

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) A budget can serve as: 1) _____
A) a control tool B) a planning and control tool
C) a basis for preparing financial statements D) a planning tool

Answer: B

- Explanation: A)
B)
C)
D)

- 2) Which item is NOT an indication of confidentiality under the CIMA Code of Ethics? 2) _____
A) Refrain from using confidential information for unethical or illegal advantage.
B) Keep information confidential except when disclosure is authorised or legally required.
C) Inform all relevant parties regarding appropriate use of confidential information.
D) All of the above indicate confidentiality.

Answer: D

- Explanation: A)
B)
C)
D)

- 3) _____ is an operational factor that directly affects the economic viability of the organisation. 3) _____
A) Customer focus B) Continuous improvement
C) Supply chain D) Design of products, services or processes

Answer: D

- Explanation: A)
B)
C)
D)

- 4) A data warehouse or infobarn: 4) _____
A) is reserved for exclusive use by the CFO
B) stores information used by different managers for multiple purposes
C) gathers only non-financial information
D) is primarily used for financial reporting purposes

Answer: B

- Explanation: A)
B)
C)
D)

5) Which of the following issues is NOT addressed by the Sarbanes-Oxley legislation? 5) _____
A) improving internal control
B) disclosure practices of public corporations
C) corporate governance
D) disclosure practices of private companies

Answer: D

Explanation: A)
B)
C)
D)

6) Financial accounting: 6) _____
A) reports include detailed information on the various operating segments of the business such as product lines or departments
B) focuses on the future and includes activities such as preparing next year's operating budget
C) is prepared for the use of department heads and other employees
D) must comply with GAAP (generally accepted accounting principles)

Answer: D

Explanation: A)
B)
C)
D)

7) _____ is the after-sale support provided to customers. 7) _____
A) Marketing B) Customer service
C) Distribution D) Production

Answer: B

Explanation: A)
B)
C)
D)

8) Customers generally demand improved performance related to: 8) _____
A) both reduced costs and increased quality
B) lower costs, improved quality, and improved customer service
C) reduced costs
D) All of these answers are correct.

Answer: D

Explanation: A)
B)
C)
D)

9) Managers use management accounting information to _____ strategy. 9) _____
A) implement B) choose
C) communicate D) All of these answers are correct.

Answer: D

Explanation: A)
B)
C)
D)

10) A report showing the actual financial results for a period compared to the budgeted financial results for that same period would most likely be called a: 10) _____
A) revised plan B) strategic plan
C) management forecast D) performance report

Answer: D

Explanation: A)
B)
C)
D)

11) Planning consists of all of these areas EXCEPT: 11) _____
A) deciding how to attain the desired goals
B) predicting results under various alternatives
C) selecting organisational goals
D) evaluating performance

Answer: D

Explanation: A)
B)
C)
D)

12) Examples of the Chief Management Accountant's functions include all EXCEPT: 12) _____
A) planning B) operations administration
C) investor relations D) budgeting

Answer: C

Explanation: A)
B)
C)
D)

13) Management accounting is considered successful when it: 13) _____
A) is accurate
B) is relevant and reported annually
C) helps creditors evaluate the company's performance
D) helps managers improve their decisions

Answer: D

Explanation: A)
B)
C)
D)

14) Place the four business functions in the order they appear along the value chain: 14) _____

- A = Customer service
- B = Design
- C = Distribution
- D = Production

- A) B A D C B) A B D C C) B D C A D) A C D B

Answer: C

- Explanation: A)
 B)
 C)
 D)

15) Linking rewards to performance: 15) _____

- A) helps to motivate managers
- B) should only be based on financial information
- C) allows companies to charge premium prices
- D) All of these answers are correct.

Answer: A

- Explanation: A)
 B)
 C)
 D)

16) The act of simply measuring and reporting information: 16) _____

- A) diverts employee's attention to other activities
- B) has no effect on employee behaviour
- C) focuses the attention of employees on those processes
- D) disproves the saying 'What gets measured gets managed.'

Answer: C

- Explanation: A)
 B)
 C)
 D)

17) Ethical challenges for management accountants include: 17) _____

- A) whether to report unfavourable department information that may result in unfavourable consequences for a friend
- B) whether to accept gifts from suppliers, knowing it is an effort to indirectly influence decisions
- C) whether to file a tax return this year
- D) Both A and B are correct.

Answer: D

- Explanation: A)
 B)
 C)
 D)

18) Control measures should: 18) _____
A) be linked by feedback to planning
B) be set and not changed until the next budget cycle
C) be flexible to allow for employees who are slackers
D) be kept confidential from employees so that competitors don't have an opportunity to gain a competitive advantage

Answer: A

Explanation: A)
B)
C)
D)

19) Cost accounting provides all of the following EXCEPT: 19) _____
A) financial information regarding the cost of acquiring resources
B) pricing information from marketing studies
C) information for management accounting and financial accounting
D) non-financial information regarding the cost of operational efficiencies

Answer: B

Explanation: A)
B)
C)
D)

20) Which statement concerning performance reports is NOT correct? 20) _____
A) The performance report is a feedback tool.
B) The performance report contains no actual results due to confidentiality.
C) The performance report often leads to more investigations and action.
D) The performance report shows actual performance as compared to the budget.

Answer: B

Explanation: A)
B)
C)
D)

21) The process of preparing a budget: 21) _____
A) increases accounting efficiencies
B) promotes production automation
C) forces coordination and communication across business functions
D) reduces overcapacity

Answer: C

Explanation: A)
B)
C)
D)

22) The function in the value chain concerned with promoting and selling products or services to customers is: 22) _____
A) distribution B) production
C) marketing D) customer service

Answer: C

Explanation: A)
B)
C)
D)

23) Companies report on their approach to maintaining sustainability in: 23) _____
A) the balance sheet B) the income statement
C) the report on social responsibility D) None of the above.

Answer: C

Explanation: A)
B)
C)
D)

24) In designing strategy, a company must match the opportunities and threats in the marketplace with: 24) _____
A) branding opportunities
B) capabilities of current suppliers
C) its resources and capabilities
D) those of the CFO (Chief Financial Officer)

Answer: C

Explanation: A)
B)
C)
D)

25) The person(s) responsible for providing advice and assistance to line managers is/are: 25) _____
A) the chief financial officer B) the treasurer
C) staff management D) the controller

Answer: C

Explanation: A)
B)
C)
D)

26) The most important planning tool is a: 26) _____
A) goal B) budget
C) balanced scorecard D) performance evaluation report

Answer: B

Explanation: A)
B)
C)
D)

27) The _____ is primarily responsible for management accounting and financial accounting. 27) _____
A) CIO (Chief Information Officer)
B) COO (Chief Operating Officer)
C) Treasurer
D) Chief Management Accounting officer or controller

Answer: D

Explanation: A)
B)
C)
D)

28) If there is an ethical conflict concerning your direct supervisor, when is it appropriate to contact authorities or individuals not employed by the organisation? 28) _____
A) when there is a clear violation of the law
B) when you are about to be terminated
C) when there is a personal conflict
D) when your supervisor is about to receive a bonus

Answer: A

Explanation: A)
B)
C)
D)

29) Financial accounting provides the PRIMARY source of information for: 29) _____
A) planning next year's operating budget
B) preparing the income statement for shareholders
C) decision making in the finishing department
D) improving customer service

Answer: B

Explanation: A)
B)
C)
D)

30) Customer relationship management initiatives use technology to coordinate all: 30) _____
A) research activities
B) production activities
C) customer-facing activities
D) inventory management activities

Answer: C

Explanation: A)
B)
C)
D)

- 31) The value chain is the sequence of business functions in which: 31) _____
A) value is proportionately added to the products or services of an organisation
B) value is deducted from the products or services of an organisation
C) products and services are evaluated with respect to their value to the supply chain
D) usefulness is added to the products or services of an organisation

Answer: D

Explanation: A)
B)
C)
D)

- 32) Modern cost accounting plays a role in: 32) _____
A) evaluating operational processes
B) planning new products
C) controlling costs
D) All of these answers are correct.

Answer: D

Explanation: A)
B)
C)
D)

- 33) An Enterprise Resource Planning System can best be described as: 33) _____
A) a collection of programs that use a variety of unconnected databases
B) a database that is primarily used by a purchasing department to determine the correct amount of a particular supply item to purchase
C) a single database that collects data and feeds it into applications that support each of the company's business activities, such as purchases, production, distribution, and sales
D) a sophisticated means of linking two or more companies to facilitate their planning processes

Answer: C

Explanation: A)
B)
C)
D)

- 34) Place the five steps in the decision-making process in the correct order: 34) _____
A = Obtain information
B = Make decisions by choosing among alternatives
C = Identify the problem and uncertainties
D = Implement the decision
E = Make predictions about the future
A) A E B D C B) D B E A C C) E D A B C D) C A E B D

Answer: D

Explanation: A)
B)
C)
D)

35) _____ is the generation of, and experimentation with, ideas related to new products, services, or processes. 35) _____

- A) Design of products, services, or processes
- B) Production
- C) Marketing
- D) Research and development

Answer: D

- Explanation:
- A)
 - B)
 - C)
 - D)

36) The Chartered Institute of Management Accountants (CIMA): 36) _____

- A) issues standards for financial accounting
- B) is a professional organisation of management accountants
- C) has its headquarters in the USA
- D) is a professional organisation of financial accountants

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)

37) Management accounting includes: 37) _____

- A) developing budgets
- B) implementing strategies
- C) preparing special studies and forecasts
- D) All of these answers are correct.

Answer: D

- Explanation:
- A)
 - B)
 - C)
 - D)

38) Employees _____ how their performance is measured. 38) _____

- A) rarely know
- B) pay close attention to
- C) pay no attention to
- D) Both B and C are correct.

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)

39) _____ is the detailed planning and engineering of products, services, or processes. 39) _____

- A) Production
- B) Design of products, services, or processes
- C) Distribution
- D) Marketing

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)

- 40) Which of the following statements about the cost-benefit approach is TRUE? 40) _____
- A) Resources should be spent if they are expected to better attain company goals in relation to the expected costs of these resources.
 - B) In a cost-benefit analysis, both costs and benefits are easy to obtain.
 - C) A cost-benefit approach would not be appropriate for a decision to install a budget system or not.
 - D) Resources should be spent if the costs of a decision outweigh the benefits of the decision.

Answer: A

- Explanation: A)
B)
C)
D)

- 41) Management accounting information includes: 41) _____
- A) the cost of producing a product
 - B) the percentage of units produced that are defective
 - C) tabulated results of customer satisfaction surveys
 - D) All of these answers are correct.

Answer: D

- Explanation: A)
B)
C)
D)

- 42) All of the following report to the Chief Financial Officer (CFO) EXCEPT the: 42) _____
- A) Tax Department Manager
 - B) Company Secretary
 - C) Chief Management Accountant
 - D) Production Manager

Answer: D

- Explanation: A)
B)
C)
D)

- 43) Which item is an indication of integrity under the CIMA Code of Ethics? 43) _____
- A) Communicate information fairly and objectively.
 - B) Refrain from engaging in any conduct that would prejudice carrying out duties ethically.
 - C) Recognise and communicate professional limitations or other constraints that would preclude responsible judgment or successful performance of an activity.
 - D) Keep information confidential except when disclosure is authorised or legally required.

Answer: B

- Explanation: A)
B)
C)
D)

44) R&D, production, and customer service are business functions that are all included as part of: 44) _____
A) the value chain B) the supply chain
C) marketing D) benchmarking

Answer: A

Explanation: A)
B)
C)
D)

45) Staff management includes: 45) _____
A) manufacturing managers B) purchasing managers
C) distribution managers D) human-resource managers

Answer: D

Explanation: A)
B)
C)
D)

46) Strategy is formulated by answering all of the following EXCEPT: 46) _____
A) Will our external auditors certify our strategy?
B) Who are our most important customers?
C) How sensitive are purchasers to price, quality, and service?
D) Is industry demand growing or shrinking?

Answer: A

Explanation: A)
B)
C)
D)

47) _____ is the delivery of products or services to customers. 47) _____
A) Distribution B) Design of products, services, or processes
C) Customer service D) Production

Answer: A

Explanation: A)
B)
C)
D)

48) Management accounting: 48) _____
A) provides information that is generally available only on a quarterly or annual basis
B) reports information in accordance with relevant accounting standards
C) provides information to external parties
D) focuses on estimating future revenues, costs, and other measures to forecast activities and their results

Answer: D

Explanation: A)
B)
C)
D)

- 49) Which statement concerning an organisation's strategy is NOT true? 49) _____
- A) A good strategy will always overcome poor implementation.
 - B) Businesses usually follow one of two broad strategies: offering a quality product at a low price, or offering a unique product or service priced higher than the competition.
 - C) Strategy specifies how an organisation matches its own capabilities with the opportunities in the marketplace to accomplish its objectives.
 - D) Management accountants provide input to help managers formulate strategy.

Answer: A

Explanation: A)
B)
C)
D)

- 50) The approaches and activities of managers in short-run and long-run planning and control decisions that increase value for customers and lower costs of products and services are known as: 50) _____
- A) value chain management
 - B) cost management
 - C) enterprise resource planning
 - D) customer value management

Answer: B

Explanation: A)
B)
C)
D)

- 51) The scenario that resources should be spent if the expected benefits to the company exceed the expected costs describes: 51) _____
- A) behavioural and technical considerations
 - B) different costs for different purposes
 - C) cost-benefit approach
 - D) balanced scorecard

Answer: C

Explanation: A)
B)
C)
D)

- 52) Strategy should focus PRIMARILY on the organisation's: 52) _____
- A) products
 - B) employees
 - C) customers
 - D) shareholders

Answer: C

Explanation: A)
B)
C)
D)

53) As teamwork has become more prominent in the last few years, differences between staff and line management: 53) _____
A) have increased
B) have diminished
C) have only been evident in the employee reward system
D) have become more important relative to promotions

Answer: B

Explanation: A)
B)
C)
D)

54) Which of the following is NOT one of the questions management accountants might attempt to help answer in the formulation of strategy? 54) _____
A) What substitute products exist in the marketplace?
B) Will adequate cash be available to implement the strategy?
C) Does the strategy comply with GAAP (Generally Accepted Accounting Principles)?
D) Who are our most important customers?

Answer: C

Explanation: A)
B)
C)
D)

55) Which of these is a Fundamental Principle under the CIMA Code of ethics for professional accountants? 55) _____
A) integrity
B) confidentiality
C) due care
D) All of the above.

Answer: D

Explanation: A)
B)
C)
D)

56) _____ is the acquisition, coordination, and assembly of resources to produce a product or deliver a service. 56) _____
A) Marketing
B) Customer service
C) Production
D) Research and development

Answer: C

Explanation: A)
B)
C)
D)

57) _____ is a philosophy in which management improves operations throughout the value chain to deliver products and services that exceed customer expectations. 57) _____

- A) Total quality management
- B) Cost-benefit approach
- C) Customer relationship management
- D) Customer focus

Answer: A

Explanation: A)
B)
C)
D)

58) Which statement is FALSE? 58) _____

- A) 'If I can't measure it, I can't manage it.'
- B) Employees spend more attention on those variables that are not getting measured.
- C) People react to measurements.
- D) 'What gets measured gets managed.'

Answer: B

Explanation: A)
B)
C)
D)

59) Management accounting is an integral part of the _____ function in an organisation. 59) _____

- A) internal audit
- B) treasury
- C) taxation
- D) None of the above.

Answer: D

Explanation: A)
B)
C)
D)

60) Whose perceptions of the company's products or services are most important to the manager? 60) _____

- A) chairman of the boards' perception
- B) customers' perception
- C) shareholders' perception
- D) board of directors' perception

Answer: B

Explanation: A)
B)
C)
D)

- 61) Which item is NOT an indication of competence under the CIMA Code of Ethics? 61) _____
- A) Keep information confidential except when disclosure is authorised or legally required.
 - B) Perform professional duties in accordance with relevant laws, regulations, and technical standards.
 - C) Maintain an appropriate level of professional expertise by continually developing knowledge and skills.
 - D) Provide decision support information and recommendations that are accurate, clear, concise, and timely.

Answer: A

- Explanation: A)
B)
C)
D)

- 62) Which of the following descriptors refers best to management accounting information? 62) _____
- A) It provides reasonable and timely estimates.
 - B) It is verifiable and reliable.
 - C) It is prepared for shareholders.
 - D) It is driven by rules.

Answer: A

- Explanation: A)
B)
C)
D)

- 63) A well-conceived plan allows managers the ability to: 63) _____
- A) keep lower-level managers from implementing change
 - B) underestimate costs so that actual operating results will be favourable when comparisons are made
 - C) take advantage of unforeseen opportunities
 - D) not make decisions again until the next planning session

Answer: C

- Explanation: A)
B)
C)
D)

- 64) Which of the following actions should a management accountant take first in confronting a potential ethical conflict concerning their direct supervisor? 64) _____
- A) Discuss the situation with their supervisor's direct supervisor.
 - B) Review their organisation's procedures concerning resolution of such a conflict.
 - C) Inform the Board of Directors of the existence of a potential conflict.
 - D) Confront their supervisor directly.

Answer: B

- Explanation: A)
B)
C)
D)

65) Which of these types of information are used in management accounting? 65) _____
A) information focused on the long term B) financial information
C) non-financial information D) All of these answers are correct.

Answer: D

Explanation: A)
 B)
 C)
 D)

66) Strategy specifies: 66) _____
A) how an organisation matches its own capabilities with the opportunities in the marketplace
B) incremental changes for improved performance
C) the demand created for products and services
D) standard procedures to ensure quality products

Answer: A

Explanation: A)
 B)
 C)
 D)

67) The person MOST likely to use management accounting information is a(n): 67) _____
A) governmental taxing authority
B) assembly department supervisor
C) banker evaluating a credit application
D) shareholder evaluating a share investment

Answer: B

Explanation: A)
 B)
 C)
 D)

68) The CIMA Code of Ethics for management accountants includes concepts related to: 68) _____
A) competence, confidentiality, integrity, and professional behaviour
B) competence, performance, integrity, and reporting
C) experience, integrity, reporting, and objectivity
D) None of these answers are correct.

Answer: A

Explanation: A)
 B)
 C)
 D)

69) A budget: 69) _____
A) aids in the coordination and communication among various business functions
B) helps translate strategy into actions
C) is a quantitative expression of a proposed management plan
D) All of these answers are correct.

Answer: D

Explanation: A)
B)
C)
D)

70) Which statement about customer value is NOT true? 70) _____
A) How our product delivers customer value should be determined as part of a company's strategy formulation.
B) Creating value for customers is an important part of planning and implementing strategy.
C) It is possible to simultaneously lower cost and increase customer value.
D) Customer value is shown in a corporation's balance sheet.

Answer: D

Explanation: A)
B)
C)
D)

71) Line management includes: 71) _____
A) information-technology managers B) manufacturing managers
C) human-resource managers D) management-accounting managers

Answer: B

Explanation: A)
B)
C)
D)

72) Control includes: 72) _____
A) providing feedback to help with future decision making
B) implementing planning decisions
C) evaluating performance
D) All of these answers are correct.

Answer: D

Explanation: A)
B)
C)
D)

73) Which statement refers best to management accounting information? 73) _____
A) There are no regulations governing the reports.
B) It primarily measures and records business transactions.
C) The reports are generally delayed and historical.
D) The audience tends to be shareholders, creditors, and tax authorities.

Answer: A
Explanation: A)
B)
C)
D)

74) Cost accounting: 74) _____
A) provides information on the cost of servicing commercial customers
B) provides information on the efficiency of factory labour
C) provides information on the performance of an operating division
D) All of these answers are correct.

Answer: D
Explanation: A)
B)
C)
D)

75) Which statement about a company's supply chain is true? 75) _____
A) A company's supply chain is always external to a firm.
B) Management accountants provide information to enhance a company's supply chain.
C) A company's supply chain is always internal to a firm.
D) A company's supply chain is the same thing as a company's value chain.

Answer: B
Explanation: A)
B)
C)
D)

76) The person(s) directly responsible for attaining organisational objectives is/are: 76) _____
A) the chief financial officer B) the treasurer
C) the controller D) line management

Answer: D
Explanation: A)
B)
C)
D)

77) Which item is NOT an area that customers want to see improved levels of performance in? 77) _____
A) cost and efficiency B) quality
C) profit D) innovation

Answer: C
Explanation: A)
B)
C)
D)

78) The PRIMARY criterion when faced with a resource allocation decision is: 78) _____
A) cost minimisation
B) how well the alternative options help achieve organisational goals in relation to the costs incurred for these systems
C) achievement of organisational goals
D) reduction in the amount of time required to perform a particular job

Answer: B

Explanation: A)
B)
C)
D)

79) Which of these groups would be LEAST likely to receive detailed management accounting reports? 79) _____
A) production supervisors B) managers
C) shareholders D) sales representatives

Answer: C

Explanation: A)
B)
C)
D)

80) Responsibilities of a Chief Financial Officer (CFO) include all of the following EXCEPT: 80) _____
A) chairing the board of directors
B) managing short-term and long-term financing
C) providing financial reports to shareholders
D) supervising the preparation of tax returns

Answer: A

Explanation: A)
B)
C)
D)

81) _____ describe(s) the flow of goods, services, and information from the purchase of materials to the delivery of products to consumers, regardless of whether those activities occur in the same organisation or with other organisations. 81) _____
A) Customer focus B) Key success factors
C) Continuous improvement D) Supply chain

Answer: D

Explanation: A)
B)
C)
D)

82) Financial accounting provides a historical perspective, whereas management accounting emphasises: 82) _____
A) reports to shareholders B) past transactions
C) the future D) a current perspective

Answer: C

Explanation: A)
B)
C)
D)

83) _____ is the manner by which companies promote and sell their products or services to customers or prospective customers. 83) _____
A) Marketing B) Distribution
C) Customer service D) Research and development

Answer: A

Explanation: A)
B)
C)
D)

84) The fundamental purpose of making an organisation sustainable is to: 84) _____
A) make sure the organisation survives in the long-term
B) ensure that present needs are met without compromising the needs of future generations
C) reduce greenhouse gasses to a very low level
D) make sure its profits are sustainable over the long-term

Answer: B

Explanation: A)
B)
C)
D)

85) Which of the following is NOT a way for a company to improve customer response time? 85) _____
A) Use faster delivery procedures.
B) Increase capacity of bottleneck operations.
C) Purchase material in larger quantities.
D) Produce the product more quickly.

Answer: C

Explanation: A)
B)
C)
D)

86) A company needs to be _____ to be successful. 86) _____
A) 'driven' by the board of directors B) management driven
C) customer driven D) employee driven

Answer: C

Explanation: A)
B)
C)
D)

87) The person MOST likely to use ONLY financial accounting information is a: 87) _____
A) department manager B) current shareholder
C) vice CEO of operations D) factory shift supervisor

Answer: B

Explanation: A)
B)
C)
D)

88) If there is an ethical conflict concerning your direct supervisor, it may be appropriate to contact all of the following groups EXCEPT: 88) _____
A) executive committee B) board of directors
C) local media D) audit committee

Answer: C

Explanation: A)
B)
C)
D)

89) Which item is a guideline used by management accountants to assist in strategic and operational decision making? 89) _____
A) behavioural and technical considerations B) different costs for different purposes
C) All are guidelines. D) cost-benefit approach

Answer: C

Explanation: A)
B)
C)
D)

90) Financial accounting is concerned PRIMARILY with: 90) _____
A) providing information for strategic and tactical decisions
B) cost planning and cost controls
C) profitability analysis
D) external reporting to investors, creditors, and government authorities

Answer: D

Explanation: A)
B)
C)
D)

91) Customer response time involves: 91) _____
A) the time it takes to develop a new product
B) the speed at which an organisation responds to customer requests
C) the time it takes an organisation to develop a Total Quality Management (TQM) program
D) the time it takes a customer to respond to an advertisement and place an order

Answer: B

Explanation: A)
B)
C)
D)

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 92) Classify each of the following cost items of Ripon Printers into one of the business functions of the value chain, either (1) R&D, (2) design, (3) production, (4) marketing, (5) distribution, or (6) customer service.

92) _____

Item:

- a. cost of customer order forms
- b. cost of paper used in manufacture of books
- c. cost of paper used in packing cartons to ship books
- d. cost of paper used in display at national trade show
- e. depreciation of trucks used to transport books to college bookstores
- f. cost of the wood used to manufacture paper
- g. salary of the scientists attempting to find another source of printing ink
- h. cost of defining the book size so that a standard-sized box is filled to capacity

- Answer:
- a. (4) marketing
 - b. (3) production
 - c. (5) distribution
 - d. (4) marketing
 - e. (5) distribution
 - f. (3) production
 - g. (1) R&D
 - h. (2) design

Explanation:

- 93) For each report listed below, identify whether the major purpose of the report is for (1) routine internal reporting, (2) nonroutine internal reporting, or for (3) external reporting to investors and other outside parties.

93) _____

Item:

- a. study detailing sale information of the top-ten selling products
- b. weekly report of total sales generated by each store in the metropolitan area
- c. annual report sent to shareholders
- d. monthly report comparing budgeted sales by store to actual sales

- Answer:
- a. (2) nonroutine internal reporting
 - b. (1) routine internal reporting
 - c. (3) external reporting to investors and other outside parties
 - d. (1) routine internal reporting

Explanation:

- 94) Which questions do management accountants help answer in the strategy formulation process?

94) _____

- Answer:
- 1. Who are our most important customers, and how do we deliver value to them?
 - 2. What substitute products exist in the marketplace, and how do they differ from our product in terms of price and quality?
 - 3. What is our most critical capability?
 - 4. Will adequate cash be available to fund the strategy, or will additional funds need to be raised?

Explanation:

95) Classify each of the following cost items into one of the business functions of the value chain, either (1) R&D, (2) design, (3) production, (4) marketing, (5) distribution, or (6) customer service.

95) _____

Item:

- a. cost of samples mailed to promote sales of a new product
- b. labour cost of workers in the manufacturing plant
- c. bonus paid to a person with a 90% satisfaction rating in handling customers with complaints
- d. transportation costs for shipping products to retail outlets

Answer: a. (4) marketing
b. (3) production
c. (6) customer service
d. (5) distribution

Explanation:

96) For each type of report listed below, identify one planning decision and one controlling decision for which the information would be helpful. Assume you are a Harvey Norman Company store.

96) _____

Item:

- a. annual financial statements for the past three years
- b. report detailing sales by department by each hour of the day for the past week
- c. special study regarding increased road traffic due to the construction of a new shopping mall at a near-by intersection

Answer: Please note that answers will vary, but may include the following:

- a. Planning: Decision by shareholder about whether to purchase more stock in the company.
Control: Decision by bank to determine if financial ratios maintained in the line-of-credit (LOC) agreement warrant increasing the LOC amount.
- b. Planning: Decisions regarding future staffing needs.
Control: Decision regarding whether the recent sales promotion led to an increase in revenue.
- c. Planning: Decision of the store manager about whether to change the types of retail items carried.
Control: Decision of the store manager regarding performance of the analyst that prepared the special study.

Explanation:

97) What are externalities?

97) _____

Answer: Externalities are costs that are not paid for by the organisation, but which are caused by its actions e.g., air pollution and water pollution costs. It also includes benefits, other than to customers, which are incidental to the product or service, for which the organisation does not receive revenue. Internalisation of these costs would force managers to consider them along with normal internal costs when making decisions.

Explanation:

98) List four principles of ethical conduct for management accountants. For each principle, give an example that demonstrates compliance with that principle. 98) _____

Answer: Please note that answers may vary, but may include the following:

1. Competence: Maintain an appropriate level of professional expertise by continually developing knowledge and skills
2. Confidentiality: Refrain from using confidential information for unethical or illegal advantage
3. Integrity: Abstain from engaging in or supporting any activity that might discredit the profession
4. Objectivity: Do not allow bias, conflict of interest or undue influence of others to override professional judgement

Explanation:

99) In order, list the five steps in the decision-making process. 99) _____

- Answer:
1. Identify the problem and uncertainties
 2. Obtain information
 3. Make predictions about the future
 4. Make decisions by choosing among alternatives
 5. Implement the decision, evaluate performance, and learn

Explanation:

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

100) Staff management should NOT provide advice and assistance to line management. 100) _____

Answer: True False

Explanation: Management accountants and human-resources managers are examples of staff management.

101) Line management is directly responsible for attaining the goals of the organisation. 101) _____

Answer: True False

Explanation:

102) Management accounting has to strictly follow the rules of generally accepted accounting principles for the purposes of measurement and reporting. 102) _____

Answer: True False

Explanation: Internal measures and reports do not have to follow GAAP.

103) Management accounting is broader in scope than financial accounting. 103) _____

Answer: True False

Explanation: Management accounting is broader in scope than financial accounting.

104) When a particular aspect of employee performance is measured, employees pay more attention to it. 104) _____

Answer: True False

Explanation:

105) Cost management involves long-term and short-term decisions that attempt to increase value for customers and lower costs of products or services. 105) _____

Answer: True False

Explanation:

- 106) For best results, cost management emphasises independently coordinating supply chain activities within your company and not interfering with other companies. 106) _____
Answer: True False
Explanation: Cost management emphasises integrating and coordinating supply chain activities across all companies within the supply chain.
- 107) Cost management is narrowly focused on a continuous reduction of costs. 107) _____
Answer: True False
Explanation: Cost management is broadly focused to provide information that helps managers at all levels implement, monitor, and evaluate company strategies.
- 108) Linking rewards to performance is a major deterrent to good management performance. 108) _____
Answer: True False
Explanation: Linking rewards to performance helps to motivate good management performance.
- 109) The use of teams to achieve corporate objectives is increasing. 109) _____
Answer: True False
Explanation:
- 110) The process of preparing a budget forces coordination and communication throughout the company. 110) _____
Answer: True False
Explanation:
- 111) Management accountants must have behavioural and interpersonal skills. 111) _____
Answer: True False
Explanation:
- 112) Cost accounting measures and reports short-term, long-term, financial, and non-financial information. 112) _____
Answer: True False
Explanation:
- 113) The chief financial officer (CFO) is the financial executive primarily responsible for both management accounting and financial accounting. 113) _____
Answer: True False
Explanation:
- 114) Management accounting information focuses on external reporting. 114) _____
Answer: True False
Explanation: Management accounting information focuses on INTERNAL reporting.
- 115) To take advantage of changing market opportunities, the annual budget should be strictly enforced. 115) _____
Answer: True False
Explanation: To take advantage of changing market opportunities, the annual budget should be updated to reflect those changes.

- 116) If a management accountant were not keeping up with current developments in management accounting, that behaviour might violate the requirement for competence in standards for professional ethical behaviour. 116) _____
 Answer: True False
 Explanation:
- 117) Customers demand increased levels of performance in all aspects of the value chain and the supply chain. 117) _____
 Answer: True False
 Explanation:
- 118) The value chain refers to the sequence of business functions in which customer usefulness is added to products or services. 118) _____
 Answer: True False
 Explanation:
- 119) The chief financial officer (CFO) is usually responsible for banking, short- and long-term financing, investments, and cash management. 119) _____
 Answer: True False
 Explanation:
- 120) The best-designed strategies and the best-developed capabilities are useless unless they are effectively executed. 120) _____
 Answer: True False
 Explanation:
- 121) The balance sheet, income statement, and cash flow statement are used for financial accounting, but not for management accounting. 121) _____
 Answer: True False
 Explanation: The balance sheet, income statement, and cash flow statement are used for financial accounting and also for management accounting.
- 122) Key success factors include cost, quality, timeliness, and innovation. 122) _____
 Answer: True False
 Explanation:
- 123) CPA Australia and the Institute of Chartered Accountants in Australia (ICAA) established the Accounting Professional and Ethical Standards Board. 123) _____
 Answer: True False
 Explanation:
- 124) Increased global competition is placing pressure on companies to reduce costs. 124) _____
 Answer: True False
 Explanation:
- 125) Financial accounting reports financial and non-financial information that helps managers implement company strategies. 125) _____
 Answer: True False
 Explanation: MANAGEMENT accounting reports financial and non-financial information that helps managers implement company strategies.

- 126) A budget is a tool used to plan and express strategy. 126) _____
Answer: True False
Explanation:
- 127) It is generally easy to quantify expected benefits and costs when applying the cost-benefit approach. 127) _____
Answer: True False
Explanation: It is challenging and generally costly to quantify expected benefits and costs when applying the cost-benefit approach.
- 128) An effective way to cut costs is to eliminate activities that do not improve the product attributes that customers value. 128) _____
Answer: True False
Explanation:
- 129) One of the steps in planning is making predictions about the future. 129) _____
Answer: True False
Explanation:
- 130) Cost accounting systems provide information only for management accounting purposes. 130) _____
Answer: True False
Explanation: Cost accounting systems provide information for financial accounting as well as for management accounting purposes.
- 131) The increasing pace of technological innovation has resulted in longer product life cycles. 131) _____
Answer: True False
Explanation: The increasing pace of technological innovation has resulted in shorter product lifecycles.
- 132) All strategies should be evaluated with regard to the resources and capabilities of the company. 132) _____
Answer: True False
Explanation:
- 133) Companies generally follow one of two basic strategies: 1) providing a quality product or service at low prices, or 2) offering a unique product or service often priced higher than competing products. 133) _____
Answer: True False
Explanation:
- 134) Managers always require the information in an accounting system to be presented in the same format. 134) _____
Answer: True False
Explanation: Individual managers often require the information in an accounting system to be presented or reported differently.
- 135) For optimal planning success it is best if each business function within the value chain is performed one at a time in sequence. 135) _____
Answer: True False
Explanation: Optimally, success is achieved when two or more of the individual business functions work concurrently as a team.

- 136) Value chain refers to value to the employee. 136) _____
Answer: True False
Explanation: Value chain refers to its value to the *customer*.
- 137) Identifying a company's most important customers does not help formulate strategy. 137) _____
Answer: True False
Explanation: Management accountants help formulate strategy by helping managers answer questions such as 'Who are our most important customers, and how do we deliver value to them?'
- 138) Cost management provides information that helps increase value for customers. 138) _____
Answer: True False
Explanation:
- 139) The value chain describes the flow of goods, services, and information from the initial sources of materials and services to the delivery of products to consumers. 139) _____
Answer: True False
Explanation: The SUPPLY CHAIN describes the flow of goods, services, and information from the initial sources of materials and services to the delivery of products to consumers.
- 140) Modern cost accounting plays a significant role in management decision making. 140) _____
Answer: True False
Explanation:
- 141) Companies can decide on an appropriate strategy based strictly on internally available information. 141) _____
Answer: True False
Explanation: Companies must obtain external information as well as internal information to decide on an appropriate strategy.
- 142) If a management accountant suspected his or her immediate superior of wrongdoing, the management accountant should request an immediate meeting with the Board of Directors. 142) _____
Answer: True False
Explanation: If a management accountant suspected his or her immediate superior of wrongdoing, the management accountant should first present the situation to the next higher managerial level.
- 143) Management accounting is playing an increasingly important role by helping managers develop and implement strategy. 143) _____
Answer: True False
Explanation:
- 144) A cost concept used for external reporting purposes may not be appropriate for internal, routine reporting to managers. 144) _____
Answer: True False
Explanation:
- 145) The chief financial officer (CFO) is generally a staff management position. 145) _____
Answer: True False
Explanation:

- 146) A budget may be used as a planning tool, but not as a control tool. 146) _____
Answer: True False
Explanation: A budget may be used as a planning tool and also as a control tool.
- 147) Technological innovation has led to longer product life cycles and hence a need to bring new products to market more rapidly. 147) _____
Answer: True False
Explanation: Technological innovation has led to shorter product life cycles.
- 148) It is difficult to control activities without a budget. 148) _____
Answer: True False
Explanation:
- 149) Sustainability includes 'the ability of future generations to meet their own needs.' 149) _____
Answer: True False
Explanation:
- 150) By reporting and interpreting relevant data, the chief financial officer (CFO) exerts an influence that impels management toward making informed decisions. 150) _____
Answer: True False
Explanation:
- 151) Strategic cost management describes cost management that specifically focuses on strategic issues. 151) _____
Answer: True False
Explanation:
- 152) Employees pay little attention to how their performance is measured. 152) _____
Answer: True False
Explanation: Employees are very aware of how their performance is measured.
- 153) Companies have to follow strict guidelines when designing a management accounting system. 153) _____
Answer: True False
Explanation: The design of a management accounting system should be guided by the challenges facing managers.
- 154) Feedback and learning helps in the future decision-making process. 154) _____
Answer: True False
Explanation:
- 155) When faced with a potential ethical conflict, the management accountant should first consult any internal procedures of their organisation. 155) _____
Answer: True False
Explanation:
- 156) Management accountants might provide information for use in decisions on whether to buy a product from outside or manufacture it in-house. 156) _____
Answer: True False
Explanation:

- 157) Sustainability includes 'development that meets the needs of the present.' 157) _____
Answer: True False
Explanation:
- 158) Sustainability costs and benefits are recorded in activity-based costing systems. 158) _____
Answer: True False
Explanation:
- 159) The best-designed strategies are valuable whether or not they are effectively implemented. 159) _____
Answer: True False
Explanation: Implementation is essential or the strategy is useless.
- 160) The first step in the decision-making process is to obtain information. 160) _____
Answer: True False
Explanation: The first step in the decision-making process is to identify the problem and uncertainties.
- 161) Most professional accounting organisations around the world do NOT issue statements about professional ethics. 161) _____
Answer: True False
Explanation: Most accounting organisations do issue statements about professional ethics.
- 162) A managerial accountant should not disclose confidential information to an outside party (such as a newspaper) unless legally obligated to do so. 162) _____
Answer: True False
Explanation:
- 163) The key to a company's success is always to be the low cost producer in a particular industry. 163) _____
Answer: True False
Explanation: The low cost producer in a particular industry will not necessarily be successful.
- 164) Strategy does NOT specify how an organisation matches its capabilities with the opportunities in the market place. 164) _____
Answer: True False
Explanation: Strategy specifies how an organisation matches its own capabilities with the opportunities in the market place to accomplish its objectives.
- 165) Management accountants should have little or no role in deciding on a company's strategy. 165) _____
Answer: True False
Explanation: Management accountants should play a significant role in deciding on a company's strategy.
- 166) The production component of the value chain refers to acquiring, coordinating, and assembling resources to produce a product or deliver a service. 166) _____
Answer: True False
Explanation:
- 167) Control includes deciding what feedback to provide to facilitate future decision making. 167) _____
Answer: True False
Explanation:

- 168) An ideal database should consist of data that could be used for a single purpose only. 168) _____
 Answer: True False
 Explanation: An ideal database should be able to be used for multiple purposes.
- 169) The key to a company's success is creating value for customers while differentiating itself from its competitors. 169) _____
 Answer: True False
 Explanation:
- 170) Distribution refers to promoting and selling products or services to customers or prospective customers. 170) _____
 Answer: True False
 Explanation: Marketing refers to promoting and selling products or services to customers or prospective customers.
- 171) The Sarbanes-Oxley legislation in the USA was passed in response to a series of corporate scandals. 171) _____
 Answer: True False
 Explanation:
- 172) Feedback and learning hinders the future decision-making process. 172) _____
 Answer: True False
 Explanation: Feedback and learning facilitates the future decision-making process.
- 173) A performance report compares actual performance to the amount budgeted. 173) _____
 Answer: True False
 Explanation:
- 174) Management accountants have important ethical responsibilities that are related to competence, confidentiality, integrity, and credibility. 174) _____
 Answer: True False
 Explanation:
- 175) The supply chain always occurs within a single organisation. 175) _____
 Answer: True False
 Explanation: The supply chain can include organisations external to a single organisation.
- 176) Companies around the world are cutting costs by outsourcing some of their business functions. 176) _____
 Answer: True False
 Explanation:
- 177) Generally accepted accounting principles (GAAP) require that the same accounting methods be used for both internal and external reporting. 177) _____
 Answer: True False
 Explanation: Accounting methods for internal reporting are not specified by Generally Accepted Accounting principles (GAAP).
- 178) Key success factors are geared to improving customer satisfaction. 178) _____
 Answer: True False
 Explanation:

- 179) The supply chain describes the flow of goods, services, and information from the initial sources of materials and services to the delivery of products to consumers. 179) _____
 Answer: True False
 Explanation:
- 180) When confronted with a potential ethical conflict, a management accountant should not contact his or her personal lawyer concerning rights and obligations. 180) _____
 Answer: True False
 Explanation: When confronted with a potential ethical conflict, a management accountant can contact his or her personal lawyer concerning rights and obligations.
- 181) The Sarbanes-Oxley legislation does NOT provide a process for employees to report violations of illegal and unethical acts. 181) _____
 Answer: True False
 Explanation: This legislation does provide employees with the right to report violations.
- 182) The supply chain refers to the sequence of business functions in which customer usefulness is added to products or services. 182) _____
 Answer: True False
 Explanation: The value chain refers to the sequence of business functions in which customer usefulness is added to products or services.
- 183) The purpose of a budget is strictly technical. It does NOT influence behaviour. 183) _____
 Answer: True False
 Explanation: The purpose of a budget is both technical and behavioural. It does influence behaviour.
- 184) Tracking what is happening in other companies is illegal. 184) _____
 Answer: True False
 Explanation: Tracking what is happening in other companies alerts managers to changes in their industry and can be accomplished in many legal ways such as visiting competitor's Web sites and reviewing their financial statements.
- 185) Total quality management is a philosophy in which management improves operations throughout the value chain. 185) _____
 Answer: True False
 Explanation:

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 186) Briefly describe how managers make use of management accounting information.

Answer: ONE: To choose STRATEGY, to communicate it, and to determine how best to implement it.

TWO: To PLAN business operations related to designing, producing, and marketing a product or service. This includes preparing budgets and determining the prices and cost of products and services. A company must know the cost of each product and service to decide which products to offer and whether to expand or discontinue product lines.

THREE: To CONTROL business operations that includes comparing actual results to the budgeted results and taking corrective action when needed.

187) How does a controller help 'control' a company?

Answer: By reporting and interpreting relevant data, the controller exerts a force or influence that impels management toward making better-informed decisions.

The controller of Caterpillar described the job as 'a business advisor to ...help the team develop strategy and focus the team all the way through recommendations and implementation.'

188) What competitive advantage could a company obtain from a successful cost management program?

Answer: There are three broad outcomes from a successful cost management program: 1) costs are reduced with no loss in customer value. In this scenario, a company might gain a competitive advantage by lowering its price with no loss in profit, or maintain the same price and increase profit; 2) customer value is increased with no change in costs. This scenario might increase customer satisfaction resulting in increased customer loyalty and perhaps increase the overall demand for the product; 3) customer value might be increased while costs are reduced simultaneously. This scenario would result in the benefits described in both 1) and 2).

189) Generally, companies follow one of two broad strategies: offering a quality product at a low price, or offering a unique product or service priced higher than the competition. Is it possible to follow a strategy that is 'in the middle?'

Answer: There is some dispute about the correct answer to this question. Some will argue that it is not good for companies to get 'caught in the middle' because the customer might get confused as to whether or not the company is competing on price or is trying to make some other appeal. If the customer is confused about how the company is giving them value, they might perceive they are getting no value and abandon the product to a competitor with a clearer customer value proposition. The other side of the argument is that cost management is a necessary part of any strategy and even if the company chooses to pursue a differential strategy, management of the company should always be seeking ways to manage costs and increase customer value simultaneously regardless of their strategy. The student should be able to articulate one or the other arguments coherently.

190) Describe management accounting and financial accounting.

Answer: Management accounting provides information to internal decision makers of the business such as top executives, managers, sales representatives, and production supervisors. Its purpose is to help managers predict and evaluate future results. Reports are generated often and are usually broken down into smaller reporting divisions such as department or product line. There are no rules to be complied with since these reports are for internal use only. Management accounting embraces more extensively such topics as the development and implementation of strategies and policies, budgeting, special studies and forecasts, influence on employee behaviour, and non-financial as well as financial information. Financial accounting, by contrast, provides information to external decision makers such as investors and creditors. Its purpose is to present a fair picture of the financial condition of the company. Reports are generated quarterly or annually and report on the company as a whole. The financial statements must comply with GAAP (generally accepted accounting principles). An accountant audits, or verifies, that the GAAP are being followed.

191) Generally, companies follow one of two broad strategies: offering a quality product at a low price, or offering a unique product or service priced higher than the competition. Assume you are opening a small food outlet across the street from your campus. How might that business be operated under each of the two broad strategies? Consider the following specific operational areas:

- a. target customers
- b. products offered
- c. product pricing
- d. location choice
- e. advertising content
- f. advertising media

Answer: The purpose of this question is to explore some of the differences in business operations as a result of a broad strategic choice. Answers will differ from student to student, but you should see some specific themes.

Operational Area	Low Price Strategy	Differential Strategy
Target customers	Target customers might be students on a tight budget.	Target customers might be more wealthy students, faculty, or perhaps neighbours who live nearby.
Products offered	Few products, heavy emphasis on tight cost control, probably set up as a high volume operation.	High quality products, probably a reasonable choice, restaurant might have a lot of ambience.
Product pricing	Priced at or lower than the competition in the area.	Higher priced products.
Location choice	Convenient to the target customers.	Not as convenient, perhaps in a higher-end shopping or entertainment area. Customers might seek out the high quality and be willing to travel a bit for it.
Advertising content	Advertising would emphasise the low price of the products offered.	Advertising would emphasise quality or ambience.
Advertising media	Media that would be looked at by the target customers, such as student newspapers.	Media that would be looked at by the target customer, local magazines and newspapers.

192) What areas of responsibility does a Chief Financial Officer (CFO) have in a typical organisation?

Answer: The responsibilities vary among organisations, but generally include the following areas: controllership, treasury, risk management, taxation, investor relations, and internal audit.

193) In most organisations, customer satisfaction is one of the top priorities. As such, attention to customers is necessary for success. Briefly describe the four types of demands customers are currently placing on organisational performance.

Answer: Cost: Organisations are under continuous pressure to reduce the cost of the products or services they sell to their customers.

Quality: Customers are expecting higher levels of quality and are less tolerant of low quality than in the past.

Time: Time has many components: the time taken to develop and bring new products to market; the speed at which an organisation responds to customer requests; and the reliability with which promised delivery dates are met. Organisations are under pressure to complete activities faster and to meet promised delivery dates more reliably than in the past in order to increase customer satisfaction.

Innovation: There is now heightened recognition that a continuing flow of innovative products or services is a prerequisite for the ongoing success of most organisations.

194) What is strategy? Briefly describe the two broad types of strategies that companies may choose to pursue.

Answer: Strategy specifies how an organisation matches its own capabilities with the opportunities in the marketplace to accomplish its objectives. In other words, strategy describes how a company will compete.

Companies follow one of two broad strategies. One is to provide a QUALITY product or service at LOW prices. The other is to compete on their ability to offer a UNIQUE product or service that is generally offered at a HIGHER price.

195) How can a budget help management implement strategy?

Answer: A budget is a planning tool, a quantitative expression of a plan of action. First, actions are planned and then they are communicated to the entire organisation.

The budget also helps with coordination.

196) You have been employed as an entry-level management accountant for nine months. You suspect that your immediate supervisor is involved in a significant fraud involving the diversion of company assets for personal use. Briefly describe the steps you could take to resolve this dilemma.

Answer: The management accountant should first consult any internal company procedures concerning the resolution of ethical issues, and make sure these procedures are followed as closely as possible. At the same time, the management accountant should make sure that the facts are accurate, and are not based on rumours or inaccurate information. If these policies do not resolve the situation, present the facts to the next higher management level. Clarify the relevant ethical issues with an objective advisor (e.g., CPA Australia or The Institute of Chartered Accountants in Australia). Consult your own lawyer to be aware of your own rights and responsibilities.

197) Complete a performance report for the month of May, 2013, for the Bathurst Bulletin, a regional newspaper showing four columns: 1) Actual Result; 2) Budgeted Amount; 3) Difference: Actual Result minus Budgeted Amount; 4) Difference as a Percentage of Budgeted Amount, given the following data:

Advertising pages sold	900
Budgeted advertising pages	910
Advertising revenue	\$4 368 000
Budgeted advertising revenue	\$4 410 000

Does the report indicate any cause for managerial investigation?

Answer: The performance report should look something like the following:

	Actual Result (1)	Budgeted Amount (2)	Difference (Actual Result - Budgeted Amount) (3) = (1) - (2)	Difference as a Percentage of Budgeted Amount (4) = (3) / (2)
Advertising pages sold	910 pages	900 pages	10 pages favourable	1.1% favourable
Average rate per page (Advertising Revenues) / (Advertising pages sold)	\$4800	\$4900	\$100 Unfavourable	2.0% Unfavourable
Advertising revenues	\$4 368 000	\$4 410 000	\$42 000 favourable	1.0% favourable

The overall 1% favourable difference in advertising revenue is caused by offsetting differences in advertising pages sold (favourable) and the average rate per page (unfavourable). The performance report highlights the unfavourable drop in the advertising rate per page. While the percentage drop in advertising revenue per page is not dramatic, management might want to investigate the reasons behind such a drop. Some possibilities include: aggressive price reductions to obtain revenue, a general drop in newspaper media spending, some aggressive competition, or an unrealistic budget.

198) Describe the value chain and how it can help organisations become more effective.

Answer: A value chain is a sequence of business functions whose objective is to provide a product to a customer or provide an intermediate good or service in a larger value chain. These business functions include R&D, design, production, marketing, distribution, and customer service.

An organisation can become more effective by focusing on whether each link in the chain adds value from the customer's perspective and furthers the organisation's objectives.

199) Discuss the potential behaviour implications of performance evaluation.

Answer: As measurements are made on operations and, especially, on individuals and groups, the behaviour of the individuals and groups are affected. People react to the measurements being made. They will focus on those variables or the behaviour being measured and spend less attention on variables and behaviour that are not measured. In addition, if managers attempt to introduce or redesign cost and performance measurement systems, people familiar with the previous system will resist. Management accountants must understand and anticipate the reactions of individuals to information and measurements. The design and introduction of new measurements and systems must be accompanied with an analysis of the likely reactions to the innovations.

200) Briefly explain the planning and control activities in management accounting, and how these two activities are linked to each other.

Answer: Planning business operations relates to designing, producing, and marketing a product or service. This includes preparing budgets and determining the prices and cost of products and services. A company must know the cost of each product and service to decide which products to offer and whether to expand or discontinue product lines.

Controlling business operations includes comparing actual results to the budgeted results and taking corrective action when needed.

Feedback links planning and control. The control function provides information to assist in better future planning.

201) How can customer focus result in increased profits for a company?

Answer: If customers who provide a company with the most profits are attracted, satisfied, and retained, profits will increase as a result.

202) Discuss the cost-benefit approach guideline management accountants use to provide value in strategic decision making.

Answer: Management accountants continually face resource allocation decisions. The cost-benefit approach should be used in making these decisions. Resources should be spent if the expected benefits to the company exceed the expected costs. The expected benefits and costs may not be easy to quantify, but it is a useful approach for making resource allocation decisions.

203) Is it possible to have an active cost management program without an Enterprise Resource Planning (ERP) System?

Answer: Yes, an active cost management program can occur without an Enterprise Resource Planning (ERP) System. Cost management is a philosophy that guides management in their short-run and long-run planning and control decisions that increase value for customers and lower costs of products and services. Cost management is not dependent on any particular system or database, but it is rather an overall philosophy of operation.

204) Is financial accounting or management accounting more useful to an operations manager? Why?

Answer: Management accounting is more useful to an operations manager because management accounting reports operating results by department or unit rather than for the company as a whole, it includes financial as well as non-financial data such as on-time deliveries and cycle times, and it includes quantitative as well as qualitative data such as the type of rework that was needed on defective units.

Answer Key
Testname: C1

- 1) B
- 2) D
- 3) D
- 4) B
- 5) D
- 6) D
- 7) B
- 8) D
- 9) D
- 10) D
- 11) D
- 12) C
- 13) D
- 14) C
- 15) A
- 16) C
- 17) D
- 18) A
- 19) B
- 20) B
- 21) C
- 22) C
- 23) C
- 24) C
- 25) C
- 26) B
- 27) D
- 28) A
- 29) B
- 30) C
- 31) D
- 32) D
- 33) C
- 34) D
- 35) D
- 36) B
- 37) D
- 38) B
- 39) B
- 40) A
- 41) D
- 42) D
- 43) B
- 44) A
- 45) D
- 46) A
- 47) A
- 48) D
- 49) A
- 50) B

Answer Key

Testname: C1

- 51) C
- 52) C
- 53) B
- 54) C
- 55) D
- 56) C
- 57) A
- 58) B
- 59) D
- 60) B
- 61) A
- 62) A
- 63) C
- 64) B
- 65) D
- 66) A
- 67) B
- 68) A
- 69) D
- 70) D
- 71) B
- 72) D
- 73) A
- 74) D
- 75) B
- 76) D
- 77) C
- 78) B
- 79) C
- 80) A
- 81) D
- 82) C
- 83) A
- 84) B
- 85) C
- 86) C
- 87) B
- 88) C
- 89) C
- 90) D
- 91) B
- 92) a. (4) marketing
b. (3) production
c. (5) distribution
d. (4) marketing
e. (5) distribution
f. (3) production
g. (1) R&D
h. (2) design

Answer Key

Testname: C1

- 93) a. (2) nonroutine internal reporting
b. (1) routine internal reporting
c. (3) external reporting to investors and other outside parties
d. (1) routine internal reporting
- 94) 1. Who are our most important customers, and how do we deliver value to them?
2. What substitute products exist in the marketplace, and how do they differ from our product in terms of price and quality?
3. What is our most critical capability?
4. Will adequate cash be available to fund the strategy, or will additional funds need to be raised?
- 95) a. (4) marketing
b. (3) production
c. (6) customer service
d. (5) distribution
- 96) Please note that answers will vary, but may include the following:
- a. Planning: Decision by shareholder about whether to purchase more stock in the company.
Control: Decision by bank to determine if financial ratios maintained in the line-of-credit (LOC) agreement warrant increasing the LOC amount.
- b. Planning: Decisions regarding future staffing needs.
Control: Decision regarding whether the recent sales promotion led to an increase in revenue.
- c. Planning: Decision of the store manager about whether to change the types of retail items carried.
Control: Decision of the store manager regarding performance of the analyst that prepared the special study.
- 97) Externalities are costs that are not paid for by the organisation, but which are caused by its actions e.g., air pollution and water pollution costs. It also includes benefits, other than to customers, which are incidental to the product or service, for which the organisation does not receive revenue. Internalisation of these costs would force managers to consider them along with normal internal costs when making decisions.
- 98) Please note that answers may vary, but may include the following:
1. Competence: Maintain an appropriate level of professional expertise by continually developing knowledge and skills
2. Confidentiality: Refrain from using confidential information for unethical or illegal advantage
3. Integrity: Abstain from engaging in or supporting any activity that might discredit the profession
4. Objectivity: Do not allow bias, conflict of interest or undue influence of others to override professional judgement
- 99) 1. Identify the problem and uncertainties
2. Obtain information
3. Make predictions about the future
4. Make decisions by choosing among alternatives
5. Implement the decision, evaluate performance, and learn
- 100) FALSE
101) TRUE
102) FALSE
103) TRUE
104) TRUE
105) TRUE
106) FALSE
107) FALSE
108) FALSE
109) TRUE
110) TRUE
111) TRUE
112) TRUE

Answer Key
Testname: C1

- 113) TRUE
- 114) FALSE
- 115) FALSE
- 116) TRUE
- 117) TRUE
- 118) TRUE
- 119) TRUE
- 120) TRUE
- 121) FALSE
- 122) TRUE
- 123) TRUE
- 124) TRUE
- 125) FALSE
- 126) TRUE
- 127) FALSE
- 128) TRUE
- 129) TRUE
- 130) FALSE
- 131) FALSE
- 132) TRUE
- 133) TRUE
- 134) FALSE
- 135) FALSE
- 136) FALSE
- 137) FALSE
- 138) TRUE
- 139) FALSE
- 140) TRUE
- 141) FALSE
- 142) FALSE
- 143) TRUE
- 144) TRUE
- 145) TRUE
- 146) FALSE
- 147) FALSE
- 148) TRUE
- 149) FALSE
- 150) TRUE
- 151) TRUE
- 152) FALSE
- 153) FALSE
- 154) TRUE
- 155) TRUE
- 156) TRUE
- 157) FALSE
- 158) TRUE
- 159) FALSE
- 160) FALSE
- 161) FALSE
- 162) TRUE

Answer Key

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- 163) FALSE
- 164) FALSE
- 165) FALSE
- 166) TRUE
- 167) TRUE
- 168) FALSE
- 169) TRUE
- 170) FALSE
- 171) TRUE
- 172) FALSE
- 173) TRUE
- 174) TRUE
- 175) FALSE
- 176) TRUE
- 177) FALSE
- 178) TRUE
- 179) TRUE
- 180) FALSE
- 181) FALSE
- 182) FALSE
- 183) FALSE
- 184) FALSE
- 185) TRUE
- 186) ONE: To choose STRATEGY, to communicate it, and to determine how best to implement it.

TWO: To PLAN business operations related to designing, producing, and marketing a product or service. This includes preparing budgets and determining the prices and cost of products and services. A company must know the cost of each product and service to decide which products to offer and whether to expand or discontinue product lines.

THREE: To CONTROL business operations that includes comparing actual results to the budgeted results and taking corrective action when needed.

- 187) By reporting and interpreting relevant data, the controller exerts a force or influence that impels management toward making better-informed decisions.
The controller of Caterpillar described the job as 'a business advisor to ...help the team develop strategy and focus the team all the way through recommendations and implementation.'
- 188) There are three broad outcomes from a successful cost management program: 1) costs are reduced with no loss in customer value. In this scenario, a company might gain a competitive advantage by lowering its price with no loss in profit, or maintain the same price and increase profit; 2) customer value is increased with no change in costs. This scenario might increase customer satisfaction resulting in increased customer loyalty and perhaps increase the overall demand for the product; 3) customer value might be increased while costs are reduced simultaneously. This scenario would result in the benefits described in both 1) and 2).
- 189) There is some dispute about the correct answer to this question. Some will argue that it is not good for companies to get 'caught in the middle' because the customer might get confused as to whether or not the company is competing on price or is trying to make some other appeal. If the customer is confused about how the company is giving them value, they might perceive they are getting no value and abandon the product to a competitor with a clearer customer value proposition. The other side of the argument is that cost management is a necessary part of any strategy and even if the company chooses to pursue a differential strategy, management of the company should always be seeking ways to manage costs and increase customer value simultaneously regardless of their strategy. The student should be able to articulate one or the other arguments coherently.

- 190) Management accounting provides information to internal decision makers of the business such as top executives, managers, sales representatives, and production supervisors. Its purpose is to help managers predict and evaluate future results. Reports are generated often and are usually broken down into smaller reporting divisions such as department or product line. There are no rules to be complied with since these reports are for internal use only. Management accounting embraces more extensively such topics as the development and implementation of strategies and policies, budgeting, special studies and forecasts, influence on employee behaviour, and non-financial as well as financial information.
- Financial accounting, by contrast, provides information to external decision makers such as investors and creditors. Its purpose is to present a fair picture of the financial condition of the company. Reports are generated quarterly or annually and report on the company as a whole. The financial statements must comply with GAAP (generally accepted accounting principles). An accountant audits, or verifies, that the GAAP are being followed.
- 191) The purpose of this question is to explore some of the differences in business operations as a result of a broad strategic choice. Answers will differ from student to student, but you should see some specific themes.

Operational Area	Low Price Strategy	Differential Strategy
Target customers	Target customers might be students on a tight budget.	Target customers might be more wealthy students, faculty, or perhaps neighbours who live nearby.
Products offered	Few products, heavy emphasis on tight cost control, probably set up as a high volume operation.	High quality products, probably a reasonable choice, restaurant might have a lot of ambience.
Product pricing	Priced at or lower than the competition in the area.	Higher priced products.
Location choice	Convenient to the target customers.	Not as convenient, perhaps in a higher-end shopping or entertainment area. Customers might seek out the high quality and be willing to travel a bit for it.
Advertising content	Advertising would emphasise the low price of the products offered.	Advertising would emphasise quality or ambience.
Advertising media	Media that would be looked at by the target customers, such as student newspapers.	Media that would be looked at by the target customer, local magazines and newspapers.

- 192) The responsibilities vary among organisations, but generally include the following areas: controllership, treasury, risk management, taxation, investor relations, and internal audit.
- 193) Cost: Organisations are under continuous pressure to reduce the cost of the products or services they sell to their customers.
- Quality: Customers are expecting higher levels of quality and are less tolerant of low quality than in the past.
- Time: Time has many components: the time taken to develop and bring new products to market; the speed at which an organisation responds to customer requests; and the reliability with which promised delivery dates are met.
- Organisations are under pressure to complete activities faster and to meet promised delivery dates more reliably than in the past in order to increase customer satisfaction.
- Innovation: There is now heightened recognition that a continuing flow of innovative products or services is a prerequisite for the ongoing success of most organisations.

- 194) Strategy specifies how an organisation matches its own capabilities with the opportunities in the marketplace to accomplish its objectives. In other words, strategy describes how a company will compete.
 Companies follow one of two broad strategies. One is to provide a QUALITY product or service at LOW prices. The other is to compete on their ability to offer a UNIQUE product or service that is generally offered at a HIGHER price.
- 195) A budget is a planning tool, a quantitative expression of a plan of action. First, actions are planned and then they are communicated to the entire organisation.
 The budget also helps with coordination.
- 196) The management accountant should first consult any internal company procedures concerning the resolution of ethical issues, and make sure these procedures are followed as closely as possible. At the same time, the management accountant should make sure that the facts are accurate, and are not based on rumours or inaccurate information. If these policies do not resolve the situation, present the facts to the next higher management level. Clarify the relevant ethical issues with an objective advisor (e.g., CPA Australia or The Institute of Chartered Accountants in Australia). Consult your own lawyer to be aware of your own rights and responsibilities.
- 197) The performance report should look something like the following:

	Actual Result (1)	Budgeted Amount (2)	Difference (Actual Result - Budgeted Amount) (3) = (1) - (2)	Difference as a Percentage of Budgeted Amount (4) = (3) / (2)
Advertising pages sold	910 pages	900 pages	10 pages favourable	1.1% favourable
Average rate per page (Advertising Revenues) / (Advertising pages sold)	\$4800	\$4900	\$100 Unfavourable	2.0% Unfavourable
Advertising revenues	\$4 368 000	\$4 410 000	\$42 000 favourable	1.0% favourable

The overall 1% favourable difference in advertising revenue is caused by offsetting differences in advertising pages sold (favourable) and the average rate per page (unfavourable). The performance report highlights the unfavourable drop in the advertising rate per page. While the percentage drop in advertising revenue per page is not dramatic, management might want to investigate the reasons behind such a drop. Some possibilities include: aggressive price reductions to obtain revenue, a general drop in newspaper media spending, some aggressive competition, or an unrealistic budget.

- 198) A value chain is a sequence of business functions whose objective is to provide a product to a customer or provide an intermediate good or service in a larger value chain. These business functions include R&D, design, production, marketing, distribution, and customer service.
 An organisation can become more effective by focusing on whether each link in the chain adds value from the customer's perspective and furthers the organisation's objectives.
- 199) As measurements are made on operations and, especially, on individuals and groups, the behaviour of the individuals and groups are affected. People react to the measurements being made. They will focus on those variables or the behaviour being measured and spend less attention on variables and behaviour that are not measured. In addition, if managers attempt to introduce or redesign cost and performance measurement systems, people familiar with the previous system will resist. Management accountants must understand and anticipate the reactions of individuals to information and measurements. The design and introduction of new measurements and systems must be accompanied with an analysis of the likely reactions to the innovations.

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- 200) Planning business operations relates to designing, producing, and marketing a product or service. This includes preparing budgets and determining the prices and cost of products and services. A company must know the cost of each product and service to decide which products to offer and whether to expand or discontinue product lines. Controlling business operations includes comparing actual results to the budgeted results and taking corrective action when needed.
Feedback links planning and control. The control function provides information to assist in better future planning.
- 201) If customers who provide a company with the most profits are attracted, satisfied, and retained, profits will increase as a result.
- 202) Management accountants continually face resource allocation decisions. The cost-benefit approach should be used in making these decisions. Resources should be spent if the expected benefits to the company exceed the expected costs. The expected benefits and costs may not be easy to quantify, but it is a useful approach for making resource allocation decisions.
- 203) Yes, an active cost management program can occur without an Enterprise Resource Planning (ERP) System. Cost management is a philosophy that guides management in their short-run and long-run planning and control decisions that increase value for customers and lower costs of products and services. Cost management is not dependent on any particular system or database, but it is rather an overall philosophy of operation.
- 204) Management accounting is more useful to an operations manager because management accounting reports operating results by department or unit rather than for the company as a whole, it includes financial as well as non-financial data such as on-time deliveries and cycle times, and it includes quantitative as well as qualitative data such as the type of rework that was needed on defective units.