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) Jenny 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) 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 specific decision.

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

Financial	**Managerial**
• Pertains to business as a whole and is highly aggregated.	• Pertains to subunits of the business and may be very detailed.
• Limited to double-entry accounting and cost data.	• May extend beyond double-entry accounting system to any relevant data.
• Generally accepted accounting principles.	• 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. Carla should know that the management of an organization performs three broad functions:
(1) **Planning** requires managers 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.

8. The differences between income statements are in the computation of the cost of goods sold as follows:

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, Vinh 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	170,000
Total raw materials available for use	182,000
Less: Raw materials inventory, ending	15,000
Direct materials used	$167,000

16.

Direct materials used	$240,000
Direct labor used	200,000
Total manufacturing overhead	180,000
Total manufacturing costs	$620,000

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 products differ in how each are consumed by the customer. Service companies consume immediately; the product is not put into inventory. Meals at a restaurant are the best example where they are consumed immediately by the customer. There could be a long lead time before the product is consumed in a manufacturing environment.

20. Yes, product costing techniques apply equally well to manufacturers and service companies. Each need to keep track of the cost of services in order to know whether it is generating a profit. The techniques shown in this chapter, to accumulate manufacturing costs to determine manufacturing inventory, are equally useful for determining the cost of services.

21. The value chain refers to all activities associated with providing a product or service. For a manufacturer, these include research and development, product design, acquisition of raw materials, production, sales and marketing, delivery, customer relations, and subsequent service.

22. An enterprise resource planning (ERP) system is an integrated software system that provides a comprehensive, centralized resource for information. Its primary benefits are that it replaces the many individual systems typically used for receivables, payables, inventory, human resources, etc. Also, it can be used to get information from, and provide information to, the company's customers and suppliers.

23. 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.

24. 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.

25. 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.

