Chapter 1

An Introduction to Managerial Accounting

Solutions to Questions

* 1. Managerial accounting is concerned with providing information primarily to managers for their use internally in the organization for the purposes of strategy, planning, implementation and control. Financial accounting is concerned with providing information primarily to investors, creditors, and others outside of the organization.
	2. Essentially, the manager carries out three major activities in an organization: planning, implementation, and control. All three activities involve decision-making and use managerial accounting information. This is depicted in Exhibit 1-1.
	3. The Planning, Implementation and Control Cycle involves the following steps: (1) formulating plans which often includes preparing budgets, (2) overseeing day-to-day activities which includes organizing, directing and motivating people, resource allocation and decision making, and (3) controlling which includes providing feedback via performance reports.
	4. In contrast to financial accounting, managerial accounting: (1) focuses on the needs of the manager; (2) places more emphasis on the future; (3) emphasizes relevance and timeliness, rather than verifiability and precision; (4) emphasizes the segments of an organization; (5) is not governed by IFRS or ASPE; and (6) is not mandatory.
	5. The lean business model focuses on continuous improvement by eliminating waste in the organization. Companies that adopt the lean business model usually implement one or more of the following management practices.
* **Just-in-time (JIT):** A production and inventory control system in which materials are purchased and units are produced only as needed to meet actual customer demand.
* **Total quality management (TQM):** An approach to continuous improvement that focuses on serving customers and uses teams of front-line workers to systematically identify and solve problems.
* **Process re-engineering:** An approach to improvement that involves completely redesigning business processes in order to eliminate unnecessary steps, reduce errors, and reduce costs.
* **Theory of constraints (TOC):** A management approach that emphasizes the importance of managing constraints.

**1-6** Pros

* + Funds tied up in maintaining inventory can be used elsewhere
	+ Areas previously used to store inventories are made available for other more productive uses
	+ The time required to fill an order is reduced, resulting in quicker response to customers and consequentially greater potential sales
	+ Defect rates are reduced resulting in less waste and greater customer satisfaction
	+ More effective operations

Cons

* Increased number of purchase orders to buy raw materials and/or other components used in manufacturing products
* There is little room for errors and defects in products because this could throw the production facility off schedule
* There is a high reliance and dependence on suppliers to meet delivery deadlines as well as supply products that have no defects and require minimal inspection

**1-7** Agree. Ethical behaviour is the foundation of a successful market economy. If we cannot trust people to act ethically in their business dealings with us, we will be inclined to invest less, scrutinize more and waste money and time (scarce resources) trying to protect ourselves. Ethical standards and Codes of Conduct aid the smooth running of the economy. In addition, the lack of regulatory requirements (IFRS, ASPE) regarding managerial accounting makes ethical behaviour even more critical.

**Solutions to Exercises**

**Exercise 1-1** (LO1 CC2)

|  |  |  |
| --- | --- | --- |
| Item | Financial Accounting | Managerial Accounting |
| 1. Preparing a cash budget for the next quarter
 |  | X |
| 1. Analyzing the profitability of a request from a potential customer
 |  | X |
| 1. Accumulating the transactions for the previous six months to prepare an income statement
 | X |  |
| 1. Preparing a weekly performance report for the branch manager
 |  | X |
| 1. Preparing an announcement to be released to the financial analysts
 | X |  |

**Exercise 1-2** (LO1 CC1)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Planning | Implementation | Control |
| 1. Doing a “cost-benefit” analysis of adding a new branch versus installing new ATMs
 | X |  |  |
| 1. Estimating the cost of raw materials to be purchased during the next quarter
 | X |  |  |
| 1. Analyzing market demand to assist in the preparation of the sales budget
 | X |  |  |
| 1. Compiling the labour report for the past week
 |  |  | X |
| 1. Outlining the changes to a process based on a process reengineering team report
 |  | X |  |
| 1. Documenting the savings from reductions in raw materials inventory resulting from the adoption of a just-in-time inventory system
 |  |  | X |

Solutions to Problems

**Problem 1-1** (LO3 CC5)

1. This has ethical implications because the code of ethics mandates that all professional accountants will abide by the fundamental principles. There are two possible issues here – confidentiality and integrity. By sending the reports to the analyst Cleo will be violating the principle of confidentiality, she cannot “…disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.” One might argue that there is also an issue of personal integrity here; as a professional accountant she is required “to be straightforward and honest in all professional and business relationships.”
2. The main ethical implication here is the issue of confidentiality of client data. The code mandates that a member will not disclose any confidential information concerning his/her employer unless acting in the course of his/her duties or when required to be disclosed in a lawsuit. As such informing ones parents of the folly of their investment choice would be unethical.

**Problem 1-2** (LO3 CC5)

There is an ethical dilemma associated with the student’s request. There is the need for fairness among all the students who wrote the exam, and ignoring the mid-semester exam result for one student is unfair to the other students. As a student aiming to become a manager, it is important that the student does not engage in any activity considered as incompatible with the conduct of a manager. A request for special treatment that would be unfair to other students could be considered a violation of the principles of Integrity (the dealings are not straightforward and honest), Objectivity (a bias is introduced to the relative grading in the course), and Professional Behaviour (special treatment for some, does not comply with school rules, and could discredit the reputation of the school’s standards).

Bringing in a doctor’s note one month after writing an exam and using that as a reason to explain his/her poor performance would also not be considered ethical. Presenting a note one month after an event, to address a matter that should have been dealt with contemporaneously, violates the principle of Integrity (the dealings are not straightforward), and Professional Competence and Due Care (the obligation to act diligently in accordance with standards).