

Chapter 1 Managerial Accounting and the Business Environment

True/False Questions

1. Although financial and managerial accounting differ in many ways, they are similar in that both rely on the same underlying financial data.

Answer: True Level: Medium LO: 1

2. Managerial accounting is a branch of financial accounting and serves essentially the same purposes as financial accounting.

Answer: False Level: Medium LO: 1

3. Managerial accounting places greater emphasis on the future than financial accounting, which is primarily concerned with the past.

Answer: True Level: Easy LO: 1

4. Managerial accounting is not needed in a non-profit or governmental organization.

Answer: False Level: Easy LO: 1

5. When carrying out their planning activities, managers select a course of action and specify how the action will be implemented.

Answer: True Level: Easy LO: 2

6. When carrying out their planning activities, managers obtain feedback to ensure that the plan is actually carried out and is appropriately modified as circumstances change.

Answer: False Level: Medium LO: 2

7. The controller occupies a line position in an organization.

Answer: False Level: Easy LO: 2

8. Decentralization means the delegation of decision-making authority throughout an organization by allowing managers at various operating levels to make key decisions relating to their own area of responsibility.

Answer: True Level: Easy LO: 2

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9. A firm's organization chart will normally show both the formal and informal lines of reporting and communication.

Answer: False Level: Easy LO: 2

10. The Chief Financial Officer of an organization is responsible for ensuring that line operations run smoothly.

Answer: False Level: Medium LO: 2

11. Traditionally, companies have maintained large amounts of raw materials, work in process, and finished goods inventories to act as buffers so that operations can proceed smoothly even if there are unanticipated disruptions.

Answer: True Level: Medium LO: 3

12. Process Reengineering is generally considered to be a more radical approach to improvement than Total Quality Management.

Answer: True Level: Easy LO: 3

13. Process Reengineering emphasizes a team approach involving front-line workers, whereas Total Quality Management is usually implemented using outside specialists and is imposed from above.

Answer: False Level: Medium LO: 3

14. If ethical standards were not generally followed, one of the results would probably be fewer goods and services available in the marketplace.

Answer: True Level: Medium LO: 4

15. The Standards of Ethical Conduct for Management Accountants promulgated by the Institute of Management Accountants specifically state that management accountants' sole ethical responsibility is to not break any laws.

Answer: False Level: Easy LO: 4

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Multiple Choice Questions

16. Management accounting focuses primarily on providing data for:
- A) internal uses by managers.
 - B) external uses by stockholders and creditors.
 - C) external uses by the Internal Revenue Service.
 - D) external uses by the Securities and Exchange Commission.

Answer: A Level: Easy LO: 1

17. Managerial accounting:
- A) is more future oriented than financial accounting.
 - B) tends to summarize information more than financial accounting
 - C) is primarily concerned with providing information to external users.
 - D) is more concerned with precision than timeliness.

Answer: A Level: Easy LO: 1

18. Compared to financial accounting, managerial accounting places more emphasis on:
- A) the flexibility of information.
 - B) the precision of information.
 - C) the timeliness of information.
 - D) both A and C above.

Answer: D Level: Easy LO: 1

19. The function of management that compares planned results to actual results is known as:
- A) planning.
 - B) directing and motivating.
 - C) controlling.
 - D) decision making.

Answer: C Level: Easy LO: 2

20. Which of the functions of management involves overseeing day-to-day activities?
- A) Planning
 - B) Directing and motivating
 - C) Controlling
 - D) Decision making

Answer: B Level: Easy LO: 2

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21. Which of the following is not one of the three basic activities of a manager?
- A) Planning
 - B) Controlling
 - C) Directing and motivating
 - D) Compiling management accounting reports

Answer: D Level: Easy LO: 2

22. The delegation of decision making to lower levels in an organization is known as:
- A) the planning and control cycle.
 - B) controlling.
 - C) decentralization.
 - D) none of these.

Answer: C Level: Easy LO: 2

23. Which of the following statements are false concerning line and staff functions?
- I. Persons occupying staff functions have authority over persons occupying line functions.
 - II. Both line and staff functions are depicted on the organization chart.
 - III. Line functions are directly related to the basic objectives of an organization.
- A) Only I
 - B) Only II
 - C) Only I and II
 - D) I, II, and III

Answer: A Level: Medium LO: 2

24. Which of following would normally be found on a manufacturing company's organization chart?
- A) the layout of the factory assembly lines
 - B) a list of the materials needed to produce each of the company's products
 - C) the informal lines of reporting and communication
 - D) none of the above

Answer: D Level: Easy LO: 2

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25. For a hospital, what type of position (line or staff) is each of the following?

	<i>Emergency Room Manager</i>	<i>Human Resources (Personnel) Manager</i>
A)	Staff	Staff
B)	Staff	Line
C)	Line	Staff
D)	Line	Line

Answer: C Level: Easy LO: 2

26. A detailed financial plan for the future is known as a:

- A) budget.
- B) performance report.
- C) organization chart.
- D) segment.

Answer: A Level: Easy LO: 2

27. A performance report is:

- A) a detailed report comparing budgeted data to actual data for a specific time period.
- B) a formal statement of plans for the upcoming period.
- C) required to be filed monthly by the Securities and Exchange Commission.
- D) not used in decentralized organizations.

Answer: A Level: Easy LO: 2

28. A clustering of two or more machines at a single workstation is referred to as:

- A) a manufacturing cell.
- B) an activity center.
- C) a functional layout.
- D) a setup.

Answer: A Level: Medium LO: 3

29. A focused factory is:

- A) a factory that makes only a single product.
- B) a factory that performs a single step in the production process and subcontracts the other steps.
- C) a plant layout in which all machines needed to make a particular product are brought together in one location.
- D) required to bid for defense contracts.

Answer: C Level: Easy LO: 3

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30. Large work in process inventories:
- A) are essential for efficient operations.
 - B) reduce defect rates.
 - C) increase throughput time.
 - D) are a key part of Just-In-Time systems.

Answer: C Level: Medium LO: 3

31. Ideally, how many units should be produced in a just-in-time manufacturing system?
- A) budgeted customer demand for the current week.
 - B) budgeted customer demand for the following week.
 - C) actual customer demand for the current week.
 - D) maximum production capacity for the current week.

Answer: C Level: Medium LO: 3

32. After careful planning, Jammu Manufacturing Corporation has decided to switch to a just-in-time inventory system. At the beginning of this switch, Jammu has 30 units of product in inventory. Jammu has 2,000 labor hours available in the first month of this switch. These hours could produce 500 units of product. Customer demand for this first month is 400 units. If just-in-time principles are correctly followed, how many units should Jammu plan to produce in the first month of the switch?
- A) 370
 - B) 400
 - C) 430
 - D) 470

Answer: A Level: Medium LO: 3

33. Process Reengineering includes all of the following steps except:
- A) constructing a diagram flowcharting the current process.
 - B) redesigning the process.
 - C) elimination of non-value-added activities.
 - D) elimination of all constraints.

Answer: D Level: Hard LO: 3

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34. According to the Theory of Constraints, improvement efforts should usually be focused on:
- A) work centers that are not constraints.
 - B) the work center that is the constraint.
 - C) the work center with the highest total cost.
 - D) the work center with the most obsolete equipment.

Answer: B Level: Medium LO: 3

35. Which of the following is true regarding the theory of constraints?
- A) The theory of constraints does not apply to companies with multiple products because of capacity measurement difficulties.
 - B) In any profit-seeking company, there must be at least one constraint.
 - C) Constraints or bottlenecks stop organizations from selling an infinite number of units or services.
 - D) both B and C above.

Answer: D Level: Medium LO: 3

36. Pizza World makes forty-three kinds of pizza for takeout and delivery. Which of the following could be the constraint at Pizza World?
- A) the person who makes the pizza crust.
 - B) the person who puts toppings on the pizzas.
 - C) the pizza oven.
 - D) any of the above could be the constraint.

Answer: D Level: Medium LO: 3

37. The Standards of Ethical Conduct for Management Accountants developed by the Institute of Management Accountants contain a policy regarding confidentiality that requires management accountants to refrain from disclosing confidential information acquired in the course of their work:
- A) except when authorized by management.
 - B) in all situations.
 - C) except when authorized by management, unless legally obligated to do so.
 - D) in all cases not prohibited by law.

Answer: C Level: Hard LO: 4