Chapter 18
Introduction to Managerial Accounting

Review Questions

1. The primary purpose of managerial accounting is to provide information to help managers plan, direct, control, and make decisions.

2. Financial accounting and managerial accounting differ on the following 6 dimensions: (1) primary users, (2) purpose of information, (3) focus and time dimension of the information, (4) rules and restrictions, (5) scope of information, and (6) behavioral.

3. Line positions are directly involved in providing goods or services to customers. Staff positions support line positions.

4. Planning means choosing goals and deciding how to achieve them. Directing involves running the day-to-day operations of a business. Controlling is the process of monitoring operations and keeping the company on track.

5. The four IMA standards of ethical practice and a description of each follow.

I. Competence.

- Maintain an appropriate level of professional expertise by continually developing knowledge and skills.
- Perform professional duties in accordance with relevant laws, regulations, and technical standards.
- Provide decision support information and recommendations that are accurate, clear, concise, and timely.
- Recognize and communicate professional limitations or other constraints that preclude responsible judgment or successful performance of an activity.

II. Confidentiality.

- Keep information confidential except when disclosure is authorized or legally required.
- Inform all relevant parties regarding appropriate use of confidential information. Monitor subordinates' activities to ensure compliance.
- Refrain from using confidential information for unethical or illegal advantage.

III. Integrity.

- Mitigate actual conflicts of interest, regularly communicate with business associates to avoid apparent conflicts of interest. Advise all parties of any potential conflicts.
- Refrain from engaging in any conduct that would prejudice carrying out duties ethically.
- Abstain from engaging in or supporting any activity that might discredit the profession.

5, **cont.**

IV. Credibility.

- Communicate information fairly and objectively.
- Disclose all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, analyses, or recommendations.
- Disclose delays or deficiencies in information, timeliness, processing, or internal controls in conformance with organization policy and/or applicable law.

6. Service companies sell time, skills, and knowledge. Examples of service companies include phone service companies, banks, cleaning service companies, accounting firms, law firms, medical physicians, and online auction services.

7. Merchandising companies resell products they buy from suppliers. Merchandisers keep an inventory of products, and managers are accountable for the purchasing, storage, and sale of the products. Examples of merchandising companies include toy stores, grocery stores, and clothing stores.

8. Merchandising companies resell products they previously bought from suppliers, whereas manufacturing companies use labor, equipment, supplies, and facilities to convert raw materials into new finished products. In contrast to merchandising companies, manufacturing companies have a broad range of production activities that require tracking costs on three kinds of inventory.

9. The three inventory accounts used by manufacturing companies are Raw Materials Inventory, Work-in-Process Inventory, and Finished Goods Inventory.

Raw Materials Inventory includes materials used to manufacture a product. Work-in-Process Inventory includes goods that have been started in the manufacturing process but are not yet complete. Finished Goods Inventory includes completed goods that have not yet been sold.

10. A direct cost is a cost that can be easily and cost-effectively traced to a cost object (which is anything for which managers want a separate measurement of cost). An indirect cost is a cost that cannot be easily or cost-effectively traced to a cost object.

11. The three manufacturing costs for a manufacturing company are direct materials, direct labor, and manufacturing overhead. Direct materials are materials that become a physical part of a finished product and whose costs are easily traceable to the finished product. Direct labor is the labor cost of the employees who convert materials into finished products. Manufacturing overhead includes all manufacturing costs except direct materials and direct labor, such as indirect materials, indirect labor, factory depreciation, factory rent, and factory property taxes.

12. Examples of manufacturing overhead include costs of indirect materials, indirect labor, repair and maintenance in factory, factory utilities, factory rent, factory insurance, factory property taxes, manufacturing plant managers' salaries, and depreciation on manufacturing buildings and equipment.

13. Prime costs are direct materials plus direct labor. Conversion costs are direct labor plus manufacturing overhead. Note that direct labor is classified as both a prime cost and a conversion cost.

14. Product costs are the cost of purchasing or making a product. These costs are recorded as an asset and not expensed until the product is sold. Product costs include direct materials, direct labor, and manufacturing overhead.

15. Period costs are non-manufacturing costs that are expensed in the same accounting period in which they are incurred, whereas product costs are recorded as an asset and not expensed until the accounting period in which the product is sold.

16. Cost of Goods Manufactured is calculated as Beginning Work-in-Process Inventory + Total Manufacturing Costs Incurred during the Year – Ending Work-in-Process Inventory. Total Manufacturing Costs Incurred during the Year = Direct Materials Used + Direct Labor + Manufacturing Overhead.

17. For a manufacturing company, the activity in the Finished Goods Inventory account provides the information for determining Cost of Goods Sold. A manufacturing company calculates Cost of Goods Sold as Beginning Finished Goods Inventory + Cost of Goods Manufactured – Ending Finished Good Inventory. In addition, a manufacturing company must track costs from Raw Materials Inventory and Work-in-Process Inventory in order to compute Cost of Goods Manufactured used in the previous equation.

For a merchandising company, the activity in the Merchandise Inventory account provides the information for determining Cost of Goods Sold. A merchandising company calculates Cost of Goods Sold as Beginning Merchandise Inventory + Purchases and Freight In – Ending Merchandise Inventory.

18. A manufacturing company calculates unit product cost as Cost of Goods Manufactured / Total number of units produced.

19. A service company calculates unit cost per service as Total Costs / Total number of services provided.

20. A merchandising company calculates unit cost per item as Total Cost of Goods Sold / Total number of items sold.

Short Exercises

S18-1

a. FA
b. MA
c. MA
d. FA
e. FA

S18-2

a. Confidentiality
b. Integrity
c. Competence (skipping the session); Integrity (company-paid conference)
d. Competence
e. Credibility; Integrity

S18-3

a. 2
b. 4
c. 1
d. 5
e. 4
f. 5
g. 3

S18-4

Glue for frames	$ 250
Plant depreciation	7,500
Plant foreman's salary	3,500
Plant janitor's wages	1,300
Oil for manufacturing equipment	150
Total manufacturing overhead	$ 12,700