

## Chapter 1: The Role of Accounting Information in Management Decision Making

Learning Objective	True / False	Multiple Choice	Matching	Exercises	Short Answer	Problems
Q1: What types of decisions do managers make for an organization? What is the process of strategic management and decision making?	1-4	1-12 S: 59, 67 W: 78, 83, 84	1		6	
Q2: What types of control systems do managers use?	5-8	13 - 14			7	
Q3: What is the role of accounting information in strategic management decision-making?	5-9-13	13-20, 22-23 S: 60-62 W: 68-70, 80	3		3, 4	
Q4: What information is relevant for decision making?	19-22-14-17	45-51-24-30 S: 63-65 W: 74, 75, 77, 79, 81, 82	4	1	2	1, 2
Q5: How does business risk affect management decision making?	18-21	31-32				
Q6: How do uncertainties and biases affect management the quality of decision makings?	40-43-22-24	21-30-33-40 W: 72, 73	2		1, 5, 7	1
Q7: How can managers make higher-quality decisions?	14-48-25-29	31, 34-44-51-53 S: 58 W: 71	2		4, 8	
Q8: What information is relevant for decision making?	10-22	45-51 S: 63-65 W: 74, 75, 77, 79, 81, 82	4	1	2	1, 2
Q8: What is ethical decision making, and why is it important?	23-25-30-32	52-57-54-59 S: 66 W: 76	5			

S: Questions from the study guide

W: Questions from web quizzes on the student web site

Level of Complexity*	True / False	Multiple Choice	Matching	Exercises	Short Answer	Problems
Foundation: Repeat or paraphrase information; Reason to single correct solution; Perform computations; etc.	All	All	All	All	6	2
Step 1: Identify the problem, relevant information, and uncertainties					1, 2, 5, 6, 7	1, 2
Step 2: Explore interpretations and connections					3, 4	1
Step 3: Prioritize alternatives and implement conclusions						
Step 4: Envision and direct strategic innovation						

\*Based on level in Steps for Better Thinking (Exhibit 1.10, textbook p. 16):

Note: Step 1, 2, 3, and 4 questions in this test bank are intentionally open-ended and subjective, giving students the opportunity to demonstrate skills such as judgment, reasoning, identification of uncertainties, identification or analysis of pros and cons, and so on. Therefore, student answers may not exactly match those shown in the solutions.

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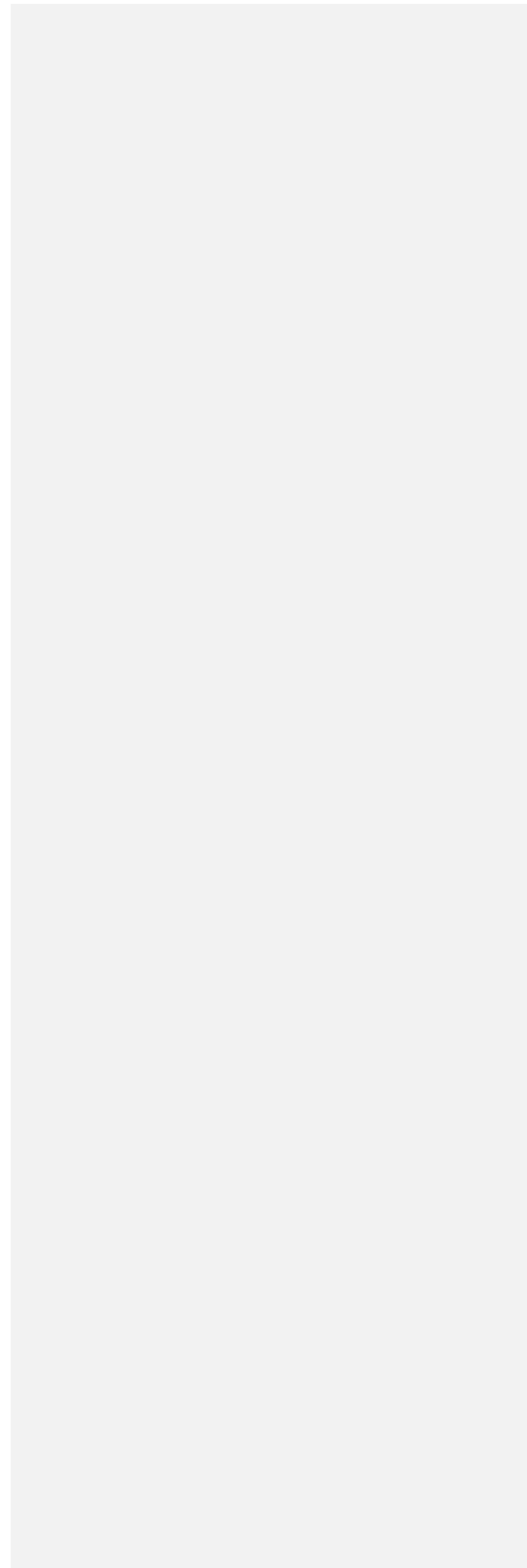
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**True / False**

1. A vision statement is one way to clarify an organization's basic purpose and ideology.
2. Most managers follow a standard template and format when writing a vision statement.
3. A vision statement helps employees understand how to deal with various stakeholder groups.
4. Organizational core competencies are the tactics that managers use to take advantage of the vision.
5. ~~Belief systems encourage employees to be inspired by the vision of the company.~~
6. ~~Boundary systems set budget goals to constrain behavior.~~
7. ~~Diagnostic systems set budget goals to constrain behavior.~~
8. ~~Interactive systems should be examined only when a problem exists.~~
9. Accounting information is the only thing managers need to make financial decisions.
10. Accounting information is used to monitor operations by comparing actual results to planned results.
11. Accounting information **cannot** be used to motivate employee behavior.
12. Cost accounting information is used for both external reporting and internal decision making.
13. Cost accounting information, such as the valuation of ending inventory, is shown on external financial statements.
14. ~~Incremental cash flows are relevant for decision making.~~
15. ~~Incremental cash flows are the same as unavoidable cash flows.~~
16. ~~Relevant information for decisions can focus both on learning from the past and anticipating the future.~~
17. ~~The cost of your old automobile is relevant in the decision to purchase a new automobile.~~
18. ~~Business risk is the risk that business will be altered or interrupted in some way.~~
19. ~~Business risk should be monitored regularly.~~
20. ~~Risk management can eliminate business risk.~~
21. ~~Using prior year, historical information can eliminate business risk.~~
22. Because accounting information is highly objective and quantitative in nature, it is **not** subject to ~~uncertainties or~~ management bias.
23. ~~Uncertainty and b~~Biases reduce decision quality.
24. ~~Uncertainties cause decision makers to ignore weaknesses in a preferred course of action.~~
25. ~~Uncertainties and b~~Biases do **not** affect external financial reports, because they are based on objective standards.
26. Because we can never completely remove biases and ~~uncertainty-business risk~~ from decision making, higher quality decision processes are often ~~imprecise~~ineffective.
27. Higher quality decisions result from higher quality information, reports, and decision making processes.
28. Few management decisions can be made with absolute certainty.
29. Open-ended problems are **not** often seen in business.
30. When learning cost accounting, it is sufficient to learn the mechanics of applying cost accounting methods.

- ~~19. Incremental cash flows are relevant for decision making.~~
- ~~20. Incremental cash flows are the same as unavoidable cash flows.~~
- ~~21. Relevant information for decisions can focus both on learning from the past and anticipating the future.~~
- ~~22. The cost of your old automobile is relevant in the decision to purchase a new automobile.~~
- ~~3023.~~ 23. Ethical behavior is an individual obligation, but not an organizational obligation.
- ~~3124.~~ 24. Employees will always make ethical decisions if they act in the best interests of shareholders.
- ~~3225.~~ 25. Ethical behavior is required of every employee within an organization.

**Multiple Choice**

1. Which of the following influences organizational strategies?
  - a. Organizational vision
  - b. Financial statement results
  - c. Computer software
  - d. Number of employees
2. Which of the following statements regarding organizational vision is **false**?
  - a. Organizational vision means the same as core competencies
  - b. Organizational vision is one tool for expressing an organization's main purpose
  - c. Organizational vision should be communicated to all employees
  - d. Managers sometimes divide the organizational vision into one or more written statements
3. An organizational vision is sometimes broken down into
  - I. Mission statement
  - II. Core values statement
  - III. Code of conduct
  - a. I only
  - b. I and II only
  - c. I, II, and III
  - d. II and III only
4. Organizational core competencies can include
  - a. A mission statement
  - b. Patents, copyrights and special legal protections
  - c. A code of conduct
  - d. An operating plan
5. How are organizational strategies related to core competencies?
  - a. Competencies are the tactics managers use to take advantage of strategies
  - b. Competencies and strategies are an integral part of organizational vision
  - c. Strategies help managers exploit competencies
  - d. Strategies and competencies are actually two ways of expressing the same idea
6. Organizational strategies
  - a. Are reconsidered on a daily basis
  - b. Should never be reconsidered once they are determined
  - c. Are reconsidered quarterly
  - d. Are reconsidered periodically in response to changes in the organization or environment
7. Which of the following is an element of an operating plan?
  - a. Developing an organizational mission
  - b. Preparing financial statements
  - c. Defining core values
  - d. Budgeting employee costs

**Use the following information for the next 5 questions:**

Maude is considering opening her own business, now that she has retired from her regular job. Her business idea is a reminder and shopping service, in which clients submit lists of birthdays, anniversaries and other important dates. Maude sends her clients reminders for those dates, and shops for special gifts at the client's request. She plans to do all of the work herself rather than hiring and managing additional employees.

1-6 Cost Management

8. "Providing excellent, reliable customer service at reasonable prices" best describes which of the following for Maude's business?
- Core competency
  - Vision
  - Operating plan
  - Actual operations
9. Maude's core competencies are most likely to include
- An annual budget
  - The ability to deduct business expenses on her tax return
  - The first year's actual results
  - Her knowledge of potential gifts and the local shops
10. Maude's organizational strategy is most likely to include
- Her knowledge of local stores
  - Operating her business from her home to keep costs low
  - Leasing equipment
  - Mailing flyers to potential clients
11. Maude's actual operations would probably include
- Establishing a sales strategy
  - Purchasing advertisements in local media
  - Identifying her core competencies
  - Developing a budget
12. Which of the following statements is true for Maude's business regarding measuring and monitoring performance?
- Maude does not need a system to measure and monitor performance because her company is a sole proprietorship
  - Maude needs audited financial statements every year
  - Maude can track cash flows on a monthly basis
  - Maude only needs to reconcile her accounts every few years

13. Belief systems are an important part of what framework?

- Levers of information
- Levers of control
- Levers of belief
- Control systems

14. The code of conduct of a firm would likely be considered

- Belief system
- Boundary system
- Diagnostic control system
- Interactive control system

153. Accounting information

- Can be used to guide organizational vision
  - Is a core competency for most companies
  - Can be used to motivate performance
- I only
  - I and II only
  - I, II, and III
  - I and III only

164. Cost accounting information is used for

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- a. Financial reporting only
- b. Management reporting only
- c. Both financial and management reporting
- d. Neither financial nor management reporting

157. Which of the following is a type of external report produced by an organization's information system?

- a. Cash flow plan
- b. Analysis of potential acquisition
- c. News release
- d. Bonus computations

186. Which of the following is least likely to be an external report?
- Credit report
  - Supplier's inventory report
  - Tax return
  - Analysis of supplier quality
197. Which of the following is the best example of an internal report that might come from an organization's information system?
- Environmental Protection Agency regulatory report
  - Operating budget
  - Income tax returns
  - Medicare cost report
2048. Financial statements are
- External reports produced from an organization's information system
  - Never used for internal decision making
  - Only true when they are audited
  - Unimportant reports for most organizations
2149. Information gathered outside the organization includes
- Customer preferences
  - Product design specifications
  - Taxable income
  - Number of employees hired
220. Which of the following is not true about information in an organization's databases?
- Information may be collected formally or informally
  - Access to database information is often restricted to specific individuals
  - Intellectual capital is usually captured in database information
  - The benefits of generating information should exceed the costs
- ~~223. How does the use of sophisticated information systems affect strategic management decision making?~~
- ~~Sophisticated information systems always improve strategic management decision making~~
  - ~~Sophisticated information systems always provide better information~~
  - ~~Managers may overlook potential uncertainties and bias in their information~~
  - ~~The cost of sophisticated information systems may exceed their benefit~~
2445. Irrelevant information may be
- Useful in decision making
  - Internally-generated
  - Accurate
- I only
  - I and II only
  - II and III only
  - I, II, and III



4625. Whether a given type of information is relevant or irrelevant depends on
- a. Its accuracy
  - b. Its objectivity
  - c. Its relation to the decision to be made
  - d. Whether it is cash-basis or accrual-basis
2647. Relevant cash flows are
- a. Past cash flows
  - b. Future cash flows
  - c. Incremental cash flows
  - d. Unavoidable cash flows
2748. In a decision to lease or borrow money and build office space, which of the following is relevant?
- a. The current cost of office space
  - b. The architect's fee for drawing the building
  - c. The number of employees currently working for the company
  - d. The personal preferences of the decision maker
2849. Irrelevant cash flows are
- a. Avoidable
  - b. Unavoidable
  - c. Objective
  - d. Subjective
2950. Relevant cash flows are
- a. Avoidable
  - b. Incremental
  - c. Both of the above
  - d. None of the above
3051. Frank is considering transportation modes to a client's office. He can drive his own car, at an incremental cost of \$0.55 per mile, or take a company car. If he takes his own car, he can be reimbursed \$0.45 per mile. If Frank makes his decision strictly from his personal economic point of view, what is the relevant net cost associated with driving his own car?
- a. \$0.10
  - b. \$0.45
  - c. \$0.55
  - d. Some other amount
2431. ~~Uncertainties~~ Business Risks
- a. Are issues about which managers have doubts
  - b. Do not impact accounting information, which is highly objective and reliable
  - c. Are preconceived notions developed without careful thought
  - d. Are rarely a problem in business decision making
32. Alaska Airlines flies several non-stop flights daily between Los Angeles and Vancouver. Which of the following is a business risk associated with this operation?
- a. The exact number of flights flown the previous day
  - b. The average number of passengers on each flight the previous week
  - c. The average number of empty seats for flights next month
  - d. The number of ticket agents scheduled for each shift for the next day
- ~~22. Biases~~
- ~~a. Are issues about which managers have doubts~~
  - ~~b. Do not impact accounting information, which is highly objective and reliable~~
  - ~~c. Are preconceived notions developed without careful thought~~

~~d. Are rarely a problem in business decision making~~

~~3273.~~ Uncertainty **Business risk** may hinder a manager's ability to:

I. Adequately define a problem

II. Identify all potential solution options

III. Predict the outcome of various solution options

a. I and III only

b. II and III only

c. I, II, and III

d. II only

~~3439.~~ Pet Snacks Company has 500 pounds of liver-flavored dog biscuits that are not selling well. The selling price of the biscuits could be reduced from \$3.00 to \$2.50 per pound. Or, they could be cheese-coated and sold for \$4.00 per pound; the additional processing cost would be \$0.50 per pound. Cheese-coated biscuits sell very well. Which alternative probably has less uncertainty concerning volume of sales?

a. Reduce the price of liver-flavored biscuits

b. Proceed with the cheese coating

c. Both alternatives are equally uncertain

d. Uncertainty does not affect this decision

~~23.~~ Alaska Airlines flies several non-stop flights daily between Los Angeles and Vancouver. Which of the following is an uncertainty associated with this operation?

~~a. The exact number of flights flown the previous day~~

~~b. The average number of passengers on each flight the previous week~~

~~c. The average number of empty seats for flights next month~~

~~d. The number of ticket agents scheduled for each shift for the next day~~

- ~~3254.~~ Marriott Corporation operates hotels all over the world. Which of the following is the best example of a potential bias associated with its operations?
- Managers assume that most travelers are interested in conducting business, rather than vacationing
  - Managers learn that guests rarely stay longer than a week
  - Managers find that last year's profits were below the industry average
  - Managers are concerned because employee turnover increased during the last year
- ~~3265.~~ ~~Uncertainties and b~~ Biases can affect
- Organizational vision
  - Core competencies
  - Operating plans
- I only
  - II only
  - I and III only
  - I, II, and III
- ~~3276.~~ Which of the following statement about biases is true?
- Biases can affect management accounting information, but not financial accounting information
  - Managers cannot work toward eliminating their biases
  - Biases reduce the quality of decisions
  - Biased managers are more likely to explore alternatives before making a decision
- ~~27.~~ ~~Uncertainty may hinder a manager's ability to:~~
- ~~Adequately define a problem~~
  - ~~Identify all potential solution options~~
  - ~~Predict the outcome of various solution options~~
- ~~I and III only~~
  - ~~II and III only~~
  - ~~I, II, and III~~
  - ~~II only~~
- ~~328.~~ Biases may be
- Intentional
  - Unintentional
  - Both intentional and unintentional
  - Beneficial to decision making
- ~~329.~~ Biases
- Inhibit anticipating all future conditions
  - Assist in the identification of relevant information
  - Do not affect the ability to identify irrelevant information
  - Are not a problem in ethical decision making
- ~~30.~~ ~~Pet Snacks Company has 500 pounds of liver flavored dog biscuits that are not selling well. The selling price of the biscuits could be reduced from \$3.00 to \$2.50 per pound. Or, they could be cheese coated and sold for \$4.00 per pound; the additional processing cost would be \$0.50 per pound. Cheese coated biscuits sell very well. Which alternative probably has less uncertainty concerning volume of sales?~~
- ~~Reduce the price of liver flavored biscuits~~
  - ~~Proceed with the cheese coating~~
  - ~~Both alternatives are equally uncertain~~
  - ~~Uncertainty does not affect this decision~~

2240. Biases

- a. Are issues about which managers have doubts.
- b. Do not impact accounting information, which is highly objective and reliable
- c. Are preconceived notions developed without careful thought
- d. Are rarely a problem in business decision making

431. Managers can make higher-quality decisions by relying on all of the following except

- a. More complete information
- b. Better decision-making processes
- c. Irrelevant information
- d. Information having less uncertainty

32. ~~How does the use of sophisticated information systems affect managerial decision making?~~

- ~~a. Sophisticated information systems always improve managerial decision making~~
- ~~b. Sophisticated information systems always provide better information~~
- ~~c. Managers may overlook potential uncertainties and bias in their information~~
- ~~d. The cost of sophisticated information systems may exceed their benefit~~

3342. Which of the following adjectives describes higher quality information?

- I. Complete
- II. Costly to develop
- III. Relevant
- a. I and II only
- b. II and III only
- c. I and III only
- d. I, II, and III

3443. Higher quality reports are more

- I. Relevant
- II. Understandable
- III. Available
- a. I and II only
- b. I and III only
- c. II and III only
- d. I, II, and III

3544. Higher quality decision making processes are less

- a. Biased
- b. Certain
- c. Creative
- d. Focused

3645. The process of making higher quality business decisions requires each of the following except

- a. Distinguishing between relevant and irrelevant information
- b. Recognizing and evaluating assumptions
- c. Considering organizational values and core competencies
- d. Relying on preconceived notions to make decisions more quickly

3746. Which of the following statements about open-ended problems is true?

- a. Open-ended problems cannot be solved with absolute certainty
- b. It is not possible to find the best solution to an open-ended problem
- c. Only one possible solution is possible for an open-ended problem
- d. The best solution to an open-ended problem ensures the most favorable outcome

3847. Why is it necessary to identify whether a problem is open-ended?

- a. Open-ended problems require less decision making effort than other types of problems

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- b. Decision maker biases are not important when addressing open-ended problems
- c. More than one potential solution must be explored for open-ended problems
- d. Few management decisions are open-ended

- ~~3948.~~ Which of the following is **least** likely to be an open-ended problem?
- How to contribute as a team member
  - Choice of career
  - How to study for a course
  - Identification of required courses for a college degree
- ~~4049.~~ John is creating next year's budget for PDC Corporation. He estimates that next year's sales volume will be 5% higher than this year and that the selling price per unit will remain at \$75 per unit. He estimates that cost of goods sold will be \$40 per unit, based on a purchase agreement the company has signed with its supplier. The company has done business with the supplier for many years. In creating the budget, which of the following tasks is most likely to be open-ended?
- Calculating budgeted sales volume
  - Determining that sales volume will grow by 5%
  - Calculating budgeted cost of goods sold
  - Determining that cost of goods sold per unit will be \$75 per unit
- ~~4450.~~ Analyzing the strengths and weaknesses of different alternatives includes all of the following *except*
- Recognizing and evaluating assumptions
  - Drawing a conclusion about which alternative is best overall
  - Gauging the quality of information
  - Considering different viewpoints
- ~~4251.~~ Choosing and implementing a solution to a business problem includes
- Making trade-offs among alternatives
  - Considering the organization's strategies
  - Motivating performance within the organization
- I only
  - I and II only
  - II and III only
  - I, II, and III
- ~~4352.~~ Management decisions require monitoring over time for all of the following reasons *except*
- The economic environment may change
  - New opportunities may become available
  - To motivate employees to follow plans exactly, even if the plan results in poor performance
  - Unforeseen threats may arise
- ~~4453.~~ Which of the following often prevents managers from adequately exploring information before making a decision?
- The existence of many uncertainties
  - The need to distinguish between relevant and irrelevant information
  - The managers' biases
  - The organization's values
- ~~45.~~ Irrelevant information may be
- Useful in decision making
  - Internally generated
  - Accurate
- I only
  - I and II only
  - II and III only
  - I, II, and III

- ~~46. Whether a given type of information is relevant or irrelevant depends on~~  
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~~a. The current cost of office space~~  
~~b. The architect's fee for drawing the building~~  
~~c. The number of employees currently working for the company~~  
~~d. The personal preferences of the decision maker~~
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~~c. Both of the above~~  
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~~a. \$0.10~~  
~~b. \$0.45~~  
~~c. \$0.55~~  
~~d. Some other amount~~
- ~~52~~54. As an accountant, you are responsible for  
I. Your own behavior  
II. The behavior of any organizations you manage  
III. The behavior of outside vendors with whom you interact  
a. I only  
b. I and II only  
c. I and III only  
d. I, II, and III
- ~~53~~55. When is the most appropriate time to identify ethical problems in organizations?  
a. When they are discovered by legal authorities  
b. As they arise  
c. After they arise  
d. When they are discovered by shareholders

- 5456.** Conflicts of interest often compromise managers' ability to make ethical decisions. Which of the following situations most likely includes a conflict of interest?
- Selling goods and services at discounted prices to some clients based on historical volumes
  - Offering sales on credit only to creditworthy clients
  - Paying dividends to shareholders rather than investing in an environmental project
  - Using LIFO to report the cost of ending inventory on the balance sheet

- 5557.** Rewards for ethical behavior can include
- Integrity
  - Reputation
  - Higher profits
- I, II, and III
  - I and III only
  - I and II only
  - II only

- 5658.** Which of the following can influence ethical behavior in organizations?
- Employee personal values
  - Systems for measuring, monitoring and motivating
  - Organizational culture
- I only
  - I and II only
  - I and III only
  - I, II, and III

- 5759.** Fraudulent financial reporting
- Is an example of unethical behavior
  - Eventually is likely to decrease organizational market value
  - Decreases the value of the accounting profession
- I only
  - II only
  - I and III only
  - I, II, and III

### Multiple Choice from Study Guide

- <sup>s</sup>58. Decision quality
- Refers to a decision that had a positive outcome
  - Refers to the characteristics of a decision that affects the likelihood of achieving a positive outcome
  - Is reduced by uncertainty and bias
  - Both (b) and (c) are correct
- <sup>s</sup>59. Which of the following statements is **false**?
- Managers must determine the organizational vision before further planning can occur
  - Organizational strategies should take advantage of the organization's core competencies
  - Operating plans are long-term in nature
  - Organizational core competencies are an organization's strengths relative to competitors

**Comment [mbs2422]:** I did not change anything here. Assume it has to match new study guide.



- <sup>s</sup>60. Which of the following statements is true?
- Managerial accounting and cost accounting are the same thing
  - Managerial accounting prepares reports used most frequently by external decision makers
  - Cost accounting information is used for both management and financial accounting
  - Preparation of the entity's income tax return is an example of a cost accounting activity
- <sup>s</sup>61. All of the following are examples of external reports except:
- Tax returns
  - Credit reports
  - Financial statements
  - Budgets
- <sup>s</sup>62. All of the following are examples of internal reports except:
- Cash flow analyses
  - News releases
  - Analyses of supplier quality
  - Product mix analyses
- <sup>s</sup>63. If a manager is deciding whether to repair equipment or replace it, which of the following is irrelevant to the decision?
- Cost of the repair
  - Original cost of the equipment
  - Warranty period for the repair
  - Expected life of the equipment if it is not repaired
- <sup>s</sup>64. Lori is deciding whether to go to school full-time at the local community college or get a full time job. Which of the following is not relevant to her decision?
- Tuition costs
  - Potential salary she could earn in a full-time job
  - Cost of books
  - Monthly rent on her apartment
- <sup>s</sup>65. Relevant cash flows are
- Unavoidable
  - Incremental cash flows
  - Constant across alternatives
  - Those that occurred in the past
- <sup>s</sup>66. Which of the following is not one of the steps in ethical decision making?
- Identify the ways you might get caught doing something unethical
  - Identify the stakeholders to the decision
  - Identify the ethical dilemma
  - Identify the effects of the decision on the stakeholders
- <sup>s</sup>67. Which of the following statements is **false**?
- Strategic cost management focuses on reducing costs as well as strengthening an organization's strategic position
  - The balanced scorecard is a formalized approach to strategic cost management
  - The balanced scorecard may include both financial and nonfinancial measures
  - Cost accounting information used for strategic cost management includes only measures of costs

**Multiple Choice from Web Quizzes (Available on Student Web Site)**

**Comment [mbs2423]:** I did not change anything here. Assume it has to match new website

- <sup>w</sup>68. An internal report is
- Used for decision making primarily inside the organization
  - Used for decision making primarily outside the organization
  - Used to explain new personnel policies
  - Used by financial analysts
- <sup>w</sup>69. Cost accounting is all of the following except
- A process of gathering and summarizing information
  - Preparing employee evaluation reports
  - Preparing information for internal reporting and decision making
  - Preparing information used in financial statements
- <sup>w</sup>70. Financial accounting is all of the following except
- A process of gathering and summarizing information primarily for external reports
  - Preparing financial statements according to Generally Accepted Accounting Principles
  - Information used by shareholders, creditors, and regulators for decision making
  - Preparing information for internal reporting and decision making
- <sup>w</sup>71. Decision quality can best be increased by
- Thinking harder
  - Controlling for bias and uncertainties
  - Asking an expert for help
  - Using the most current technology
- <sup>w</sup>72. Biases are
- Necessary for decision making
  - Expert opinions
  - Ideas that are adopted without careful thought
  - Always part of decision making
- <sup>w</sup>73. Uncertainties are
- Issues about which we have doubt
  - Foreseeable factors
  - Not usually part of decision making
  - Biased information
- <sup>w</sup>74. Relevant information
- Plays no part in decision making
  - Varies with the action taken
  - Must be based on the opinion of experts
  - Is the same as unavoidable cash flows
- <sup>w</sup>75. Avoidable cash flows are
- Usually relevant to a decision
  - Cash flows that are incurred no matter which action is taken
  - Ignored in decision making
  - Are the same as irrelevant cash flows
- <sup>w</sup>76. Ethical decision making
- Does not include ongoing improvement
  - Considers the well-being of those affected by the decision
  - Has little to do with professional reputation
  - Is not important for accountants

- <sup>w</sup>77. The incremental cash flow approach
- Analyzes the additional cash inflows and outflows for a specific decision
  - Is not useful for decision making
  - Is a search for as many cash flows as possible so they can all be used in decision-making.
  - Includes unavoidable cash flows
- <sup>w</sup>78. Strategic cost management focuses on all of the following except
- Strengthening an organization's strategic position.
  - Reducing costs
  - Both financial and non-financial measures
  - Producing financial statements
- <sup>w</sup>79. Information for decision making
- Is only produced inside an organization.
  - Includes estimates and predictions
  - Ensures certainty in the decision making process
  - Is easy to identify
- <sup>w</sup>80. Cost accounting differs from financial accounting in that cost accounting is
- Primarily concerned with income determination
  - Relied on for analyzing and implementing internal decisions
  - Focused only on qualitative information
  - Primarily concerned with external reporting
- <sup>w</sup>81. Tom is gathering information about buying a new car to replace his existing car. The following items are irrelevant
- The purchase price of the new car
  - The gasoline mileage of the new car
  - The cost of parking at the university
  - The money Tom will receive for selling the old car
- <sup>w</sup>82. Lisa would like to start a new business selling pet toys to local pet shops. To reduce her uncertainty about the volume of toys she can sell in a month, she should do all of the following except
- Ask pet store managers how many pet toys they sell every month
  - Determine the average price of the pet toys sold each month at local pet stores
  - Take a sample of toys to local stores and ask how many of each item the managers would be willing to buy
  - Produce as many toys as possible the first month to be certain she has enough
- <sup>w</sup>83. **(CMA)** When comparing strategic planning with operational planning, which one of the following statements is most appropriate?
- Strategic planning is performed at all levels of management
  - Operational planning results in budget data
  - Strategic planning focuses on authority and responsibility
  - Operational planning is long-range in focus
- <sup>w</sup>84. **(CMA)** Wong Company utilizes both strategic planning and operational budgeting. Which one of the following items would normally be considered in a strategic plan?
- Setting a target of 12 percent return on sales
  - Maintaining the image of the company as the industry leader
  - Setting a market price per share of stock outstanding
  - Distributing monthly reports for departmental variance analysis

**Matching**

1. Consider the following activities, which could be undertaken by managers at Southwest Airlines. Indicate whether each item is most likely part of: (S) organizational strategies, (P) operating plans, (A) actual operations or (M) measuring, monitoring and motivating. Each numbered item has only one correct response.
  - ☐ 1. comparing actual revenues with budgeted revenues
  - ☐ 2. developing processes for handling customer complaints
  - ☐ 3. handling customer complaints
  - ☐ 4. hosting an annual employee picnic
  - ☐ 5. maintaining high quality customer service
  - ☐ 6. negotiating contracts with the flight attendant union over the next six months
  - ☐ 7. opening a new route to Philadelphia
  - ☐ 8. providing employees opportunities to buy stock at discounted prices
  - ☐ 9. valuing training for employees to increase organizational competence
  - ☐ 10. reporting periodic financial results
  
2. The owner of a local restaurant is deciding whether to lease a company van. If the van is leased, the company would avoid paying its vendors to deliver the supplies and food purchases. The owner has negotiated a potential lease contract that would require a down payment plus a flat monthly rental payment. At the end of each year, an additional "contingency" rental payment would be required if the total number of miles driven exceeds 8,000. The owner has estimated that the van will be driven 600 miles per month for picking up supplies and food purchases, so she does not expect to incur a contingency annual payment. Based on these miles, the owner has calculated the expected amount of cost for fuel, repairs, and maintenance. She has received a quote from her insurance company for the next six months' insurance. She plans to hire a part-time employee at \$10 per hour to drive the van. The employee will work a flexible schedule based on the deliveries required. Items 1 through 7 are relevant costs for this decision. Indicate whether the dollar amount of each relevant cost is most likely (C) certain or (U) uncertain. Each numbered item has only one correct response.
  - ☐ 1. Lease down payment
  - ☐ 2. Monthly lease rental payments
  - ☐ 3. Contingency annual payment
  - ☐ 4. Fuel, repairs, and maintenance
  - ☐ 5. Van insurance for the next six months
  - ☐ 6. Part-time employee wages
  - ☐ 7. Reduction in vendor delivery charges
  
3. Indicate whether each of the following items is primarily: (I) an internal report or (E) an external report. Each numbered item has only one correct response.
  - ☐ 1. analysis of potential acquisitions
  - ☐ 2. analysis of product mix
  - ☐ 3. capital budgets

- \_\_\_ 4. cash flow plan
  - \_\_\_ 5. credit reports
  - \_\_\_ 6. financial statements
  - \_\_\_ 7. inventory reports for suppliers
  - \_\_\_ 8. news release
  - \_\_\_ 9. analysis of supplier quality
  - \_\_\_ 10. tax returns
4. Rick is an accountant for MRT Corporation. His boss has asked him to make a recommendation about buying or leasing new computer equipment for the accounting department. A decision has already been made to acquire a particular type of equipment. The only remaining decision is whether the equipment will be purchased or leased. Several pieces of information Rick might consider in his decision are listed below. Indicate whether each of the following items is: (R) relevant or (I) irrelevant to the decision.
- \_\_\_ 1. cost of current computer equipment
  - \_\_\_ 2. interest rate for lease
  - \_\_\_ 3. employee feelings about the type of new computer equipment
  - \_\_\_ 4. cost of purchasing new equipment
  - \_\_\_ 5. depreciation on old equipment
  - \_\_\_ 6. future reliability of new equipment
  - \_\_\_ 7. independent quality ratings on new equipment
  - \_\_\_ 8. trade-in value of old equipment
  - \_\_\_ 9. tax incentives to lease
  - \_\_\_ 10. personal relationship with equipment vendor
5. The Institute of Management Accountants (IMA) *Standards of Ethical Conduct for Members* includes four standards: (A) competence, (B) confidentiality, (C) integrity and (D) objectivity. Several elements of these standards are listed below. Indicate, with the appropriate letter, the applicable standard for each. Each numbered item has only one correct response.
- \_\_\_ 1. Avoid actual or apparent conflicts of interest.
  - \_\_\_ 2. Communicate information fairly.
  - \_\_\_ 3. Communicate unfavorable as well as favorable information and professional judgments or opinions.
  - \_\_\_ 4. Disclose fully all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, comments, and recommendations presented.
  - \_\_\_ 5. Inform subordinates as appropriate regarding the privacy of information acquired in the course of their work.
  - \_\_\_ 6. Monitor subordinates' activities to assure the maintenance of privacy.
  - \_\_\_ 7. Perform their professional duties in accordance with relevant laws and regulations.

- \_\_\_\_\_ 8. Prepare clear and complete reports after appropriate analysis of relevant and reliable information.
- \_\_\_\_\_ 9. Refrain from disclosing restricted information acquired in the course of their work except when authorized, unless legally obligated to do so
- \_\_\_\_\_ 10. Refrain from engaging in any activity that would prejudice their ability to carry out their duties ethically

### Exercises

1. Bill, the controller of CRV Corporation, is considering two new phone systems for his staff. System 1 costs \$0.80 per minute, while System 2 charges \$10 per month plus \$0.50 per minute.
  - a. If Bill's staff collectively plan to use the new phone system 20 hours per month, which alternative is preferable from a financial perspective?
  - b. What is the cost of the alternative you identified in Part A?
  - c. How many minutes would the staff have to use the phones for Bill to be indifferent between the two alternatives?

### Short Answer

1. Roger is the controller of TPD Corporation. He is currently working with a group of managers to decide whether to expand TPD's operations to Mexico. Describe three uncertainties related to the decision.
2. FCS Corporation's accounting manager, Gail, is in the process of hiring new staff accountants. List four types of information relevant to the hiring decision.
3. Financial accounting information is often used as an input for management decisions. Describe two pros and two cons of using financial accounting information in decision making.
4. Explain why the use of management accounting information cannot completely eliminate the risk of poor decisions in organizations.
5. One type of ~~uncertainty~~ **business risk** managers face in decision making is an inability to describe a problem accurately. For example, PKT Corporation has experienced a drop in its stock price over the last six months, and the managers have attributed the problem to a decrease in profits. Identify and describe two uncertainties about the managers' interpretation of the problem.
6. Each of the following is a decision made by the manager of concessions at the local sports arena. Classify each decision as an organizational strategy (long-term) or an operating decision (short-term). Explain your reasoning for each classification.
  - a. Determining whether to replace old cash registers that have been in use for eight years with new models that also track inventories.
  - b. Setting a schedule for staffing the concession booths for the next month.
  - c. Deciding whether to close several concession stands during a week of low attendance.
  - d. Deciding whether to remodel the concession stands to improve wait times at each booth.
7. **Think of an organization that interests you. List one boundary, belief, interactive control and diagnostic control that organization would likely use.**
78. The ~~textbook appendix~~ defined *open-ended problems* as problems for which there is no single correct solution, often due to significant uncertainties. Discuss reasons why each of the following problems is open-ended:
  - a. Pacific Northwest Mountain Bikes has developed a new braking system that will enable riders to apply brakes to both the front and back wheels simultaneously and also to apply brakes in a

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consistent pumping pattern to slow the bike, but not stop it. The company's managers are considering whether to manufacture and sell the brakes as part of their current product mix or whether to sell the patent to a large bicycle manufacturer.

- b. Mike Penny is trying to decide whether to major in accounting or to graduate with a double major in accounting and information systems. He has been discussing his options with several people in firms that would be likely to hire him. He has been told that he will make more money at the beginning of his career if he completes both the accounting and information system degrees. However, a double degree will add a year and a half to his time at the university.

### **Problems**

1. Flora is deciding whether to go on a spring break cruise or drive to Florida and spend a week at Daytona Beach. Her best friend is going on the cruise, but Flora has never been on a cruise before and is concerned that she cannot leave if she does not like it. If she drives to Florida, she can either drive back to campus or go home if the beach trip is not what she expects. She also needs to consider the costs associated with both trips because her finances are somewhat limited. If she spends too much on the trip, she will not have enough money to finish the semester and will have to increase the hours that she works, which will likely lower her grades for the semester. Following is information about both alternatives.

Cost for the cruise is \$600 if she shares a room with her friend. It is a four-day cruise. This cost includes all meals and incidentals while she is on the boat. In addition, there will be three off shore excursions and no costs are covered once passengers leave the boat. After discussing these costs with her friend, Flora estimates these costs for the trip. She believes she will spend about \$150 for excursions. She will have to drive to Daytona beach because that is the cruise ship's home port. She estimates that cost to be \$250 and to take more than one day with an overnight stay each way. The cruise ship charges for parking at \$10 per day.

Alternatively Flora can drive to Daytona Beach at a cost of \$250, stay in a hotel and enjoy the beach. If she does this, it will cost \$180 and another friend will share this cost. They will stay at the hotel for four days. Flora has estimated the cost of food, beverages, and entertainment to be about \$75 per day. However other students have told her that this amount is too little. The hotel charges \$5 a day for parking. While she is gone, Flora needs to pay a house sitter to feed her kitten and water her plants. This costs \$12 per day.

- a. What are the relevant costs for deciding whether to take the cruise or stay in Daytona Beach?
  - b. What factors other than costs might influence Flora's decision? List at least two.
  - c. Consider your own preferences for this problem. Do you expect Flora's preferences to be the same as yours? How can you control for your biases and consider this problem from Flora's point of view?
2. Suppose the current average cost per mile for operating a car is \$0.70 but the cost of gas and maintenance is \$0.40. Beth is required to drive to a client's office that is 50 miles away (100 miles round-trip). The client is an artist, and Beth will be expected to take the client to lunch as part of their meeting. Beth can use her own car (a brand-new luxury sedan) and be reimbursed \$0.50 per mile, use a company-owned vehicle (a 3-year-old economy sedan), or rent a 4-year-old sports car from Gamma Car Rental for \$25 per day plus \$0.25 per mile. Identify relevant information from the preceding paragraph for Beth's transportation decision. For each piece of relevant information, discuss why you believe it is relevant.
  - a. Identify the least costly alternative from the company's perspective.
  - b. Identify two qualitative factors that might influence Beth's decision.

## Answers

### True / False

1. T	<del>117.</del> F	<del>21.</del> F	<del>19.</del> T
2. F	<del>128.</del> T	<del>2210.</del> F	<del>20.</del> F
3. T	<del>139.</del> T	<del>2311.</del> T	<del>21.</del> T
4. F	<del>14.</del> T	<del>12.</del> F	<del>22.</del> F
<del>5.</del> T	<del>15.</del> F	<del>2413.</del> F	<del>3023.</del> F
<del>6.</del> T	<del>16.</del> T	<del>1425.</del> <del>4F</del>	<del>3124.</del> F
<del>7.</del> F	<del>17.</del> F	<del>2615.</del> T	<del>3225.</del> T
<del>8.</del> F	<del>18.</del> T	<del>2716.</del> T	
<del>95.</del> F	<del>19.</del> T	<del>2817.</del> F	
<del>106.</del> T	<del>20.</del> F	<del>2918.</del> F	

### Multiple Choice

1. A	<del>4726.</del> C	38. C	<sup>s</sup> 63. B
2. A	<del>2748.</del> B	39. D	<sup>s</sup> 64. D
3. C	<del>2849.</del> B	40. B	<sup>s</sup> 65. B
4. B	<del>2950.</del> B	41. B	<sup>s</sup> 66. A
5. C	<del>3051.</del> A	42. D	<sup>s</sup> 67. D
6. D	<del>321.</del> A	43. C	<sup>w</sup> 68. A
7. D	<del>22.</del> C	44. C	<sup>w</sup> 69. B
8. B	<del>3223.</del> C	<del>45.</del> C	<sup>w</sup> 70. D
9. D	<del>33.</del> C	<del>46.</del> C	<sup>w</sup> 71. B
10. B	<del>34.</del> B	<del>47.</del> C	<sup>w</sup> 72. C
11. B	<del>3524.</del> A	<del>48.</del> B	<sup>w</sup> 73. A
12. C	<del>3625.</del> C	<del>49.</del> B	<sup>w</sup> 74. B
<del>13.</del> B	<del>3726.</del> C	<del>50.</del> B	<sup>w</sup> 75. A
<del>14.</del> B	<del>27.</del> C	<del>51.</del> A	<sup>w</sup> 76. B
<del>153.</del> D	<del>3828.</del> C	52. B	<sup>w</sup> 77. A
<del>164.</del> C	<del>3929.</del> A	53. B	<sup>w</sup> 78. D
<del>175.</del> C	<del>40.</del> C	54. C	<sup>w</sup> 79. B
<del>186.</del> D	<del>30.</del> B	55. A	<sup>w</sup> 80. B
<del>197.</del> B	31. C	56. D	<sup>w</sup> 81. C
<del>2018.</del> A	<del>32.</del> C	57. D	<sup>w</sup> 82. D
<del>2119.</del> A	33. C	<sup>s</sup> 58. D	<sup>w</sup> 83. B
<del>220.</del> C	34. D	<sup>s</sup> 59. C	<sup>w</sup> 84. B
<del>3223.</del> C	35. A	<sup>s</sup> 60. C	
<del>4524.</del> C	36. D	<sup>s</sup> 61. D	
<del>4625.</del> C	37. A	<sup>s</sup> 62. B	



**Matching**

1. Southwest Airlines
 

1. M	5. S	9. S
2. P	6. A	10. M
3. A	7. A	
4. M	8. M	
  
2. Certainty of relevant costs
 

1. C	4. U	7. U
2. C	5. C	
3. U	6. U	
  
3. Internal and external reports
 

1. I	5. E	9. I
2. I	6. E	10. E
3. I	7. E	
4. I	8. E	
  
4. Information relevance
 

1. I	5. I	9. R
2. R	6. I	10. I
3. I	7. I	
4. R	8. I	
  
5. IMA Standards of Ethical Conduct
 

1. C	5. B	9. B
2. D	6. B	10. C
3. C	7. A	
4. D	8. A	

**Exercises**

1. Phone system
  - a. System 2 is preferable; see the computations below.
  - b. System 1:  $\$0.80 \times 20 \text{ hours} \times 60 \text{ minutes} = \$960$ ; System 2:  $\$10 + \$0.50 \times 20 \text{ hours} \times 60 \text{ minutes} = \$610$
  - c.  $\$0.80n = \$10 + \$0.50n \rightarrow 33.33 \text{ minutes}$

**Problems**

1. a.
 

	<u>Cruise</u>	<u>Beach</u>
Room and board	\$600	( $\$90 + \$75$ ) $\times 4 = \$660$
Parking	$\$10 \times 4 = 40$	$\$5 \times 4 = 20$
Off shore excursions	<u>150</u>	<u>0</u>
Total	<u>\$790</u>	<u>\$680</u>

  - b. Flora cannot leave the cruise ship if she is not enjoying the trip, and she could drive back to campus if she was not enjoying the beach. She may not have estimated her costs accurately for

the beach trip and if she makes a choice based only on cost, she may regret her choice if costs for the beach trip are a lot higher than costs for the cruise would have been. There are a variety of other answers students may list.

- c. Student responses should include a definite preference and acknowledge that their preferences are likely to be different than Flora's. Student responses to the last question should include some of the following factors. Often, personal biases sway the way that we look at information for a problem. We often ignore information that contradicts our preferences. Flora probably does not have the same experiences and preferences as students. One way to control biases is to first recognize our own preferences. Then look for ways in which our preferences affect what we consider to be relevant or important. Another way is to talk about this problem with other people who are likely to have preferences different than ours.
2.
    - a. The costs from the company's perspective are \$50 for Beth to take her own car, \$50 for the car rental, or \$40 if Beth takes the company car. The cheapest alternative is to take the company car.
    - b. Here are several qualitative factors students might provide. There are many other correct responses.
      - The "image" portrayed by each car. If the client is concerned with Beth's image, or if Beth herself is concerned, she may want to consider the psychological and economic image presented by each automobile.
      - Comfort. Beth and the client would likely be more comfortable in a larger car.

### **Short Answer**

1. Here is a sample of uncertainties related to opening a business in Mexico; others may apply. For full credit, students must describe (not just list) three major uncertainties.
  - Availability of workers
  - Cost of facilities
  - Import / export considerations
  - Exchange rate fluctuations
  - Product reputation and quality in Mexico
  - Infrastructure
  - Education and training of workers
2. Here is a sample of information items that are relevant to the hiring decision; others may apply. For full credit, students must list 4 relevant pieces of information.
  - Degree status
  - University conferring the degree
  - Courses taken
  - Co-curricular activities
  - Languages spoken
  - Internship or other experience
3. Here is a sample of pros and cons for using financial accounting information for decision making; others may apply. For full credit, students must describe (not just list) two pros and two cons.
 

Pros:

  - Easily available
  - Subject to measurement guidelines (GAAP)

- Understood by many stakeholders

Cons

- Looks only at one measure of success—financial
- Not understood by all stakeholders
- Measurement guidelines (GAAP) often do not provide information that is relevant for decision making (e.g., incremental cash flows)

- Here is a sample of reasons why the use of management accounting information cannot completely eliminate the risk of poor decisions in organizations; others may apply. For full credit, students should adequately describe more than one (perhaps 2-3) major factors.
  - Management accounting information is subject to uncertainty and bias.
  - Information may be interpreted inaccurately or inappropriately.
  - Management accounting information does not necessarily capture all relevant aspects of a decision.
  - Management accounting information cannot predict the future with 100% certainty.
  - Uncontrollable factors, such as market conditions, may impinge on future decisions.
  - Decision makers may use inappropriate decision-making processes (e.g., fail to properly identify relevant information, insufficiently analyze information, employ biased judgment, and/or fail to adequately clarify values and priorities)
- Here is a sample of uncertainties about the managers' interpretation of the stock price decline; others may apply. For full credit, students must describe (not just list) two major uncertainties.
  - No one really knows for certain all of the causes of changes in stock prices. While profits may be a contributing factor, managers can never be 100% certain that profitability changes are fully responsible.
  - The entire stock market might have declined
  - Macro-economic factors might have worsened
  - Personnel changes, such as a change in a CEO
  - Questionable financial reporting practices
  - Anticipated increase in competition
  - Reduced product demand
  - Higher costs
  - Changes in shareholders' perceptions of future cash flows for the firm
- This is a long-term strategy decision because it considers a period greater than one year and allows the manager to track inventory information that could be used in making strategic product-mix decisions
  - This is a short-term operational decision, because it refers only to the next month.
  - This is a short term decision that refers to operations for the next week.
  - This is a long term decision, because costs and benefits over a number of years will be considered.

7. An example of a response is:

Coca-Cola:

Boundary System: Code of Business conduct for integrity around the globe.

Belief System: Mission: to refresh, inspire, create value

Diagnostic Control: Water conservation goal

Interactive Control: Information on tastes and consumer interest in healthy drinks and nutrition facts.

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- 78.
- a. Although the managers can estimate the value to the company from each option, the estimates would be subject to uncertainty. For example, the managers cannot know with certainty the selling price and costs if they produce the new braking system. They also cannot know how much they would receive by selling the system to another company. In addition, there may be factors that influence the decision, such as how the new braking system might affect the company's reputation for quality and innovation. Because of the uncertainties, different managers will make different assumptions and use different amounts in their calculations. Different analyses will result in a variety of conclusions, so there is no one correct answer.
  - b. Mike cannot be certain how much he will earn under each option. By the time he graduates, the difference in starting pay could change. Also, he does not know which option would provide the best pay in the long run. In addition, Mike cannot be certain which option would provide the career opportunities that he would like best.