**CHAPTER 1 Test Bank – Business Planning and Analysis: An Integrative Framework for Management Accounting**

**TRUE FALSE ITEMS (15)**

1. Management accounting takes an external perspective in evaluating a firm’s performance.

A: False

1. Management accounting practice is affected by the products or services offered by an organization to its customers.

A: True

1. Traditional management accounting emphasizes the entire management process, while business planning and analysis (BPA) tends to focus more on cost and profitability analysis.

A: False

1. Data and information are essentially the same thing.

A: False

1. Costs occur throughout the organization wherever resources are consumed.

A: True

1. The management process consists of plan, deliver, check, and analyze.

A: False

1. The process domain includes all decisions and activities relating to an organization’s products or services.

A: False

1. The customer/market domain includes decisions and activities that affect a specific segment of the firm’s customers or markets.

A: True

1. Process managers oversee the work of operational managers and coordinate their efforts with top management.

A: False

1. An accounting manager would be an example of a functional manager.

A: True

1. Top management is responsible for assigning responsibilities for achieving organizational objectives.

A: True

1. The competence standard of the *IMA Statement of Ethical Professional Practice* includes being able to recognize and help manage risk.

A: True

1. The confidentiality standard of the *IMA Statement of Ethical Professional Practice* includes refraining from any conduct that could prejudice carrying out duties ethically.

A: False

1. The integrity standard of the *IMA Statement of Ethical Professional Practice* includes contributing to a positive ethical culture.

A: True

1. Providing only the positive news the boss wants to hear is a violation of the credibility standard of the *IMA Statement of Ethical Professional Practice*.

A: True

**MULTIPLE-CHOICE ITEMS (24)**

1. *(Ethics; CMA Adapted)* Employee A observes that Employee B is improperly altering department records to meet month-end goals. These records are for internal use only and do not impact the company’s financial records. Employee A notifies her supervisor of the impropriety, and the supervisor advises Employee A that she instructed Employee B to alter the records and that an adjustment would be made the subsequent month to correct the records. Employee A should:
2. Advise the supervisor that her behavior was unethical and do not communicate the impropriety any further.
3. **Follow the organization’s established procedures on the resolution of such conflict.**
4. Do nothing since the supervisor authorized the behavior.
5. Communicate the unethical behavior to external authorities.
6. *(Ethics; CMA Adapted)* Payments to government officials to avoid importation rules in countries where such payments are common is a violation of the U.S. Foreign Corrupt Practices Act. Knowing this is an example of which standard in the *IMA Statement of Ethical Professional Practice*?
7. **Competence**.
8. Confidentiality.
9. Credibility.
10. Integrity.
11. *(Ethics)* Based on the *IMA Statement of Ethical Professional Practice*, all of the following are ways that management accountants can try to resolve ethical issues **except**:
12. Call IMA’s anonymous ethics helpline.
13. Discuss it with their immediate supervisor.
14. **Anonymously report it to the local media.**
15. Consult their attorney.
16. *(Ethics; CMA Adapted)* Which standard of the *IMA Statement of Ethical Professional Practice* states that financial management professionals should not engage in activities that might discredit the profession?
17. **Integrity**.
18. Confidentiality.
19. Competence.
20. Credibility.
21. *(Ethics; CMA Adapted)* Fan Club Inc. recently submitted a budget for the coming year to management. Included in the budget were the plans for a new product: a rechargeable fan. The new fan will not only last longer than the competitor’s product but is also quieter. While not yet approved, the budget called for aggressive advertising to support its sales targets, as the business community was not yet aware that Fan Club was close to production of a new fan. A member of the management accounting staff “shared” the budget with a distributor. In accordance with the *IMA Statement of Ethical Professional Practice*, which of the following would **best** represent an ethical conflict in this situation?

a. The budget has not been approved and therefore is not for publication.

b. The price has not been established, so expectations must be managed.

c. The staff member exposed the company to a potential lawsuit.

d. **The employee should refrain from disclosing confidential information.**

1. (*Levels of management)* Identifying and implementing best practices is most often performed by:
   1. **Process managers.**
   2. Functional managers.
   3. Top management.
   4. Operational managers.
2. (*Levels of management*) Establishing strategic objectives is most often performed by:
   1. Process managers.
   2. Functional managers.
   3. **Top management.**
   4. Operational managers.
3. (*Levels of management*) Assigning specific individuals to specific activities is most often performed by:
   1. Process managers.
   2. Functional managers.
   3. Top management.
   4. **Operational managers.**
4. (*Levels of management*) Developing financial statements is most often performed by:
   1. Process managers.
   2. **Functional managers.**
   3. Top management.
   4. Operational managers.
5. Pricing decisions are part of which decision domain?
6. Process.
7. Customer/market.
8. **Product.**
9. Supply chain.
10. Entity.
11. Setting up distribution channels for products is part of which decision domain?
12. **Supply chain.**
13. Product.
14. Process.
15. Entity.
16. Customer/market.
17. Developing a product marketing plan is part of which decision domain?
18. Customer/market.
19. Entity.
20. Process.
21. **Product.**
22. Supply chain.
23. Which of the following is part of the *entity* domain?
24. **Reporting to company stakeholders.**
25. Creating a strategy for a specific customer segment.
26. Implementing continuous improvement activities.
27. Directing the work of many functions.
28. Determining which features to offer on different models of products.
29. Which of the following is part of the *process* domain?
30. Reporting to company stakeholders.
31. Creating a strategy for a specific customer segment.
32. **Implementing continuous improvement activities.**
33. Negotiating contracts with raw material suppliers.
34. Determining which features to offer on different models of products.
35. Which of the following is part of the *customer/market* domain?
36. Reporting to company stakeholders.
37. **Creating a strategy for a specific customer segment.**
38. Implementing continuous improvement activities.
39. Negotiating contracts with raw material suppliers.
40. Determining which features to offer on different models of products.
41. Which of the following sequences match the four stages of the PDCA management process?
    1. **Negotiate supplier agreements, accept materials from supplier, evaluate supplier performance, find a new supplier.**
    2. Evaluate supplier performance, negotiate supplier agreements, accept materials from supplier, find a new supplier.
    3. Accept materials from supplier, evaluate supplier performance, find a new supplier, negotiate supplier agreements.
    4. Find a new supplier, negotiate supplier agreements, accept materials from supplier, evaluate supplier performance.
42. Which of the following sequences match the four stages of the PDCA management process?
43. Complete financial statements, complete analysis of performance shortfalls, change financial objectives, set financial reporting goals.
44. Complete analysis of performance shortfalls, complete financial statements, change financial objectives, set financial reporting goals.
45. Set financial reporting goals, complete analysis of performance shortfalls, complete financial statements, change financial objectives.
46. **Set financial reporting goals, complete financial statements, complete analysis of performance shortfalls, change financial objectives.**
47. Developing a marketing strategy for a new cell phone product is an example of which stage in the PDCA management process?
48. Act.
49. Customer/market.
50. Do.
51. **Plan.**
52. Process.
53. Analyzing performance reports for a new cell phone product is an example of which stage in the PDCA management process?
54. Do.
55. **Check.**
56. Assess.
57. Analyze.
58. Act.

**Use the following information to answer questions 20-24:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Measure** | **2017** | **2018** | **2019** |
| Annual total revenues (000s) | $10,374 | $19,824 | $24,024 |
| No. of iPhone 6 sold (avg. price $299) | 20,000 | 2,500 | 1,000 |
| No. of iPhone 7 sold (avg. price $649) | 6,000 | 14,000 | 5,000 |
| No. of iPhone 8 sold (avg. price $999) | 500 | 10,000 | 20,500 |

1. What is the annual revenues’ absolute size, or magnitude, of change from 2017 to 2018?
   1. ($24,024)
   2. ($9,450)
   3. **$9,450**
   4. $13,650
   5. $24,024
2. What is the percentage change of the number of iPhone 6 units sold from 2018 to 2019?
   1. **(60%)**
   2. 60%
   3. 88%
   4. (88%)
   5. (95%)
3. What is the percentage change of the number of iPhone 7 units sold from 2017 to 2018?
   1. (133%)
   2. (64%)
   3. (17%)
   4. 17%
   5. **133%**
4. What is the percentage change of the number of iPhone 8 units sold from 2018 to 2019?
   1. (105%)
   2. **105%**
   3. 4000%
   4. 1900%
   5. 771%
5. What do the numbers suggest?
6. Decreasing revenues at an increasing rate; increasing growth in number of iPhone 7/8 sales.
7. **Increasing revenues at a decreasing rate; decreasing growth in number of iPhone 6/7 sales.**
8. Increasing revenues at a decreasing rate; decreasing growth in number of iPhone 7/8 sales.
9. Increasing revenues at a decreasing rate; increasing growth in number of iPhone 7/8 sales.
10. Increasing revenues at an increasing rate; decreasing growth in number of iPhone 6/7 sales.

**Longer Problems (3)**

1. (*Analyze degree of change*) Rebecca Marlor is the managing partner of McGill, Graviet, and Johnson (MGJ), an audit and management advisory consulting firm. MGJ has three types of clients: audit, business consulting, and government consulting. Although the firm has increased its total number of clients the past few years, Rebecca is concerned because revenues and profits have been lagging. Although the audit business is booming as more companies have moved to the area, the consulting business has been slow to catch on. Many of the business consulting clients are manufacturing companies that have been long-term clients. Rebecca has asked John McGill, founding partner who is semi-retired, to look at the following results and make initial suggestions.

|  |  |  |  |
| --- | --- | --- | --- |
| **Measure** | **2017** | **2018** | **2019** |
| Annual total revenues (000s) | $7,295 | $7,400 | $8,170 |
| Audit engagements (avg. fee $30K) | 88 | 95 | 132 |
| Consulting clients-Business (avg. fee $75K) | 45 | 42 | 38 |
| Consulting clients-Government (avg. fee $40K) | 32 | 35 | 34 |

**Required:**

a. Calculate the percentage change for revenues and number of clients over the past three years.

b. What do these percentages suggest? What could be some possible causes?

**Answer:**

a. Percentage change in business metrics for MGJ:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Magnitude of change** | | **Percentage change** | |
| **Measure** | **2017-18** | **2018-19** | **2017-18** | **2018-19** |
| Annual total revenues (000s) | $105 | $770 | 1% | 10% |
| Audit engagements (avg. fee $30K) | 7 | 37 | 8% | 39% |
| Consulting clients-Business (avg. fee $75K) | (3) | (4) | -7% | -10% |
| Consulting clients-Government (avg. fee $40K) | 3 | (1) | 9% | -3% |

b. These percentages suggest that revenues are increasing slightly. The basic message is that the number of audit engagements is increasing at a healthy rate of 8% and 39% the last two years, respectively, but they have the lowest fee per client ($30,000). The highest fee ($75,000) business consulting clients, however, have been decreasing by 7% and 10% the last two years, respectively. Thus, audit revenues are up but business consulting fees are down. Why could this be happening?

* Perhaps with the new businesses emerging in the area are start-ups that need audits for bank loans but lack the cash to pay consulting fees.
* Maybe some of the new businesses in the area are small consulting firms that charge lower fees than MGJ and they are stealing some of its clients.
* Perhaps the manufacturing companies are facing increasing pressure from foreign suppliers and moving operations overseas—or, worse yet, closing down. This is something MGJ can plan for, but probably not change. It may need to increase its expertise and experience with service firms and smaller companies.

2. (*Ethics*) WestJet, an airline company based in Western Europe, is a small regional air carrier, struggling to achieve profitability in a limited niche market. WestJet’s executive team is expected to make significant cost cuts and show positive changes in the airline’s financial situation. Newly appointed Onboard Services Manager Tom Jones recently joined the company. Part of Tom’s job is to check all the monthly invoices received for onboard services, verifying that they correspond to the services provided, approving the invoices, and forwarding them to the accounting department for payment. One of its vendors is Air Catering, a local airline catering company that was the only licensed catering service with all the required certifications for WestJet’s base airport. Enjoying a monopoly position there, Air Catering charged high prices yet made sure to negotiate favorable terms in its agreements with airlines, especially WestJet. Going through the invoices, Tom noticed an unusual invoice from Air Catering for “general catering services.” Tom was unsure what services these were for or why they were all invoiced on a separate bill. Tom decided to share his concerns with his direct supervisor.

His supervisor said that the invoice referred to a separate verbal agreement between WestJet’s and Air Catering’s accounting departments. “These are some complicated accounting matters you shouldn’t worry about,” his boss said. “They know better how to properly invoice everything.” She advised Tom to just sign his approval of the invoice and forward it to the accounting department for payment.

Using the *IMA Statement* *of Ethical Professional Practice*, analyze the situation Tom is facing. Does Tom have an obligation to do more to address this ethical situation? What other actions could he take to successfully resolve this ethical conflict?

**Answer:**

The four principles outlined in the *IMA Statement* are: competence, confidentiality, integrity, and credibility. Those bound by the *IMA Statement* must behave ethically and promote such behavior in the workplace.

Tom’s supervisor is violating the *IMA Statement of Ethical Professional Practice* in terms of integrity and credibility. It is definitely an integrity problem that she is telling Tom to just approve the invoice without him knowing what it is for. She is essentially asking him not to carry out his duties ethically. This activity could discredit the company and the profession, plus it encourages a nonethical culture at the company. There is also a credibility issue in that not all relevant information is being provided and the information being provided would be deficient and violates internal controls the company has in place.

Tom has an obligation to take action to resolve this conflict, but he is facing a very difficult situation. It is quite possible that his supervisor is not telling him all she knows. If he goes against her direction, he may lose his job. On the other hand, not taking action could make him appear to be condoning the unethical conduct, which would also compromise his future with the company.

* In this case, Tom should first follow the company’s established policies for dealing with ethical conduct. If no action is taken, Tom needs to go above his supervisor’s head to report the issue.
* If no action is taken, Tom could contact IMA’s anonymous helpline for guidance.
* If the guidance does not help him resolve the matter, he should consider consulting his own attorney to learn of any legal obligations, rights, and risks concerning the issue.
* If his resolution efforts are still not successful, he may wish to consider leaving the company. However, if he does so, it is imperative that he send an email to the human resources department and at least one other company official to document what happened.

Tom can only protect his own integrity—he cannot enforce it on others if they are resistant. Remember, you can only give your integrity away; it cannot be taken by force.

1. (*Terms*) Match the term on the right with the definition on the left.

|  |  |
| --- | --- |
| 1. Adjust | a. Decisions that affect the firm’s relationships with its suppliers and trading partners. |
| 1. Check | b. Establish relationships with key customers and suppliers, and coordinate individual and group efforts to achieve goals. |
| 1. Do | c. Comparison of current results to the plan. |
| 1. Plan | d. Includes implementing continuous improvement activities. |
| 1. Process managers | e. Actions that facilitate how the products and services of the firm are manufactured and supported. |
| 1. Product domain | f. Decisions and activities that support the products or services offered to customers. |
| 1. Supply chain domain | g. A change in the current work to improve performance and the potential to reach the firm’s objectives. |
| 1. Process domain | h. Setting objectives and then determining what needs to be done to reach them. |

**Answer:**

|  |  |
| --- | --- |
| 1. Adjust | g. A change in the current work to improve performance and the potential to reach the firm’s objectives. |
| 1. Check | c. Comparison of current results to the plan. |
| 1. Do | e. Actions that facilitate how the products and services of the firm are manufactured and supported. |
| 1. Plan | h. Setting objectives and then determining what needs to be done to reach them. |
| 1. Process managers | b. Establish relationships with key customers and suppliers, and coordinate individual and group efforts to achieve goals. |
| 1. Product domain | f. Decisions and activities that support the products or services offered to customers. |
| 1. Supply chain domain | a. Decisions that affect the firm’s relationships with its suppliers and trading partners. |
| 1. Process domain | d. Includes implementing continuous improvement activities |