

## BUSACC 0040 Managerial Accounting Final Exam Review

### Quiz 1: Chapters 1,2,5,6

#### Chapter 1: Introduction

What is the difference between financial and managerial accounting?

<b>Financial Accounting</b>	<b>Managerial Accounting</b>
Reports outside the organization (i.e. owners, creditors, tax authorities, auditors)	Reports inside the organization (i.e. planning, controlling, decision-making)
Focuses on financial consequences of past activities	Focuses on decisions affecting the future
Objectivity and verifiability	Relevance
Precision	Timeliness
Company-wide reports	Segment Reports
Must follow GAAP	Need not follow GAAP
Mandatory	Not mandatory

Planning: Establishing goals and specifying how to achieve them

- Budget: Detailed plan for the future that is usually expressed in formal quantitative terms

Controlling: Gathering feedback to ensure that the plan is being properly executed or modified as circumstances change

- Performance report: Compares budgeted data to actual data in an effort to identify and learn from excellent performance and to identify and eliminate sources of unsatisfactory performance

Decision-making: Selecting a course or action from competing alternatives

Strategy: 'Game plan' that enables a company to attract customers by distinguishing itself from competitors

Enterprise Risk Management: Process used by a company to identify risks and develop responses to them that enable it to be reasonable assured on meeting its goals

Business Process: A series of steps that are followed in order to carry out some task in business

To serve customers!

Value Chain: Consists of the major business functions that add value to a company's products and services

1. Research and Development
2. Product Design
3. Manufacturing
4. Marketing
5. Distribution
6. Customer Service

Lean Production: Management approach that organizes resources such as people and machines around the flow of business processes and that only produces units in response to customer orders. (Just-in-time production) Linked to pull inventory

Constraints: Anything that prevents you from getting more of what you want (i.e. bottleneck)

Theory of Constraints: Effectively managing the constraints is the key to success; Focus on strengthening the weakest link

Corporate Social Responsibility (CSR): Concept whereby organizations consider the needs of all stakeholders when making decisions

Push vs. Pull Inventory Systems: A push inventory system involves forecasting inventory needs to meet customer demand. A pull inventory system involves only making enough product to fulfill customer orders.

## **Chapter 2: Cost Concepts**

### **Cost Terms**

Cost=Resources used

Direct vs. Indirect

**Direct Cost**: Can be traced directly to a product or service

**Indirect Cost**: Cannot be traced and/or is too insignificant to be traced

Variable vs. Fixed

**Variable Cost**: Amount per unit remains the same but will increase in total as output increases

**Fixed Cost**: Total will remain the same but amount per unit will decrease as output increases

Cost Object: Anything for which costs need to be collected

Raw Materials: the materials that go into the finished product

Direct Materials: those materials that become an integral part of the finished product and whose costs can be conveniently traced to the finished product

Indirect Materials: manufacturing overhead

Example: Identifying Direct and Indirect Costs

<b>Cost</b>	<b>Cost Object</b>	<b>Direct or Indirect</b>
The salary of the head chef	The hotels restaurant	Direct
The salary of the head chef	A particular restaurant customer	Indirect
Room cleaning supplies	A particular hotel guest	Indirect
Flowers for the reception desk	A particular hotel guest	Indirect
The wages of the doorman	A particular hotel guest	Indirect
Room cleaning supplies	The housecleaning department	Direct

Fire insurance for the hotel building	The hotel's gym	Indirect
Towels used in the gym	The hotel's gym	Direct

### General Cost Classifications

- Manufacturing (Product Cost)
  - People: Direct labor, Indirect labor
  - Materials: Direct materials, indirect materials
  - Manufacturing Overhead: Collection of all indirect costs
    - Only includes costs associated with operating the facility

1.

<b>Manufacturing Process</b>	
Costs	Finished Goods

2.

<b>Inventory</b>	
Inventory of Finished Goods	Sale of Finished Goods

3.

<b>Cost of Goods Sold</b>	
Good Sold	<i>To Income Statement</i>

- Nonmanufacturing Costs (Period Costs)
  - Selling Cost: All costs incurred to secure customers orders and get the finished product to the customer
  - Administrative Costs: All costs associated with the general management of an organization

### Example: Period or Product Cost?

Factory Heating Costs	Product (Indirect)
Training Costs for Admin. Employees	Period
Cost of solder for assembly	Product (Direct)
Shipping costs to customers	Period
Wages for billing department	Period
President's salary	Period

### Example: Classifying Manufacturing Costs

Your Boat, Inc. assembles custom sailboats from components supplied by various manufacturers. The company is very small and its assembly shop and retail sales store are housed in a Gig Harbor, Washington, boathouse.

Indicate whether each cost would **most likely** be DL, DM, manufacturing overhead, selling, or an administrative cost.

The wages of employees who build the sailboats	Direct Labor Cost
The cost of advertising in the local newspapers	Selling Cost
The cost of an aluminum mast installed in a sailboat	Direct Materials Cost
The wages of the assembly shop's supervisor	Manufacturing Overhead
Rent on the boathouse	MOH, Admin, and Selling