Chapter 01

Cost Accounting: Information for Decision Making

**True / False Questions**

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| 1. | The value chain comprises activities from research and development through the production process, but does **not** include activities related to the distribution of products or services.    True    False |

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| 2. | Administrative functions are **not** included as part of the value chain because they are implicitly included in every business function.    True    False |

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| 3. | Under the value chain concept, value-added activities are those that firms perform and that customers perceive as adding utility to the goods they purchase.    True    False |

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| 4. | The value chain is comprised of the activities that take place only during the production process.    True    False |

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| 5. | If a poor facility layout exists and work-in-process inventory must be moved during the production process, the company is likely to be performing value-added activities.    True    False |

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| 6. | Cost information itself is a product with its own customers.    True    False |

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| 7. | Financial accounting information is sufficient for making operational decisions.    True    False |

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| 8. | Cost accounting information is commonly used in developing financial accounting information.    True    False |

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| 9. | Financial accounting information is designed for decision-makers who are directly involved in the daily management of the firm.    True    False |

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| 10. | It is more important for financial accounting information to be comparable between firms than to be useful for managerial decision-making.    True    False |

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| 11. | Cost accounting information developed for managers to use in making decisions must comply with generally accepted accounting principles (GAAP) and international financial reporting standards (IFRS).    True    False |

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| 12. | A cost driver is a factor that causes costs.     True    False |

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| 13. | A cost can be considered a differential cost for one particular course of action but **not** for another course of action.     True    False |

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| 14. | A responsibility center can be a department, division, or segment, but **not** a subsidiary of the parent company.    True    False |

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| 15. | It is important that the manager assigned to lead a responsibility center be held accountable for its operations.    True    False |

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| 16. | Budgeting is primarily used to determine year-end bonuses based on managerial and organizational performance.     True    False |

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| 17. | Managers are usually responsible for the revenues needed to achieve the targets set during the budgeting process, but **not** the resources consumed to achieve those targets.     True    False |

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| 18. | In general, if activities that do not add value to the company can be eliminated, then costs associated with them will also be eliminated.    True    False |

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| 19. | Accounting systems are important because they are a primary source of information for managers.    True    False |

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| 20. | Benchmarking is a continuous process of measuring a company's products, services, or activities against competitors' performance.    True    False |

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| 21. | Activity-based costing (ABC) is a management tool that focuses on the continuous improvement of all dimensions of a business.    True    False |

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| 22. | Lean manufacturing techniques are used only in the production process.    True    False |

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| 23. | Typical ERP systems integrate information systems that link production, purchasing, human resources, and finance into a single comprehensive information system.    True    False |

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| 24. | Managers face ethical situations on a daily basis, while accountants face them infrequently.    True    False |

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| 25. | Compliance with Sarbanes-Oxley does not mean that the manager has met all of his or her ethical responsibilities.    True    False |

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| 26. | Ethical behavior depends more on a firm's code of conduct than the individual's personal beliefs.    True    False |

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| 27. | Cost accounting information can be used by managers to defraud customers, creditors, and owners.    True    False |

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| 28. | The boundary between what is cost accounting and what belongs in another discipline is often blurred.    True    False |

**Multiple Choice Questions**

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| 29. | The set of activities that transforms raw resources into the goods and services end users purchase and consume is called the:      |  |  | | --- | --- | | A. | value chain. |  |  |  | | --- | --- | | B. | supply chain. |  |  |  | | --- | --- | | C. | demand chain. |  |  |  | | --- | --- | | D. | cost-benefit analysis. | |

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| 30. | Which of the following activities would **not** be considered a value-added activity?      |  |  | | --- | --- | | A. | Production |  |  |  | | --- | --- | | B. | Marketing |  |  |  | | --- | --- | | C. | Accounting |  |  |  | | --- | --- | | D. | Distribution | |

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| 31. | Which of the following statements is **false**?      |  |  | | --- | --- | | A. | In essence, the value chain and the supply chain are similar; each creates something for which the customer is willing to pay. |  |  |  | | --- | --- | | B. | Financial accounting information is important because it is sufficient to provide all the information for operational decisions commonly made by managers. |  |  |  | | --- | --- | | C. | The supply or distribution chain is a linked set of organizations that exchange goods and services in combination to provide a final product or service to the customer. |  |  |  | | --- | --- | | D. | Eliminating nonvalue-added activities always reduces costs without affecting the value of the product to customers. | |

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| 32. | Managers do **not** make decisions about future events based on:      |  |  | | --- | --- | | A. | Perfect information. |  |  |  | | --- | --- | | B. | Estimated information. |  |  |  | | --- | --- | | C. | Actual information. |  |  |  | | --- | --- | | D. | Financial information. | |

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| 33. | Which of the following is a nonvalue-added activity?      |  |  | | --- | --- | | A. | Product design |  |  |  | | --- | --- | | B. | Customer service |  |  |  | | --- | --- | | C. | Research and development |  |  |  | | --- | --- | | D. | Rework of defective items | |

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| 34. | (CMA adapted) A costing method that first assigns costs to activities and then assigns them to products based on the products' consumption of those activities is:      |  |  | | --- | --- | | A. | full-absorption costing. |  |  |  | | --- | --- | | B. | activity-based costing. |  |  |  | | --- | --- | | C. | variable costing. |  |  |  | | --- | --- | | D. | benchmarking. | |

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| 35. | (CMA adapted) Cost drivers are      |  |  | | --- | --- | | A. | activities that cause costs to increase as the activity increases. |  |  |  | | --- | --- | | B. | accounting techniques and practices used to control costs. |  |  |  | | --- | --- | | C. | accounting reimbursements used to evaluate whether performance is proceeding according to plan. |  |  |  | | --- | --- | | D. | a mechanical basis, such as machine hours, computer time, or factory square footage, used to assign costs to activities. | |

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| 36. | During 2016, the Beach Restaurant had sales revenues and food costs of $800,000 and $600,000, respectively. During 2017, Beach plans to introduce a new menu item that is expected to increase sales revenues by $100,000 and food costs by $40,000. Assuming **no** changes are expected for the other food items, operating profits for 2017 are expected to increase by      |  |  | | --- | --- | | A. | $260,000. |  |  |  | | --- | --- | | B. | $100,000. |  |  |  | | --- | --- | | C. | $60,000. |  |  |  | | --- | --- | | D. | $40,000. | |

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| 37. | (CMA adapted) The process of creating a financial plan of the revenues and resources needed to carry out activities and meet financial goals is referred to as:       |  |  | | --- | --- | | A. | budgeting. |  |  |  | | --- | --- | | B. | benchmarking. |  |  |  | | --- | --- | | C. | cost-benefit analysis. |  |  |  | | --- | --- | | D. | value-added analysis. | |

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| 38. | The field of accounting that reports according to generally accepted accounting principles (GAAP) is called:       |  |  | | --- | --- | | A. | cost accounting. |  |  |  | | --- | --- | | B. | financial accounting. |  |  |  | | --- | --- | | C. | managerial accounting. |  |  |  | | --- | --- | | D. | responsibility accounting. | |

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| 39. | The field of accounting that focuses on the criterion of relevant information rather than comparability of firms is:      |  |  | | --- | --- | | A. | Cost accounting |  |  |  | | --- | --- | | B. | Financial accounting |  |  |  | | --- | --- | | C. | Responsibility accounting |  |  |  | | --- | --- | | D. | International accounting | |

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| 40. | The just-in-time (JIT) method of production focuses on      |  |  | | --- | --- | | A. | increasing sales revenue. |  |  |  | | --- | --- | | B. | reducing inventories. |  |  |  | | --- | --- | | C. | increasing customer service. |  |  |  | | --- | --- | | D. | reducing operating expenses. | |

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| 41. | (CIA adapted) The primary reason for adopting total quality management (TQM) is to achieve      |  |  | | --- | --- | | A. | reduced delivery time. |  |  |  | | --- | --- | | B. | reduced delivery charges. |  |  |  | | --- | --- | | C. | greater customer satisfaction. |  |  |  | | --- | --- | | D. | greater employee participation. | |

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| 42. | According to the Institute of Management Accountants (IMA), the final step in resolving an ethical dilemma is to      |  |  | | --- | --- | | A. | consult your own attorney as to legal obligations and rights concerning the ethical conflict. |  |  |  | | --- | --- | | B. | clarify relevant ethical issues by initiating a confidential discussion with an IMA Ethical Counselor, an appropriate and confidential ethics hotline, or other impartial advisor. |  |  |  | | --- | --- | | C. | consult with the local police. |  |  |  | | --- | --- | | D. | discuss the situation with an immediate supervisor. | |

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| 43. | According to the Institute of Management Accountants (IMA), the first step in resolving an ethical dilemma is to      |  |  | | --- | --- | | A. | consult your own attorney as to legal obligations and rights concerning the ethical conflict. |  |  |  | | --- | --- | | B. | call the IMA's ethics hotline. |  |  |  | | --- | --- | | C. | clarify relevant ethical issues by initiating a confidential discussion with an IMA Ethical Counselor or other impartial advisor. |  |  |  | | --- | --- | | D. | discuss the situation with an immediate supervisor, except when it appears that the supervisor is involved, or with the next level supervisor, if involvement of the immediate supervisor is suspected. | |

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| 44. | Which of the following is **not** one of the basic standards of the Institute of Management Accountants (IMA) Code of Ethics?      |  |  | | --- | --- | | A. | Competence |  |  |  | | --- | --- | | B. | Confidentiality |  |  |  | | --- | --- | | C. | Honesty |  |  |  | | --- | --- | | D. | Integrity | |

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| 45. | Which of the following is **not** one of the overarching ethical principles of the Institute of Management Accountants (IMA) Code of Ethics?      |  |  | | --- | --- | | A. | Competence |  |  |  | | --- | --- | | B. | Responsibility |  |  |  | | --- | --- | | C. | Honesty |  |  |  | | --- | --- | | D. | Objectivity | |

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| 46. | A general term for a metric that indicates how well an individual, business, product, or firm is working is called      |  |  | | --- | --- | | A. | a performance measure. |  |  |  | | --- | --- | | B. | benchmarking. |  |  |  | | --- | --- | | C. | a budget. |  |  |  | | --- | --- | | D. | a responsibility center. | |

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| 47. | The cost accounting system that minimizes wasteful or unnecessary transaction processes is      |  |  | | --- | --- | | A. | performance measure. |  |  |  | | --- | --- | | B. | benchmarking. |  |  |  | | --- | --- | | C. | budgeting. |  |  |  | | --- | --- | | D. | lean accounting. | |

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| 48. | Continual process of measuring a company's own products, services or activities against competitors' performance is      |  |  | | --- | --- | | A. | performance measure. |  |  |  | | --- | --- | | B. | benchmarking. |  |  |  | | --- | --- | | C. | budgeting. |  |  |  | | --- | --- | | D. | responsibility center. | |

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| 49. | The costing method that first assigns costs to activities and then assigns them to products based on the products' consumption of activities is called      |  |  | | --- | --- | | A. | lean accounting. |  |  |  | | --- | --- | | B. | responsibility centers. |  |  |  | | --- | --- | | C. | activity-based costing. |  |  |  | | --- | --- | | D. | budgeting. | |

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| 50. | Having one or more of the firms' activities performed by another firm or individual in the supply or distribution chain is called       |  |  | | --- | --- | | A. | lean accounting. |  |  |  | | --- | --- | | B. | responsibility centers. |  |  |  | | --- | --- | | C. | activity-based costing. |  |  |  | | --- | --- | | D. | outsourcing. | |

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| 51. | Systems that identify the costs of producing defective units as well as low-quality items that lose sales are called       |  |  | | --- | --- | | A. | customer relationship management systems. |  |  |  | | --- | --- | | B. | distribution chains. |  |  |  | | --- | --- | | C. | enterprise resource planning systems. |  |  |  | | --- | --- | | D. | cost of quality systems. | |

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| 52. | Systems that allow firms to target profitable customers by assessing customer revenue and costs are called      |  |  | | --- | --- | | A. | customer relationship management systems. |  |  |  | | --- | --- | | B. | distribution chains. |  |  |  | | --- | --- | | C. | enterprise resource planning systems. |  |  |  | | --- | --- | | D. | cost of quality systems. | |

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| 53. | Information technology that links the various processes of the company into a single comprehensive information system is called      |  |  | | --- | --- | | A. | a customer relationship management system. |  |  |  | | --- | --- | | B. | a distribution chain. |  |  |  | | --- | --- | | C. | a cost of quality system. |  |  |  | | --- | --- | | D. | an enterprise resource planning system. | |

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| 54. | A management method by which the organization seeks to excel on all dimensions of quality is called      |  |  | | --- | --- | | A. | customer relationship management. |  |  |  | | --- | --- | | B. | a just-in-time method. |  |  |  | | --- | --- | | C. | total quality management. |  |  |  | | --- | --- | | D. | cost of quality. | |

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| 55. | Which of the following is **not** a key financial manager in an organization?      |  |  | | --- | --- | | A. | Chief financial officer |  |  |  | | --- | --- | | B. | Treasurer |  |  |  | | --- | --- | | C. | External auditor |  |  |  | | --- | --- | | D. | Controller | |

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| 56. | Which of the following is **not** normally considered part of the value chain?      |  |  | | --- | --- | | A. | Research and development |  |  |  | | --- | --- | | B. | Purchasing |  |  |  | | --- | --- | | C. | Administration |  |  |  | | --- | --- | | D. | Distribution | |

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| 57. | In 2016, the TransUnion Company had consulting revenues of $1,000,000 while costs were $750,000. In 2017, TransUnion will be introducing a new service that will generate $150,000 in sales revenues and $60,000 in costs. Assuming no changes are expected for the other services, operating profits are expected to increase between 2016 and 2017 by:      |  |  | | --- | --- | | A. | $250,000. |  |  |  | | --- | --- | | B. | $150,000. |  |  |  | | --- | --- | | C. | $90,000. |  |  |  | | --- | --- | | D. | $60,000. | |

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| 58. | In 2016, the Merkel Company had revenues of $2,000,000 and costs of $1,500,000. During 2017, Merkel will be introducing a new product line that is expected to increase sales revenue by $200,000 and costs by $160,000. Assuming no changes are expected for the other products, the operating profits are expected to increase by      |  |  | | --- | --- | | A. | $540,000. |  |  |  | | --- | --- | | B. | $200,000. |  |  |  | | --- | --- | | C. | $160,000. |  |  |  | | --- | --- | | D. | $40,000. | |

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| 59. | Moving of inventory is an example of a(n):       |  |  | | --- | --- | | A. | cost-benefit analysis. |  |  |  | | --- | --- | | B. | value-added activity. |  |  |  | | --- | --- | | C. | activity-based cost. |  |  |  | | --- | --- | | D. | nonvalue-added activity. | |

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| 60. | Costs that differ among or between two or more alternative courses of action are       |  |  | | --- | --- | | A. | differential costs. |  |  |  | | --- | --- | | B. | cost-benefit analysis. |  |  |  | | --- | --- | | C. | activity-based costs. |  |  |  | | --- | --- | | D. | cost drivers. | |

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| 61. | Which of the following activities would **not** be included in the value chain of a manufacturing company?       |  |  | | --- | --- | | A. | Research and Development |  |  |  | | --- | --- | | B. | Customer Service |  |  |  | | --- | --- | | C. | Design |  |  |  | | --- | --- | | D. | Accounting | |

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| 62. | A firm's replies to customers' questions via email would be an example of which element of the value chain?      |  |  | | --- | --- | | A. | Customer Service |  |  |  | | --- | --- | | B. | Marketing |  |  |  | | --- | --- | | C. | Design |  |  |  | | --- | --- | | D. | Supply | |

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| 63. | The delivery of products or services to customers is an example of which element in the value chain?      |  |  | | --- | --- | | A. | Production |  |  |  | | --- | --- | | B. | Design |  |  |  | | --- | --- | | C. | Marketing |  |  |  | | --- | --- | | D. | Distribution | |

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| 64. | Which of the following provides much of the information necessary for the coordination of the value chain?      |  |  | | --- | --- | | A. | the distribution chain. |  |  |  | | --- | --- | | B. | the financial accounting system. |  |  |  | | --- | --- | | C. | the cost accounting system. |  |  |  | | --- | --- | | D. | the supply chain. | |

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| 65. | Advertising costs would be associated with which of the following value chain components?      |  |  | | --- | --- | | A. | Production. |  |  |  | | --- | --- | | B. | Research and Development. |  |  |  | | --- | --- | | C. | Distribution. |  |  |  | | --- | --- | | D. | Marketing and sales. | |

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| 66. | Which part of the value chain is outside the firm?       |  |  | | --- | --- | | A. | The Design component |  |  |  | | --- | --- | | B. | The Research and Development component |  |  |  | | --- | --- | | C. | The Production activity |  |  |  | | --- | --- | | D. | The Distribution chain | |

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| 67. | Which of the following statements regarding the value chain is true?       |  |  | | --- | --- | | A. | Service firms benefit from the value chain more than do manufacturing firms. |  |  |  | | --- | --- | | B. | Value chain components do not overlap. |  |  |  | | --- | --- | | C. | Value is not created until after the research and development stage. |  |  |  | | --- | --- | | D. | Administrative functions are not included as part of the value chain. | |

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| 68. | Which of the following statements concerning the value chain is **false**?      |  |  | | --- | --- | | A. | The goal of a value chain is to find areas where a company can either add value or reduce cost. |  |  |  | | --- | --- | | B. | The value chain focuses on the entire production process, as well as the sale of the product and service after the sale. |  |  |  | | --- | --- | | C. | If a company cannot compete in a specific area of the value chain, it might outsource that portion of the value chain to another entity which can perform it better. |  |  |  | | --- | --- | | D. | Successful firms are ones that operate within the entire value chain, thereby overseeing every aspect of the value chain for the customer. | |

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| 69. | Which of the following could be considered part of the value chain in a service firm?      |  |  | | --- | --- | | A. | Inspection of product |  |  |  | | --- | --- | | B. | Advertising |  |  |  | | --- | --- | | C. | Raw materials |  |  |  | | --- | --- | | D. | Distribution | |

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| 70. | Place the four components in the order they appear along the value chain: A = Customer service; B = Design; C = Distribution; and D = Production.      |  |  | | --- | --- | | A. | ABDC |  |  |  | | --- | --- | | B. | ACDB |  |  |  | | --- | --- | | C. | BDCA |  |  |  | | --- | --- | | D. | BADC | |

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| 71. | Managers evaluate value-added activities to determine how they contribute to the final product's      |  |  | | --- | --- | | A. | service only. |  |  |  | | --- | --- | | B. | quality only. |  |  |  | | --- | --- | | C. | cost only. |  |  |  | | --- | --- | | D. | service, quality, and cost. | |

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| 72. | Which of the following is the best reason why cost accounting information does **not** need to be comparable to similar information in other organizations?      |  |  | | --- | --- | | A. | Because it is only used by investors and creditors. |  |  |  | | --- | --- | | B. | Because no publicly traded companies use cost accounting. |  |  |  | | --- | --- | | C. | Because IFRS and cost accounting are converging which eliminates the need for comparability. |  |  |  | | --- | --- | | D. | Because managers that use this information are making decisions only for their organization. | |

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| 73. | Financial accounting      |  |  | | --- | --- | | A. | focuses on the future. |  |  |  | | --- | --- | | B. | must comply with GAAP (generally accepted accounting principles). |  |  |  | | --- | --- | | C. | reports include detailed information on the various operating segments of the business. |  |  |  | | --- | --- | | D. | is prepared for the use of management. | |

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| 74. | The individual who would most likely use only financial accounting information in making decisions is a      |  |  | | --- | --- | | A. | vice president of marketing. |  |  |  | | --- | --- | | B. | factory supervisor. |  |  |  | | --- | --- | | C. | department manager. |  |  |  | | --- | --- | | D. | company stockholder. | |

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| 75. | The financial accounting system is the primary source of information for      |  |  | | --- | --- | | A. | decision making on the factory floor. |  |  |  | | --- | --- | | B. | improving the performance level of customer service. |  |  |  | | --- | --- | | C. | planning the budget for next year. |  |  |  | | --- | --- | | D. | preparing the income statement for stockholders. | |

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| 76. | Managerial decisions using cost accounting are more appropriate for which types of costs?      |  |  | | --- | --- | | A. | future costs. |  |  |  | | --- | --- | | B. | historical costs. |  |  |  | | --- | --- | | C. | current costs. |  |  |  | | --- | --- | | D. | externally reported costs. | |

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| 77. | At the middle management level, where managers supervise work and make operating decisions, cost information highlights      |  |  | | --- | --- | | A. | the company's overall performance. |  |  |  | | --- | --- | | B. | comparability across firms. |  |  |  | | --- | --- | | C. | financial position and income according to accounting rules. |  |  |  | | --- | --- | | D. | some aspect of operations that is different from expectations. | |

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| 78. | Financial accounting provides a historical perspective, while cost accounting emphasizes      |  |  | | --- | --- | | A. | reporting to stockholders. |  |  |  | | --- | --- | | B. | a current perspective. |  |  |  | | --- | --- | | C. | the future. |  |  |  | | --- | --- | | D. | past transactions. | |

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| 79. | The concept of considering both the costs and benefits of a proposal is known as:      |  |  | | --- | --- | | A. | Cost-benefit analysis |  |  |  | | --- | --- | | B. | Performance measurement |  |  |  | | --- | --- | | C. | Nonvalue-added analysis |  |  |  | | --- | --- | | D. | Preparation of financial statements | |

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| 80. | Department managers at Boswell Department Store are allowed considerable discretion in both sourcing and pricing of products, based on local tastes and competition, as well as being responsible for departmental staffing. Based on the concept of the responsibility center, which of the following would **not** be a performance measure that would be useful in evaluating the performance of departmental managers at the stores?      |  |  | | --- | --- | | A. | Departmental profit compared to budgeted departmental profit. |  |  |  | | --- | --- | | B. | Trends in general and administrative expenses for each store. |  |  |  | | --- | --- | | C. | Growth in department sales compared to the prior period sales. |  |  |  | | --- | --- | | D. | Departmental customer satisfaction. | |

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| 81. | Snuggle Toys, Inc. had the following summarized results for the month ending July 31:   |  |  |  | | --- | --- | --- | |  | **Actual** | **Budget** | | Revenues | $60,000 | $52,000 | | Costs | 53,600 | 45,600 | | Operating profits | $6,400 | $6,400 |   As the cost accountant, which single note to the above financial results is most appropriate in the report to management?       |  |  | | --- | --- | | A. | The departmental manager is performing to expectations because budgeted income equals actual income. |  |  |  | | --- | --- | | B. | Revenues are above budget and a bonus based on this increase should be considered. |  |  |  | | --- | --- | | C. | Costs as a percentage of revenues are above budget and a further scrutiny of the results might be appropriate. |  |  |  | | --- | --- | | D. | Costs are 17.5% above budget and the department manager's position should be critically evaluated by senior management. | |

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| 82. | CraftMaster Corporation purchased a machine 7 years ago for $339,000 when it launched product X05K. Unfortunately, this machine has broken down and **cannot** be repaired. The machine could be replaced by a new model 360 machine costing $353,000 or by a new model 280 machine costing $332,000. Management has decided to buy the model 280 machine. It has less capacity than the model 360 machine, but its capacity is sufficient to continue making product X05K. Management also considered, but rejected, the alternative of dropping product X05K and **not** replacing the old machine. If that were done, the $332,000 invested in the new machine could instead have been invested in a project that would have returned a total of $426,000. In making the decision to buy the model 280 machine rather than the model 360 machine, the differential cost was:       |  |  | | --- | --- | | A. | $21,000. |  |  |  | | --- | --- | | B. | $87,000. |  |  |  | | --- | --- | | C. | $7,000. |  |  |  | | --- | --- | | D. | $14,000. | |

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| 83. | When comparing activity-based costing with conventional costing methods, which of the following is the key benefit of the method?      |  |  | | --- | --- | | A. | It is cheaper to implement. |  |  |  | | --- | --- | | B. | It is based on only one or two factors, generally volume-related. |  |  |  | | --- | --- | | C. | It is simpler. |  |  |  | | --- | --- | | D. | It provides more accurate cost numbers. | |

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| 84. | Geno's Body Shop had sales revenues and operating costs in 2016 of $650,000 and $525,000, respectively. In 2017, Geno's plans to expand the services it provides to customers to include detailing services. Revenues are expected to increase by $85,000 and operating costs by $50,000 as a result of this expansion. Assuming that there are no changes to the existing body shop business, operating profits would be expected to increase during 2017 by      |  |  | | --- | --- | | A. | $125,000. |  |  |  | | --- | --- | | B. | $85,000. |  |  |  | | --- | --- | | C. | $160,000. |  |  |  | | --- | --- | | D. | $35,000. | |

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| 85. | Geno's Body Shop had sales revenues and operating costs in 2016 of $650,000 and $525,000, respectively. In 2017, Geno's plans to expand the services it provides to customers to include detailing services. Revenues are expected to increase by $85,000 and operating costs by $50,000 as a result of this expansion. Assuming that there are no changes to the existing body shop business, what is the amount of operating profits that are expected be earned in 2017?      |  |  | | --- | --- | | A. | $125,000 |  |  |  | | --- | --- | | B. | $85,000 |  |  |  | | --- | --- | | C. | $160,000 |  |  |  | | --- | --- | | D. | $35,000 | |

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| 86. | The goals and objectives of establishing budgeting in an organization include all of the following **except**:      |  |  | | --- | --- | | A. | the ability to decide whether goals can be achieved. |  |  |  | | --- | --- | | B. | the resources needed to carry out its tasks. |  |  |  | | --- | --- | | C. | anticipated revenues to be generated. |  |  |  | | --- | --- | | D. | the consistent application of generally accepted accounting principles. | |

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| 87. | In 2016, the Allen Company had consulting revenues of $1,000,000 while operating costs were $750,000. In 2017, Allen will be introducing a new service that will generate $150,000 in sales revenues and $60,000 in operating costs. Assuming no changes are expected for the other services, the differential operating costs for 2017 will be      |  |  | | --- | --- | | A. | $250,000. |  |  |  | | --- | --- | | B. | $150,000. |  |  |  | | --- | --- | | C. | $90,000. |  |  |  | | --- | --- | | D. | $60,000. | |

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| 88. | In 2016, the Allen Company had consulting revenues of $1,000,000 while operating costs were $750,000. In 2017, Allen will be introducing a new service that will generate $150,000 in sales revenues and $60,000 in operating costs. Assuming no changes are expected for the other services, the differential revenue for 2017 will be      |  |  | | --- | --- | | A. | $250,000. |  |  |  | | --- | --- | | B. | $150,000. |  |  |  | | --- | --- | | C. | $90,000. |  |  |  | | --- | --- | | D. | $60,000. | |

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| 89. | San Juan, Inc. is considering two alternatives: A and B. The costs associated with the alternatives are listed below:   |  |  |  | | --- | --- | --- | |  | **Alternative A** | **Alternative B** | | Material costs | $35,000 | $57,000 | | Processing costs | 36,000 | 57,000 | | Building costs | 12,000 | 28,000 | | Equipment rental | 19,000 | 19,000 |   Are the materials costs and processing costs differential in the choice between alternatives A and B? (Ignore the building costs and equipment rental in this question.)       |  |  | | --- | --- | | A. | Neither materials costs nor processing costs are differential. |  |  |  | | --- | --- | | B. | Both materials costs and processing costs are differential. |  |  |  | | --- | --- | | C. | Only processing costs are differential. |  |  |  | | --- | --- | | D. | Only materials costs are differential. | |

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| 90. | San Juan, Inc. is considering two alternatives: A and B. The costs associated with the alternatives are listed below:   |  |  |  | | --- | --- | --- | |  | **Alternative A** | **Alternative B** | | Material costs | $35,000 | $57,000 | | Processing costs | 36,000 | 57,000 | | Building costs | 12,000 | 28,000 | | Equipment rental | 19,000 | 19,000 |   If only the differential costs of the two decisions are considered, the total cost of Alternative B is       |  |  | | --- | --- | | A. | $161,000. |  |  |  | | --- | --- | | B. | $131,500. |  |  |  | | --- | --- | | C. | $59,000. |  |  |  | | --- | --- | | D. | $102,000. | |

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| 91. | Two alternatives, identified X and Y, are under consideration at Hayden Corporation. Costs associated with the alternatives are listed below.   |  |  |  | | --- | --- | --- | |  | **Alternative X** | **Alternative Y** | | Material costs | $44,000 | $56,000 | | Processing costs | 37,000 | 59,000 | | Building costs | 14,000 | 14,000 | | Equipment rental | 11,000 | 11,000 |   Are the materials costs and processing costs differential in the choice between alternatives X and Y? (Ignore the building costs and equipment rental in this question.)       |  |  | | --- | --- | | A. | Both materials costs and processing costs are differential |  |  |  | | --- | --- | | B. | Only materials costs are differential |  |  |  | | --- | --- | | C. | Only processing costs are differential |  |  |  | | --- | --- | | D. | Neither materials costs nor processing costs are differential | |

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| 92. | Two alternatives, identified X and Y, are under consideration at Hayden Corporation. Costs associated with the alternatives are listed below.   |  |  |  | | --- | --- | --- | |  | **Alternative X** | **Alternative Y** | | Material costs | $44,000 | $56,000 | | Processing costs | 37,000 | 59,000 | | Building costs | 14,000 | 14,000 | | Equipment rental | 11,000 | 11,000 |   What is the differential cost of Alternative Y over Alternative X?       |  |  | | --- | --- | | A. | $140,000 |  |  |  | | --- | --- | | B. | $123,000 |  |  |  | | --- | --- | | C. | $34,000 |  |  |  | | --- | --- | | D. | $106,000 | |

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| 93. | Marcus Roberts is putting together a training session about value chain components. Which of the following would be a good example of a cost for the component of purchasing?       |  |  | | --- | --- | | A. | Advertising |  |  |  | | --- | --- | | B. | Warranty repairs |  |  |  | | --- | --- | | C. | Vendor certification |  |  |  | | --- | --- | | D. | Patent applications | |

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| 94. | Anna Potts is putting together a training session about value chain components. Which of the following would be a good example of a cost for the component of distribution?      |  |  | | --- | --- | | A. | Advertising |  |  |  | | --- | --- | | B. | Warranty repairs |  |  |  | | --- | --- | | C. | Vendor certification |  |  |  | | --- | --- | | D. | Website creation, hosting, and maintenance | |

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| 95. | Megan Towe is putting together a training session about value chain components. Which of the following would be a good example of a cost for the component of research and development?      |  |  | | --- | --- | | A. | Advertising |  |  |  | | --- | --- | | B. | Warranty repairs |  |  |  | | --- | --- | | C. | Vendor certification |  |  |  | | --- | --- | | D. | Patent applications | |

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| 96. | An Enterprise Resource Planning System can best be described as      |  |  | | --- | --- | | A. | a collection of programs that use a variety of unconnected databases. |  |  |  | | --- | --- | | B. | 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. |  |  |  | | --- | --- | | C. | a database that is primarily used by a purchasing department to determine the correct amount of a particular supply item to purchase. |  |  |  | | --- | --- | | D. | a sophisticated means of linking two or more companies to facilitate their planning processes. | |

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| 97. | 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      |  |  | | --- | --- | | A. | value chain management. |  |  |  | | --- | --- | | B. | enterprise resource planning. |  |  |  | | --- | --- | | C. | cost management. |  |  |  | | --- | --- | | D. | customer value management. | |

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| 98. | R&D, production, and customer service are business functions that are all included as part      |  |  | | --- | --- | | A. | of the value chain. |  |  |  | | --- | --- | | B. | of benchmarking. |  |  |  | | --- | --- | | C. | of marketing. |  |  |  | | --- | --- | | D. | of the supply chain. | |

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| 99. | All of the following words describe benchmarking **except**:      |  |  | | --- | --- | | A. | on-going. |  |  |  | | --- | --- | | B. | one-time event. |  |  |  | | --- | --- | | C. | continuous. |  |  |  | | --- | --- | | D. | measuring process. | |

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| 100. | All of the following are examples of total quality management practices **except:**       |  |  | | --- | --- | | A. | redesign of a product to reduce its parts by 50 percent. |  |  |  | | --- | --- | | B. | reduction in the movement required in a manufacturing job. |  |  |  | | --- | --- | | C. | separating the sales and services functions. |  |  |  | | --- | --- | | D. | raising raw material quality standards. | |

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| 101. | Which area(s) of a business can be improved by using a just-in-time (JIT) system?       |  |  | | --- | --- | | A. | Production, purchasing, and delivery |  |  |  | | --- | --- | | B. | Production only |  |  |  | | --- | --- | | C. | Purchasing only |  |  |  | | --- | --- | | D. | Production and purchasing only | |

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| 102. | Examples of the controller's functions include all **except:**       |  |  | | --- | --- | | A. | cost accounting policies. |  |  |  | | --- | --- | | B. | budgeting. |  |  |  | | --- | --- | | C. | investor relations. |  |  |  | | --- | --- | | D. | general ledger. | |

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| 103. | Cost accounting is an integral part of the \_\_\_\_\_\_\_\_ function in an organization.       |  |  | | --- | --- | | A. | treasurer's |  |  |  | | --- | --- | | B. | controller's |  |  |  | | --- | --- | | C. | internal auditor's |  |  |  | | --- | --- | | D. | president's | |

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| 104. | All of the following actions enhance the new focus on making cost accounting information more relevant in helping a firm achieve strategic goals **except:**       |  |  | | --- | --- | | A. | increasing emphasis on the management accountant as a business partner. |  |  |  | | --- | --- | | B. | increasing emphasis on external financial reporting. |  |  |  | | --- | --- | | C. | decreasing emphasis on financial statement inventory cost valuation. |  |  |  | | --- | --- | | D. | increasing emphasis on timely and useful information. | |

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| 105. | All of the following are examples of total quality management practices **except:**       |  |  | | --- | --- | | A. | redesign of a product to reduce its parts by 50 percent. |  |  |  | | --- | --- | | B. | reduction in the movement required in a manufacturing job. |  |  |  | | --- | --- | | C. | separating the sales and services functions. |  |  |  | | --- | --- | | D. | raising raw material quality standards. | |

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| 106. | The Institute of Management Accountants' (IMA) standards of ethical conduct for management accountants includes the elements of       |  |  | | --- | --- | | A. | competence, confidentiality, integrity, and relevance. |  |  |  | | --- | --- | | B. | competence, confidentiality, integrity, and credibility. |  |  |  | | --- | --- | | C. | competence, confidentiality, independence, and objectivity. |  |  |  | | --- | --- | | D. | competence, accuracy, integrity, and independence. | |

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| 107. | According to the IMA Code of Ethics, what should a management accountant do if a significant ethical situation can't be resolved?      |  |  | | --- | --- | | A. | The accountant should confront the guilty party and demand the unethical action be stopped. |  |  |  | | --- | --- | | B. | The accountant should try to rationalize and understand the position of the other party. |  |  |  | | --- | --- | | C. | The accountant should say nothing about the matter until he or she has retired. |  |  |  | | --- | --- | | D. | The accountant should first discuss the matter with the immediate supervisor. | |

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| 108. | With the enactment of the Sarbanes-Oxley Act of 2002, all public companies are now required by the SEC to disclose whether or **not** the company has      |  |  | | --- | --- | | A. | an audit committee. |  |  |  | | --- | --- | | B. | human resources guidelines. |  |  |  | | --- | --- | | C. | a code of ethics. |  |  |  | | --- | --- | | D. | a management compensation plan. | |

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| 109. | The Sarbanes Oxley Act of 2002 requires an effective internal control system for publicly owned firms. Therefore, with regards to strategic investment decisions, it is important that management consider including      |  |  | | --- | --- | | A. | internal audits of strategic decisions. |  |  |  | | --- | --- | | B. | a code of ethics. |  |  |  | | --- | --- | | C. | a system of preparing and reporting on investment decisions. |  |  |  | | --- | --- | | D. | All of the above. | |

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| 110. | Where there is a lack of good performance measures, it is difficult to motivate managers by using      |  |  | | --- | --- | | A. | performance-based incentives. |  |  |  | | --- | --- | | B. | monetary rewards. |  |  |  | | --- | --- | | C. | compensation. |  |  |  | | --- | --- | | D. | rewards for products. | |

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| 111. | Which of the following is a **true** statement regarding performance evaluation?      |  |  | | --- | --- | | A. | Managers should be evaluated on those things over which they have influence. |  |  |  | | --- | --- | | B. | Managers should be evaluated on the performance of the entire organization. |  |  |  | | --- | --- | | C. | Sales personnel do not have complete control over the level of sales. |  |  |  | | --- | --- | | D. | Managers should not be evaluated on those things over which they have influence, if they do not have complete control over them. | |

**Essay Questions**

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| 112. | Carley Inc. incurs many types of costs in its operations. Place the number of the appropriate stage in the value chain in Column 2 in the blank next to each cost in column 1.   |  |  |  | | --- | --- | --- | |  | **Cost** | **Stage in the Value Chain** | |  | Transportation costs to ship vans to customers | 1. Customer Service | |  | Labor costs for factory workers | 2. Distribution | |  | Overtime costs for scientists working on new engine technology | 3. Research & Development | |  | Utilities cost for the design testing center | 4. Marketing | |  | Costs to survey customers about their satisfaction | 5. Production | |  | Costs to sponsor a sporting event | 6. Design | |

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| 113. | SuperMax is an integrated provider of genetically engineered corn. Many types of costs are incurred in its operations. Place the number of the appropriate stage in the value chain in Column 2 in the blank next to each cost in column 1.   |  |  |  | | --- | --- | --- | |  | **Cost** | **Stage in the Value Chain** | |  | Warehouse costs to store seed awaiting shipment to customers | 1. Customer Service | |  | Utility costs for seed mill | 2. Distribution | |  | Equipment costs in genetics laboratory | 3. Research & Development | |  | Labor costs to run help line call center | 4. Marketing | |  | Costs to prepare advertising campaign in national agriculture magazine | 5. Production | |  | Costs to contract with growers to provide seed | 6. Purchasing | |

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| 114. | Travon's Limo Service provides transportation services in and around Bentonville. Its profits have been declining, and management is planning to add a package delivery service that is expected to increase revenue by $275,000 per year. The total cost to lease additional delivery vehicles from the local dealer is $60,000 per year. The present manager will continue to supervise all services. However, labor and utilities costs will increase by 40% and rent and other costs will increase by 15% when the package delivery service is added.   |  |  |  | | --- | --- | --- | | **Travon’s Limo Service Annual Income Statement Before Expansion** | | | | Sales Revenue |  | $960,000 | | Costs: |  |  | | Vehicle leases | $400,000 |  | | Labor | 290,000 |  | | Utilities | 50,000 |  | | Rent | 100,000 |  | | Other Costs | 60,000 |  | | Manager’s Salary | 120,000 |  | | Total Costs |  | 1,020,000 | | Operating Profit (Loss) |  | ($60,000) |   a. Prepare a report of the differential costs and revenues if the delivery service is added.  b. Should management start up the delivery service? Explain your answer. |

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| 115. | Morris Inc. is a management consulting firm that specializes in management training programs. Tackle Manufacturing Inc. has approached Morris to contract for management training for a one-year period. Last year's income statement for Morris is as follows:   |  |  |  | | --- | --- | --- | | Sales Revenue |  | $360,000 | | Costs: |  |  | | Labor | $120,000 |  | | Equipment Lease | 12,000 |  | | Rent | 24,000 |  | | Utilities | 8,400 |  | | Supplies | 23,600 |  | | Other Costs | 14,400 |  | | Manager’s Salary | 80,000 |  | | Total Costs |  | 282,400 | | Operating Profit (Loss) |  | $77,600 |   To satisfy the Tackle contract, another part-time trainer will need to be hired at $42,000. Supplies will increase by 12% and other costs will increase by 15%. In addition, new equipment will need to be leased at a cost of $2,500.    a. What are the differential costs that would be incurred if the Tackle contract is signed?  b. If Tackle will pay $55,000 for one year, should Morris accept the contract? Explain your answer. |

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| 116. | The Arielle Company reported the following results for the manufacture and sale of one of its products known as Controllers during the most recent year.   |  |  | | --- | --- | | Sales (6,500 Controllers at $130 each) | $845,000 | | Cost of sales | 390,000 | | Distribution costs | 65,000 | | Advertising expense | 275,000 | | Salaries | 25,000 | | Building costs | 145,000 | | Operating loss | ($55,000) |   The Arielle Company is trying to determine whether or **not** to discontinue the manufacture and sale of Controllers. The operating results reported above for last year are expected to continue in the foreseeable future if the product is **not** dropped. The building costs represent the costs of production facilities and equipment that the Controllers product shares with other products produced by Arielle. If the Controllers product were dropped, there would be no change in the building costs of the company. Management has determined that discontinuing the manufacture and sale of Controllers will have no effect on the company's other product lines. Determine the change in operating profits that will happen if the manufacture and sale of Controllers is discontinued. |

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| 117. | The management of Parachute Corporation is considering dropping product ABC123. Data from the company's accounting system appear below:   |  |  | | --- | --- | | Sales | $260,000 | | Cost of goods sold | 125,000 | | Building expenses | 88,000 | | Selling and administrative expenses | 75,000 |   All building expenses of the company are fully allocated to products in the company's accounting system. Further investigation has revealed that $42,000 of the building expenses and $48,000 of the selling and administrative expenses will **not** be incurred if product ABC123 is discontinued.    a. According to the company's accounting system, what are the operating profits earned by product ABC123?  b. What would be the impact on the company's overall operating profits if product ABC123 is dropped? Should the product be dropped? |

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| 118. | The management of Marvel Corporation has been concerned for some time with the financial performance of its product EX123 and has considered discontinuing it on several occasions. Data from the company's accounting system appear below:   |  |  | | --- | --- | | Sales | $650,000 | | Cost of goods sold | $293,000 | | Building expenses | $221,000 | | Selling and administrative expenses | $150,000 |   In the company's accounting system all building expenses of the company are fully allocated to products. Further investigation has revealed that $95,000 of the building expenses and $85,000 of the selling and administrative expenses will **not** be incurred if product EX123 is discontinued.    a. According to the company's accounting system, what are the operating profits (losses) earned by product EX123?  b. What would be the effect on the company's overall operating profits if product EX123 is dropped? |

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| 119. | Place the letter of the appropriate element of an organization's value chain in Column 2 in the blank next to each operation in Column 1.   |  |  |  |  | | --- | --- | --- | --- | |  | **Column 1** |  | **Column 2** | | \_\_\_ | Macy’s replies to customers' questions on merchandise. | A. | Research and Development | | \_\_\_ | Updating PetSmart’s electronic Internet catalogue of chew bones and leash merchandise. | B. | Design | | \_\_\_ | Development of new software applications at Apple. | C. | Production | | \_\_\_ | Contracting with United Parcel Services to ship computers to customers at Best Buy | D. | Marketing | | \_\_\_ | Writing of software programs at QuickBook's Professional Accountant Division. | E. | Distribution | | \_\_\_ | Creation of new movie ideas at Universal Studios. | F. | Customer Service | |

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| 120. | Old-Fashion Flavors is a local ice cream shop. The company currently is showing an operating loss, as evidenced by the income statement below:   |  |  | | --- | --- | | Sales | $75,000 | | Costs: |  | | Food supplies | 20,000 | | Labor | 16,000 | | Utilities | 4,000 | | Rent | 12,000 | | Other | 4,000 | | Manager’s salary | 25,000 | | Total Costs | 81,000 | | Operating Profits (Losses) | ($6,000) |   The President of the company is considering adding sandwiches to the menu. Sales will be expected to increase by $60,000. The cost of sandwich supplies would be $30,000. Labor costs would increase 40% and other costs 10%. The current manager will continue to manage the operation.    a. Prepare a quantitative analysis of the decision to add sandwiches to the menu.  b. What qualitative considerations should the company consider in this decision? |

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| 121. | The Brogan family currently lives in a suburb of a major city. They have a lovely home close to major routes of transportation. Both Mr. and Mrs. Brogan have convenient commutes of 30 minutes or less. Because the school system in their town does **not** have a quality reputation, they currently send their daughter to private school, conveniently located less than one mile from their home. The family's current monthly living expenses are listed below:   |  |  | | --- | --- | |  | **Monthly Budget** | | Mortgage, including taxes and insurance | $5,000 | | Other utilities, including water, heat and telephone | 500 | | Costs of running automobiles | 800 | | Cost of private school | 2,000 | | Total monthly budget | $8,300 |   The Brogans are considering moving to a town approximately 20 minutes away. Because of the desirability of the local schools and strict zoning, housing is very expensive in this town. Their daughter would attend public schools. The Brogans estimate that their monthly mortgage, taxes and insurance would increase to $7,000 per month, while the cost of running automobiles would increase 20% and other utilities 10%. Mortgage interest costs are tax deductible and the Brogans are in the 25% tax bracket. Assume that $700 of the increase in their monthly budget is for mortgage interest. What are the costs and benefits of moving? Which can be quantified and which **cannot**? |

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| 122. | Place the letter of the appropriate business function of the value chain in Column 2 in the blank next to each cost item in Column 1.   |  |  |  |  | | --- | --- | --- | --- | |  | **Column 1** |  | **Column 2** | | \_\_\_ | cost of customer order forms | A | Research and development | | \_\_\_ | cost of paper used in manufacture of books | B | Design | | \_\_\_ | cost of paper used in packing cartons to ship books | C | Production | | \_\_\_ | cost of paper used in display at national trade show | D | Marketing | | \_\_\_ | depreciation of trucks used to transport books to college bookstores | E | Distribution | | \_\_\_ | cost of the wood used to manufacture paper | F | Customer service | | \_\_\_ | salary of the scientists attempting to find another source of printing ink |  |  | | \_\_\_ | cost of defining the book size so that a standard-sized box is filled to capacity |  |  | |

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| 123. | Morgantown Manufacturing produces electronic storage devices, and uses the following three-part classification for its manufacturing costs: materials, labor, and support costs. Total support costs for June were $300 million, and were allocated to each product on the basis of labor costs of each line. Summary data (in millions) for June for the most popular electronic storage device, the Giant Watt, was:   |  |  | | --- | --- | | Material costs | $9,000,000 | | Labor costs | $3,000,000 | | Support costs | $8,500,000 | | Units produced | 40,000 |   a. Compute the manufacturing cost per unit for each product produced in June.    b. Suppose production will be reduced to 30,000 units in July. Speculate as to whether the unit costs in July will most likely be higher or lower than unit costs in June; it is **not** necessary to calculate the exact July unit cost. Briefly explain your reasoning. |

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| 124. | The list of representative cost drivers in the right column below are randomized with respect to the list of functions in the left column. That is, they do not match.   |  |  |  | | --- | --- | --- | | **Function** |  | **Representative Cost Driver** | | Purchasing | A. | Number of employees | | Billing | B. | Number of shipments | | Shipping | C. | Number of customers | | Computer Support | D. | Number of invoices | | Personnel | E. | Number of desktop computers | | Customer Service | F. | Number of purchase orders |   **Required:**    Match each business function with its representative cost driver.   |  |  |  | | --- | --- | --- | |  | **Function** | **Insert letter of appropriate driver (A through F)** | | 1. | Purchasing |  | | 2. | Billing |  | | 3. | Shipping |  | | 4. | Computer Support |  | | 5. | Personnel |  | | 6. | Customer Service |  | |

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| 125. | A restaurant is deciding whether it wants to update its image or **not**. It currently has a cozy appeal with an outdated décor that is still in good condition, menus and carpet that need to be replaced anyway, and loyal customers. Identify the following for the restaurant management:    a. Costs that are relevant to this decision.  b. Costs that would **not** be differential to this decision.  c. Any qualitative factors that should be considered. |

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| 126. | You have been employed as an entry-level management accountant for a little under a year. You suspect that your immediate supervisor is involved in a significant fraud involving diverting of company assets to personal use. Briefly describe the steps you might take to resolve this dilemma. |

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| 127. | Snacking Macs, Inc., currently manufactures three different types of scientifically balanced dog food. The firm is considering eliminating one of the three products. What factors should be taken into account in making this decision? |

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| 128. | Clancy Mining Company mines iron ore for production into various metal products. During recent years, the company had large fluctuations in its inventories of metal ingots. Much of the volatility of the inventory levels is due to the variability of demand by the company's largest customers, automobile manufacturers. For large orders, the company has the technology to quickly shift production from one product to another. Explain how the company can improve its inventory control system and give the advantages of whatever you recommend. |

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| 129. | MegaStores is a large, publicly held Corporation. The company does about 80% of its work in government contracts. All contracts use a cost plus fixed fee basis; costs of jobs are agreed upon by contract. Any overruns will result in losses to the company. The company controller, Ricky Bowers CPA, CMA, is discussing two current jobs with the Job Supervisor, Leslie Dawn. Job 100 is currently coming in under budget, but due to construction problems, Job 102 is 20% over budget. Bowers is considering the possibility of having employees who work on Job 102 record their time to Job 101. What are the implications of this decision? |

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| 130. | The owner of a small retail business asks, "Why do I need cost accountants? My CPA produces financial statements, which are sufficient for me to discover my costs. Look at my Income Statement. I expect sales to increase by 10% next year, so I am planning on a 10% increase in profits. I don't need a cost accountant to tell me that."   |  |  | | --- | --- | | **Income Statement for the Year Ending December 31** | | | Sales Revenue | $457,234 | | Cost of Goods Sold | 296,348 | | Gross Margin | 160,886 | | Selling Costs | (76,234) | | Administrative Costs | (62,350) | | Profit before Taxes | $22,302 |   Use your knowledge of the concept of differential costs and explain why a cost accountant would question the conclusion that a 10% increase in sales would yield a 10% increase in profit. |

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| 131. | Create a diagram of the value chain by putting the following components into the correct order: a) purchasing; b) marketing and sales; c) research and development; d) customer service; e) distribution; f) design; g) production. |

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| 132. | Explain the difference between a value chain, a supply chain, and a distribution chain. |

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| 133. | Compare financial accounting and cost accounting using the following concepts: users of the information; important criteria; who establishes or defines the system; and how to determine an accounting treatment. |

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| 134. | The IMA Code of Ethics describes three basic steps a cost accountant should take when faced with an ethical conflict: Discuss, clarify, and consult. Describe each of these three steps. |

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| 135. | Respond to this comment: "Since cost accountants just prepare accounting data for internal management, cost accountants do **not** need to be concerned with GAAP or IFRS." |

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| 136. | What are characteristics of information used in decision making? |

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| 137. | The Flamboyant Flirt is a small but prosperous hair cutting salon. Diane Stock, the manager of the salon, has been asked by several clients if she will ever offer other "hair related" services (e.g., perm, dye, etc). After careful thought, Ms. Stock is considering expanding her offerings. However, in order to do so, she will have to hire one additional stylist at a salary of $26,000 per year. Other expenses will increase as follows: rent by 20%, supplies and utilities by 25%, and miscellaneous expenses by 10%. Her revenues from additional services are likely to be $55,000 for the next year (i.e., 2017). The Flamboyant Flirt's income statement for the most recent year is presented below.   |  |  |  |  | | --- | --- | --- | --- | | **The Flamboyant Flirt Income Statement for the Year Ended December 2016** | | | | | Sales Revenue | |  | $220,000 | | Costs: | |  |  | |  | Labor | $52,000 |  | |  | Utilities | 12,000 |  | |  | Supplies | 45,000 |  | |  | Rent | 18,000 |  | |  | Miscellaneous | 5,000 |  | |  | Manager’s Salary | 30,000 | 162,000 | | Operating Profits | |  | $58,000 |   a. Based on your financial analysis, should Diane Stock go ahead with the expansion?  b. What other factors must Ms. Stock consider before making a final decision? |

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| 138. | The manager of a profit center of a large electronics manufacturing corporation made some projections regarding sales and profits for the upcoming final quarter of the year. The managers' performance evaluation and compensation depended significantly on his ability to meet budget goals. The manager discovered that the final quarter would have to be a particularly good quarter in order to meet these goals. He decided to implement a sales program offering liberal payment terms in order to pull some sales that would normally occur next year into the current year. Customers accepting delivery in the fourth quarter would **not** have to pay the invoice for 140 days. Also, he sold some equipment that was **not** being used and realized a significant profit on the sale.  Are these actions ethical? Why or why **not**? |

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| 139. | The controller of one division of IntroTel, a large diversified firm is compensated by salary plus bonus. The bonus is a significant part of total compensation, and is based directly on the profits of the division. Thus, the controller has an incentive to find ways to increase profits, including the delay of discretionary expenses such as research and development, delay of maintenance and repair of manufacturing equipment, and delay of sales promotions.    Is finding ways to increase profits as described above unethical? Why or why **not**? Who is to blame, if anyone? |

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| 140. | Dockside Sandal Company, a manufacturer of women's sandals, recently implemented a quality improvement program aimed at streamlining the manufacturing process. Bo Mattison industrial engineer and a resident expert on process improvement, was assigned the task of implementing the program.  Mattison's first task was to educate all the employees involved with the production process. He sent a memo to representatives in product design and development, materials management (including purchasing), marketing, distribution, customer service and accounting, in addition to those in the production department, inviting them to attend an information session on the improvement program.  He began the meeting by thanking all those who were present (over 35 in number) and spent the first hour explaining the need for such a program. Soon after, the attendees were engaged in a discussion. Several questions were raised during the discussion. Among these, three questions stood out.  1. What is the need for including members from design, marketing, and other functional areas when the improvement program's focus is on streamlining the manufacturing process? 2. What is the role of the cost management expert in this program? 3. Finally, why should the machine operators be involved, as they are **not** engineers?  Consider the three questions that stood out in the discussion. Assume the role of Bo Mattison and prepare a response addressing the questions. |

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| 141. | Megan Kris, the Vice-President for Human Resources in Learning, Inc. was concerned about a recent memo she had recently received from the CEO's office regarding the possibility of outsourcing the payroll function to Salary Experts, a growing provider of a variety of human resource services. She was shocked that the CEO's office had discussed this matter with the Board of Directors, but failed to consult her.    Megan was preparing for a meeting with the CEO. In reading the memo and its attachments, Megan observed the following comparison of costs in a report prepared by the controller's office:   |  |  | | --- | --- | | Payroll department expenses: | | | Salaries of employees | $210,000 | | Share of utilities | 75,000 | | Share of building rent | 39,350 | | Manager’s salary | 69,000 | | Computers and supplies | 26,000 | | Other department expenses | 20,000 | | Total annual expenses | $439,350 |   Megan also noted that Salary Experts quoted a fixed fee of $125,000 and variable processing costs of $7.50 per employee transaction. She did **not** believe that the company will actually save money by outsourcing the payroll function. For one, she did **not** think that the company will actually save all of the above mentioned amounts. She knew that the payroll department manager could **not** be removed from the company because he had to oversee the payroll function and serve as a liaison with the outside company. However, all other employees in the department would likely **not** be required.    a. Assume Learning Inc. has 14,000 employees on its payroll. Can the company save money by outsourcing the payroll function?  b. What are the pros and cons of outsourcing the payroll function? |

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| 142. | Mr. Lee is the production Manufacturing Manager of Cathy Company. It is the beginning of the month and he storms into the controllers department, clutching a large folder of reports. "Why am I getting so many reports? I don't need them nor do I want all the details. I've delegated responsibility to my managers so I don't have to worry about details. You've got to do something about this, John." John, the controller, starts to think about the problem that seems to have come about as the company decentralized with many layers of responsibility. He has a vague memory of something he learned from his old cost accounting class and has called you, his former professor, for some advice or suggestions in order to reduce the paper flow.  Briefly describe the concept of the hierarchy of performance reports. |

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| 143. | Adair Company has been busy over the first few years of its existence in penetrating its market and gaining a respectable market share. To facilitate this, Mr. Adair, the CEO, and his controller, Mr. Brown, have been developing the annual master budgets. To date this approach has worked well.  Adair has been acquired by a company in a related business but will continue to operate as an independent subsidiary. The CFO of the acquiring company, Mr. Horwitz, has suggested to Mr. Adair that, since it was expected that his company would continue to grow, it adopt a departmental budgeting system; a suggestion Mr. Adair agreed to readily. Mr. Horwitz explained to Adair's departmental managers the concepts of a departmental participative budgeting system and their involvement. The managers were encouraged to take the information and come back with suggestions which could then be put into a formal budget process.  a. What benefits will accrue to Adair under this new budgeting system? b. What behavioral issues might arise for departmental managers and for production workers? c. What is the most probable long-term reaction of Adair's people to the participative budget system? |

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| 144. | Traditionally, companies in the United States have employed a "push" manufacturing style. Studies in Activity Based Management and Quality Control have indicated that this approach is filled with many non-value-added activities, which increase overall costs and reduce profits. The "push" style is being replaced with a "pull" approach.  Briefly describe the major differences between the push and pull approaches. What non-value added activities are eliminated in a pull manufacturing system? |

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| 145. | The ***New*** ***York*** ***Times*** recently reported that a number of publicly-held corporations have been accused of illegally doctoring hourly employees' time records. Examples included:    • Workers sued Family Dollar and Pep Boys, accusing managers of deleting hours from their time records.  • More than a dozen former Wal-Mart employees said in interviews and depositions that managers had altered time records to shortchange employees.  • The Department of Labor reached two back-pay settlements with Kinko's photocopy centers after finding that managers had erased time for 13 employees.    When interviewed, many of the managers cited pressure from upper-management and the impact of their actions on their own compensation as underlying causes for their actions. All of the companies strongly denied encouraging such illegal and unethical behavior by managers. Compensation experts interviewed agreed that the companies' incentive performance systems may have contributed to the managers' behavior. (***New*** ***York*** ***Times*,** **April** **4,** **2004**)    a. Explain how the incentive performance systems of the above named companies could have contributed to this illegal behavior by managers.  b. Discuss the ethical issues involved in the design of incentive performance systems. In designing a performance-based incentive system, what measures should companies take to avoid illegal and unethical behavior by supervisors? |

Chapter 01 Cost Accounting: Information for Decision Making Answer Key

**True / False Questions**

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| 1. | The value chain comprises activities from research and development through the production process, but does **not** include activities related to the distribution of products or services.    **FALSE**  The value chain comprises activities from research and development (R&D) through the pro­duction process and including distribution and customer service. |

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| *AACSB: Analytical Thinking AICPA: BB Industry Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 2. | Administrative functions are **not** included as part of the value chain because they are implicitly included in every business function.    **TRUE**  Administrative expenses are not included as part of the value chain because they are included instead in every business function of the value chain. |

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| *AACSB: Analytical Thinking AICPA: BB Industry Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 3. | Under the value chain concept, value-added activities are those that firms perform and that customers perceive as adding utility to the goods they purchase.    **TRUE**  Under the value chain concept, the value-added activities are those that the customer perceives as adding utility to the goods or services they purchase. |

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| *AACSB: Analytical Thinking AICPA: BB Industry Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 4. | The value chain is comprised of the activities that take place only during the production process.    **FALSE**  The value chain comprises activities from research and development through the production process to customer service. |

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| *AACSB: Reflective Thinking AICPA: BB Industry Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 5. | If a poor facility layout exists and work-in-process inventory must be moved during the production process, the company is likely to be performing value-added activities.    **FALSE**  If a poor facility layout exists and work-in-process inventory must be moved during the production process, the company is likely to be performing nonvalue-added activities. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Accounting Systems* |

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| 6. | Cost information itself is a product with its own customers.    **TRUE**  Cost information itself is a product with its own customers, who are managers that need to control and improve operations. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 7. | Financial accounting information is sufficient for making operational decisions.    **FALSE**  While managers are interested in the information generated in financial accounting reports, it is not sufficient for making day-to-day operational decisions. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 8. | Cost accounting information is commonly used in developing financial accounting information.    **TRUE**  Cost accounting information is commonly used in developing financial accounting information. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 9. | Financial accounting information is designed for decision-makers who are directly involved in the daily management of the firm.    **FALSE**  Financial accounting is designed for external parties; cost accounting is designed for managers. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 10. | It is more important for financial accounting information to be comparable between firms than to be useful for managerial decision-making.    **TRUE**  Important criteria for financial accounting include comparability and decision relevance; decision relevance and timeliness are the important criteria for cost accounting. |

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| *AACSB: Analytical Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 3 Hard Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 11. | Cost accounting information developed for managers to use in making decisions must comply with generally accepted accounting principles (GAAP) and international financial reporting standards (IFRS).    **FALSE**  In contrast to cost data for financial reporting to shareholders, cost data for managerial use (that is, within the organization) need not comply with GAAP or IFRS. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 12. | A cost driver is a factor that causes costs.     **TRUE**  A cost driver is a factor that causes costs. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 13. | A cost can be considered a differential cost for one particular course of action but **not** for another course of action.     **TRUE**  A differential cost is a cost that changes in response to a particular course of action. A cost may change in response to one course of action but not in response to a different course of action. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 14. | A responsibility center can be a department, division, or segment, but **not** a subsidiary of the parent company.    **FALSE**  This statement is false. A responsibility center is a specific unit of an organization assigned to a manager who is held accountable for its operations and resources. As such, a department, division, segment, or subsidiary could be considered a responsibility center. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 15. | It is important that the manager assigned to lead a responsibility center be held accountable for its operations.    **TRUE**  Responsibility does not work without accountability. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 16. | Budgeting is primarily used to determine year-end bonuses based on managerial and organizational performance.     **FALSE**  Budgeting is used primarily for planning. A budget is a financial plan of the revenues and resources needed to carry out activities and meet financial goals. Budgeting helps managers decide whether their goals can be achieved and, if not, what modifications are necessary. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 17. | Managers are usually responsible for the revenues needed to achieve the targets set during the budgeting process, but **not** the resources consumed to achieve those targets.     **FALSE**  Usually, managers are responsible for both the revenues and resources needed to carry out activities and meet financial goals. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 18. | In general, if activities that do not add value to the company can be eliminated, then costs associated with them will also be eliminated.    **TRUE**  In general, if activities that do not add value to the company can be eliminated, then costs associated with them will also be eliminated. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 19. | Accounting systems are important because they are a primary source of information for managers.    **TRUE**  Accounting systems are important because they are a primary source of information for managers. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Accounting Systems* |

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| 20. | Benchmarking is a continuous process of measuring a company's products, services, or activities against competitors' performance.    **TRUE**  This is the definition of benchmarking. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 21. | Activity-based costing (ABC) is a management tool that focuses on the continuous improvement of all dimensions of a business.    **FALSE**  ABC is a costing method that assigns costs to activities and then assigns them to products based on the products' consumption of activities. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 22. | Lean manufacturing techniques are used only in the production process.    **FALSE**  Lean manufacturing techniques can be applied to design, materials and cost accounting decisions throughout the life of a product. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 23. | Typical ERP systems integrate information systems that link production, purchasing, human resources, and finance into a single comprehensive information system.    **TRUE**  ERP systems are integrated information systems that link the various systems of the enterprise into a single comprehensive information system. |

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| *AACSB: Analytical Thinking AICPA: BB Marketing Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 24. | Managers face ethical situations on a daily basis, while accountants face them infrequently.    **FALSE**  Professional accountants, managers, and business owners face ethical situations on an everyday basis. |

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| *AACSB: Ethics AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 25. | Compliance with Sarbanes-Oxley does not mean that the manager has met all of his or her ethical responsibilities.    **TRUE**  Compliance with Sarbanes-Oxley does not mean that the manager has met all of his or her ethical responsibilities. |

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| *AACSB: Ethics AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 3 Hard Gradable: automatic Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 26. | Ethical behavior depends more on a firm's code of conduct than the individual's personal beliefs.    **FALSE**  Codes of conduct look good on paper, but ultimately much of ethical behavior comes from an individual's personal beliefs. |

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| *AACSB: Ethics AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 27. | Cost accounting information can be used by managers to defraud customers, creditors, and owners.    **TRUE**  The design of the cost accounting system has the potential to be misused to defraud customers, employees, or shareholders. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 28. | The boundary between what is cost accounting and what belongs in another discipline is often blurred.    **TRUE**  Real world problems are generally multidisciplinary. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

**Multiple Choice Questions**

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| 29. | The set of activities that transforms raw resources into the goods and services end users purchase and consume is called the:      |  |  | | --- | --- | | **A.** | value chain. |  |  |  | | --- | --- | | B. | supply chain. |  |  |  | | --- | --- | | C. | demand chain. |  |  |  | | --- | --- | | D. | cost-benefit analysis. |   This is the definition of the value chain. |

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| *AACSB: Analytical Thinking AICPA: BB Industry Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 30. | Which of the following activities would **not** be considered a value-added activity?      |  |  | | --- | --- | | A. | Production |  |  |  | | --- | --- | | B. | Marketing |  |  |  | | --- | --- | | **C.** | Accounting |  |  |  | | --- | --- | | D. | Distribution |   Accounting for something does not add value, but is an administrative function. |

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| *AACSB: Analytical Thinking AICPA: BB Industry Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 31. | Which of the following statements is **false**?      |  |  | | --- | --- | | A. | In essence, the value chain and the supply chain are similar; each creates something for which the customer is willing to pay. |  |  |  | | --- | --- | | **B.** | Financial accounting information is important because it is sufficient to provide all the information for operational decisions commonly made by managers. |  |  |  | | --- | --- | | C. | The supply or distribution chain is a linked set of organizations that exchange goods and services in combination to provide a final product or service to the customer. |  |  |  | | --- | --- | | D. | Eliminating nonvalue-added activities always reduces costs without affecting the value of the product to customers. |   Financial accounting information is not sufficient for operational decisions made by managers. |

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| *AACSB: Analytical Thinking AICPA: BB Industry Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Value Creation in Organizations* |

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| 32. | Managers do **not** make decisions about future events based on:      |  |  | | --- | --- | | **A.** | Perfect information. |  |  |  | | --- | --- | | B. | Estimated information. |  |  |  | | --- | --- | | C. | Actual information. |  |  |  | | --- | --- | | D. | Financial information. |   Perfect information is never available; there is always some uncertainty. |

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| *AACSB: Analytical Thinking AICPA: BB Resource Management Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 33. | Which of the following is a nonvalue-added activity?      |  |  | | --- | --- | | A. | Product design |  |  |  | | --- | --- | | B. | Customer service |  |  |  | | --- | --- | | C. | Research and development |  |  |  | | --- | --- | | **D.** | Rework of defective items |   Performing a task correctly adds value; correcting mistakes does not add value. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Our Framework for Assessing Cost Accounting Systems* |

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| 34. | (CMA adapted) A costing method that first assigns costs to activities and then assigns them to products based on the products' consumption of those activities is:      |  |  | | --- | --- | | A. | full-absorption costing. |  |  |  | | --- | --- | | **B.** | activity-based costing. |  |  |  | | --- | --- | | C. | variable costing. |  |  |  | | --- | --- | | D. | benchmarking. |   Activity-based costing is a costing method that first assigns costs to activities and then assigns them to products based on the products' consumption of those activities. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 35. | (CMA adapted) Cost drivers are      |  |  | | --- | --- | | **A.** | activities that cause costs to increase as the activity increases. |  |  |  | | --- | --- | | B. | accounting techniques and practices used to control costs. |  |  |  | | --- | --- | | C. | accounting reimbursements used to evaluate whether performance is proceeding according to plan. |  |  |  | | --- | --- | | D. | a mechanical basis, such as machine hours, computer time, or factory square footage, used to assign costs to activities. |   This is the definition of a cost driver. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 36. | During 2016, the Beach Restaurant had sales revenues and food costs of $800,000 and $600,000, respectively. During 2017, Beach plans to introduce a new menu item that is expected to increase sales revenues by $100,000 and food costs by $40,000. Assuming **no** changes are expected for the other food items, operating profits for 2017 are expected to increase by      |  |  | | --- | --- | | A. | $260,000. |  |  |  | | --- | --- | | B. | $100,000. |  |  |  | | --- | --- | | **C.** | $60,000. |  |  |  | | --- | --- | | D. | $40,000. |   Increase in operating profits is $100,000 - $40,000 = $60,000. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 37. | (CMA adapted) The process of creating a financial plan of the revenues and resources needed to carry out activities and meet financial goals is referred to as:       |  |  | | --- | --- | | **A.** | budgeting. |  |  |  | | --- | --- | | B. | benchmarking. |  |  |  | | --- | --- | | C. | cost-benefit analysis. |  |  |  | | --- | --- | | D. | value-added analysis. |   This is the definition of budgeting. |

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| *AACSB: Analytical Thinking AICPA: BB Resource Management Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 38. | The field of accounting that reports according to generally accepted accounting principles (GAAP) is called:       |  |  | | --- | --- | | A. | cost accounting. |  |  |  | | --- | --- | | **B.** | financial accounting. |  |  |  | | --- | --- | | C. | managerial accounting. |  |  |  | | --- | --- | | D. | responsibility accounting. |   Cost, managerial, and responsibility accounting do not depend on GAAP. |

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| *AACSB: Analytical Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 39. | The field of accounting that focuses on the criterion of relevant information rather than comparability of firms is:      |  |  | | --- | --- | | **A.** | Cost accounting |  |  |  | | --- | --- | | B. | Financial accounting |  |  |  | | --- | --- | | C. | Responsibility accounting |  |  |  | | --- | --- | | D. | International accounting |   The important criterion of cost accounting is that information be relevant for managers making operational decisions; individuals making decisions using financial accounting data are instead interested in comparing firms. |

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| *AACSB: Analytical Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 40. | The just-in-time (JIT) method of production focuses on      |  |  | | --- | --- | | A. | increasing sales revenue. |  |  |  | | --- | --- | | **B.** | reducing inventories. |  |  |  | | --- | --- | | C. | increasing customer service. |  |  |  | | --- | --- | | D. | reducing operating expenses. |   The focus is on reducing inventories, the other items are all results or outcomes. |

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| *AACSB: Analytical Thinking AICPA: BB Resource Management Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 41. | (CIA adapted) The primary reason for adopting total quality management (TQM) is to achieve      |  |  | | --- | --- | | A. | reduced delivery time. |  |  |  | | --- | --- | | B. | reduced delivery charges. |  |  |  | | --- | --- | | **C.** | greater customer satisfaction. |  |  |  | | --- | --- | | D. | greater employee participation. |   TQM focuses on the customer. |

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| *AACSB: Analytical Thinking AICPA: BB Resource Management Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 42. | According to the Institute of Management Accountants (IMA), the final step in resolving an ethical dilemma is to      |  |  | | --- | --- | | **A.** | consult your own attorney as to legal obligations and rights concerning the ethical conflict. |  |  |  | | --- | --- | | B. | clarify relevant ethical issues by initiating a confidential discussion with an IMA Ethical Counselor, an appropriate and confidential ethics hotline, or other impartial advisor. |  |  |  | | --- | --- | | C. | consult with the local police. |  |  |  | | --- | --- | | D. | discuss the situation with an immediate supervisor. |   Consulting your own attorney is a last step, Steps B and D are choices that attempt to resolve the dilemma and step C is not part of the IMA Code of Ethics. |

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| *AACSB: Ethics AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 43. | According to the Institute of Management Accountants (IMA), the first step in resolving an ethical dilemma is to      |  |  | | --- | --- | | A. | consult your own attorney as to legal obligations and rights concerning the ethical conflict. |  |  |  | | --- | --- | | B. | call the IMA's ethics hotline. |  |  |  | | --- | --- | | C. | clarify relevant ethical issues by initiating a confidential discussion with an IMA Ethical Counselor or other impartial advisor. |  |  |  | | --- | --- | | **D.** | discuss the situation with an immediate supervisor, except when it appears that the supervisor is involved, or with the next level supervisor, if involvement of the immediate supervisor is suspected. |   It is best to discuss the situation with the immediate supervisor before bringing in outsiders. |

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| *AACSB: Ethics AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 44. | Which of the following is **not** one of the basic standards of the Institute of Management Accountants (IMA) Code of Ethics?      |  |  | | --- | --- | | A. | Competence |  |  |  | | --- | --- | | B. | Confidentiality |  |  |  | | --- | --- | | **C.** | Honesty |  |  |  | | --- | --- | | D. | Integrity |   The other options are basic standards of the IMA Code of Ethics. Honesty is not. |

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| *AACSB: Ethics AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Learning Objective: Appendix Topic: Choices: Ethical Issues for Accountants* |

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| 45. | Which of the following is **not** one of the overarching ethical principles of the Institute of Management Accountants (IMA) Code of Ethics?      |  |  | | --- | --- | | **A.** | Competence |  |  |  | | --- | --- | | B. | Responsibility |  |  |  | | --- | --- | | C. | Honesty |  |  |  | | --- | --- | | D. | Objectivity |   Competence is not one of the overarching ethical principles of the IMA Code of Ethics. |

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| *AACSB: Ethics AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Learning Objective: Appendix Topic: Choices: Ethical Issues for Accountants* |

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| 46. | A general term for a metric that indicates how well an individual, business, product, or firm is working is called      |  |  | | --- | --- | | **A.** | a performance measure. |  |  |  | | --- | --- | | B. | benchmarking. |  |  |  | | --- | --- | | C. | a budget. |  |  |  | | --- | --- | | D. | a responsibility center. |   The statement made is the definition of a performance measure. |

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| *AACSB: Analytical Thinking AICPA: BB Resource Management Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 47. | The cost accounting system that minimizes wasteful or unnecessary transaction processes is      |  |  | | --- | --- | | A. | performance measure. |  |  |  | | --- | --- | | B. | benchmarking. |  |  |  | | --- | --- | | C. | budgeting. |  |  |  | | --- | --- | | **D.** | lean accounting. |   The statement made is the definition of lean accounting. |

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| *AACSB: Analytical Thinking AICPA: BB Resource Management Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 48. | Continual process of measuring a company's own products, services or activities against competitors' performance is      |  |  | | --- | --- | | A. | performance measure. |  |  |  | | --- | --- | | **B.** | benchmarking. |  |  |  | | --- | --- | | C. | budgeting. |  |  |  | | --- | --- | | D. | responsibility center. |   The statement made is the definition of benchmarking. |

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| *AACSB: Analytical Thinking AICPA: BB Resource Management Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 49. | The costing method that first assigns costs to activities and then assigns them to products based on the products' consumption of activities is called      |  |  | | --- | --- | | A. | lean accounting. |  |  |  | | --- | --- | | B. | responsibility centers. |  |  |  | | --- | --- | | **C.** | activity-based costing. |  |  |  | | --- | --- | | D. | budgeting. |   This method is a basic concept of ABC. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 50. | Having one or more of the firms' activities performed by another firm or individual in the supply or distribution chain is called       |  |  | | --- | --- | | A. | lean accounting. |  |  |  | | --- | --- | | B. | responsibility centers. |  |  |  | | --- | --- | | C. | activity-based costing. |  |  |  | | --- | --- | | **D.** | outsourcing. |   The statement is a definition of outsourcing. |

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| *AACSB: Analytical Thinking AICPA: BB Resource Management Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 51. | Systems that identify the costs of producing defective units as well as low-quality items that lose sales are called       |  |  | | --- | --- | | A. | customer relationship management systems. |  |  |  | | --- | --- | | B. | distribution chains. |  |  |  | | --- | --- | | C. | enterprise resource planning systems. |  |  |  | | --- | --- | | **D.** | cost of quality systems. |   The statement is a definition of cost of quality systems. |

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| *AACSB: Analytical Thinking AICPA: BB Resource Management Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 52. | Systems that allow firms to target profitable customers by assessing customer revenue and costs are called      |  |  | | --- | --- | | **A.** | customer relationship management systems. |  |  |  | | --- | --- | | B. | distribution chains. |  |  |  | | --- | --- | | C. | enterprise resource planning systems. |  |  |  | | --- | --- | | D. | cost of quality systems. |   The statement is a definition of CRM systems. |

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| *AACSB: Analytical Thinking AICPA: BB Resource Management Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 53. | Information technology that links the various processes of the company into a single comprehensive information system is called      |  |  | | --- | --- | | A. | a customer relationship management system. |  |  |  | | --- | --- | | B. | a distribution chain. |  |  |  | | --- | --- | | C. | a cost of quality system. |  |  |  | | --- | --- | | **D.** | an enterprise resource planning system. |   The statement is a definition of an ERP system. |

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| *AACSB: Analytical Thinking AICPA: BB Leveraging Technology Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 54. | A management method by which the organization seeks to excel on all dimensions of quality is called      |  |  | | --- | --- | | A. | customer relationship management. |  |  |  | | --- | --- | | B. | a just-in-time method. |  |  |  | | --- | --- | | **C.** | total quality management. |  |  |  | | --- | --- | | D. | cost of quality. |   The key words are "management method" and "all dimensions of quality." |

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| *AACSB: Analytical Thinking AICPA: BB Resource Management Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 55. | Which of the following is **not** a key financial manager in an organization?      |  |  | | --- | --- | | A. | Chief financial officer |  |  |  | | --- | --- | | B. | Treasurer |  |  |  | | --- | --- | | **C.** | External auditor |  |  |  | | --- | --- | | D. | Controller |   The external auditor is not a financial manager in an organization. |

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| *AACSB: Analytical Thinking AICPA: BB Resource Management Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Key Players in the Organization* |

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| 56. | Which of the following is **not** normally considered part of the value chain?      |  |  | | --- | --- | | A. | Research and development |  |  |  | | --- | --- | | B. | Purchasing |  |  |  | | --- | --- | | **C.** | Administration |  |  |  | | --- | --- | | D. | Distribution |   Administration is imbedded in all of the business functions; it is not a separate function of the value chain. |

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| *AACSB: Analytical Thinking AICPA: BB Industry Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 57. | In 2016, the TransUnion Company had consulting revenues of $1,000,000 while costs were $750,000. In 2017, TransUnion will be introducing a new service that will generate $150,000 in sales revenues and $60,000 in costs. Assuming no changes are expected for the other services, operating profits are expected to increase between 2016 and 2017 by:      |  |  | | --- | --- | | A. | $250,000. |  |  |  | | --- | --- | | B. | $150,000. |  |  |  | | --- | --- | | **C.** | $90,000. |  |  |  | | --- | --- | | D. | $60,000. |   Increase in operating profit is $150,000 - $60,000 = $90,000. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 58. | In 2016, the Merkel Company had revenues of $2,000,000 and costs of $1,500,000. During 2017, Merkel will be introducing a new product line that is expected to increase sales revenue by $200,000 and costs by $160,000. Assuming no changes are expected for the other products, the operating profits are expected to increase by      |  |  | | --- | --- | | A. | $540,000. |  |  |  | | --- | --- | | B. | $200,000. |  |  |  | | --- | --- | | C. | $160,000. |  |  |  | | --- | --- | | **D.** | $40,000. |   Increase in operating profit is $200,000 - $160,000 = $40,000. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 59. | Moving of inventory is an example of a(n):       |  |  | | --- | --- | | A. | cost-benefit analysis. |  |  |  | | --- | --- | | B. | value-added activity. |  |  |  | | --- | --- | | C. | activity-based cost. |  |  |  | | --- | --- | | **D.** | nonvalue-added activity. |   Producing product adds value, moving it around does not add value. |

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| *AACSB: Analytical Thinking AICPA: BB Resource Management Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Our Framework for Assessing Cost Accounting Systems* |

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| 60. | Costs that differ among or between two or more alternative courses of action are       |  |  | | --- | --- | | **A.** | differential costs. |  |  |  | | --- | --- | | B. | cost-benefit analysis. |  |  |  | | --- | --- | | C. | activity-based costs. |  |  |  | | --- | --- | | D. | cost drivers. |   This statement is a definition of differential costs. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 61. | Which of the following activities would **not** be included in the value chain of a manufacturing company?       |  |  | | --- | --- | | A. | Research and Development |  |  |  | | --- | --- | | B. | Customer Service |  |  |  | | --- | --- | | C. | Design |  |  |  | | --- | --- | | **D.** | Accounting |   Accounting is not a separate item in the value chain, while the other choices are. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 62. | A firm's replies to customers' questions via email would be an example of which element of the value chain?      |  |  | | --- | --- | | **A.** | Customer Service |  |  |  | | --- | --- | | B. | Marketing |  |  |  | | --- | --- | | C. | Design |  |  |  | | --- | --- | | D. | Supply |   The statement is an example of customer service. |

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| *AACSB: Reflective Thinking AICPA: BB Marketing Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 63. | The delivery of products or services to customers is an example of which element in the value chain?      |  |  | | --- | --- | | A. | Production |  |  |  | | --- | --- | | B. | Design |  |  |  | | --- | --- | | C. | Marketing |  |  |  | | --- | --- | | **D.** | Distribution |   The statement is an example of distribution. |

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| *AACSB: Reflective Thinking AICPA: BB Marketing Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 64. | Which of the following provides much of the information necessary for the coordination of the value chain?      |  |  | | --- | --- | | A. | the distribution chain. |  |  |  | | --- | --- | | B. | the financial accounting system. |  |  |  | | --- | --- | | **C.** | the cost accounting system. |  |  |  | | --- | --- | | D. | the supply chain. |   The cost accounting system provides much of the information necessary for the coordination of the value chain. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 65. | Advertising costs would be associated with which of the following value chain components?      |  |  | | --- | --- | | A. | Production. |  |  |  | | --- | --- | | B. | Research and Development. |  |  |  | | --- | --- | | C. | Distribution. |  |  |  | | --- | --- | | **D.** | Marketing and sales. |   Advertising costs would be associated with the value chain component of Marketing and sales. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 66. | Which part of the value chain is outside the firm?       |  |  | | --- | --- | | A. | The Design component |  |  |  | | --- | --- | | B. | The Research and Development component |  |  |  | | --- | --- | | C. | The Production activity |  |  |  | | --- | --- | | **D.** | The Distribution chain |   The distribution chain is a part of the value chain outside the firm. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 67. | Which of the following statements regarding the value chain is true?       |  |  | | --- | --- | | A. | Service firms benefit from the value chain more than do manufacturing firms. |  |  |  | | --- | --- | | B. | Value chain components do not overlap. |  |  |  | | --- | --- | | C. | Value is not created until after the research and development stage. |  |  |  | | --- | --- | | **D.** | Administrative functions are not included as part of the value chain. |   It is true that administrative functions are not included as part of the value chain. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 68. | Which of the following statements concerning the value chain is **false**?      |  |  | | --- | --- | | A. | The goal of a value chain is to find areas where a company can either add value or reduce cost. |  |  |  | | --- | --- | | B. | The value chain focuses on the entire production process, as well as the sale of the product and service after the sale. |  |  |  | | --- | --- | | C. | If a company cannot compete in a specific area of the value chain, it might outsource that portion of the value chain to another entity which can perform it better. |  |  |  | | --- | --- | | **D.** | Successful firms are ones that operate within the entire value chain, thereby overseeing every aspect of the value chain for the customer. |   A "total value chain focus" ensures the utility of each value chain function. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 3 Hard Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 69. | Which of the following could be considered part of the value chain in a service firm?      |  |  | | --- | --- | | A. | Inspection of product |  |  |  | | --- | --- | | **B.** | Advertising |  |  |  | | --- | --- | | C. | Raw materials |  |  |  | | --- | --- | | D. | Distribution |   The other three alternatives describe an activity with a "physical" product. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 70. | Place the four components in the order they appear along the value chain: A = Customer service; B = Design; C = Distribution; and D = Production.      |  |  | | --- | --- | | A. | ABDC |  |  |  | | --- | --- | | B. | ACDB |  |  |  | | --- | --- | | **C.** | BDCA |  |  |  | | --- | --- | | D. | BADC |   This is the correct order of the given components in the value chain. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 71. | Managers evaluate value-added activities to determine how they contribute to the final product's      |  |  | | --- | --- | | A. | service only. |  |  |  | | --- | --- | | B. | quality only. |  |  |  | | --- | --- | | C. | cost only. |  |  |  | | --- | --- | | **D.** | service, quality, and cost. |   Managers evaluate value-added activities to determine how they contribute to the final product's service, quality, and cost. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 72. | Which of the following is the best reason why cost accounting information does **not** need to be comparable to similar information in other organizations?      |  |  | | --- | --- | | A. | Because it is only used by investors and creditors. |  |  |  | | --- | --- | | B. | Because no publicly traded companies use cost accounting. |  |  |  | | --- | --- | | C. | Because IFRS and cost accounting are converging which eliminates the need for comparability. |  |  |  | | --- | --- | | **D.** | Because managers that use this information are making decisions only for their organization. |   Because the managers are making decisions only for their own organization, there is no need for the informa­tion to be comparable to similar information in other organizations. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 73. | Financial accounting      |  |  | | --- | --- | | A. | focuses on the future. |  |  |  | | --- | --- | | **B.** | must comply with GAAP (generally accepted accounting principles). |  |  |  | | --- | --- | | C. | reports include detailed information on the various operating segments of the business. |  |  |  | | --- | --- | | D. | is prepared for the use of management. |   Financial accounting must comply with GAAP. The other choices are characteristics of cost accounting. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 74. | The individual who would most likely use only financial accounting information in making decisions is a      |  |  | | --- | --- | | A. | vice president of marketing. |  |  |  | | --- | --- | | B. | factory supervisor. |  |  |  | | --- | --- | | C. | department manager. |  |  |  | | --- | --- | | **D.** | company stockholder. |   Financial accounting information only is most likely used by company stockholders, while the other answer choices are internal users, who focus primarily on managerial or cost accounting information. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 75. | The financial accounting system is the primary source of information for      |  |  | | --- | --- | | A. | decision making on the factory floor. |  |  |  | | --- | --- | | B. | improving the performance level of customer service. |  |  |  | | --- | --- | | C. | planning the budget for next year. |  |  |  | | --- | --- | | **D.** | preparing the income statement for stockholders. |   The statement specifically relates to preparing the income statement for stockholders. The other functions are internal and have to do with the functioning of the cost accounting system. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 76. | Managerial decisions using cost accounting are more appropriate for which types of costs?      |  |  | | --- | --- | | **A.** | future costs. |  |  |  | | --- | --- | | B. | historical costs. |  |  |  | | --- | --- | | C. | current costs. |  |  |  | | --- | --- | | D. | externally reported costs. |   Managerial decisions deal with the future, so estimates of future costs are more valuable for decision making than are the histori­cal and current costs that are reported externally. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 77. | At the middle management level, where managers supervise work and make operating decisions, cost information highlights      |  |  | | --- | --- | | A. | the company's overall performance. |  |  |  | | --- | --- | | B. | comparability across firms. |  |  |  | | --- | --- | | C. | financial position and income according to accounting rules. |  |  |  | | --- | --- | | **D.** | some aspect of operations that is different from expectations. |   At the middle management level, where managers supervise work and make operating decisions, cost information is used to identify problems by highlighting when some aspect of operations is different from expectations. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 78. | Financial accounting provides a historical perspective, while cost accounting emphasizes      |  |  | | --- | --- | | A. | reporting to stockholders. |  |  |  | | --- | --- | | B. | a current perspective. |  |  |  | | --- | --- | | **C.** | the future. |  |  |  | | --- | --- | | D. | past transactions. |   Future focus is a basic function of cost accounting. The other options all support financial accounting. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 79. | The concept of considering both the costs and benefits of a proposal is known as:      |  |  | | --- | --- | | **A.** | Cost-benefit analysis |  |  |  | | --- | --- | | B. | Performance measurement |  |  |  | | --- | --- | | C. | Nonvalue-added analysis |  |  |  | | --- | --- | | D. | Preparation of financial statements |   The concept of considering both the costs and benefits of a proposal is cost-benefit analysis. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Analyze Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 80. | Department managers at Boswell Department Store are allowed considerable discretion in both sourcing and pricing of products, based on local tastes and competition, as well as being responsible for departmental staffing. Based on the concept of the responsibility center, which of the following would **not** be a performance measure that would be useful in evaluating the performance of departmental managers at the stores?      |  |  | | --- | --- | | A. | Departmental profit compared to budgeted departmental profit. |  |  |  | | --- | --- | | **B.** | Trends in general and administrative expenses for each store. |  |  |  | | --- | --- | | C. | Growth in department sales compared to the prior period sales. |  |  |  | | --- | --- | | D. | Departmental customer satisfaction. |   A responsibility center allows the specific unit of an organization to be assigned to a manager who is held accountable for its operations and resources. The departmental manager does not have responsibility for controlling all the administrative expenses for each store location. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Analyze Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 81. | Snuggle Toys, Inc. had the following summarized results for the month ending July 31:   |  |  |  | | --- | --- | --- | |  | **Actual** | **Budget** | | Revenues | $60,000 | $52,000 | | Costs | 53,600 | 45,600 | | Operating profits | $6,400 | $6,400 |   As the cost accountant, which single note to the above financial results is most appropriate in the report to management?       |  |  | | --- | --- | | A. | The departmental manager is performing to expectations because budgeted income equals actual income. |  |  |  | | --- | --- | | B. | Revenues are above budget and a bonus based on this increase should be considered. |  |  |  | | --- | --- | | **C.** | Costs as a percentage of revenues are above budget and a further scrutiny of the results might be appropriate. |  |  |  | | --- | --- | | D. | Costs are 17.5% above budget and the department manager's position should be critically evaluated by senior management. |   If revenue is higher, then profits should be higher, unless there is a problem with costs. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Evaluate Difficulty: 3 Hard Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 82. | CraftMaster Corporation purchased a machine 7 years ago for $339,000 when it launched product X05K. Unfortunately, this machine has broken down and **cannot** be repaired. The machine could be replaced by a new model 360 machine costing $353,000 or by a new model 280 machine costing $332,000. Management has decided to buy the model 280 machine. It has less capacity than the model 360 machine, but its capacity is sufficient to continue making product X05K. Management also considered, but rejected, the alternative of dropping product X05K and **not** replacing the old machine. If that were done, the $332,000 invested in the new machine could instead have been invested in a project that would have returned a total of $426,000. In making the decision to buy the model 280 machine rather than the model 360 machine, the differential cost was:       |  |  | | --- | --- | | **A.** | $21,000. |  |  |  | | --- | --- | | B. | $87,000. |  |  |  | | --- | --- | | C. | $7,000. |  |  |  | | --- | --- | | D. | $14,000. |   Model 360 cost ($353,000) - Model 280 cost ($332,000) = Differential cost ($21,000) |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking AICPA: FN Decision Making Accessibility: Keyboard Navigation Blooms: Evaluate Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 83. | When comparing activity-based costing with conventional costing methods, which of the following is the key benefit of the method?      |  |  | | --- | --- | | A. | It is cheaper to implement. |  |  |  | | --- | --- | | B. | It is based on only one or two factors, generally volume-related. |  |  |  | | --- | --- | | C. | It is simpler. |  |  |  | | --- | --- | | **D.** | It provides more accurate cost numbers. |   Activity-based costing provides more accurate cost numbers than conventional costing methods. |

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| *AACSB: Knowledge Application AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 84. | Geno's Body Shop had sales revenues and operating costs in 2016 of $650,000 and $525,000, respectively. In 2017, Geno's plans to expand the services it provides to customers to include detailing services. Revenues are expected to increase by $85,000 and operating costs by $50,000 as a result of this expansion. Assuming that there are no changes to the existing body shop business, operating profits would be expected to increase during 2017 by      |  |  | | --- | --- | | A. | $125,000. |  |  |  | | --- | --- | | B. | $85,000. |  |  |  | | --- | --- | | C. | $160,000. |  |  |  | | --- | --- | | **D.** | $35,000. |   Revenues ($85,000) - Operating costs ($50,000) = additional operating profit ($35,000) |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 85. | Geno's Body Shop had sales revenues and operating costs in 2016 of $650,000 and $525,000, respectively. In 2017, Geno's plans to expand the services it provides to customers to include detailing services. Revenues are expected to increase by $85,000 and operating costs by $50,000 as a result of this expansion. Assuming that there are no changes to the existing body shop business, what is the amount of operating profits that are expected be earned in 2017?      |  |  | | --- | --- | | A. | $125,000 |  |  |  | | --- | --- | | B. | $85,000 |  |  |  | | --- | --- | | **C.** | $160,000 |  |  |  | | --- | --- | | D. | $35,000 |   Total Revenues ($650,000 + $85,000) - Total Operating costs ($525,000 + $50,000) = Total operating profit = $160,000 |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 86. | The goals and objectives of establishing budgeting in an organization include all of the following **except**:      |  |  | | --- | --- | | A. | the ability to decide whether goals can be achieved. |  |  |  | | --- | --- | | B. | the resources needed to carry out its tasks. |  |  |  | | --- | --- | | C. | anticipated revenues to be generated. |  |  |  | | --- | --- | | **D.** | the consistent application of generally accepted accounting principles. |   Consistent application of GAAP has nothing to do with goals and objectives of establishing budgets. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 87. | In 2016, the Allen Company had consulting revenues of $1,000,000 while operating costs were $750,000. In 2017, Allen will be introducing a new service that will generate $150,000 in sales revenues and $60,000 in operating costs. Assuming no changes are expected for the other services, the differential operating costs for 2017 will be      |  |  | | --- | --- | | A. | $250,000. |  |  |  | | --- | --- | | B. | $150,000. |  |  |  | | --- | --- | | **C.** | $90,000. |  |  |  | | --- | --- | | D. | $60,000. |   The additional operating costs are the differential amount of $60,000. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 88. | In 2016, the Allen Company had consulting revenues of $1,000,000 while operating costs were $750,000. In 2017, Allen will be introducing a new service that will generate $150,000 in sales revenues and $60,000 in operating costs. Assuming no changes are expected for the other services, the differential revenue for 2017 will be      |  |  | | --- | --- | | A. | $250,000. |  |  |  | | --- | --- | | **B.** | $150,000. |  |  |  | | --- | --- | | C. | $90,000. |  |  |  | | --- | --- | | D. | $60,000. |   The additional revenues are the differential amount of $105,000. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 89. | San Juan, Inc. is considering two alternatives: A and B. The costs associated with the alternatives are listed below:   |  |  |  | | --- | --- | --- | |  | **Alternative A** | **Alternative B** | | Material costs | $35,000 | $57,000 | | Processing costs | 36,000 | 57,000 | | Building costs | 12,000 | 28,000 | | Equipment rental | 19,000 | 19,000 |   Are the materials costs and processing costs differential in the choice between alternatives A and B? (Ignore the building costs and equipment rental in this question.)       |  |  | | --- | --- | | A. | Neither materials costs nor processing costs are differential. |  |  |  | | --- | --- | | **B.** | Both materials costs and processing costs are differential. |  |  |  | | --- | --- | | C. | Only processing costs are differential. |  |  |  | | --- | --- | | D. | Only materials costs are differential. |   Both material costs and processing costs are differential. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Evaluate Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 90. | San Juan, Inc. is considering two alternatives: A and B. The costs associated with the alternatives are listed below:   |  |  |  | | --- | --- | --- | |  | **Alternative A** | **Alternative B** | | Material costs | $35,000 | $57,000 | | Processing costs | 36,000 | 57,000 | | Building costs | 12,000 | 28,000 | | Equipment rental | 19,000 | 19,000 |   If only the differential costs of the two decisions are considered, the total cost of Alternative B is       |  |  | | --- | --- | | A. | $161,000. |  |  |  | | --- | --- | | B. | $131,500. |  |  |  | | --- | --- | | **C.** | $59,000. |  |  |  | | --- | --- | | D. | $102,000. |   All of the costs except equipment rental are differential ($22,000 + $21,000 + $16,000 = $59,000). |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Evaluate Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 91. | Two alternatives, identified X and Y, are under consideration at Hayden Corporation. Costs associated with the alternatives are listed below.   |  |  |  | | --- | --- | --- | |  | **Alternative X** | **Alternative Y** | | Material costs | $44,000 | $56,000 | | Processing costs | 37,000 | 59,000 | | Building costs | 14,000 | 14,000 | | Equipment rental | 11,000 | 11,000 |   Are the materials costs and processing costs differential in the choice between alternatives X and Y? (Ignore the building costs and equipment rental in this question.)       |  |  | | --- | --- | | **A.** | Both materials costs and processing costs are differential |  |  |  | | --- | --- | | B. | Only materials costs are differential |  |  |  | | --- | --- | | C. | Only processing costs are differential |  |  |  | | --- | --- | | D. | Neither materials costs nor processing costs are differential |   Both material costs and processing costs are differential. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Evaluate Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 92. | Two alternatives, identified X and Y, are under consideration at Hayden Corporation. Costs associated with the alternatives are listed below.   |  |  |  | | --- | --- | --- | |  | **Alternative X** | **Alternative Y** | | Material costs | $44,000 | $56,000 | | Processing costs | 37,000 | 59,000 | | Building costs | 14,000 | 14,000 | | Equipment rental | 11,000 | 11,000 |   What is the differential cost of Alternative Y over Alternative X?       |  |  | | --- | --- | | A. | $140,000 |  |  |  | | --- | --- | | B. | $123,000 |  |  |  | | --- | --- | | **C.** | $34,000 |  |  |  | | --- | --- | | D. | $106,000 |   Both material costs and processing costs are differential, $12,000 + $22,000 = $34,000. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Evaluate Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 93. | Marcus Roberts is putting together a training session about value chain components. Which of the following would be a good example of a cost for the component of purchasing?       |  |  | | --- | --- | | A. | Advertising |  |  |  | | --- | --- | | B. | Warranty repairs |  |  |  | | --- | --- | | **C.** | Vendor certification |  |  |  | | --- | --- | | D. | Patent applications |   Vendor certification is an example related to the value chain component of purchasing. |

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| *AACSB: Reflective Thinking AICPA: BB Industry Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 94. | Anna Potts is putting together a training session about value chain components. Which of the following would be a good example of a cost for the component of distribution?      |  |  | | --- | --- | | A. | Advertising |  |  |  | | --- | --- | | B. | Warranty repairs |  |  |  | | --- | --- | | C. | Vendor certification |  |  |  | | --- | --- | | **D.** | Website creation, hosting, and maintenance |   Website creation, hosting, and maintenance is an example related to the value chain component of distribution. |

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| *AACSB: Reflective Thinking AICPA: BB Industry Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 95. | Megan Towe is putting together a training session about value chain components. Which of the following would be a good example of a cost for the component of research and development?      |  |  | | --- | --- | | A. | Advertising |  |  |  | | --- | --- | | B. | Warranty repairs |  |  |  | | --- | --- | | C. | Vendor certification |  |  |  | | --- | --- | | **D.** | Patent applications |   Patent applications is an example related to the value chain component of research and development. |

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| *AACSB: Reflective Thinking AICPA: BB Industry Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 96. | An Enterprise Resource Planning System can best be described as      |  |  | | --- | --- | | A. | a collection of programs that use a variety of unconnected databases. |  |  |  | | --- | --- | | **B.** | 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. |  |  |  | | --- | --- | | C. | a database that is primarily used by a purchasing department to determine the correct amount of a particular supply item to purchase. |  |  |  | | --- | --- | | D. | a sophisticated means of linking two or more companies to facilitate their planning processes. |   This statement is a definition of an Enterprise Resource Planning System. |

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| *AACSB: Technology AICPA: BB Leveraging Technology Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 97. | 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      |  |  | | --- | --- | | **A.** | value chain management. |  |  |  | | --- | --- | | B. | enterprise resource planning. |  |  |  | | --- | --- | | C. | cost management. |  |  |  | | --- | --- | | D. | customer value management. |   This statement is the objective of value chain management. |

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| *AACSB: Technology AICPA: BB Leveraging Technology Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 98. | R&D, production, and customer service are business functions that are all included as part      |  |  | | --- | --- | | **A.** | of the value chain. |  |  |  | | --- | --- | | B. | of benchmarking. |  |  |  | | --- | --- | | C. | of marketing. |  |  |  | | --- | --- | | D. | of the supply chain. |   These activities are all found in the value chain. |

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| *AACSB: Analytical Thinking AICPA: BB Industry Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 99. | All of the following words describe benchmarking **except**:      |  |  | | --- | --- | | A. | on-going. |  |  |  | | --- | --- | | **B.** | one-time event. |  |  |  | | --- | --- | | C. | continuous. |  |  |  | | --- | --- | | D. | measuring process. |   Benchmarking is a continuous process of measuring a company's own products, services, or activities against competitor's performance. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 100. | All of the following are examples of total quality management practices **except:**       |  |  | | --- | --- | | A. | redesign of a product to reduce its parts by 50 percent. |  |  |  | | --- | --- | | B. | reduction in the movement required in a manufacturing job. |  |  |  | | --- | --- | | **C.** | separating the sales and services functions. |  |  |  | | --- | --- | | D. | raising raw material quality standards. |   The other three options focus on specific practices, whereas this option has no stated objective. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 101. | Which area(s) of a business can be improved by using a just-in-time (JIT) system?       |  |  | | --- | --- | | **A.** | Production, purchasing, and delivery |  |  |  | | --- | --- | | B. | Production only |  |  |  | | --- | --- | | C. | Purchasing only |  |  |  | | --- | --- | | D. | Production and purchasing only |   All three areas can be improved by using a JIT system. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 102. | Examples of the controller's functions include all **except:**       |  |  | | --- | --- | | A. | cost accounting policies. |  |  |  | | --- | --- | | B. | budgeting. |  |  |  | | --- | --- | | **C.** | investor relations. |  |  |  | | --- | --- | | D. | general ledger. |   All are example of the controller's functions except for investor relations. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Key Players in the Organization* |

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| 103. | Cost accounting is an integral part of the \_\_\_\_\_\_\_\_ function in an organization.       |  |  | | --- | --- | | A. | treasurer's |  |  |  | | --- | --- | | **B.** | controller's |  |  |  | | --- | --- | | C. | internal auditor's |  |  |  | | --- | --- | | D. | president's |   Cost accounting is an integral part of the controller's function. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Key Players in the Organization* |

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| 104. | All of the following actions enhance the new focus on making cost accounting information more relevant in helping a firm achieve strategic goals **except:**       |  |  | | --- | --- | | A. | increasing emphasis on the management accountant as a business partner. |  |  |  | | --- | --- | | **B.** | increasing emphasis on external financial reporting. |  |  |  | | --- | --- | | C. | decreasing emphasis on financial statement inventory cost valuation. |  |  |  | | --- | --- | | D. | increasing emphasis on timely and useful information. |   The three other options enhance making cost accounting information more relevant. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 3 Hard Gradable: automatic Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 105. | All of the following are examples of total quality management practices **except:**       |  |  | | --- | --- | | A. | redesign of a product to reduce its parts by 50 percent. |  |  |  | | --- | --- | | B. | reduction in the movement required in a manufacturing job. |  |  |  | | --- | --- | | **C.** | separating the sales and services functions. |  |  |  | | --- | --- | | D. | raising raw material quality standards. |   This is not an example of TQM practices. |

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| *AACSB: Analytical Thinking AICPA: BB Resource Management Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 3 Hard Gradable: automatic Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 106. | The Institute of Management Accountants' (IMA) standards of ethical conduct for management accountants includes the elements of       |  |  | | --- | --- | | A. | competence, confidentiality, integrity, and relevance. |  |  |  | | --- | --- | | **B.** | competence, confidentiality, integrity, and credibility. |  |  |  | | --- | --- | | C. | competence, confidentiality, independence, and objectivity. |  |  |  | | --- | --- | | D. | competence, accuracy, integrity, and independence. |   These four elements are included in the IMA's standard of ethical conduct. |

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| *AACSB: Ethics AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 107. | According to the IMA Code of Ethics, what should a management accountant do if a significant ethical situation can't be resolved?      |  |  | | --- | --- | | A. | The accountant should confront the guilty party and demand the unethical action be stopped. |  |  |  | | --- | --- | | B. | The accountant should try to rationalize and understand the position of the other party. |  |  |  | | --- | --- | | C. | The accountant should say nothing about the matter until he or she has retired. |  |  |  | | --- | --- | | **D.** | The accountant should first discuss the matter with the immediate supervisor. |   This is a step that the accountant should take. |

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| *AACSB: Ethics AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 108. | With the enactment of the Sarbanes-Oxley Act of 2002, all public companies are now required by the SEC to disclose whether or **not** the company has      |  |  | | --- | --- | | A. | an audit committee. |  |  |  | | --- | --- | | B. | human resources guidelines. |  |  |  | | --- | --- | | **C.** | a code of ethics. |  |  |  | | --- | --- | | D. | a management compensation plan. |   This is a requirement under the Sarbanes-Oxley Act of 2002. |

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| *AACSB: Ethics AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 109. | The Sarbanes Oxley Act of 2002 requires an effective internal control system for publicly owned firms. Therefore, with regards to strategic investment decisions, it is important that management consider including      |  |  | | --- | --- | | A. | internal audits of strategic decisions. |  |  |  | | --- | --- | | B. | a code of ethics. |  |  |  | | --- | --- | | C. | a system of preparing and reporting on investment decisions. |  |  |  | | --- | --- | | **D.** | All of the above. |   All of the items listed here should be included in an effective internal control system. |

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| *AACSB: Ethics AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Gradable: automatic Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 110. | Where there is a lack of good performance measures, it is difficult to motivate managers by using      |  |  | | --- | --- | | **A.** | performance-based incentives. |  |  |  | | --- | --- | | B. | monetary rewards. |  |  |  | | --- | --- | | C. | compensation. |  |  |  | | --- | --- | | D. | rewards for products. |   Good performance measures are necessary in implementing performance-based incentives. |

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| *AACSB: Ethics AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 111. | Which of the following is a **true** statement regarding performance evaluation?      |  |  | | --- | --- | | **A.** | Managers should be evaluated on those things over which they have influence. |  |  |  | | --- | --- | | B. | Managers should be evaluated on the performance of the entire organization. |  |  |  | | --- | --- | | C. | Sales personnel do not have complete control over the level of sales. |  |  |  | | --- | --- | | D. | Managers should not be evaluated on those things over which they have influence, if they do not have complete control over them. |   This is the only measure listed here on which performance should be evaluated. |

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| *AACSB: Ethics AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Gradable: automatic Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

**Essay Questions**

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| 112. | Carley Inc. incurs many types of costs in its operations. Place the number of the appropriate stage in the value chain in Column 2 in the blank next to each cost in column 1.   |  |  |  | | --- | --- | --- | |  | **Cost** | **Stage in the Value Chain** | |  | Transportation costs to ship vans to customers | 1. Customer Service | |  | Labor costs for factory workers | 2. Distribution | |  | Overtime costs for scientists working on new engine technology | 3. Research & Development | |  | Utilities cost for the design testing center | 4. Marketing | |  | Costs to survey customers about their satisfaction | 5. Production | |  | Costs to sponsor a sporting event | 6. Design |       |  |  |  | | --- | --- | --- | |  | **Cost** | **Stage in the Value Chain** | | 2 | Transportation costs to ship vans to customers | 1. Customer Service | | 5 | Labor costs for factory workers | 2. Distribution | | 3 | Overtime costs for scientists working on new engine technology | 3. Research & Development | | 6 | Utilities cost for the design testing center | 4. Marketing | | 1 | Costs to survey customers about their satisfaction | 5. Production | | 4 | Costs to sponsor a sporting event | 6. Design | |

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| *AACSB: Analytical Thinking AICPA: BB Industry Blooms: Remember Difficulty: 1 Easy Gradable: manual Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 113. | SuperMax is an integrated provider of genetically engineered corn. Many types of costs are incurred in its operations. Place the number of the appropriate stage in the value chain in Column 2 in the blank next to each cost in column 1.   |  |  |  | | --- | --- | --- | |  | **Cost** | **Stage in the Value Chain** | |  | Warehouse costs to store seed awaiting shipment to customers | 1. Customer Service | |  | Utility costs for seed mill | 2. Distribution | |  | Equipment costs in genetics laboratory | 3. Research & Development | |  | Labor costs to run help line call center | 4. Marketing | |  | Costs to prepare advertising campaign in national agriculture magazine | 5. Production | |  | Costs to contract with growers to provide seed | 6. Purchasing |       |  |  |  | | --- | --- | --- | |  | **Cost** | **Stage in the Value Chain** | | 2 | Warehouse costs to store seed awaiting shipment to customers | 1. Customer Service | | 5 | Utility costs for seed mill | 2. Distribution | | 3 | Equipment costs in genetics laboratory | 3. Research & Development | | 1 | Labor costs to run help line call center | 4. Marketing | | 4 | Costs to prepare advertising campaign in national agriculture magazine | 5. Production | | 6 | Costs to contract with growers to provide seed | 6. Purchasing | |

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| *AACSB: Analytical Thinking AICPA: BB Industry Blooms: Remember Difficulty: 1 Easy Gradable: manual Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 114. | Travon's Limo Service provides transportation services in and around Bentonville. Its profits have been declining, and management is planning to add a package delivery service that is expected to increase revenue by $275,000 per year. The total cost to lease additional delivery vehicles from the local dealer is $60,000 per year. The present manager will continue to supervise all services. However, labor and utilities costs will increase by 40% and rent and other costs will increase by 15% when the package delivery service is added.   |  |  |  | | --- | --- | --- | | **Travon’s Limo Service Annual Income Statement Before Expansion** | | | | Sales Revenue |  | $960,000 | | Costs: |  |  | | Vehicle leases | $400,000 |  | | Labor | 290,000 |  | | Utilities | 50,000 |  | | Rent | 100,000 |  | | Other Costs | 60,000 |  | | Manager’s Salary | 120,000 |  | | Total Costs |  | 1,020,000 | | Operating Profit (Loss) |  | ($60,000) |   a. Prepare a report of the differential costs and revenues if the delivery service is added.  b. Should management start up the delivery service? Explain your answer.      a.   |  |  |  |  | | --- | --- | --- | --- | | **Travon’s Limo Service Income Statement** | | | | |  | **Status Quo No Delivery Service (1)** | **Alternative: With Delivery Service (2)** | **Difference** **(3)** | | Sales Revenue | $960,000 | $1,235,000 | $275,000 | | Costs: |  |  |  | | Vehicle leases | 400,000 | 460,000 | 60,000 | | Labor | 290,000 | 406,000 | 116,000 | | Utilities | 50,000 | 70,000 | 20,000 | | Rent | 100,000 | 115,000 | 15,000 | | Other Costs | 60,000 | 69,000 | 9,000 | | Manager’s Salary | 120,000 | 120,000 | 0 | | Total Costs | $1,020,000 | $1,240,000 | $220,000 | | Operating Profit (Loss) | ($60,000) | ($5,000) | $55,000 |   b. The decision to expand and offer the delivery service results in differential profits of $55,000, so it is profitable to expand. Note that only differential costs and revenues figured in the decision. The manager's salary did not change, so it was not included. |

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| *AACSB: Analytical Thinking AICPA: FN Decision Making Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 115. | Morris Inc. is a management consulting firm that specializes in management training programs. Tackle Manufacturing Inc. has approached Morris to contract for management training for a one-year period. Last year's income statement for Morris is as follows:   |  |  |  | | --- | --- | --- | | Sales Revenue |  | $360,000 | | Costs: |  |  | | Labor | $120,000 |  | | Equipment Lease | 12,000 |  | | Rent | 24,000 |  | | Utilities | 8,400 |  | | Supplies | 23,600 |  | | Other Costs | 14,400 |  | | Manager’s Salary | 80,000 |  | | Total Costs |  | 282,400 | | Operating Profit (Loss) |  | $77,600 |   To satisfy the Tackle contract, another part-time trainer will need to be hired at $42,000. Supplies will increase by 12% and other costs will increase by 15%. In addition, new equipment will need to be leased at a cost of $2,500.    a. What are the differential costs that would be incurred if the Tackle contract is signed?  b. If Tackle will pay $55,000 for one year, should Morris accept the contract? Explain your answer.      a. Differential costs incurred if the contract is signed:   |  |  | | --- | --- | | (a) Differential Costs |  | | Trainer | $42,000 | | Supplies | 2,832 | | Other Costs | 2,160 | | New Equipment Lease | 2,500 | |  | $49,492 |   b. Differential revenues of $55,000 will exceed the differential costs of $49,492. As a result, Morris will earn an additional $5,508 in operating profit if it accepts the contract. |

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| *AACSB: Analytical Thinking AICPA: FN Decision Making Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 116. | The Arielle Company reported the following results for the manufacture and sale of one of its products known as Controllers during the most recent year.   |  |  | | --- | --- | | Sales (6,500 Controllers at $130 each) | $845,000 | | Cost of sales | 390,000 | | Distribution costs | 65,000 | | Advertising expense | 275,000 | | Salaries | 25,000 | | Building costs | 145,000 | | Operating loss | ($55,000) |   The Arielle Company is trying to determine whether or **not** to discontinue the manufacture and sale of Controllers. The operating results reported above for last year are expected to continue in the foreseeable future if the product is **not** dropped. The building costs represent the costs of production facilities and equipment that the Controllers product shares with other products produced by Arielle. If the Controllers product were dropped, there would be no change in the building costs of the company. Management has determined that discontinuing the manufacture and sale of Controllers will have no effect on the company's other product lines. Determine the change in operating profits that will happen if the manufacture and sale of Controllers is discontinued.      Although the company's net operating profits would seem to increase by $55,000 if the manufacture and sale of Controllers were discontinued, the building costs, which amount to $145,000, would continue regardless. As a result, operating profits will actually decrease if the manufacture and sale of Controllers is discontinued as shown below. (Note that the decrease in revenues that would result will decrease operating profits and, as such, it is shown as a negative number below. The cost savings listed below would increase operating profits, which is why these amounts are shown as positive amounts below.)   |  |  | | --- | --- | | Sales (6,500 Controllers at $130 each) | ($845,000) | | Cost of sales | 390,000 | | Distribution costs | 65,000 | | Advertising expense | 275,000 | | Salaries | 25,000 | | Increase (decrease) in operating profits | ($90,000) | |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 117. | The management of Parachute Corporation is considering dropping product ABC123. Data from the company's accounting system appear below:   |  |  | | --- | --- | | Sales | $260,000 | | Cost of goods sold | 125,000 | | Building expenses | 88,000 | | Selling and administrative expenses | 75,000 |   All building expenses of the company are fully allocated to products in the company's accounting system. Further investigation has revealed that $42,000 of the building expenses and $48,000 of the selling and administrative expenses will **not** be incurred if product ABC123 is discontinued.    a. According to the company's accounting system, what are the operating profits earned by product ABC123?  b. What would be the impact on the company's overall operating profits if product ABC123 is dropped? Should the product be dropped?      a. Operating profits (losses) earned by product ABC123:   |  |  | | --- | --- | | Sales | $260,000 | | Cost of goods sold | 125,000 | | Building expenses | 88,000 | | Selling and administrative expenses | 75,000 | | Operating profits (losses) | ($28,000) |   b. Impact on company's overall operating profits if product ABC123 is dropped:   |  |  | | --- | --- | | Sales | ($260,000) | | Cost of goods sold | 125,000 | | Building expenses |  | | ($88,000 - $46,000) | 42,000 | | Selling and administrative expenses |  | | ($75,000 - $27,000) | 48,000 | | Increase (decrease) in operating profits | ($45,000) |   Overall operating profits would decrease by $45,000 if product ABC123 were dropped. Therefore, the product should not be dropped. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 118. | The management of Marvel Corporation has been concerned for some time with the financial performance of its product EX123 and has considered discontinuing it on several occasions. Data from the company's accounting system appear below:   |  |  | | --- | --- | | Sales | $650,000 | | Cost of goods sold | $293,000 | | Building expenses | $221,000 | | Selling and administrative expenses | $150,000 |   In the company's accounting system all building expenses of the company are fully allocated to products. Further investigation has revealed that $95,000 of the building expenses and $85,000 of the selling and administrative expenses will **not** be incurred if product EX123 is discontinued.    a. According to the company's accounting system, what are the operating profits (losses) earned by product EX123?  b. What would be the effect on the company's overall operating profits if product EX123 is dropped?      a. Operating profits (losses) earned by product EX123:   |  |  | | --- | --- | | Sales | $650,000 | | Cost of goods sold | 293,000 | | Building expenses | 221,000 | | Selling and administrative expenses | 150,000 | | Operating profits (losses) | ($14,000) |   b. Impact on company's overall operating profits if product EX123 is dropped:   |  |  | | --- | --- | | Sales | ($650,000) | | Cost of goods sold | 293,000 | | Building expenses | 95,000 | | Selling and administrative expenses | 85,000 | | Increase (decrease) in operating profits | ($177,000) |   Overall operating profits would decrease by $177,000 if product EX123 were dropped. Therefore, the product should not be dropped. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 119. | Place the letter of the appropriate element of an organization's value chain in Column 2 in the blank next to each operation in Column 1.   |  |  |  |  | | --- | --- | --- | --- | |  | **Column 1** |  | **Column 2** | | \_\_\_ | Macy’s replies to customers' questions on merchandise. | A. | Research and Development | | \_\_\_ | Updating PetSmart’s electronic Internet catalogue of chew bones and leash merchandise. | B. | Design | | \_\_\_ | Development of new software applications at Apple. | C. | Production | | \_\_\_ | Contracting with United Parcel Services to ship computers to customers at Best Buy | D. | Marketing | | \_\_\_ | Writing of software programs at QuickBook's Professional Accountant Division. | E. | Distribution | | \_\_\_ | Creation of new movie ideas at Universal Studios. | F. | Customer Service |       |  |  |  |  | | --- | --- | --- | --- | |  | **Column 1** |  | **Column 2** | | \_F | Macy’s replies to customers' questions on merchandise | A. | Research and Development | | \_D\_ | Updating PetSmart’s electronic Internet catalogue of chew bones and leash merchandise. | B. | Design | | \_B\_ | Development of new software applications at Apple. | C. | Production | | \_E\_ | Contracting with United Parcel Services to ship computers to customers at Best Buy | D. | Marketing | | \_C\_ | Writing of software programs at QuickBook's Professional Accountant Division. | E. | Distribution | | \_A\_ | Creation of new movie ideas at Universal Studios. | F. | Customer Service | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Blooms: Remember Difficulty: 2 Medium Gradable: manual Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 120. | Old-Fashion Flavors is a local ice cream shop. The company currently is showing an operating loss, as evidenced by the income statement below:   |  |  | | --- | --- | | Sales | $75,000 | | Costs: |  | | Food supplies | 20,000 | | Labor | 16,000 | | Utilities | 4,000 | | Rent | 12,000 | | Other | 4,000 | | Manager’s salary | 25,000 | | Total Costs | 81,000 | | Operating Profits (Losses) | ($6,000) |   The President of the company is considering adding sandwiches to the menu. Sales will be expected to increase by $60,000. The cost of sandwich supplies would be $30,000. Labor costs would increase 40% and other costs 10%. The current manager will continue to manage the operation.    a. Prepare a quantitative analysis of the decision to add sandwiches to the menu.  b. What qualitative considerations should the company consider in this decision?      a.   |  |  |  |  | | --- | --- | --- | --- | |  | **Status Quo** | **Alternative: Add Sandwiches** | **Difference** | | Sales | $75,000 | $135,000 | $60,000 | | Costs: |  |  |  | | Food supplies | 20,000 | 50,000 | 30,000 | | Labor | 16,000 | 22,400 | 6,400 | | Utilities | 4,000 | 4,000 | 0 | | Rent | 12,000 | 12,000 | 0 | | Other | 4,000 | 4,400 | 400 | | Manager’s salary | 25,000 | 25,000 | 0 | | Total Costs | 81,000 | 117,800 | 36,800 | | Operating Profits (Losses) | ($6,000) | $17,200 | $23,200 |   b. Qualitative considerations should include the impact on the current manager's morale with the large increase in responsibility, the ability of the company to successfully integrate the new menu and the response of customers to the addition of sandwiches in an ice cream shop. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 121. | The Brogan family currently lives in a suburb of a major city. They have a lovely home close to major routes of transportation. Both Mr. and Mrs. Brogan have convenient commutes of 30 minutes or less. Because the school system in their town does **not** have a quality reputation, they currently send their daughter to private school, conveniently located less than one mile from their home. The family's current monthly living expenses are listed below:   |  |  | | --- | --- | |  | **Monthly Budget** | | Mortgage, including taxes and insurance | $5,000 | | Other utilities, including water, heat and telephone | 500 | | Costs of running automobiles | 800 | | Cost of private school | 2,000 | | Total monthly budget | $8,300 |   The Brogans are considering moving to a town approximately 20 minutes away. Because of the desirability of the local schools and strict zoning, housing is very expensive in this town. Their daughter would attend public schools. The Brogans estimate that their monthly mortgage, taxes and insurance would increase to $7,000 per month, while the cost of running automobiles would increase 20% and other utilities 10%. Mortgage interest costs are tax deductible and the Brogans are in the 25% tax bracket. Assume that $700 of the increase in their monthly budget is for mortgage interest. What are the costs and benefits of moving? Which can be quantified and which **cannot**?      The Brogans should recognize that their total household expenses will not increase significantly. The increased mortgage will be offset by the savings on private school. In addition, since the mortgage is tax deductible and the school is not, the savings in taxes will just about offset the increased monthly costs:   |  |  | | --- | --- | | Additional mortgage cost | $2,000 | | Private school savings | (2,000) | | Tax savings ($700 × 25%) | (175) | | Increased auto cost ($800 × 20%) | 160 | | Increased utilities ($500 × 10%) | 50 | | Net Increase (decrease) | $35 |   Other costs and benefits are not measurable. The Brogans are assuming that their daughter will receive the same quality of education in the public school. Commuting time will increase by 40 minutes per day for both Mr. and Mrs. Brogan. The convenience of being located very close to a major route of transportation will no longer be theirs. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 122. | Place the letter of the appropriate business function of the value chain in Column 2 in the blank next to each cost item in Column 1.   |  |  |  |  | | --- | --- | --- | --- | |  | **Column 1** |  | **Column 2** | | \_\_\_ | cost of customer order forms | A | Research and development | | \_\_\_ | cost of paper used in manufacture of books | B | Design | | \_\_\_ | cost of paper used in packing cartons to ship books | C | Production | | \_\_\_ | cost of paper used in display at national trade show | D | Marketing | | \_\_\_ | depreciation of trucks used to transport books to college bookstores | E | Distribution | | \_\_\_ | cost of the wood used to manufacture paper | F | Customer service | | \_\_\_ | salary of the scientists attempting to find another source of printing ink |  |  | | \_\_\_ | cost of defining the book size so that a standard-sized box is filled to capacity |  |  |       |  |  |  |  | | --- | --- | --- | --- | |  | **Column 1** |  | **Column 2** | | \_D\_ | cost of customer order forms | A | Research and development | | C\_ | cost of paper used in manufacture of books | B | Design | | \_E\_ | cost of paper used in packing cartons to ship books | C | Production | | \_D\_ | cost of paper used in display at national trade show | D | Marketing | | \_E\_ | depreciation of trucks used to transport books to college bookstores | E | Distribution | | \_C\_ | cost of the wood used to manufacture paper | F | Customer service | | \_A\_ | salary of the scientists attempting to find another source of printing ink |  |  | | \_B\_ | cost of defining the book size so that a standard-sized box is filled to capacity |  |  | |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Blooms: Remember Difficulty: 1 Easy Gradable: manual Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 123. | Morgantown Manufacturing produces electronic storage devices, and uses the following three-part classification for its manufacturing costs: materials, labor, and support costs. Total support costs for June were $300 million, and were allocated to each product on the basis of labor costs of each line. Summary data (in millions) for June for the most popular electronic storage device, the Giant Watt, was:   |  |  | | --- | --- | | Material costs | $9,000,000 | | Labor costs | $3,000,000 | | Support costs | $8,500,000 | | Units produced | 40,000 |   a. Compute the manufacturing cost per unit for each product produced in June.    b. Suppose production will be reduced to 30,000 units in July. Speculate as to whether the unit costs in July will most likely be higher or lower than unit costs in June; it is **not** necessary to calculate the exact July unit cost. Briefly explain your reasoning.      a. Unit costs for June were: ($9,000,000 + $3,000,000 + $8,500,000) ÷ 40,000 = $512.50 per unit  b. Unit costs should be higher in July if only 30,000 units are to be produced. Indirect manufacturing costs most likely include both fixed and variable components. Since fewer units are expected to be produced in July, total fixed costs will be spread over fewer units. This will result in an increase in total cost per unit since variable costs per unit will most likely not change with the decreased production. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 124. | The list of representative cost drivers in the right column below are randomized with respect to the list of functions in the left column. That is, they do not match.   |  |  |  | | --- | --- | --- | | **Function** |  | **Representative Cost Driver** | | Purchasing | A. | Number of employees | | Billing | B. | Number of shipments | | Shipping | C. | Number of customers | | Computer Support | D. | Number of invoices | | Personnel | E. | Number of desktop computers | | Customer Service | F. | Number of purchase orders |   **Required:**    Match each business function with its representative cost driver.   |  |  |  | | --- | --- | --- | |  | **Function** | **Insert letter of appropriate driver (A through F)** | | 1. | Purchasing |  | | 2. | Billing |  | | 3. | Shipping |  | | 4. | Computer Support |  | | 5. | Personnel |  | | 6. | Customer Service |  |       |  |  |  | | --- | --- | --- | |  | **Function** | **Insert letter of appropriate driver (A through F)** | | 1. | Purchasing | F | | 2. | Billing | D | | 3. | Shipping | B | | 4. | Computer Support | E | | 5. | Personnel | A | | 6. | Customer Service | C | |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Blooms: Remember Difficulty: 1 Easy Gradable: manual Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 125. | A restaurant is deciding whether it wants to update its image or **not**. It currently has a cozy appeal with an outdated décor that is still in good condition, menus and carpet that need to be replaced anyway, and loyal customers. Identify the following for the restaurant management:    a. Costs that are relevant to this decision.  b. Costs that would **not** be differential to this decision.  c. Any qualitative factors that should be considered.      For the decision of whether to update the restaurant's image:  a. Relevant costs include a one-time cost of the renovation for the updated image, and a change in future sales which includes an increase in sales due to the updated image, decrease in sales due to loss of that cozy appeal, and loss of sales due to being closed or having a limited serving area during renovation. b. Costs that are not differential include replacing the menus and the carpet since they need to be replaced whether the image is updated or not. c. Qualitative considerations include whether the restaurant will lose that cozy appeal it currently has, if the restaurant needs to be closed for renovations it may result in loss of customers, and new customers may not be the type of customer they want to attract. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 126. | You have been employed as an entry-level management accountant for a little under a year. You suspect that your immediate supervisor is involved in a significant fraud involving diverting of company assets to personal use. Briefly describe the steps you might take to resolve this dilemma.     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 rumors or inaccurate information. If these policies do not resolve the situation, the management accountant should:  • DISCUSS the conflict with your immediate superior or, if the conflict involves your superior, the next level in authority. This might require contacting the board of directors or an appropriate committee of the board, such as the audit commit­tee or the executive committee; • CLARIFY the relevant issues and concepts by discussions with a disinterested party or by contacting an appropriate and confidential ethics "hotline"; • CONSULT your attorney about your rights and obligations. |

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| *AACSB: Ethics AICPA: BB Critical Thinking Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 127. | Snacking Macs, Inc., currently manufactures three different types of scientifically balanced dog food. The firm is considering eliminating one of the three products. What factors should be taken into account in making this decision?     In deciding whether or not to eliminate a product, the firm should determine if costs that can be eliminated will exceed the revenues that will be lost. The firm needs to classify the costs into those costs which will be eliminated and therefore are relevant, and which costs will continue even if the product is deleted. Costs that often continue are those costs which have been allocated rather than incurred directly by the product. The firm must also look to see if any other products may be harmed by the elimination of the product. Maybe the products are complements, and loss of one sale will result in loss of another. The firm should consider whether another product's sales might increase if the product is deleted, which could be an opportunity to earn more contribution from another area. Can the firm use the space freed up for some other purpose that could generate additional inflows, which is an opportunity cost? The firm must also look at how its reputation among its customers for selling a full line of products might be damaged as a result of this decision. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Blooms: Evaluate Difficulty: 2 Medium Gradable: manual Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 128. | Clancy Mining Company mines iron ore for production into various metal products. During recent years, the company had large fluctuations in its inventories of metal ingots. Much of the volatility of the inventory levels is due to the variability of demand by the company's largest customers, automobile manufacturers. For large orders, the company has the technology to quickly shift production from one product to another. Explain how the company can improve its inventory control system and give the advantages of whatever you recommend.      The company can probably benefit from changing to a just-in-time system for inventory control. This would allow the company to be responsive to actual needs rather than finished goods inventory building. The advantages would be:  1. Lower inventory requirements; 2. Reductions in carrying and handling costs of inventories; 3. Reduction in risks of obsolete inventories; 4. Reduction in total manufacturing costs; and 5. Reductions in paperwork. |

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| *AACSB: Reflective Thinking AICPA: BB Resource Management Blooms: Evaluate Difficulty: 2 Medium Gradable: manual Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 129. | MegaStores is a large, publicly held Corporation. The company does about 80% of its work in government contracts. All contracts use a cost plus fixed fee basis; costs of jobs are agreed upon by contract. Any overruns will result in losses to the company. The company controller, Ricky Bowers CPA, CMA, is discussing two current jobs with the Job Supervisor, Leslie Dawn. Job 100 is currently coming in under budget, but due to construction problems, Job 102 is 20% over budget. Bowers is considering the possibility of having employees who work on Job 102 record their time to Job 101. What are the implications of this decision?      This is clearly an unethical practice. Since the contract price is a legally binding document, MegaStores would first be violating a legal arrangement with the government. The company could be held liable for the excess charges. This could result in fines, interest and punitive damages; criminal and civil charges could be levied against the employees knowingly involved in these practices. The practice also misleads managers who rely on accurate cost information for pricing, cost control and other decisions. If the jobs are cost plus fixed fee, the client is paying more than he should for the work. In fact, a government indictment could have ramifications of future lost business, not only with the government, but also other potential customers. In addition, Ricky and Leslie could be faced with the loss of their jobs and reputations. As a CPA, Ricky could further lose his professional certification by violating the Code of Ethics of the American Institute of CPAs. |

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| *AACSB: Ethics AICPA: BB Legal Blooms: Evaluate Difficulty: 2 Medium Gradable: manual Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 130. | The owner of a small retail business asks, "Why do I need cost accountants? My CPA produces financial statements, which are sufficient for me to discover my costs. Look at my Income Statement. I expect sales to increase by 10% next year, so I am planning on a 10% increase in profits. I don't need a cost accountant to tell me that."   |  |  | | --- | --- | | **Income Statement for the Year Ending December 31** | | | Sales Revenue | $457,234 | | Cost of Goods Sold | 296,348 | | Gross Margin | 160,886 | | Selling Costs | (76,234) | | Administrative Costs | (62,350) | | Profit before Taxes | $22,302 |   Use your knowledge of the concept of differential costs and explain why a cost accountant would question the conclusion that a 10% increase in sales would yield a 10% increase in profit.      The primary purpose of this exercise is to challenge students to think beyond the material presented in the chapter and to write/justify their responses. Answers will vary in depth and breadth, but should mention the change in costs may not be linear, some costs are certainly fixed and others are variable, and the above changes are based on estimates of changes in the cost drivers. |

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| *AACSB: Analytical Thinking AICPA: FN Decision Making Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 131. | Create a diagram of the value chain by putting the following components into the correct order: a) purchasing; b) marketing and sales; c) research and development; d) customer service; e) distribution; f) design; g) production.      c) research & development → f) design → a) purchasing → g) production → b) marketing and sales → e) distribution → d) customer service |

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| *AACSB: Analytical Thinking AICPA: BB Industry Blooms: Remember Difficulty: 1 Easy Gradable: manual Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 132. | Explain the difference between a value chain, a supply chain, and a distribution chain.     The value chain is the set of activities that expand the entire transformation process from raw resources into goods or services purchased and consumed by the end users. The supply chain is the set of firms and individuals that sells goods and services to a firm. The supply chain is an input for a firm. The distribution chain is the set of firms or individuals that buy and distribute the goods from the firm. The distribution chain is the output from a firm. |

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| *AACSB: Analytical Thinking AICPA: BB Industry Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 133. | Compare financial accounting and cost accounting using the following concepts: users of the information; important criteria; who establishes or defines the system; and how to determine an accounting treatment.       |  |  |  | | --- | --- | --- | | **Concepts** | **Financial accounting** | **Cost accounting** | | Users of the information | External: investors, creditors, owners | Internal: managers | | Important criteria | Comparability, decision relevance for investors | Decision relevance for managers, timeliness | | Who establishes or defines the system | External standard-setting group | Managers | | How to determine an accounting treatment | Standards and rules | Relevance for decision making | |

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| *AACSB: Analytical Thinking AICPA: FN Reporting Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 134. | The IMA Code of Ethics describes three basic steps a cost accountant should take when faced with an ethical conflict: Discuss, clarify, and consult. Describe each of these three steps.     Discuss the conflict with your immediate supervisor or, if the immediate supervisor is involved, the next level in authority. Clarify the relevant issues and concepts by discussions with a disinterested party. Consult with an attorney about your rights and obligations. |

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| *AACSB: Ethics AICPA: FN Decision Making Blooms: Remember Difficulty: 2 Medium Gradable: manual Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 135. | Respond to this comment: "Since cost accountants just prepare accounting data for internal management, cost accountants do **not** need to be concerned with GAAP or IFRS."     Although internal accounting is concerned with decision relevance for managers, the cost accountant still needs to be informed as to the GAAP/IFRS concepts regarding recording and measuring of costs. |

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| *AACSB: Analytical Thinking AICPA: FN Reporting Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Accounting Systems* |

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| 136. | What are characteristics of information used in decision making?      Information used in decision making must be relevant, accurate, timely, and it may be qualitative in nature. Relevant information is pertinent to a decision, i.e., it will make a difference in the decision being made. Because different managerial problems usually require different data, a difficulty is deciding what information is relevant to the situation under review.    Information used in decision making must also be accurate or it will be of little use. Accurate information is precise. If cost information is imprecise because of incorrect calculations or incomplete records, the information will not be very useful. But, the information must also be relevant. Highly accurate but irrelevant data are of no value to the decision-maker.    Relevant and accurate information is of value only if it is timely, that is, available in time to make a decision. In an ideal world, the best information will be relevant, accurate, and timely. However, rarely does an organization operates in an ideal environment and some compromise may be needed — particularly between accuracy and timeliness. More accurate information will take longer to produce. There is an inverse relationship between accuracy and timeliness, and the two characteristics must be balanced as to determine what is acceptable.    Decision making also involves qualitative characteristics, which are the factors in a decision problem that cannot be expressed in numerical terms. Examples could include poor employee morale, the loss of control that occurs if certain processes are outsourced, and the harm done to an organization if a manager places his or her own goals over the goals of the organization. Quantitative analysis can be used to determine the cost of qualitative factors. Weighing the quantitative and qualitative factors in making decisions is the essence of management. |

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| *AACSB: Analytical Thinking AACSB: Reflective Thinking AICPA: BB Critical Thinking Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Our Framework for Assessing Cost Accounting Systems* |

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| 137. | The Flamboyant Flirt is a small but prosperous hair cutting salon. Diane Stock, the manager of the salon, has been asked by several clients if she will ever offer other "hair related" services (e.g., perm, dye, etc). After careful thought, Ms. Stock is considering expanding her offerings. However, in order to do so, she will have to hire one additional stylist at a salary of $26,000 per year. Other expenses will increase as follows: rent by 20%, supplies and utilities by 25%, and miscellaneous expenses by 10%. Her revenues from additional services are likely to be $55,000 for the next year (i.e., 2017). The Flamboyant Flirt's income statement for the most recent year is presented below.   |  |  |  |  | | --- | --- | --- | --- | | **The Flamboyant Flirt Income Statement for the Year Ended December 2016** | | | | | Sales Revenue | |  | $220,000 | | Costs: | |  |  | |  | Labor | $52,000 |  | |  | Utilities | 12,000 |  | |  | Supplies | 45,000 |  | |  | Rent | 18,000 |  | |  | Miscellaneous | 5,000 |  | |  | Manager’s Salary | 30,000 | 162,000 | | Operating Profits | |  | $58,000 |   a. Based on your financial analysis, should Diane Stock go ahead with the expansion?  b. What other factors must Ms. Stock consider before making a final decision?      a. The financial implications of expanding the services offered by The Flamboyant Flirt are as follows:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **The Flamboyant Flirt Income Statement for the Year Ended December 2016** | | | | | |  |  | **Status Quo** | **Alternative: Expand** | **Difference** | | Sales Revenue | | $220,000 | $55,000 | $275,000 | | Costs: | |  |  |  | |  | Labor | $52,000 | 26,000 | $78,000 | |  | Utilities (25% of $12,000) | 12,000 | 3,000 | 15,000 | |  | Supplies (25% of $45,000) | 45,000 | 11,250 | 56,250 | |  | Rent (20% of $18,000) | 18,000 | 3,600 | 21,600 | |  | Miscellaneous (10% of $5,000) | 5,000 | 500 | 5,500 | |  | Manager’s Salary | 30,000 | 0 | 30,000 | | Operating Profits | | $58,000 | $10,650 | $68,650 |   Based on the financial analysis, Diane Stock should go ahead with the expansion because her profits will increase by $10,650 or 15.4%. However, the assumption underlying her decision is that she considers the estimates to be reliable.    b. Other factors that Ms. Stock might consider are as follows:    • Expansion of the business may bring in new customers who may ask for a haircut in addition to other services. This will increase revenues from hair cutting also. Expansion may also take away some customers who liked the small size of the salon (provides a more relaxed feeling.)  • Offering a variety of services will allow Ms. Stock to quote package prices on different combinations of services.  • Ms. Stock will have more responsibilities in overseeing the expansion, additional employees and more customers reducing the quality and quantity of personal time available. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Blooms: Evaluate Difficulty: 2 Medium Gradable: manual Learning Objective: 01-02 Distinguish between the uses and users of cost accounting and financial accounting information. Topic: Cost Data for Managerial Decisions* |

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| 138. | The manager of a profit center of a large electronics manufacturing corporation made some projections regarding sales and profits for the upcoming final quarter of the year. The managers' performance evaluation and compensation depended significantly on his ability to meet budget goals. The manager discovered that the final quarter would have to be a particularly good quarter in order to meet these goals. He decided to implement a sales program offering liberal payment terms in order to pull some sales that would normally occur next year into the current year. Customers accepting delivery in the fourth quarter would **not** have to pay the invoice for 140 days. Also, he sold some equipment that was **not** being used and realized a significant profit on the sale.  Are these actions ethical? Why or why **not**?      Each of the manager's actions needs to be considered separately:  • Liberal credit terms - Acceptable, a business strategy that should be judged on how it affects the firm's operations and profits • Attempt to pull sales from one period to another - may not be acceptable. If the purpose of the change in credit terms is simply to move sales from one period to another, then the result is misleading financial reports and fraudulent; if the objective is to increase sales through management of credit policies, then acceptable. • Sale of equipment - may be acceptable, a business decision that should be judged on how it affects the firm's operations and profits; may not be acceptable if done just to show a short term gain that would improve current period profit. |

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| *AACSB: Ethics AICPA: FN Reporting Blooms: Evaluate Difficulty: 2 Medium Gradable: manual Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 139. | The controller of one division of IntroTel, a large diversified firm is compensated by salary plus bonus. The bonus is a significant part of total compensation, and is based directly on the profits of the division. Thus, the controller has an incentive to find ways to increase profits, including the delay of discretionary expenses such as research and development, delay of maintenance and repair of manufacturing equipment, and delay of sales promotions.    Is finding ways to increase profits as described above unethical? Why or why **not**? Who is to blame, if anyone?      Since the actions contemplated by the controller are not in the best interests of the company, these actions are probably not ethical, and are in conflict with the ethical standard of integrity. The situation displays both conflict of interests and an attempt to subvert the firm's performance incentive system.  Probably both the incentive system and the controller are to blame in this case. While it is not reasonable to expect that the firm can design a bias-free incentive system, it appears that the firm has not done an acceptable job of developing a system that will reward performance based upon the firm's critical success factors, instead of short-term profits only. Improvements in the incentive scheme are possible and necessary. On the other hand, the controller cannot be excused by taking advantage of the opportunity to manipulate profits. The standards are clear on the required professional behavior in this case, and the controller has ignored them for self-serving purposes. |

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| *AACSB: Ethics AICPA: FN Reporting Blooms: Evaluate Difficulty: 2 Medium Gradable: manual Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |

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| 140. | Dockside Sandal Company, a manufacturer of women's sandals, recently implemented a quality improvement program aimed at streamlining the manufacturing process. Bo Mattison industrial engineer and a resident expert on process improvement, was assigned the task of implementing the program.  Mattison's first task was to educate all the employees involved with the production process. He sent a memo to representatives in product design and development, materials management (including purchasing), marketing, distribution, customer service and accounting, in addition to those in the production department, inviting them to attend an information session on the improvement program.  He began the meeting by thanking all those who were present (over 35 in number) and spent the first hour explaining the need for such a program. Soon after, the attendees were engaged in a discussion. Several questions were raised during the discussion. Among these, three questions stood out.  1. What is the need for including members from design, marketing, and other functional areas when the improvement program's focus is on streamlining the manufacturing process? 2. What is the role of the cost management expert in this program? 3. Finally, why should the machine operators be involved, as they are **not** engineers?  Consider the three questions that stood out in the discussion. Assume the role of Bo Mattison and prepare a response addressing the questions.     1. A process improvement program typically cuts across departmental boundaries by extending through most of the components of the value chain of a company. It is important to recognize that decisions made in the upstream activities such as product design and development affect downstream activities (i.e., manufacturing, distribution and customer service). Individuals from these downstream functions can make design engineers aware of the implications of design decisions on their respective activities. For example, the production engineer can inform the design engineer that certain designs are more compatible with the existing assembly line than others (the latter will cost more to produce). Therefore, the inclusion of individuals from different functional areas is to educate and inform each other. 2. The cost management expert assumes a very significant role in a process improvement program by providing cost-benefit information pertaining to different improvement initiatives. Once again, this activity adds value to the process improvement program because the cost manager can identify the cost implications of upstream activities on the downstream activities. For example, a product designed with common parts simplifies the purchasing activity, production activity and customer service activity (if and when required-e.g., repairs are easy). 3. The involvement of machine operators in such an improvement initiative is critical because the operator is closest to the process and therefore is likely to be very knowledgeable about how the process works. Consequently, the operator can visualize problems and point them out to other individuals in the team. Many operators might also be in a position to offer suggestions for improvements. The involvement of operators in improvement teams is becoming more common in the modern business environment. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Blooms: Create Difficulty: 3 Hard Gradable: manual Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 141. | Megan Kris, the Vice-President for Human Resources in Learning, Inc. was concerned about a recent memo she had recently received from the CEO's office regarding the possibility of outsourcing the payroll function to Salary Experts, a growing provider of a variety of human resource services. She was shocked that the CEO's office had discussed this matter with the Board of Directors, but failed to consult her.    Megan was preparing for a meeting with the CEO. In reading the memo and its attachments, Megan observed the following comparison of costs in a report prepared by the controller's office:   |  |  | | --- | --- | | Payroll department expenses: | | | Salaries of employees | $210,000 | | Share of utilities | 75,000 | | Share of building rent | 39,350 | | Manager’s salary | 69,000 | | Computers and supplies | 26,000 | | Other department expenses | 20,000 | | Total annual expenses | $439,350 |   Megan also noted that Salary Experts quoted a fixed fee of $125,000 and variable processing costs of $7.50 per employee transaction. She did **not** believe that the company will actually save money by outsourcing the payroll function. For one, she did **not** think that the company will actually save all of the above mentioned amounts. She knew that the payroll department manager could **not** be removed from the company because he had to oversee the payroll function and serve as a liaison with the outside company. However, all other employees in the department would likely **not** be required.    a. Assume Learning Inc. has 14,000 employees on its payroll. Can the company save money by outsourcing the payroll function?  b. What are the pros and cons of outsourcing the payroll function?      a. Outsourcing the payroll function will involve an out of pocket expense of $230,000 [$125,000 + ($7.50 \* 14,000)]. Moreover, some of the payroll department's costs will continue to be incurred by the company:   |  |  | | --- | --- | | Utilities | $75,000 | | Rent | 39,350 | | Manager’s salary | 69,000 | |  | $183,350 |   The total cost associated with outsourcing the function will be $413,350 compared to $439,350 if the payroll function is not outsourced. Therefore, Learning, Inc. can save exactly $26,000 by outsourcing the payroll function. More money might be saved if there are savings in utilities. A portion of the unavoidable costs could also be recovered if this space is sublet or put to productive use in some other manner.    b. Several considerations must be made before deciding to outsource the payroll function.    • Efficiency of the outside party vis-a-vis carrying out the function internally.  • In some cases, it may be worthwhile to outsource certain activities.  • Employee morale due to layoffs (with possible implications on the reputation of the company).  • Possibility of outsourcing other functions and their repercussions on employees.  • Sensitivity of the nature of the information being handled by individuals external to the organization. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Blooms: Evaluate Difficulty: 2 Medium Gradable: manual Learning Objective: 01-04 Identify current trends in cost accounting. Topic: Trends in Cost Accounting throughout the Value Chain* |

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| 142. | Mr. Lee is the production Manufacturing Manager of Cathy Company. It is the beginning of the month and he storms into the controllers department, clutching a large folder of reports. "Why am I getting so many reports? I don't need them nor do I want all the details. I've delegated responsibility to my managers so I don't have to worry about details. You've got to do something about this, John." John, the controller, starts to think about the problem that seems to have come about as the company decentralized with many layers of responsibility. He has a vague memory of something he learned from his old cost accounting class and has called you, his former professor, for some advice or suggestions in order to reduce the paper flow.  Briefly describe the concept of the hierarchy of performance reports.      The hierarchy of performance reports starts at the lowest level of responsibility and builds towards the top. Each manager receives the performance report for his or her own subunit in addition to the performance reports for the major subunits in the next lower level that he or she manages. As the reports are prepared, the total cost line, for example, from the cost center is included as one line in the performance report of the production department along with total costs for the production department's other work centers. The production department's total cost is included as a single line item in the report for the next level up, and so on. As one moves up the organization chart, the reports get more and more aggregated; as one moves down, they get more disaggregated. |

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| *AACSB: Analytical Thinking AACSB: Reflective Thinking AICPA: BB Critical Thinking AICPA: BB Resource Management Blooms: Apply Difficulty: 2 Medium Gradable: manual Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 143. | Adair Company has been busy over the first few years of its existence in penetrating its market and gaining a respectable market share. To facilitate this, Mr. Adair, the CEO, and his controller, Mr. Brown, have been developing the annual master budgets. To date this approach has worked well.  Adair has been acquired by a company in a related business but will continue to operate as an independent subsidiary. The CFO of the acquiring company, Mr. Horwitz, has suggested to Mr. Adair that, since it was expected that his company would continue to grow, it adopt a departmental budgeting system; a suggestion Mr. Adair agreed to readily. Mr. Horwitz explained to Adair's departmental managers the concepts of a departmental participative budgeting system and their involvement. The managers were encouraged to take the information and come back with suggestions which could then be put into a formal budget process.  a. What benefits will accrue to Adair under this new budgeting system? b. What behavioral issues might arise for departmental managers and for production workers? c. What is the most probable long-term reaction of Adair's people to the participative budget system?     a. There will be improved communication and coordination between departments; problems might be identified sooner since the managers are closer to the action; and accountability and performance evaluation should be easier to do. b. Departmental managers will face some positive points in that they are more likely to be motivated to work with a budget they had a hand in developing. They also should accept the results of the performance evaluation and accountability more readily. Unfortunately, there may be tendencies to pad the budget before the fact or manipulate the figures after the fact in order to look better for the evaluation, especially if there are monetary rewards involved. Production workers will have some similar reactions depending on the degree of their involvement in the process. If they consider the budget fair, they will work with it; if not, they might sabotage it. c. If there is a perception that the process has worked well, all involved will be motivated to continue with the process. If there is a feeling that things have not worked well or evaluations have been unfair, they will not work with the process. |

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| *AACSB: Analytical Thinking AICPA: BB Critical Thinking Blooms: Analyze Difficulty: 3 Hard Gradable: manual Learning Objective: 01-03 Explain how cost accounting information is used for decision making and performance evaluation in organizations. Topic: Cost Data for Managerial Decisions* |

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| 144. | Traditionally, companies in the United States have employed a "push" manufacturing style. Studies in Activity Based Management and Quality Control have indicated that this approach is filled with many non-value-added activities, which increase overall costs and reduce profits. The "push" style is being replaced with a "pull" approach.  Briefly describe the major differences between the push and pull approaches. What non-value added activities are eliminated in a pull manufacturing system?     A push manufacturer begins by forecasting total orders for a time period. The manufacturer orders materials based on the forecast. Production schedules are produced based on the forecast. Production is then "pushed" through. Because production is based on sales, the company may end up producing units for which there is not as much demand as forecast, or have too few units available of a product for which there is heavy demand. This creates costs of storing excess inventory and opportunity cost of lost sales. In addition, because units are pushed through the system, the timing of receiving materials is not balanced to the production of activities, particularly at production bottlenecks, which results in a wasteful buildup of inventories, either temporary or permanent. Push production can reduce motivation to improve quality and can reinforce motivation to overuse non-bottleneck activities.  A pull manufacturer "pulls" production through the process by customer orders, rather than "pushes" them through with master production schedules. A sales order triggers a production order. The production order triggers orders to suppliers, who ship parts immediately. The Just-in-Time approach is flexible to customer needs and requires lower inventory costs than traditional methods. Because suppliers tend to be preapproved and more reliable, costs of quality are reduced. Non-value added activities such as storage, quality control, downtime, waiting time are avoided in a pull manufacturing system. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Blooms: Evaluate Difficulty: 2 Medium Gradable: manual Learning Objective: 01-01 Describe the way managers use accounting information to create value in organizations. Topic: Value Creation in Organizations* |

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| 145. | The ***New*** ***York*** ***Times*** recently reported that a number of publicly-held corporations have been accused of illegally doctoring hourly employees' time records. Examples included:    • Workers sued Family Dollar and Pep Boys, accusing managers of deleting hours from their time records.  • More than a dozen former Wal-Mart employees said in interviews and depositions that managers had altered time records to shortchange employees.  • The Department of Labor reached two back-pay settlements with Kinko's photocopy centers after finding that managers had erased time for 13 employees.    When interviewed, many of the managers cited pressure from upper-management and the impact of their actions on their own compensation as underlying causes for their actions. All of the companies strongly denied encouraging such illegal and unethical behavior by managers. Compensation experts interviewed agreed that the companies' incentive performance systems may have contributed to the managers' behavior. (***New*** ***York*** ***Times*,** **April** **4,** **2004**)    a. Explain how the incentive performance systems of the above named companies could have contributed to this illegal behavior by managers.  b. Discuss the ethical issues involved in the design of incentive performance systems. In designing a performance-based incentive system, what measures should companies take to avoid illegal and unethical behavior by supervisors?      a. Incentive performance systems can lead to unethical conduct when managers fear losing their jobs when they fail to keep costs down. In addition, when a significant part of the managers' compensation comes from bonuses based on minimizing costs or maximizing profits, managers may be tempted to underreport labor hours in order to cut payroll costs. Many of the managers cited pressure from supervisors to erase hours, refuse to pay overtime, and otherwise manipulate payroll records. b. Designers of performance-based incentive systems should identify the trade-offs between effective rewards, goal alignment, monitoring, and cost in designing an effective performance-based system. It is clear that upper-level management must strongly encourage ethical behavior by mid-level managers. Some of the possible measures that could be taken are:  • Regular written reminders of "payroll integrity" from top management. • Distributing paper time records to employees, so that they can challenge significant discrepancies in their reported hours. • Establishing an anonymous call-in line for employees to report possible unethical behavior. |

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| *AACSB: Analytical Thinking AACSB: Ethics AICPA: BB Critical Thinking Blooms: Analyze Difficulty: 2 Medium Gradable: manual Learning Objective: 01-05 Understand ethical issues faced by accountants and ways to deal with ethical problems that you face in your career. Topic: Choices: Ethical Issues for Accountants* |