CHAPTER **1**

# Accounting as a Tool for Management

**Learning Objectives**

1. Define managerial accounting. (Unit 1.1)
2. Describe the differences between managerial and financial accounting. (Unit 1.1)
3. List and describe the four functions of managers. (Unit 1.1)
4. Explain how the selection of a particular business strategy determines the information that managers need to run an organization effectively. (Unit 1.2)
5. Discuss the importance of ethical behavior in managerial accounting. (Unit 1.3)

**Summary of End of Chapter Material**

**Difficulty:** E = Easy, M = Moderate, D = Difficult

**Bloom:** K = Knowledge, C = Comprehension, AP = Application, AN = Analysis, S = Synthesis, E = Evaluation

**IMA:** S = Strategy, planning & performance, R = Reporting and control, T = Technology and analytics, B = Business acumen & operations, L = Leadership, E = Professional ethics & values

**AICPA ACC:** RA = Risk assessment, M = Measurement, R = Reporting, RS = Research, S = System/process management,
T = Technology

**AICPA BUS:** S = Strategic, G = Global, P = Process management, GV = Governance, C = Customer

**AICPA PRO:** E = Ethics, P = Professional behavior, D = Decision making, CO = Collaboration, L = Leadership,
C = Communication, PM = Project Management

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Item | L. O. | Difficulty Level | Minutes to Complete | Bloom’s Taxonomy | IMA | AICPA ACC | AICPA BUS | AICPA PRO | EthicsCoverage |
| **GUIDED UNIT PREPARATION** |
| **Unit 1.1** |  |  |  |  |  |  |  |  |
| 1 | 1 | E | 2 | K | S | R | S | C |  |
| 2 | 2 | E | 2 | K | R, B | R | GV | C |  |
| 3 | 2 | E | 2 | K | R, B | R | S | C |  |
| 4 | 2 | M | 5-10 | C | R, S | R | S | C |  |
| 5 | 3 | E | 5-7 | K | B, S | R | S, P | C |  |
| **Unit 1.2** |  |  |  |  |  |  |  |  |
| 1 | 4 | M | 4 | C | B, S | R | S, P | C |  |
| 2 | 4 | D | 5-7 | C | B, S | R | S, P | C |  |
| **Unit 1.3** |  |  |  |  |  |  |  |  |
| 1 | 5 | M | 4 | C | E | R | GV | C, E | ✔ |
| 2 | 5 | M | 4 | C, E | E | R | GV | C, E | ✔ |
| **EXERCISES** |
| 1-1 | 1 | M | 12 | AP | B, S | S | S, P | D |  |
| 1-2\* | 2 | D | 10-15 | AP | R, S | R | S, GV | C |  |
| 1-3 | 3 | D | 10-12 | C | S | R | S, P | C |  |
| 1-4 | 4 | M | 12 | AP | B, S | M | S, P | D |  |
| 1-5 | 4 | D | 15-20 | S, AN | B | S | GV, P | D |  |
| 1-6 | 4 | M | 10-15 | C | B, S | R | S, P | C |  |
| 1-7 | 5 | D | 20 | AP, AN | E | RS | GV | C, E | ✔ |
| **PROBLEMS** |
| 1-8 | 1, 3, 4 | M | 15-20 | AP, AN | S | S | S | D |  |
| 1-9 | 5 | M | 15-20 | C, AN | E | R | GV | C, E | ✔ |

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| Item | L. O. | Difficulty Level | Minutes to Complete | Bloom’s Taxonomy | IMA | AICPA ACC | AICPA BUS | AICPA PRO | EthicsCoverage |
| **CASES** |
| 1-10 | 3 | M | 15-20 | S, AN | S, B | M | S, P | D |  |
| 1-11 | 5 | D | 15-20 | AN, E | E | RS | GV | C, E | ✔ |

\* Revised problem in 4th edition

**SOLUTIONS TO GUIDED UNIT PREPARATION**

**Unit 1.1**

**1.** Managerial accounting is the generation of relevant information to support managers’ decision making activities.

**2.** The primary users of financial accounting information are decision makers who are external to the organization. These decision makers might include investors, creditors, banks, and financial analysts.

**3.** The primary users of managerial accounting information are managers within the organization. These managers may be in any department, such as marketing, operations, finance, human resources, and research and development.

**4.**

|  |  |
| --- | --- |
| Managerial Accounting Information | Financial Accounting Information |
| * Prepared for internal managers
 | * Prepared for external users
 |
| * Not subject to mandated rules
 | * Must follow GAAP
 |
| * Focuses on segments of the organization, such as product lines, regions, and divisions
 | * Focuses on the organization as a whole
 |
| * Uses results of past performance to project future results
 | * Reports results of past performance
 |
| * Prepared as needed to meet decision requirements
 | * Prepared after the end of the accounting period
 |
| * Timeliness is not sacrificed for absolute accuracy
 | * Emphasis is on accuracy rather than timeliness
 |

**5.** **Planning** means setting a direction for the organization. Long-term, or strategic planning, provides direction for a five- to ten-year period. Short-term, or operational planning, provides more detailed guidance for the coming year; it translates the company’s strategy into action steps. **Controlling** is the monitoring of day-to-day operations to identify any problems that require corrective action. **Evaluating** is the process of comparing a particular period’s actual results to planned results, for the purpose of assessing managerial performance. **Decision making** means choosing between alternative courses of action.

**Unit 1.2**

**1.** Information is used by managers to monitor progress toward the corporate strategy. The information provides feedback about how well the strategy is being implemented. The balanced scorecard is one tool that assists managers in using information to assist in achieving corporate strategy.

**2.** Decision making activities should be made to move the organization toward a particular strategy, and the accounting information used by decision makers will change depending on the organization’s strategy. For example, an organization following a product differentiation strategy will want information on quality yet, for a low-cost production strategy, production processes will be monitored to focus on lowering costs. Using information that does not assist in monitoring strategy achievement is wasted effort since it does not move the organization toward its desired goals.

**Unit 1.3**

**1.** A code of conduct provides employees guidance in how to act. It provides a means for managers to communicate the importance of ethical behavior to all employees and assists in establishing a corporate culture of ethical behavior. The Sarbanes-Oxley Act requires all publicly-traded companies to have a code of conduct or to publish a disclosure explaining why no code has been adopted.

**2.** An employee’s unethical behavior can have a number of effects on an organization. As employees witness such behavior without managerial intervention, the unethical behavior may appear acceptable and spread to other employees. Such an infection of unethical behavior will increase its occurrence. As recent events such as Enron illustrate, an employee’s unethical behavior can destroy an entire organization.

**SOLUTIONS TO EXERCISES**

**Exercise 1-1**

Student responses will vary depending on the position they choose. The following is one example of a solution a student might give.

Position: Sales manager for a consumer products company

|  |  |  |
| --- | --- | --- |
| **Decision** |  | **Information Needed** |
| What price to charge for a new product |  | Cost to produce one unit of product, demand for the product, production capacity, availability of required materials |
| Number of units that must be sold to break even |  | Current price per unit, fixed costs, variable costs |
| Whether to run a new advertising campaign |  | Current sales volume, expected increase in sales volume, sales price, unit cost, expected cost of advertising campaign |

**Exercise 1-2**

a. financial – focus is on GAAP-based principles

b. managerial – focus is on monitoring performance of an operating segment

c. managerial – focus is on manufacturing operations and resource constraints

d. financial – focus is on reporting quarterly financial results of the organization as a whole

**Exercise 1-3**

a. planning

b. evaluating

c. controlling

d. decision making

e. evaluating

f. planning

g. evaluating

**Exercise 1-4**

a. The focus should be on information about this particular store, such as its sales and operating income. Customer satisfaction and employee turnover at this store are other measures to consider.

b. The focus should be on information about the region, such as financial data for all the stores in the region. The same information examined for individual stores can be examined for the entire region. Elements of the region’s supply chain may also be considered.

c. The focus should be on information about the entire company. The same information examined for individual stores and regions can be examined for the entire company. The executive vice president of operations should be monitored in relation to the performance of all the divisions as a whole.

**Exercise 1-5**

Student response will vary. The supply chain should run from raw materials to end user.

The following supply chain for a newspaper is one example.

Paper Mill

End Customer

Independent Carrier

Timber Harvester

Tree farm

Publisher/
Printer

|  |  |
| --- | --- |
| **Supply Chain Partner** | **Decisions affecting other partners** |
| Tree farm | Variety of trees to plant, number of acres to plant |
| Timber harvester | Timing of timber harvest, choice of delivery method |
| Paper mill | Paper grades to produce, quantity of paper to produce |
| Publisher/Printer | Price charged per newspaper, choice of acceptable retail outlets |
| Independent carrier | Pick-up and delivery time |
| End customer | Desired days of delivery |

**Exercise 1-6**

a. learning and growth

b. customer

c. financial

d. internal business processes

e. internal business processes

f. customer

g. learning and growth

h. customer

i. financial

j. financial

**Exercise 1-7**

a. competence, integrity, credibility

b. confidentiality, integrity

c. competence, integrity, credibility

d. competence, integrity, credibility

**SOLUTIONS TO PROBLEMS**

**Problem 1-8**

a. Managerial accounting information can be useful when growing a business. The information obtained can be used in the areas of planning, controlling, evaluating, and ultimately for decision making. John can use managerial information to predict out-of-state demand, additional costs to meet this new demand, and the income generated by the new demand. After sales are made, John will be able to assess whether making out-of-state sales is as profitable as he expected.

b. One important decision that John would need to make is how much to grow his business. In what areas and by how much should he increase capacity of operations? John would need to decide what type of strategy, product differentiation versus low-cost production, to pursue when growing his business. He will also need to decide how performance will be evaluated.

c. Budgeting is a useful tool when growing a business and is an important part of the planning function of managerial accountants. Budget information will provide useful information about how resources are to be allocated. John may also want to use a balanced scorecard to help monitor performance from the four perspectives – learning and growth, internal business processes, customer, and financial.

**Problem 1-9**

Student responses will vary. Students should compare their examples to components contained in Exhibit 1-7.

**SOLUTIONS TO CASES**

**Case 1-10**

a. Students’ supply chain diagrams may differ. For instance, they may go all the way back to tree farms and then pulp and paper manufacturers. The intent of the case is to have them think about the activities that must occur in the supply chain.



b. Some of the costs Martin would incur include:

 advertising

 equipment (computer and printer) and graphics software

 utilities

 phone

 office supplies

c. Yes, Martin will need to engage in several different specific activities within the categories of planning, controlling, and evaluating as follows:

 Planning: strategic and operational planning, budget preparation, job quotes for customers

 Controlling: prioritizing customer orders, monitoring delivery dates

 Evaluating: surveying customers about satisfaction, comparing actual results to budget, using a balanced scorecard

d. In the first few months, increasing demand for services and repeat sales will be the best indicators that Martin’s business is becoming successful.

**Case 1-11**

Determining if the clinic’s business practices are unethical depends on the quality of the lab’s work. If the lab is doing substandard work, the clinic is pursuing profit at the expense of the patient’s well-being. This is a clear violation of the AMA’s code of ethics.

If the lab is providing high-quality tests at a low price, the clinic may be violating the code of ethics, as the patient should benefit from the lower price, not the clinic. The clinic should not charge a markup on the lab’s services.