

ANSWERS TO QUESTIONS

1. (a) Disagree. Managerial accounting is a field of accounting that provides economic and financial information for managers and other internal users.
 (b) Mary is incorrect. Managerial accounting applies to all types of businesses—service, merchandising, and manufacturing.
2. (a) Financial accounting is concerned primarily with external users such as stockholders, creditors, and regulators. In contrast, managerial accounting is concerned primarily with internal users such as officers and managers.
 (b) Classified financial statements are the end product of financial accounting. The statements are prepared quarterly and annually. In managerial accounting, internal reports may be prepared daily, weekly, monthly, quarterly, annually, or as needed.
 (c) The purpose of financial accounting is to provide general-purpose information for all users. The purpose of managerial accounting is to provide special-purpose information for a particular user for a specific decision.

3. Differences in the content of the reports are as follows:

Financial	Managerial
<ul style="list-style-type: none"> • Pertains to business as a whole and is highly aggregated. • Limited to double-entry accounting and cost data. • Generally accepted accounting principles. 	<ul style="list-style-type: none"> • Pertains to subunits of the business and may be very detailed. • May extend beyond double-entry accounting system to any relevant data. • Standard is relevance to decisions.

In financial accounting, financial statements are verified annually through an independent audit by certified public accountants. There are no independent audits of internal reports issued by managerial accountants.

4. Budgets are prepared by companies to provide future direction. Because the budget is also used as an evaluation tool, some managers try to game the budgeting process by underestimating their division's predicted performance so that it will be easier to meet their performance targets. On the other hand, if the budget is set at unattainable levels, managers sometimes take unethical actions to meet targets to receive higher compensation or in some cases to keep their jobs.
5. Karen should know that the management of an organization performs three broad functions:
 - (1) **Planning** requires management to look ahead and to establish objectives.
 - (2) **Directing** involves coordinating the diverse activities and human resources of a company to produce a smooth-running operation.
 - (3) **Controlling** is the process of keeping the company's activities on track.
6. Disagree. Decision making is not a separate management function. Rather, decision making involves the exercise of good judgment in performing the three management functions explained in the answer to question five above.
7. CEOs and CFOs must now certify that financial statements give a fair presentation of the company's operating results and its financial condition and that the company maintains an adequate system of internal controls. In addition, the composition of the board of directors and audit committees receives more scrutiny, and penalties for misconduct have increased.

Questions Chapter 19 (Continued)

8. The differences between income statements are in the computation of the cost of goods sold as follows:
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|------------------------|--|
| Manufacturing company: | Beginning finished goods inventory plus cost of goods manufactured minus ending finished goods inventory = cost of goods sold. |
| Merchandising company: | Beginning merchandise inventory plus cost of goods purchased minus ending merchandise inventory = cost of goods sold. |
9. The difference in balance sheets pertains to the presentation of inventories in the current asset section. In a merchandising company, only merchandise inventory is shown. In a manufacturing company, three inventory accounts are shown: finished goods, work in process, and raw materials.
10. Manufacturing costs are classified as either direct materials, direct labor, or manufacturing overhead.
11. No, Matt is not correct. The distinction between direct and indirect materials is based on two criteria: (1) physical association and (2) the convenience of making the physical association. Materials which can not be easily associated with the finished product are considered indirect materials.
12. Product costs, or inventoriable costs, are costs that are a necessary and integral part of producing the finished product. Period costs are costs that are identified with a specific time period rather than with a salable product. These costs relate to nonmanufacturing costs and therefore are not inventoriable costs.
13. A merchandising company has beginning merchandise inventory, cost of goods purchased, and ending merchandise inventory. A manufacturing company has beginning finished goods inventory, cost of goods manufactured, and ending finished goods inventory.
14. (a) x = total cost of work in process.
(b) x = cost of goods manufactured.
15.

Raw materials inventory, beginning	\$ 12,000
Raw materials purchases	<u>170,000</u>
Total raw materials available for use	182,000
Raw materials inventory, ending.....	<u>15,000</u>
Direct materials used	<u><u>\$167,000</u></u>
16.

Direct materials used.....	\$240,000
Direct labor used.....	200,000
Total manufacturing overhead.....	<u>180,000</u>
Total manufacturing costs	<u><u>\$620,000</u></u>
17. (a) Total cost of work in process (\$26,000 + \$620,000) \$646,000
(b) Cost of goods manufactured (\$646,000 – \$32,000) \$614,000
18. The order of listing is finished goods inventory, work in process inventory, and raw materials inventory.
19. The value chain refers to all activities associated with providing a product or service. For a manufacturer, this includes research and development, product design, acquisition of raw materials, production, sales and marketing, delivery, customer relations, and subsequent service.

Questions Chapter 19 (Continued)

- 20.** In a just-in-time inventory system the company has no extra inventory stored. Consequently, if some units that are produced are defective, the company will not have enough units to deliver to customers.
- 21.** The balanced scorecard is called “balanced” because it strives to not over emphasize any one performance measure, but rather uses both financial and non-financial measures to evaluate all aspects of a company’s operations in an integrated fashion.
- 22.** Activity-based costing is an approach used to allocate overhead based on each product’s relative use of activities in making the product. Activity-based costing is beneficial because it results in more accurate product costing and in more careful scrutiny of all activities in the value chain.