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

19) A code of conduct is a document specifying the ethical standards of an organization.

Answer: TRUE

Diff: 1

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

20) The Sarbanes-Oxley Act requires companies to disclose whether the company has adopted a code of ethics for senior financial officers.

Answer: TRUE

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

21) The corporate culture is a larger influence on the ethical climate of an organization than a code of ethics.

Answer: TRUE

Diff: 1

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

22) In the IMA's Statement of Ethical Professional Practice, integrity is one of the standards explained.

Answer: TRUE

Diff: 1

LO: 1-7

AACSB: Ethical understanding and reasoning abilities

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting

23) Paul Satorius is the controller at ANEW Corporation. The company is not publicly traded. ANEW Corporation just received a patent on a new product that is supposed to revolutionize the music industry. As the moment, however, ANEW Corporation is experiencing financial difficulties and is on the verge of defaulting on a note held by the bank.

At the end of the most recent fiscal year, the company's president instructed Paul to ignore recording some invoices. Paul objected because the invoices represented true liabilities at fiscal year end. However, the president insisted that the invoices should be recorded next year so that current liabilities reported on the balance sheet at the end of the current year are lower. The bank is closely following the amount of current liabilities reported by ANEW Corporation as an indicator of solvency.

Required:

What should Paul do? Follow the guidelines offered by the IMA.

Answer: Paul should follow the company's policies on resolving an ethical conflict. If these policies do not resolve the conflict, then Paul should:

1. report the ethical conflict to the audit committee, executive committee, board of directors, board of trustees or owners of the company

2. have a confidential discussion with an IMA Ethics Counselor or other impartial advisor

3. consult his own attorney as to legal obligations and rights concerning the ethical conflict.

In the end, Paul may have to consider ending his employment with ANEW Corporation.

Diff: 2

LO: 1-7

AACSB: Ethical understanding and reasoning abilities, Reflective Thinking

Learning Outcome: Discuss the legal, ethical and business concepts that affect managerial accounting