Principles of Accounting - Volume 2 Managerial Accounting 1st edition Franklin Test Bank

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Principles of Accounting, Volume 2: Managerial Accounting

ISBN 9781947172609 | Chapter 1: Accounting as a Tool for Managers

Total Questions: 150

Multiple Choice

Q1.

What is managerial accounting?

- **A)** The process of preparing tax returns for government agencies
- **B)** The process of providing information to external investors under GAAP
- **C) The process that helps decision makers identify, analyze, and communicate information for business decisions ✓ Correct**
- **D)** The process of recording only cash transactions for management review

Rationale: Managerial accounting supports decision making by determining what information is needed and how to analyze and communicate it.

Q2.

Which set lists the three primary responsibilities of management identified in the chapter?

- **A)** Auditing, investing, and financing
- **B) Planning, controlling, and evaluating ✓ Correct**
- **C)** Recording, summarizing, and reporting
- **D)** Organizing, staffing, and directing

Rationale: The chapter identifies planning, controlling, and evaluating as the three primary responsibilities of management.

Q3.

A mission statement is best defined as a:

- **A)** Detailed annual operating budget
- **B) Short statement of a company's purpose and focus ✓ Correct**
- **C)** Schedule of departmental performance measures
- **D)** List of procedures required by regulators

Rationale: A mission statement is a brief expression of the company's purpose and focus.

Q4.

In the planning function, goals are best described as:

- **A)** The records used to support financial audits
- **B)** The controls used to prevent employee theft
- **C) What the company expects to accomplish over time ✓ Correct**
- **D)** The variances between actual and budgeted results

Rationale: Goals refer to what the company intends to achieve over time.

Q5.

Objectives are best defined as:

- **A) Targets that must be met to achieve goals ✓ Correct**
- **B)** Historical results reported to stockholders
- **C)** Rules issued by the SEC for public companies
- **D)** Audits performed by independent accountants

Rationale: Objectives are the specific targets that support achievement of broader goals.

Q6.

Strategic planning primarily involves:

- **A)** Preparing journal entries for year-end adjustments
- **B) Setting priorities and allocating resources to achieve short- and long-term goals ✓ Correct**
- **C)** Calculating payroll taxes and employee benefits
- **D)** Reporting quarterly earnings to external stakeholders

Rationale: Strategic planning focuses on priorities and resource allocation to accomplish organizational goals over time.

Q7.

Which statement best describes controlling?

- **A) Monitoring planning objectives and coordinating activities to help meet goals ✓ Correct**
- **B)** Publishing annual reports for external users
- **C)** Establishing legal ownership of company assets
- **D)** Eliminating all budget variances before they occur

Rationale: Controlling involves monitoring objectives and coordinating day-to-day activities so plans lead to goal achievement.

Q8.

Evaluating in a managerial context involves:

- **A)** Issuing stock to raise capital
- **B) Comparing actual results with expected results ✓ Correct**
- **C)** Preparing tax schedules for regulators
- **D)** Recording transactions using debits and credits

Rationale: Evaluating means assessing performance by comparing actual outcomes to expected outcomes.

Q9.

Feedback is best defined as information used to:

- **A)** Prepare external financial statements
- **B) Assess a process and determine whether corrective action is needed ✓ Correct**
- **C)** Calculate income taxes owed
- **D)** Establish legal compliance with GAAP

Rationale: Feedback provides information management uses to evaluate progress and decide on corrective measures.

Q10.

Which of the following is an example of a financial control mentioned in the chapter?

A) Fingerprint identification

B) Password protection

C) Inventory turnover ratio ✓ Correct

D) Customer satisfaction survey

Rationale: The inventory turnover ratio is a financial measure used as a control over inventory management.

Q11.

Inventory turnover is defined as:

A) Net Sales divided by Ending Inventory

B) Cost of Goods Sold divided by Average Inventory ✓ Correct

C) Average Inventory divided by Cost of Goods Sold

D) Gross Profit divided by Inventory Purchases

Rationale: The chapter defines inventory turnover as Cost of Goods Sold divided by Average Inventory.

Q12.

Which statement best characterizes financial accounting?

A) It is designed primarily for internal decision making and future scenarios

B) It is not subject to external standards or rules

C) It provides information mainly for external users such as investors and creditors ✓ Correct

D) It emphasizes nonfinancial operating data over monetary data

Rationale: Financial accounting primarily serves external users, including investors and creditors.

Q13.

Which organization sets financial accounting standards in the United States?

A) Institute of Management Accountants

B) Financial Accounting Standards Board ✓ Correct

C) Governmental Accounting Standards Board

D) Institute of Internal Auditors

Rationale: The FASB is the independent board that establishes financial accounting and reporting standards in the United States.

Q14.

Generally accepted accounting principles (GAAP) are best described as:

A) Optional internal budgeting practices for managers

B) A common set of rules, standards, and procedures used in financial statement preparation ✓ Correct

C) Ethical recommendations that apply only to nonprofit entities

D) Federal tax regulations for all small businesses

Rationale: GAAP refers to the common rules, standards, and procedures used in preparing financial statements.

Q15.

Managerial accounting differs from financial accounting because managerial accounting:

- **A)** Focuses only on past transactions
- **B)** Relies solely on audited information
- **C) Is not governed by GAAP and can be customized for internal needs ✓ Correct**
- **D)** Is prepared only once a year

Rationale: Managerial accounting is flexible and not constrained by GAAP, allowing reports to be tailored to internal users.

Q16.

Which type of data is used in managerial accounting but not relied on exclusively in financial accounting?

- **A)** Only audited monetary data
- **B)** Only stock market data
- **C) Nonfinancial data such as hours worked or units produced ✓ Correct**
- **D)** Only tax return data

Rationale: Managerial accounting uses both financial and nonfinancial information, such as labor hours and quantities.

Q17.

Who are the primary users of managerial accounting reports?

- **A)** External auditors and regulators
- **B) Internal users such as managers and employees ✓ Correct**
- **C)** Potential investors only
- **D)** Competitors and customers

Rationale: Managerial accounting reports are prepared for internal users responsible for managing the organization.

Q18.

Which of the following is typically included in financial accounting reports?

- **A)** Job order cost sheets only
- **B)** Variance reports only
- **C) Balance sheet and income statement ✓ Correct**
- **D)** Customer-level pricing analysis only

Rationale: Financial accounting reports commonly include formal financial statements such as the balance sheet and income statement.

Q19.

A budget variance report is most closely associated with:

- **A) Managerial accounting ✓ Correct**
- **B)** Financial accounting for external reporting
- **C)** Tax accounting
- **D)** Governmental auditing

Rationale: Variance reports are internal managerial accounting tools used to compare budgeted and actual results.

Q20.

Financial statements are typically generated:

- **A)** Only when management requests them informally
- **B) Quarterly and annually ✓ Correct**
- **C)** Every day for all public users
- **D)** Only after internal budget meetings

Rationale: The chapter notes that financial statements are typically produced quarterly and annually.

Q21.

Why can managerial accounting reports often be produced more quickly than financial statements?

- **A)** They never use accounting information
- **B) They do not require independent external audits and may use estimates ✓ Correct**
- **C)** They are limited to annual reporting periods
- **D)** They exclude all monetary measures

Rationale: Managerial reports can be prepared quickly because they are internal, do not require external audits, and can use projections and estimates.

Q22.

The general purpose of financial statement reporting is to provide information about an organization's:

- **A)** Employee morale and customer attitudes only
- **B) Results of operations, financial position, and cash flows ✓ Correct**
- **C)** Internal production bottlenecks only
- **D)** Future strategic alternatives only

Rationale: Financial statement reporting is intended to communicate results of operations, financial position, and cash flows.

Q23.

Managerial reporting usually focuses on:

- **A)** The company as a whole for public comparison only
- **B) Divisions, departments, products, customers, or other segments ✓ Correct**
- **C)** Only the board of directors' compensation
- **D)** Only tax compliance issues

Rationale: Managerial accounting commonly focuses on smaller business segments such as departments, products, or customer groups.

Q24.

Which statement best describes the nature of financial reports?

- **A)** They combine only nonmonetary operational data
- **B) They use monetary accounting information aggregated from recorded transactions ✓ Correct**
- **C)** They are based primarily on customer surveys
- **D)** They are unconcerned with consistency across companies

Rationale: Financial reports are monetary in nature and are built from accounting system transaction data.

Q25.

Verification of financial reports commonly occurs through:

- **A)** Internal brainstorming sessions only
- **B) Independent audits under recognized standards ✓ Correct**
- **C)** Employee opinion polls
- **D)** Informal management review without documentation

Rationale: Financial reports are often verified through independent audits performed under applicable professional standards.

Q26.

Which statement best explains why managerial accounting systems are difficult to standardize?

- **A)** They are prohibited by law from using common formats
- **B) Different companies and managers require different information for decision making ✓ Correct**
- **C)** They are used only by public accounting firms
- **D)** They must follow tax rules rather than business needs

Rationale: Managerial accounting is tailored to organizational and managerial needs, so uniform standardization is unnecessary.

Q27.

Commercial awareness, as a skill for managerial accountants, refers to:

- **A)** Knowledge of only tax filing deadlines
- **B) Understanding how a business operates and how the external environment affects it ✓ Correct**
- **C)** Ability to memorize financial statement formats
- **D)** Skill in preparing only journal entries

Rationale: Commercial awareness means understanding the business, its industry, and the external forces that influence it.

Q28.

Why is collaboration important for managerial accountants?

- **A)** It replaces the need for accounting knowledge
- **B) It helps them work in cross-functional teams and gain trust to complete tasks ✓ Correct**
- **C)** It allows them to avoid communicating results
- **D)** It limits their involvement in decision making

Rationale: Collaboration is vital because managerial accountants often work across functions and must earn colleagues' trust.

Q29.

Effective communication skills are important for managerial accountants because they must:

- **A)** Keep all information hidden from managers
- **B) Present accounting information in a form the intended audience can understand ✓ Correct**
- **C)** Focus only on oral presentations and not written reports
- **D)** Avoid discussing assumptions in internal reports

Rationale: Managerial accountants must communicate information clearly in written and oral forms so users can understand it.

Q30.

Why are strong technology skills essential for managerial accountants?

- **A)** They eliminate the need for ethical judgment
- **B) They support automation, efficiency, and accounting/reporting systems such as ERP platforms ✓ Correct**
- **C)** They are needed only for tax return preparation
- **D)** They restrict access to internal data analysis

Rationale: Technology skills help managerial accountants use systems that automate processes and improve efficiency, including ERP systems.

Q31.

Which of the following is identified as an example of an enterprise resource planning (ERP) support provider in the chapter?

- **A)** PCAOB
- **B)** AICPA
- **C) SAP ✓ Correct**
- **D)** GASB

Rationale: SAP is listed as one of the outside suppliers that provide ERP and related system support.

Q32.

Analytical skills in managerial accounting primarily help professionals:

- **A)** Avoid using budgets or forecasts
- **B) Solve problems and make sensible choices based on available information ✓ Correct**
- **C)** Replace all communication with automated reports
- **D)** Comply only with stock exchange listing rules

Rationale: Analytical skills enable managerial accountants to conceptualize problems and make sound decisions from the information available.

Q33.

According to the chapter, managerial accountants should demonstrate ethics and values by:

- **A)** Ignoring internal control procedures when deadlines are tight
- **B) Setting an example and encouraging adherence to internal controls ✓ Correct**
- **C)** Focusing only on profit regardless of conduct
- **D)** Delegating ethical issues exclusively to external auditors

Rationale: The chapter states that managerial accountants should model ethical behavior and promote internal control practices.

Q34.

The Institute of Management Accountants defines management accounting as a profession that includes:

- **A)** Only external financial statement auditing
- **B) Partnering in management decision making and designing planning and performance systems ✓ Correct**
- **C)** Only preparing personal income tax returns
- **D)** Regulating public company securities filings

Rationale: The IMA definition emphasizes partnering in decision making and devising planning and performance management systems.

Q35.

Which position has overall responsibility for management of the company?

- **A)** Chief financial officer
- **B)** Controller
- **C) Chief executive officer ✓ Correct**
- **D)** Treasurer

Rationale: The CEO is the corporate officer with overall responsibility for managing the company.

Q36.

The chief financial officer (CFO) is primarily responsible for:

- **A)** Supervising only plant-level production workers
- **B) Financial planning and record-keeping for the organization ✓ Correct**
- **C)** Conducting all external audits personally
- **D)** Approving only marketing campaigns

Rationale: The CFO oversees the organization's financial planning and record-keeping activities.

Q37.

Which role is most directly responsible for the accounting side of the business, including accounting records, financial statements, tax returns, and internal reports?

- **A)** Treasurer
- **B) Controller ✓ Correct**
- **C)** Chief executive officer
- **D)** Board chair

Rationale: The controller is responsible for the accounting side of the business.

Q38.

The treasurer is primarily responsible for the:

- **A)** Accounting records and tax returns
- **B) Finance side of the business, including cash position and funds ✓ Correct**
- **C)** Selection of the board of directors
- **D)** Audit opinion on financial statements

Rationale: The treasurer manages the finance side of the business, including cash and corporate funds.

Q39.

Internal auditors primarily provide:

- **A) Independent assurance that internal control processes are effective ✓ Correct**
- **B)** External tax representation before the IRS
- **C)** Public stock valuation services
- **D)** Only payroll processing support

Rationale: Internal auditors evaluate and provide assurance regarding the effectiveness of internal controls.

Q40.

Why does the chapter note concern about placing the internal audit staff under the CFO?

- **A)** Because internal auditors cannot understand finance
- **B) Because of a possible conflict of interest ✓ Correct**
- **C)** Because the SEC prohibits all internal audit functions
- **D)** Because internal auditors must report only to stockholders

Rationale: Keeping internal audit under the CFO may impair independence due to a potential conflict of interest.

Q41.

Which certification is issued by the Institute of Management Accountants?

- **A)** CPA
- **B)** CIA
- **C) CMA ✓ Correct**
- **D)** EA

Rationale: The IMA issues the Certified Management Accountant designation.

Q42.

The CPA examination is administered by the:

- **A)** Institute of Internal Auditors
- **B) American Institute of Certified Public Accountants ✓ Correct**
- **C)** Financial Accounting Standards Board
- **D)** Securities and Exchange Commission

Rationale: The CPA exam is administered by the AICPA.

Q43.

Which certification focuses especially on corporate accounting management, including financial analytics, budgeting, and strategic assessment?

- **A) CMA ✓ Correct**
- **B)** EA
- **C)** CFE
- **D)** CGAP

Rationale: The CMA is oriented toward management accounting, analytics, budgeting, and strategic assessment.

Q44.

Which certification was created by the IRS and focuses on taxation?

- **A)** CIA
- **B)** CFA
- **C) EA ✓ Correct**
- **D)** CPA

Rationale: The Enrolled Agent credential was created by the IRS and centers on tax expertise.

Q45.

Which certification is offered by the Institute of Internal Auditors and is accepted worldwide?

- **A)** CMA
- **B) CIA ✓ Correct**
- **C)** CFE
- **D)** CGAP

Rationale: The Certified Internal Auditor designation is offered by the IIA and is globally recognized.

Q46.

The professional organization for management accountants that provides research, education, and knowledge sharing is the:

- **A)** SEC
- **B) IMA ✓ Correct**
- **C)** PCAOB
- **D)** FASB

Rationale: The Institute of Management Accountants is the professional organization serving management accountants.

Q47.

Which set contains the four ethical standards in the IMA Statement of Ethical Professional Practice?

- **A)** Objectivity, independence, due care, and consistency
- **B) Competence, confidentiality, integrity, and credibility ✓ Correct**
- **C)** Planning, control, evaluation, and reporting
- **D)** Compliance, taxation, auditing, and governance

Rationale: The IMA ethical standards are competence, confidentiality, integrity, and credibility.

Q48.

Under the IMA ethical standards, credibility requires management accountants to:

- **A) Disclose relevant information fairly and objectively ✓ Correct**
- **B)** Guarantee that all forecasts will be exact
- **C)** Limit communication to financial data only
- **D)** Avoid reporting deficiencies in timeliness or internal controls

Rationale: Credibility includes fair and objective communication and disclosure of relevant information and deficiencies.

Q49.

Which statement best reflects the chapter’s discussion of ethics?

- **A)** Ethics means obeying laws only
- **B)** Ethics applies only to external financial reporting
- **C) Ethics involves doing the right thing as well as the legal thing ✓ Correct**
- **D)** Ethics is optional when internal reports are not public

Rationale: The chapter explicitly states that ethics goes beyond legal compliance and includes doing what is right.

Q50.

Government accountants must follow which accounting standards board?

- **A)** FASB
- **B) GASB ✓ Correct**
- **C)** IMA
- **D)** ACFE

Rationale: Governmental entities follow standards established by the Governmental Accounting Standards Board.

Q51.

A hospital imaging director is deciding whether to purchase faster MRI machines that would increase daily patient capacity. Which information set would be most appropriate for a managerial accounting analysis of this decision?

- **A)** Historical audited financial statements only
- **B) Machine cost, expected patient volume increase, staffing implications, and reimbursement estimates ✓ Correct**
- **C)** Prior-year tax return and stock price trends
- **D)** Only the hospital's balance sheet and retained earnings statement

Rationale: Managerial accounting decisions require detailed, timely financial and nonfinancial information relevant to the specific investment.

Q52.

A retail chain plans to reduce shoplifting in a new store. Installing antitheft tags and ceiling cameras is best classified as which management responsibility?

- **A)** Planning
- **B) Controlling ✓ Correct**
- **C)** Evaluating
- **D)** Financing

Rationale: Controls are mechanisms put in place to monitor and guide operations toward planned objectives.

Q53.

A manager sets a goal to expand product placement into 10 percent more stores next year and then develops the steps needed to achieve it. This activity is primarily an example of

- **A) planning ✓ Correct**
- **B)** controlling
- **C)** auditing
- **D)** verifying

Rationale: Planning involves setting goals and determining actions needed to accomplish them.

Q54.

After expanding into new stores, Daryn's Dairy compares sales in existing stores this year with sales in those same stores last year to see whether the expansion created new demand. This comparison is part of

- **A)** financial statement preparation
- **B)** strategic planning only
- **C) evaluation of a control measure ✓ Correct**
- **D)** external auditing

Rationale: Comparing actual results to expectations or prior results is an evaluating function.

Q55.

A supply chain analyst is deciding whether to make or buy a mirror bracket. Which factor most strongly shows why the lowest-cost option may not be the best choice?

- **A)** The supplier offers shorter payment terms
- **B) The purchased part may arrive late and disrupt production ✓ Correct**
- **C)** The internal accounting department prefers standard costing
- **D)** The company has already issued annual financial statements

Rationale: Managerial decisions often require nonfinancial considerations such as delivery reliability in addition to cost.

Q56.

A law firm partner asks for a report comparing projected overtime costs with the cost of hiring temporary staff during busy season. This request most directly illustrates managerial accounting's focus on

- **A)** external reporting under GAAP
- **B) product-level and internal decision support ✓ Correct**
- **C)** historical results for investors
- **D)** regulatory compliance for public filings

Rationale: Managerial accounting supports internal decisions using detailed analyses tailored to management needs.

Q57.

A company president needs revenue projections in three days for a board meeting. Why is managerial accounting more suitable than financial accounting for this request?

- **A)** Managerial accounting requires audited data
- **B) Managerial accounting permits timely estimates and what-if analysis ✓ Correct**
- **C)** Financial accounting allows more nonfinancial data
- **D)** Financial accounting is designed for product-level forecasts

Rationale: Managerial accounting emphasizes timely, flexible projections rather than fully verified historical reporting.

Q58.

A pharmaceutical HR manager is studying whether to replace annual raises with performance bonuses. Which additional measure would best help evaluate the success of the change after implementation?

A) Employee turnover rate ✓ Correct
B) Total assets at year-end
C) Depreciation expense
D) Auditor's opinion type

Rationale: Turnover is a relevant nonfinancial performance measure for assessing the effect of compensation changes.

Q59.

A production manager wants a weekly report showing labor hours, material usage, and unit cost for one specialty product line. Why would this report typically be prepared by managerial rather than financial accounting?

A) It is intended for creditors and investors
B) It must follow SEC filing requirements
C) It is detailed, frequent, and focused on a specific internal segment ✓ Correct
D) It excludes all monetary information

Rationale: Managerial reports are customized for internal users, specific segments, and frequent decision-making.

Q60.

A company uses inventory turnover to monitor whether inventory is being managed efficiently. This ratio is best viewed as a

A) physical control
B) financial control measure ✓ Correct
C) mission statement
D) strategic objective only

Rationale: Inventory turnover is a financial metric used to help control inventory management.

Q61.

A student compares the total expected cost of living in a dorm versus an apartment, including utilities, food, and transportation, before selecting housing. In managerial accounting terms, this is most similar to

A) planning with financial and nonfinancial information ✓ Correct
B) auditing under GAAP
C) preparing external financial statements
D) recording journal entries for creditors

Rationale: The student is using planning by identifying goals and estimating relevant costs and qualitative factors.

Q62.

A company wants to know whether new pricing increased shipping contracts from its top fifty customers. Which evidence would provide the most direct feedback?

A) Comparison of contract counts before and after the pricing change ✓ Correct

B) Comparison of annual depreciation expense to budget

C) Review of the company's mission statement

D) Audit confirmation letters from lenders

Rationale: Feedback for evaluating pricing effectiveness should directly compare contract activity before and after implementation.

Q63.

Which manager is most likely to spend the greatest proportion of time on planning rather than evaluating?

A) Frontline shift supervisor

B) Department clerk

C) Senior executive ✓ Correct

D) Staff accountant assigned to reconciliations

Rationale: Higher-level managers generally devote more time to planning than lower-level managers do.

Q64.

A manufacturing company is considering dropping a less profitable boat line and using the capacity for more profitable lines. What kind of information is most necessary for this decision?

A) Only companywide net income from last year

B) Detailed line-specific financial information and capacity implications ✓ Correct

C) Only audited cash flow statements

D) Only the CEO's qualitative opinion

Rationale: Dropping a product line requires detailed segment information and operational capacity analysis.

Q65.

A not-for-profit clinic begins its annual budgeting process by estimating the costs required to continue services and then determining how much funding must be raised. This approach differs from a typical corporate budget because the clinic

A) must follow GAAP for internal budgets

B) starts with expenses rather than forecasted sales ✓ Correct

C) cannot use nonfinancial information

D) prepares budgets only for external users

Rationale: Nonprofit budgeting often begins with expected service-related expenses and then works backward to required funding.

Q66.

A CFO asks the controller to classify excess brewing ingredients purchased in December as supplies expense to reduce taxable income, even though the items will be used in future production. Which response best reflects ethical managerial accounting practice?

- **A)** Record the amount as supplies expense because the CFO authorized it
- **B) Record the amount as inventory and explain that expensing it now would misstate results ✓ Correct**
- **C)** Split the amount between supplies expense and advertising expense
- **D)** Delay recording the purchase until after year-end

Rationale: Production materials should be recorded as inventory, and ethical practice requires resisting intentional misstatement.

Q67.

A company wants to keep proprietary cost estimates for a new automobile line from competitors. Which report is most likely to remain strictly internal?

- **A)** Audited annual report
- **B)** Income statement filed with regulators
- **C) Budget estimating parts and labor costs for the new line ✓ Correct**
- **D)** Statement of cash flows issued to lenders

Rationale: Detailed internal budgets are managerial accounting reports and often contain proprietary information.

Q68.

A manager requests same-day estimates of next month's staffing needs for a customer service center. Which limitation should the manager accept in exchange for speed?

- **A) Less precision in the report ✓ Correct**
- **B)** Loss of all nonfinancial data
- **C)** Inability to compare alternatives
- **D)** Requirement for external audit review

Rationale: Managerial reports can be produced quickly, but timely estimates may be less precise than finalized financial reports.

Q69.

A company tracks customer satisfaction surveys alongside sales data after expanding into new stores. Why is this a sound managerial accounting practice?

- **A)** GAAP requires customer survey disclosure in internal reports
- **B) Strategic decisions often require both financial and nonfinancial measures ✓ Correct**
- **C)** External auditors prefer survey evidence over accounting records
- **D)** Nonfinancial data replace the need for profitability analysis

Rationale: Managerial accounting commonly combines financial and nonfinancial information to evaluate operational success.

Q70.

A division manager receives a report comparing actual labor costs to budgeted labor costs for the month. This report is primarily used for

A) tax compliance

B) variance analysis and control ✓ Correct

C) public stock issuance

D) external benchmarking only

Rationale: Comparing actual results to budget is a variance analysis used to control operations.

Q71.

Which scenario best illustrates managerial accounting's focus on a segment rather than the company as a whole?

A) Preparing a statement of retained earnings for shareholders

B) Analyzing profitability of one geographic region's ice cream flavors ✓ Correct

C) Issuing audited financial statements to creditors

D) Calculating companywide earnings per share

Rationale: Managerial accounting often focuses on specific segments such as regions, products, or departments.

Q72.

A market analyst gathers customer contracts, competitor information, and customer surveys to recommend pricing changes. Why are these sources useful?

A) They provide only GAAP-compliant historical data

B) They include relevant financial and nonfinancial information beyond basic financial statements ✓ Correct

C) They eliminate the need for management judgment

D) They are required components of annual reports

Rationale: Managerial decisions often require detailed operational and market information not found in basic financial statements.

Q73.

A controller tells a new analyst that internal reports must clearly state assumptions used in projections. Why is this especially important in managerial accounting?

A) Managerial reports are always publicly filed

B) Managerial reports are flexible and often based on estimates tailored to user needs ✓ Correct

C) Assumptions are prohibited in financial accounting

D) GAAP mandates a standard internal report format

Rationale: Because managerial reports are customized and estimate-based, disclosing assumptions helps users interpret them properly.

Q74.

A hospital department manager needs to decide whether faster MRI machines will improve profitability. Which managerial accounting question is most relevant?

A) What was the hospital's total retained earnings balance last year?

B) How many additional patients can be scanned and what reimbursement and cost changes will result? ✓ Correct

C) What audit firm signed the last annual report?

D) What is the par value of the hospital's stock?

Rationale: The decision depends on incremental operational capacity and related financial effects, not general external reporting data.

Q75.

A company installs password protection and fingerprint identification for access to inventory records. These are best described as

A) physical or security controls supporting management control ✓ Correct

B) mission statements

C) external financial reporting standards

D) strategic objectives

Rationale: Password protection and fingerprint identification are control mechanisms used to safeguard operations and information.

Q76.

A managerial accountant is asked to support a cross-functional team evaluating whether to invest in RFID for inventory tracking. Which skill is most essential in this setting beyond technical accounting knowledge?

A) Collaboration across functions ✓ Correct

B) Preparation of tax returns only

C) Memorization of SEC filing dates

D) Exclusive focus on historical transactions

Rationale: Cross-functional decision support requires collaboration with colleagues from different operational areas.

Q77.

A manager asks, 'Are my products being delivered to customers in a timely manner, and at what cost?' This question most directly combines which two management concerns?

A) Planning and tax compliance

B) Controlling operational performance and cost ✓ Correct

C) External reporting and auditing

D) Financing and investing only

Rationale: The manager is monitoring day-to-day delivery performance and related costs as part of control.

Q78.

Which report would be least useful to a department manager deciding whether to continue making a component part internally?

- **A)** Supplier quality reports
- **B)** Internal production cost records
- **C) Companywide audited statement of cash flows only ✓ Correct**
- **D)** Capacity information for existing facilities

Rationale: A companywide cash flow statement alone is too aggregated for a make-or-buy decision.

Q79.

A managerial accountant presents cost data to engineers and marketing staff using a dashboard that highlights trends and visuals. This most directly demonstrates the importance of

- **A) effective communication skills ✓ Correct**
- **B)** exclusive reliance on monetary data
- **C)** external verification standards
- **D)** independence from management

Rationale: Managerial accountants must communicate information in a form that intended users can readily understand.

Q80.

A company wants to evaluate whether opening new stores increased overall market share without harming current locations. Which combination of measures would be most appropriate?

- **A) Same-store sales and sales volume in new stores ✓ Correct**
- **B)** Only total assets and liabilities
- **C)** Only annual depreciation and amortization
- **D)** Only board meeting attendance records

Rationale: Evaluating expansion requires both existing-store performance and results from the new locations.

Q81.

An internal user requests a report on the cost per patient visit in a clinic and average wait time by shift. This report differs from financial accounting because it

- **A)** must be audited before use
- **B) includes both monetary and nonmonetary information for internal decision-making ✓ Correct**
- **C)** is intended primarily for investors
- **D)** cannot use estimates

Rationale: Managerial accounting commonly combines cost information with operational measures like wait time for internal use.

Q82.

A public company prepares annual financial statements for investors. Which body primarily establishes the financial accounting standards those statements must follow in the United States?

- **A)** Institute of Management Accountants
- **B) Financial Accounting Standards Board ✓ Correct**
- **C)** Institute of Internal Auditors
- **D)** Governmental Accounting Standards Board

Rationale: The FASB establishes U.S. financial accounting and reporting standards.

Q83.

A managerial accountant helps design a report that tracks units produced, labor hours, and defects by shift. The strongest reason this report is valuable is that it

- **A) supports planning, control, and evaluation at an operational level ✓ Correct**
- **B)** replaces the need for all external financial statements
- **C)** ensures compliance with SEC disclosure rules
- **D)** focuses only on long-term financing decisions

Rationale: Detailed operational reports help managers plan activities, control execution, and evaluate results.

Q84.

A company compares actual monthly expenses with budgeted expenses and identifies a significant unfavorable variance. The next best managerial step is to

- **A)** ignore the variance until year-end audited statements are issued
- **B) investigate causes and consider corrective action ✓ Correct**
- **C)** restate the mission statement
- **D)** report the variance only to external creditors

Rationale: Evaluation should lead to analysis of deviations and, when needed, corrective action.

Q85.

A city government accountant develops a spending plan for the next fiscal year and monitors actual spending against that plan. This most directly reflects managerial accounting's usefulness in

- **A) government as well as business organizations ✓ Correct**
- **B)** public companies only
- **C)** tax return preparation only
- **D)** external auditing only

Rationale: Managerial accounting tools such as budgeting and control are used in governments as well as businesses.

Q86.

A chief financial officer oversees financial planning and record-keeping, while the controller manages accounting records and internal reports. In the organizational structure, the controller typically reports to the

- **A)** chief executive officer
- **B)** treasurer
- **C) chief financial officer ✓ Correct**
- **D)** board of directors directly

Rationale: The controller is responsible for the accounting side of the business and generally reports to the CFO.

Q87.

A company is deciding whether to outsource a component part. Which recommendation best reflects analysis-level managerial thinking?

A) Choose the supplier with the lowest quoted price immediately

B) Continue internal production because change is risky

C) Compare cost, capacity, quality, delivery reliability, and customer relationship effects before deciding ✓ Correct

D) Delay the decision until the annual report is published

Rationale: A sound recommendation synthesizes both financial and strategic nonfinancial factors.

Q88.

A manager asks whether actual sales are higher this quarter than last quarter and whether enough cash is available to pay employees. These questions illustrate that managerial accounting helps managers

A) prepare only tax filings

B) make timely operating and performance decisions ✓ Correct

C) avoid the use of budgets

D) replace all financial accounting functions

Rationale: Managerial accounting provides timely information for operational, cash, and performance-related decisions.

Q89.

A company produces a limited-edition specialty ice cream and wants to compare its cost with a standard vanilla flavor. Which analysis would be most appropriate?

A) A materials, labor, and overhead cost comparison by product ✓ Correct

B) Only a companywide retained earnings trend analysis

C) Only a note disclosure review from competitors

D) Only a bank reconciliation

Rationale: Product comparisons require detailed cost analysis of materials, labor, and overhead by product.

Q90.

A managerial accountant notices an error that significantly overstates projections just before the president presents them to the board. According to ethical practice, the accountant should

A) remain silent because the board has not yet seen the full report

B) inform the president immediately and correct the projections ✓ Correct

C) wait until after the meeting to avoid embarrassment

D) change supporting documents to match the report

Rationale: Ethical conduct requires timely disclosure of material errors so decision makers are not misled.

Q91.

Which statement best distinguishes managerial accounting from financial accounting in a professional scenario?

- **A)** Managerial accounting is used only by manufacturing firms
- **B)** Financial accounting is more future-oriented than managerial accounting
- **C) Managerial accounting is flexible, internal, and often future-focused ✓ Correct**
- **D)** Financial accounting regularly combines monetary and nonmonetary measures for internal users

Rationale: Managerial accounting is designed for internal decisions and often uses flexible, forward-looking analyses.

Q92.

A restaurant owner calculates the cost of serving a table by combining food cost with server time. This is an example of managerial accounting being used to

- **A)** prepare audited external statements
- **B) determine service cost and profitability ✓ Correct**
- **C)** comply with SEC registration requirements
- **D)** replace budgeting with tax accounting

Rationale: Managerial accounting helps service businesses estimate costs and assess profitability at a detailed level.

Q93.

A company develops three-year, five-year, and ten-year plans. Why might management also consider possible changes in senior leadership and the board during planning?

- **A) Leadership changes can affect strategic continuity and resource allocation ✓ Correct**
- **B)** GAAP prohibits plans longer than one year without board approval
- **C)** External auditors must approve all strategic plans
- **D)** Leadership changes eliminate the need for objectives

Rationale: Long-term strategic planning should account for changes in leadership that may influence priorities and execution.

Q94.

A hospital administrator uses patient throughput, technician staffing, and reimbursement rates to assess a proposed equipment purchase. This best illustrates managerial accounting's

- **A)** exclusive focus on historical transactions
- **B) integration of operational and financial data ✓ Correct**
- **C)** requirement for formal external audit before analysis
- **D)** limitation to annual reporting cycles

Rationale: Managerial accounting integrates operational measures with financial implications to support decisions.

Q95.

A managerial accountant recommends using customer surveys after a product expansion. The primary purpose is to evaluate

- **A)** inventory turnover
- **B) customer perception and reputation effects ✓ Correct**
- **C)** depreciation methods
- **D)** the audit trail for accounts payable

Rationale: Surveys are useful nonfinancial tools for assessing customer perceptions and reputation outcomes.

Q96.

A treasurer and a controller both report to the CFO. Which responsibility would most likely belong to the treasurer rather than the controller?

- **A)** Preparing internal cost reports
- **B) Managing cash position and corporate funds ✓ Correct**
- **C)** Maintaining accounting records
- **D)** Preparing tax returns

Rationale: The treasurer is responsible for the finance side of the business, including cash and funds management.

Q97.

A company breaks down sales by product line, region, and customer demographic before deciding where to expand. This reflects managerial accounting's emphasis on

- **A) segment-focused analysis for internal decisions ✓ Correct**
- **B)** uniform reporting for external stakeholders
- **C)** strict GAAP formatting
- **D)** annual audit completion

Rationale: Managerial accounting often disaggregates results into segments to support targeted internal decisions.

Q98.

A managerial accountant is asked to help automate reporting through an ERP system. Which competency is most directly being applied?

- **A)** Tax litigation skills
- **B) Technology skills supporting efficiency and information systems ✓ Correct**
- **C)** Public speaking for investor relations only
- **D)** Sole reliance on manual bookkeeping

Rationale: Strong technology skills, including use of ERP systems, are important for modern managerial accounting.

Q99.

Which action best demonstrates the evaluation stage of management for a compensation-bonus pilot program?

- **A)** Writing the company's mission statement
- **B)** Setting bonus criteria for the coming year
- **C) Comparing post-implementation morale and turnover with prior levels ✓ Correct**
- **D)** Installing password controls on payroll software

Rationale: Evaluation involves comparing actual post-implementation results with expected or prior outcomes.

Q100.

A senior manager asks for a recommendation on whether to continue a strategic plan that expanded distribution into more stores. The data show strong new-store sales but declining same-store sales and worsening customer survey scores. What is the best recommendation?

A) Continue unchanged because total sales increased

B) Abandon all expansion immediately without further analysis

C) Modify the plan after analyzing cannibalization and reputation concerns ✓ Correct

D) Ignore the nonfinancial data because only revenue matters

Rationale: Effective evaluation synthesizes financial and nonfinancial feedback to refine the plan rather than rely on one measure alone.

Q101.

A hospital is considering purchasing faster MRI machines that would increase daily patient capacity. Which information set would best support an advanced managerial accounting recommendation?

A) Historical annual net income and total assets reported in audited financial statements

B) Machine cost, expected patient volume changes, reimbursement rates, staffing implications, maintenance costs, and service quality effects ✓ Correct

C) Prior-year tax return data and board meeting minutes only

D) Industry-average stock prices and the hospital's retained earnings balance only

Rationale: Managerial decisions require detailed financial and nonfinancial data relevant to expected operational and strategic effects.

Q102.

A company meets its budgeted sales target after expanding into 10 percent more stores, but same-store sales decline sharply. Which evaluation is most defensible?

A) The plan succeeded because total sales met budget, so no further analysis is needed

B) The plan failed because any decline in same-store sales proves expansion should be reversed immediately

C) The result suggests possible sales cannibalization, so management should analyze whether new-store gains represent true market-share growth ✓ Correct

D) The result is irrelevant because same-store sales are a financial accounting measure for external users only

Rationale: Declining same-store sales may indicate that apparent growth reflects shifted rather than incremental demand.

Q103.

A managerial accountant is asked to design reports for a supply-chain manager deciding whether to make or buy a component. Which report design best reflects managerial accounting's purpose?

A) A GAAP-formatted companywide income statement issued quarterly

B) A product-level analysis including relevant production costs, supplier reliability, quality metrics, and capacity effects ✓ Correct

C) A statement of retained earnings with prior-year comparative figures

D) A general ledger printout without operational measures to preserve objectivity

Rationale: Managerial accounting supports internal decisions with customized, detailed, timely financial and nonfinancial information.

Q104.
Senior management wants to align departmental actions with the organization's mission statement. Which sequence best reflects the management process described in the chapter?

A) Evaluating, planning, financing, reporting
B) Planning, controlling, evaluating in a continuous cycle ✓ Correct
C) Auditing, budgeting, forecasting in a linear sequence
D) Recording, posting, adjusting, closing

Rationale: Management responsibilities are presented as an ongoing circular process of planning, controlling, and evaluating.

Q105.
A retail chain installs cameras and antitheft tags after setting a goal to reduce shrinkage. In managerial accounting terms, these actions primarily represent:

A) Planning because they define the mission of the business
B) Controlling because they monitor and guide implementation of the anti-shrinkage plan ✓ Correct
C) Evaluating because they compare actual theft losses with expected losses
D) Financial reporting because they create auditable evidence for external users

Rationale: Controls are mechanisms used to monitor whether implementation supports planned objectives.

Q106.
A law firm asks for a report on whether to add credit counseling services. Why would audited financial statements alone be insufficient for this decision?

A) They exclude all labor costs by design
B) They are too detailed and therefore obscure strategic implications
C) They are historical, aggregated, and not tailored to projected service-line profitability and operational requirements ✓ Correct
D) They are prepared only for tax authorities and not for investors

Rationale: Financial statements are historical and companywide, whereas the decision requires forward-looking, segment-specific analysis.

Q107.
A manager argues that because managerial accounting is not governed by GAAP, it is less reliable than financial accounting and should not be used for strategic decisions. Which response is strongest?

A) Correct, because only GAAP-based information can support economically sound decisions
B) Correct, because nonfinancial data are inherently subjective and unusable
C) Incorrect, because managerial accounting's flexibility allows reports to be tailored to decision relevance, provided assumptions are clearly disclosed ✓ Correct
D) Incorrect, because managerial accounting replaces financial accounting for all users

Rationale: Managerial accounting is valuable precisely because it can be customized for internal decision-making when assumptions are transparent.

Q108.

Which scenario best illustrates evaluation rather than planning or controlling?

A) Estimating next year's labor budget for a new product line

B) Installing password protection to restrict access to inventory systems

C) Comparing actual customer retention after a compensation change with expected retention and deciding whether to revise the plan ✓ Correct

D) Drafting a mission statement broad enough to allow future growth

Rationale: Evaluation involves comparing actual results with expected results and determining needed modifications.

Q109.

A company uses a budget that includes worker pay rates and the number of customers each employee can serve per hour. This most directly demonstrates that planning:

A) Should rely exclusively on monetary measures to remain objective

B) Can integrate both financial and nonfinancial measures ✓ Correct

C) Is relevant only for upper-level managers

D) Must be audited externally before implementation

Rationale: The chapter emphasizes that planning commonly uses both financial and nonfinancial information.

Q110.

A nonprofit budget analyst starts with expected program expenses and then determines the fundraising needed to cover them. Compared with a corporate budget analyst, this reflects:

A) A backward budgeting orientation driven by service obligations rather than sales forecasts ✓ Correct

B) A violation of managerial accounting principles because budgets must begin with revenue

C) A financial accounting approach required by GAAP for nonprofits

D) A cash-basis approach that eliminates the need for planning controls

Rationale: Nonprofit budgeting often begins with anticipated expenses and then determines required funding sources.

Q111.

A CEO wants weekly reports on regional sales trends and customer demographics to react quickly to market changes. Which accounting orientation best fits this request?

A) Financial accounting because it emphasizes audited comparability across firms

B) Managerial accounting because it provides timely, detailed, internally focused reports ✓ Correct

C) Tax accounting because it prioritizes legal compliance

D) External reporting because it centers on stakeholders outside the company

Rationale: Managerial accounting is designed for timely, detailed internal decision support.

Q112.

Which statement best distinguishes the focus of financial accounting from managerial accounting in a complex diversified company?

A) Financial accounting emphasizes product-line decisions, while managerial accounting emphasizes the enterprise as a whole

B) Financial accounting serves internal managers only, while managerial accounting serves investors and creditors

C) Financial accounting generally reports on the company as a whole, while managerial accounting can focus on segments such as products, regions, or customers ✓ Correct

D) Financial accounting uses nonfinancial data extensively, while managerial accounting uses only dollar amounts

Rationale: Financial accounting is companywide, whereas managerial accounting can be segmented to fit management needs.

Q113.

A production manager requests a report comparing actual labor hours, spoilage, and unit costs with standards for her department. Why is this request more consistent with managerial accounting than financial accounting?

A) It is intended for internal performance management at a departmental level ✓ Correct

B) It avoids the use of any monetary information

C) It must be prepared under SEC regulations

D) It is useful only after year-end closing entries are complete

Rationale: Department-level performance analysis for internal users is a core managerial accounting function.

Q114.

When deciding whether to outsource a component, which factor most clearly shows why the lowest-cost option may be strategically inferior?

A) The outsourced part would be classified differently on the balance sheet

B) The supplier's lower bid may be offset by poor quality or untimely delivery that disrupts production and customer relationships ✓ Correct

C) The internal accounting department prefers simpler journal entries

D) The external auditor may require disclosure of all supplier quotes

Rationale: Managerial decisions must consider nonfinancial consequences such as quality, reliability, and strategic relationships.

Q115.

A managerial accountant prepares a what-if analysis showing how different bonus structures could affect turnover, morale, and gross revenue. This analysis primarily reflects managerial accounting's:

A) Exclusive reliance on historical transactions

B) Future-oriented decision support role ✓ Correct

C) Requirement to follow PCAOB auditing standards

D) Primary service to tax authorities

Rationale: What-if analysis is a forward-looking managerial accounting tool used to support decision-making.

Q116.
A board member asks why internal budget reports are not released publicly. Which explanation is most appropriate?

- **A)** They are prohibited by GAAP from being shared outside the company
- **B) They often contain proprietary, detailed operational information intended for internal decision-making ✓ Correct**
- **C)** They are unaudited and therefore illegal to disclose
- **D)** They contain no financial data and thus lack relevance to outsiders

Rationale: Managerial reports are often confidential because they reveal sensitive internal strategies and cost structures.

Q117.
A managerial accountant discovers that a report already mentioned to the board contains significantly overstated projections. The board has not yet received the full report. What is the best immediate action?

- **A)** Remain silent because the president has already referenced the report
- **B)** Revise the assumptions later if the board asks questions
- **C) Inform the president promptly and correct the report before it is fully presented ✓ Correct**
- **D)** Destroy the working papers to avoid confusion over multiple versions

Rationale: Ethical practice requires timely correction of materially misleading internal information before decisions are made.

Q118.
Which organizational relationship is described most accurately in the chapter?

- **A)** The controller oversees cash management and reports to the treasurer
- **B) The CFO oversees financial planning and record-keeping, while the controller is responsible for the accounting side of the business ✓ Correct**
- **C)** The CEO reports directly to the controller on strategic issues
- **D)** Internal audit must always report to the CFO to preserve independence

Rationale: The CFO oversees finance broadly, and the controller handles accounting records, statements, taxes, and internal reports.

Q119.
A company wants to evaluate whether its compensation shift from raises to performance bonuses is effective. Which measure would provide the strongest evaluative evidence beyond short-term payroll savings?

- **A) Employee turnover and satisfaction after implementation ✓ Correct**
- **B)** The current ratio at year-end only
- **C)** The number of pages in the employee handbook
- **D)** The amount of depreciation recorded on office equipment

Rationale: The chapter specifically identifies turnover and satisfaction as key evaluative measures for compensation changes.

Q120.

A manager says, "If a report cannot be verified by external auditors, it should not influence decisions." Which critique is most accurate?

A) The statement is valid because only audited information is useful

B) The statement ignores that internal decisions often require timely estimates and operational data not subject to external audit ✓ Correct

C) The statement is valid for all managerial reports but not for financial statements

D) The statement is invalid only in nonprofit organizations

Rationale: Managerial decisions often depend on timely, relevant estimates and nonfinancial measures rather than externally audited data.

Q121.

Which combination of competencies would most strengthen a managerial accountant's ability to influence cross-functional strategic decisions?

A) Technical bookkeeping only and preference for solitary work

B) Commercial awareness, collaboration, communication, technology skills, analytical ability, and ethics ✓ Correct

C) Tax return preparation only and strict avoidance of operational data

D) Memorization of journal entries without business context

Rationale: The chapter highlights these combined competencies as essential for effective managerial accountants.

Q122.

A manufacturer's controller is evaluating whether to continue making a bracket internally. Which additional question best elevates the analysis from basic cost comparison to strategic evaluation?

A) How will the journal entry differ under each option?

B) Will the outsourced supplier's quality and delivery performance affect customer relationships and production flow? ✓ Correct

C) How many pages will the annual report gain from the disclosure?

D) Will the balance sheet remain in balance after the transaction?

Rationale: Strategic evaluation requires considering operational and customer consequences beyond price alone.

Q123.

A company seeks to increase market share while preserving its reputation for premium quality. Which evaluation design best aligns with that dual objective?

A) Use only total sales dollars because reputation cannot be measured

B) Compare same-store sales and supplement with customer perception surveys ✓ Correct

C) Rely exclusively on audited annual statements after year-end

D) Track only the number of new stores added

Rationale: A mixed set of financial and nonfinancial measures is needed to assess both growth and reputation.

Q124.
Which statement about report frequency is most accurate for decision-making under uncertainty?

A) Financial accounting reports are typically more frequent and timelier than managerial reports
B) Managerial reports can be produced as needed and may sacrifice some precision for timeliness ✓ Correct
C) Managerial reports must wait until year-end adjustments are complete
D) Financial reports are designed primarily for same-day operational decisions

Rationale: Managerial accounting emphasizes timely, as-needed reporting, often using estimates and projections.

Q125.
A business unit manager wants to know whether a new process reduced production costs by 10 percent as planned. Which managerial accounting feature is most central to this inquiry?

A) Preparation of a statement of cash flows for investors
B) Use of performance reports showing variances between planned and actual results ✓ Correct
C) Application of SEC filing deadlines
D) Computation of earnings per share

Rationale: Variance and performance reports are core tools for comparing planned objectives with actual outcomes.

Q126.
A companywide income statement shows overall profitability, but management suspects one product line is underperforming. Which conclusion follows?

A) No further analysis is needed because companywide profit proves all product lines are efficient
B) Segment-level managerial reports are needed because aggregate financial statements can mask product-line differences ✓ Correct
C) The issue should be deferred until the annual external audit is complete
D) Only the tax department can investigate product-line profitability

Rationale: Aggregate financial reports may conceal important differences across products, customers, or divisions.

Q127.
Which action by a managerial accountant best reflects the control function rather than the planning or evaluation function?

A) Developing a five-year goal to enter three international markets
B) Comparing current-year and prior-year same-store sales to judge expansion success
C) Designing a dashboard that tracks on-time delivery, stock-outs, and logistics costs during implementation ✓ Correct
D) Drafting the company's mission statement

Rationale: Controls are mechanisms and measures used to monitor implementation as operations proceed.

Q128.

Why might internal audit reporting directly to the CFO raise concern in some organizations?

A) It makes audits too expensive to conduct

B) It may create a conflict of interest that weakens independent assurance over internal controls ✓ Correct

C) It violates GAAP recognition principles

D) It prevents the treasurer from preparing budgets

Rationale: Independence concerns arise when internal auditors report to executives whose activities they may need to assess.

Q129.

A CFO asks an accountant to classify inventory purchases as supplies expense to reduce taxable income. What is the most appropriate professional response?

A) Comply because cash flow concerns justify temporary reclassification

B) Comply if the amount is material to tax planning

C) Refuse and explain that the materials should be recorded as inventory, not current-period supplies expense ✓ Correct

D) Delay recording the purchase until after year-end

Rationale: Inventory materials must be recorded properly, and intentional misclassification to manipulate income is unethical.

Q130.

A student compares on-campus and off-campus housing using costs, convenience, study environment, and health effects. This example most strongly illustrates that managerial accounting techniques:

A) Apply only in publicly traded corporations

B) Can support everyday decisions using both financial and nonfinancial information ✓ Correct

C) Are limited to manufacturing cost allocation

D) Require formal GAAP-compliant statements to be useful

Rationale: The chapter emphasizes that managerial accounting concepts can be applied to personal as well as business decisions.

Q131.

Which reporting basis best explains why external users depend heavily on GAAP and audits?

A) External users typically have direct access to internal source documents

B) External users rely on standardized, credible financial statements because they do not have full internal access ✓ Correct

C) External users are primarily interested in nonfinancial operating measures

D) External users prepare most internal budgets themselves

Rationale: Because outsiders lack direct access to internal records, they depend on standardized and audited financial reporting.

Q132.
A manager requests a report on the profitability of customers by age group and region. Which accounting characteristic makes this feasible?

A) Managerial accounting can segment information based on management needs ✓ Correct
B) Financial accounting requires customer-level reporting in footnotes
C) Tax accounting organizes all data by demographic categories
D) Auditing standards mandate age-based profitability analysis
Rationale: Managerial accounting can be structured around products, regions, customers, or other useful segments.

Q133.
Which statement best captures the role of feedback in the control and evaluation process?

A) Feedback replaces the need for planning because it reveals outcomes after the fact
B) Feedback provides information used to assess progress and determine whether corrective action is needed ✓ Correct
C) Feedback is limited to external audit findings
D) Feedback is relevant only when financial measures exceed budget
Rationale: Feedback helps management assess whether implementation is working and whether adjustments are necessary.

Q134.
A management accountant is preparing a customized report that includes assumptions about demand growth and supplier quality. What practice is most important because managerial accounting lacks GAAP formatting rules?

A) Disclosing the assumptions used in the report ✓ Correct
B) Eliminating all nonfinancial information
C) Converting all estimates to audited historical data
D) Submitting the report to the SEC before management review
Rationale: Because managerial reports are flexible, clear disclosure of assumptions is essential for proper interpretation.

Q135.
Which example most clearly reflects strategic planning rather than operational control?

A) Monitoring whether products are delivered on time this week
B) Comparing actual labor cost with budgeted labor cost for the month
C) Determining whether to position a hotel as a low-price no-frills brand or a luxury amenities brand ✓ Correct
D) Using RFID tags to reduce stock-outs in the warehouse
Rationale: Strategic planning involves setting long-term priorities and resource allocation aligned with competitive positioning.

Q136.

A company compares the material cost of standard vanilla ice cream with a specialty flavor to support pricing and product decisions. What broader managerial accounting principle does this illustrate?

- **A)** Only external users need product-level cost information
- **B) Detailed cost analysis supports decisions about pricing, ingredients, and product mix ✓ Correct**
- **C)** Financial accounting reports are sufficient for all product decisions
- **D)** Nonfinancial information is irrelevant when materials are being analyzed

Rationale: Product-level cost analysis helps management make pricing and product portfolio decisions.

Q137.

Which rationale best explains why higher-level managers generally spend more time planning than lower-level managers?

- **A)** Higher-level managers are exempt from evaluation responsibilities
- **B) Higher-level managers are more involved in setting strategic direction and allocating organizational resources ✓ Correct**
- **C)** Lower-level managers are prohibited from using accounting information
- **D)** Planning can be done only before a company has operations

Rationale: Senior managers focus more on strategic direction and resource allocation, which are central planning activities.

Q138.

A company wants to know whether expanding distribution increased true market share or merely shifted purchases among existing outlets. Which measure is most diagnostic?

- **A)** Total company assets
- **B) Same-store sales before and after expansion ✓ Correct**
- **C)** Year-end retained earnings
- **D)** Number of employees in the sales department

Rationale: Same-store sales help determine whether new distribution created incremental sales or cannibalized existing sales.

Q139.

A managerial accountant is advising a mayor on city budgeting. Which statement best supports the relevance of managerial accounting in government?

- **A)** Managerial accounting is limited to for-profit manufacturing firms
- **B) Government entities also use budgets, controls, and performance analysis to manage resources and accountability ✓ Correct**
- **C)** Government agencies rely solely on tax accounting and do not use budgets
- **D)** Public-sector managers do not make operational decisions requiring internal reports

Rationale: The chapter notes that budgeting and managerial accounting techniques are used across sectors, including government.

Q140.
Which ethical standard from the IMA is most directly implicated when an accountant withholds known deficiencies in the timeliness or processing of information?

A) Credibility ✓ Correct
B) Liquidity
C) Materiality
D) Neutrality of external audit opinion

Rationale: Credibility includes disclosing relevant information and deficiencies in timeliness, processing, or internal controls.

Q141.
A manager insists that because financial accounting is standardized, it should be used instead of managerial accounting for all internal decisions. Which evaluation is strongest?

A) The manager is correct because standardization guarantees relevance
B) The manager is incorrect because standardized external reports often lack the detail and timeliness needed for internal decisions ✓ Correct
C) The manager is correct because internal users are prohibited from using estimates
D) The manager is incorrect only if the company is privately held

Rationale: Internal decisions often require customized, timely, detailed information that standardized external reports do not provide.

Q142.
Which career role is most directly associated with investigating fraud, poor work quality, and ineffective internal controls within an organization?

A) Budget analyst
B) Internal auditor ✓ Correct
C) Treasurer
D) Market analyst

Rationale: Internal auditors are commonly tasked with examining variances, fraud, sabotage, and control effectiveness.

Q143.
A firm preparing an internal report on employee productivity includes number of hours worked, units produced, and wage costs. This report demonstrates that managerial accounting information is:

A) Restricted to nonmonetary data only
B) A mix of monetary and nonmonetary data tailored to internal needs ✓ Correct
C) Required to match the format of the balance sheet
D) Useful only if audited externally

Rationale: Managerial accounting commonly combines financial and operational measures in customized internal reports.

Q144.

Which recommendation best reflects the mission statement's role in management?

A) Use the mission statement only for marketing because it has little operational relevance

B) Treat the mission statement as the broad purpose that guides goals, objectives, and plans across the organization ✓ Correct

C) Revise the mission statement each time monthly sales vary from budget

D) Limit the mission statement to financial targets to ensure measurability

Rationale: The mission statement provides the broad organizational purpose from which goals and plans are derived.

Q145.

A company can obtain a supplier's component at a lower price, but the supplier has inconsistent quality and weak on-time delivery performance. Which decision approach is most consistent with the chapter?

A) Choose the supplier because purchase price is the only relevant factor in managerial accounting

B) Continue internal production automatically because outsourcing is always riskier

C) Evaluate total strategic impact, including production flow, quality, and customer relationships, before deciding ✓ Correct

D) Defer the decision until audited financial statements are issued

Rationale: Managerial accounting supports decisions based on relevant financial and nonfinancial consequences, not price alone.

Q146.

Which statement best explains why managerial accounting is often described as adding value to decision-making?

A) It guarantees that managers will choose the most profitable option

B) It supplies data-driven, decision-relevant information that can improve long-term managerial choices ✓ Correct

C) It replaces the need for managerial judgment by producing automatic decisions

D) It is the only form of accounting accepted by investors

Rationale: Managerial accounting adds value by providing relevant information that supports better planning, control, and evaluation.

Q147.

A company is debating whether to adopt RFID technology in logistics. Which framing best reflects a managerial accounting analysis?

A) Assess only whether the equipment can be capitalized under GAAP

B) Compare expected implementation costs with effects on inventory tracking, stock-outs, delivery performance, and efficiency ✓ Correct

C) Focus exclusively on whether the annual report will mention the technology

D) Delay analysis until after the external audit confirms inventory balances

Rationale: Managerial accounting evaluates operational investments using both cost and performance implications.

Q148.

Which comparison between financial and managerial accounting is most accurate?

A) Financial accounting is future-focused and managerial accounting is historical

B) Financial accounting relies solely on nonfinancial data and managerial accounting solely on financial data

C) Financial accounting is externally oriented and standardized, while managerial accounting is internally oriented and flexible ✓ Correct

D) Financial accounting is unaudited and managerial accounting is always audited

Rationale: The chapter distinguishes financial accounting as standardized for external users and managerial accounting as flexible for internal users.

Q149.

A management accountant wants to improve trust with operating managers while still challenging weak assumptions in their budgets. Which combination of professional qualities is most important?

A) Confidentiality and silence

B) Collaboration, communication, analytical skill, and integrity ✓ Correct

C) Mechanical adherence to past budgets only

D) Exclusive focus on tax compliance

Rationale: Effective partnership in decision-making requires teamwork, clear communication, sound analysis, and ethical conduct.

Q150.

A business owner asks whether understanding managerial accounting would matter in a small business with few employees. Which answer is best supported by the chapter?

A) No, managerial accounting is mainly relevant to large public corporations

B) Yes, because even small businesses need planning, control, and evaluation information for pricing, budgeting, cash flow, and operations ✓ Correct

C) No, because owners can rely entirely on annual tax returns

D) Yes, but only if the business intends to issue audited financial statements

Rationale: The chapter emphasizes that managerial accounting supports essential decision-making in organizations of all sizes, including small businesses.