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## Chapter 1 Managerial Accounting and the Business Environment

### Solutions to Questions

**1-1** Managerial accounting is concerned with providing information to managers for use within the organization. Financial accounting is concerned with providing information to stockholders, creditors, and others outside of the organization.

**1-2** Essentially, managers carry out three major activities in an organization: planning, directing, and controlling. All three activities involve decision making.

**1-3** The Planning and Control Cycle involves formulating plans, implementing plans, measuring performance, and evaluating differences between planned and actual performance.

**1-4** A line position is directly related to the achievement of the basic objectives of the organization. A staff position is not directly related to the achievement of those objectives; rather, it is supportive, providing services and assistance to other parts of the organization.

**1-5** In contrast to financial accounting, managerial accounting: (1) focuses on the needs of the manager; (2) places more emphasis on the future; (3) emphasizes relevance and feasibility rather than precision; (4) emphasizes the requirements of an organization; (5) is not governed by GAAP; and (6) is not mandatory.

**1-6** A number of benefits accrue from reduced setup time. First, reduced setup time allows a company to produce in smaller batches, which in turn reduces the level of inventory. Second, reduced setup time allows a company to spend more time producing goods and less time getting ready to produce. Third, the ability to rapidly change

from making one product to making another allows the company to respond more quickly to customer needs. Finally, smaller batches make it easier to spot manufacturing problems before they result in a large number of defective units.

**1-7** The main benefits of a successful JIT system are reductions in: (1) funds tied up in inventory; (2) space requirements; (3) throughput time; and (4) defects.

**1-8** TQM generally approaches improvement in a series of small steps that are planned and implemented by teams of front-line workers. Process Reengineering involves completely redesigning business processes from the ground up—often with the use of outside consultants.

**1-9** If Process Reengineering is successful, fewer workers are needed. If management responds by laying off workers, morale will almost certainly suffer.

**1-10** Some benefits from improvement efforts from cost reductions, but the primary benefit is often an increase in capacity. As nonconformities, increases in capacity lead to the already-existing excess capacity. Therefore, improvement efforts should primarily focus on the constraint.

**1-11** If people generally do not act ethically in business, no one would trust anyone else and people would be reluctant to enter into business transactions. The result would be less funds raised in capital markets, fewer goods and services available for sale, lower quality, and higher prices.

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