

Cost Accounting, 14e (Horngren/Datar/Rajan)
Chapter 1 The Accountant's Role in the Organization

Objective 1.1

1) Management accounting:

- A) focuses on estimating future revenues, costs, and other measures to forecast activities and their results
- B) provides information about the company as a whole
- C) reports information that has occurred in the past that is verifiable and reliable
- D) provides information that is generally available only on a quarterly or annual basis

Answer: A

Diff: 2

Terms: treasury

Objective: 1

AACSB: Reflective thinking

2) Managers use management accounting information to _____ strategy.

- A) choose
- B) communicate
- C) implement
- D) All of these answers are correct.

Answer: D

Diff: 1

Terms: total quality management (TQM)

Objective: 1

AACSB: Analytical skills

3) Financial accounting:

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

Answer: B

Diff: 2

Terms: financial accounting

Objective: 1

AACSB: Reflective thinking

4) The person most likely to use ONLY financial accounting information is a:

- A) factory shift supervisor
- B) vice president of operations
- C) current shareholder
- D) department manager

Answer: C

Diff: 1

Terms: financial accounting

Objective: 1

AACSB: Analytical skills

5) Which of the following people is LEAST likely to use management accounting information?

- A) the controller
- B) a shareholder evaluating a stock investment
- C) the treasurer
- D) an assembly department supervisor

Answer: B

Diff: 1

Terms: treasury

Objective: 1

AACSB: Analytical skills

6) Financial accounting provides the primary source of information for:

- A) decision making in the finishing department
- B) improving customer service
- C) preparing the income statement for shareholders
- D) planning next year's operating budget

Answer: C

Diff: 2

Terms: financial accounting

Objective: 1

AACSB: Reflective thinking

7) Which of the following descriptors refers to management accounting information?

- A) It is verifiable and reliable.
- B) It is driven by rules.
- C) It is prepared for shareholders.
- D) It provides reasonable and timely estimates.

Answer: D

Diff: 2

Terms: treasury

Objective: 1

AACSB: Reflective thinking

8) Which of the following statements refers to management accounting information?

- A) There are no regulations governing the reports.
- B) The reports are generally delayed and historical.
- C) The audience tends to be stockholders, creditors, and tax authorities.
- D) It primarily measures and records business transactions.

Answer: A

Diff: 2

Terms: treasury

Objective: 1

AACSB: Reflective thinking

9) Which of the following groups would be LEAST likely to receive detailed management accounting reports?

- A) stockholders
- B) sales representatives
- C) production supervisors
- D) managers

Answer: A

Diff: 1

Terms: treasury

Objective: 1

AACSB: Analytical skills

10) Management accounting information includes:

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

Answer: D

Diff: 1

Terms: treasury

Objective: 1

AACSB: Reflective thinking

11) Cost accounting:

- A) provides information on the efficiency of factory labor
- B) provides information on the cost of servicing commercial customers
- C) provides information on the performance of an operating division
- D) All of these answers are correct.

Answer: D

Diff: 1

Terms: cost accounting

Objective: 1

AACSB: Reflective thinking

12) Which of the following types of information are used in management accounting?

- A) financial information
- B) nonfinancial information
- C) information focused on the long term
- D) All of these answers are correct.

Answer: D

Diff: 2

Terms: treasury

Objective: 1

AACSB: Reflective thinking

13) Modern cost accounting plays a role in:

- A) planning new products
- B) evaluating operational processes
- C) controlling costs
- D) All of these answers are correct.

Answer: D

Diff: 1

Terms: cost accounting

Objective: 1

AACSB: Reflective thinking

14) A data warehouse or infobarn:

- A) is reserved for exclusive use by the CFO
- B) is primarily used for financial reporting purposes
- C) stores information used by different managers for multiple purposes
- D) gathers only nonfinancial information

Answer: C

Diff: 1

Terms: cost accounting

Objective: 1

AACSB: Reflective thinking

15) Cost accounting provides all of the following EXCEPT:

- A) information for management accounting and financial accounting
- B) pricing information from marketing studies
- C) financial information regarding the cost of acquiring resources
- D) nonfinancial information regarding the cost of operational efficiencies

Answer: B

Diff: 2

Terms: cost accounting

Objective: 1

AACSB: Reflective thinking

16) Management accounting includes all of the following EXCEPT

- A) implementing strategies
- B) developing budgets
- C) preparing special studies and forecasts
- D) preparing the statement of cash flows

Answer: D

Diff: 1

Terms: treasury

Objective: 1

AACSB: Reflective thinking

17) Financial accounting is concerned primarily with:

- A) external reporting to investors, creditors, and government authorities
- B) cost planning and cost controls
- C) profitability analysis
- D) providing information for strategic and tactical decisions

Answer: A

Diff: 2

Terms: financial accounting

Objective: 1

AACSB: Reflective thinking

18) Financial accounting provides a historical perspective, whereas management accounting emphasizes:

- A) the future
- B) past transactions
- C) a current perspective
- D) reports to shareholders

Answer: A

Diff: 1

Terms: financial accounting

Objective: 1

AACSB: Reflective thinking

19) 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

Answer: B

Diff: 1

Terms: cost accounting

Objective: 1

AACSB: Use of Information Technology

20) 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

Answer: C

Diff: 1

Terms: cost management

Objective: 1

AACSB: Analytical skills

21) Management accounting information focuses on external reporting.

Answer: FALSE

Explanation: Management accounting information focuses on *internal* reporting.

Diff: 1

Terms: treasury

Objective: 1

AACSB: Reflective thinking

22) Cost management is narrowly focused on a continuous reduction of costs.

Answer: FALSE

Explanation: Cost management is broadly focused to provide information that helps managers at all levels implement, monitor, and evaluate company strategies.

Diff: 2

Terms: cost management

Objective: 1

AACSB: Analytical skills

23) Managers always require the information in an accounting system to be presented in the same format.

Answer: FALSE

Explanation: Individual managers often require the information in an accounting system to be presented or reported differently.

Diff: 1

Terms: treasury

Objective: 1

AACSB: Analytical skills

24) Modern cost accounting takes the perspective that collecting cost information is a function of the management decisions being made.

Answer: TRUE

Diff: 1

Terms: cost accounting

Objective: 1

AACSB: Analytical skills

25) The balance sheet, income statement, and statement of cash flows are used for financial accounting, and also for management accounting.

Answer: TRUE

Diff: 1

Terms: financial accounting

Objective: 1

AACSB: Analytical skills

26) Financial accounting is broader in scope than management accounting.

Answer: FALSE

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

Diff: 2

Terms: financial accounting, management accounting

Objective: 1

AACSB: Reflective thinking

27) Cost accounting measures and reports short-term, long-term, financial, and non financial information.

Answer: TRUE

Diff: 2

Terms: cost accounting

Objective: 1

AACSB: Reflective thinking

28) Cost management provides information that helps increase value for customers.

Answer: TRUE

Diff: 1

Terms: cost management

Objective: 1

AACSB: Reflective thinking

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

Answer: FALSE

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

Diff: 1

Terms: treasury

Objective: 1

AACSB: Ethical reasoning

30) An ideal database should store information in a way that allows different managers to access the information they need.

Answer: TRUE

Diff: 1

Terms: treasury

Objective: 1

AACSB: Reflective thinking

31) An Enterprise Resource Planning (ERP) System is a single database that collects data and feeds into applications that support each of the company's business activities, such as purchases, production, distribution, and sales.

Answer: TRUE

Diff: 1

Terms: treasury

Objective: 1

AACSB: Use of Information Technology

32) Cost accounting provides information only for management accounting purposes.

Answer: FALSE

Explanation: Cost accounting provides information for financial accounting as well as for management accounting purposes.

Diff: 1

Terms: cost accounting

Objective: 1

AACSB: Reflective thinking

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

Answer: TRUE

Diff: 1

Terms: cost management

Objective: 1

AACSB: Reflective thinking

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

Item:

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

Answer:

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

Diff: 2

Terms: treasury

Objective: 1

AACSB: Analytical skills

35) Describe management accounting and financial accounting.

Answer: Management accounting provides information to internal decision makers of the business such as top executives, managers, sales representatives, and production supervisors. Its purpose is to help managers predict and evaluate future results. Reports are generated often and usually broken down into smaller reporting divisions such as department or product line. There are no rules to be complied with since these reports are for internal use only. Management accounting embraces more extensively such topics as the development and implementation of strategies and policies, budgeting, special studies and forecasts, influence on employee behavior, and nonfinancial as well as financial information.

Financial accounting, by contrast, provides information to external decision makers such as investors and creditors. Its purpose is to present a fair picture of the financial condition of the company. Reports are generated quarterly or annually and report on the company as a whole. The financial statements must comply with GAAP (generally accepted accounting principles). A CPA audits, or verifies, that the GAAP are being followed.

Diff: 2

Terms: treasury

Objective: 1

AACSB: Reflective thinking

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

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

Diff: 3

Terms: treasury

Objective: 1

AACSB: Reflective thinking

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

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

Diff: 2

Terms: cost management

Objective: 1

AACSB: Reflective thinking

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

Diff: 2

Terms: cost management

Objective: 1

AACSB: Reflective thinking

Objective 1.2

1) Which of the following statements concerning an organization's strategy is NOT true?

- A) Strategy specifies how an organization matches its own capabilities with the opportunities in the marketplace to accomplish its objectives.
- B) Management accountants provide input to help managers formulate strategy.
- C) A good strategy will always overcome poor implementation.
- D) Businesses usually follow one of two broad strategies: offering a quality product at a low price, or offering a unique product or service priced higher than the competition.

Answer: C

Diff: 2

Terms: total quality management (TQM)

Objective: 2

AACSB: Analytical skills

2) Strategy specifies:

- A) how an organization matches its own capabilities with the opportunities in the marketplace
- B) standard procedures to ensure quality products
- C) incremental changes for improved performance
- D) the demand created for products and services

Answer: A

Diff: 2

Terms: total quality management (TQM)

Objective: 2

AACSB: Reflective thinking

3) Which of the following is NOT one of the questions management accountants might attempt to help answer in the formulation of strategy?

- A) Who are our most important customers?
- B) What substitute products exist in the marketplace?
- C) Does the strategy comply with GAAP (Generally Accepted Accounting Principles)?
- D) Will adequate cash be available to implement the strategy?

Answer: C

Diff: 2

Terms: total quality management (TQM)

Objective: 2

AACSB: Analytical skills

4) Strategy is formulated by answering all of the following EXCEPT:

- A) Who are our most important customers?
- B) Is industry demand growing or shrinking?
- C) Will our external auditors certify our strategy?
- D) How sensitive are purchasers to price, quality, and service?

Answer: C

Diff: 3

Terms: total quality management (TQM)

Objective: 2

AACSB: Analytical skills

5) In designing strategy, a company must match the opportunities and threats in the marketplace with:

- A) those of the CFO (Chief Financial Officer)
- B) its resources and capabilities
- C) branding opportunities
- D) capabilities of current suppliers

Answer: B

Diff: 2

Terms: total quality management (TQM)

Objective: 2

AACSB: Analytical skills

6) Which of the following statements about customer value is NOT true?

- A) Customer value is shown in a corporation's balance sheet.
- B) Creating value for customers is an important part of planning and implementing strategy.
- C) How our product delivers customer value should be determined as part of a company's strategy formulation.
- D) It is possible to simultaneously lower cost and increase customer value.

Answer: A

Diff: 1

Terms: total quality management (TQM)

Objective: 2

AACSB: Analytical skills

7) Strategy does NOT specify how an organization matches its capabilities with the opportunities in the marketplace.

Answer: FALSE

Explanation: Strategy specifies how an organization matches its own capabilities with the opportunities in the marketplace to accomplish its objectives.

Diff: 1

Terms: total quality management (TQM)

Objective: 2

AACSB: Reflective thinking

8) Southwest Airlines is an example of a company that pursues a product differentiation strategy.

Answer: FALSE

Explanation: Southwest Airlines pursues a cost leadership strategy.

Diff: 1

Terms: total quality management (TQM)

Objective: 2

AACSB: Analytical skills

9) The best-designed strategies are valuable whether or not they are effectively implemented.

Answer: FALSE

Explanation: Implementation is essential or the strategy is useless.

Diff: 1

Terms: total quality management (TQM)

Objective: 2

AACSB: Analytical skills

10) The key to a company's success is creating value for customers while differentiating itself from its competitors.

Answer: TRUE

Diff: 1

Terms: total quality management (TQM)

Objective: 2

AACSB: Reflective thinking

11) The key to a company's success is always to be the low cost producer in a particular industry.

Answer: FALSE

Explanation: The low cost producer in a particular industry will not necessarily be successful.

Diff: 2

Terms: total quality management (TQM)

Objective: 2

AACSB: Reflective thinking

12) Companies generally follow one of two basic strategies: 1) providing a quality product or service at low prices, or 2) offering a unique product or service often priced higher than competing products.

Answer: TRUE

Diff: 2

Terms: total quality management (TQM)

Objective: 2

AACSB: Reflective thinking

13) Management accountants should have little or no role in deciding on a company's strategy.

Answer: FALSE

Explanation: Management accountants should play a significant role in deciding on a company's strategy.

Diff: 1

Terms: total quality management (TQM)

Objective: 2

AACSB: Reflective thinking

14) Companies can decide on an appropriate strategy based strictly on internally available information.

Answer: FALSE

Explanation: Companies must obtain external information as well as internal information to decide on an appropriate strategy.

Diff: 1

Terms: total quality management (TQM)

Objective: 2

AACSB: Reflective thinking

15) Strategic cost management describes cost management that specifically focuses on strategic issues.

Answer: TRUE

Diff: 1

Terms: strategic cost management

Objective: 2

AACSB: Reflective thinking

16) Identifying a company's most important customers does NOT help formulate strategy.

Answer: FALSE

Explanation: Management accountants help formulate strategy by helping managers answer questions such as "Who are our most important customers, and how do we deliver value to them?"

Diff: 1

Terms: strategic cost management

Objective: 2

AACSB: Analytical skills

17) The best-designed strategies and the best-developed capabilities are useless unless they are effectively executed.

Answer: TRUE

Diff: 1

Terms: total quality management (TQM)

Objective: 2

AACSB: Analytical skills

18) Describe the major differences between management accounting and financial accounting for the following:

1. Primary users
2. Focus and emphasis
3. Rules of measurement and reporting

Answer:

1. The primary users of management accounting information are managers of the organization. The primary users of financial accounting are external users such as investors, banks, regulators, and suppliers.
2. Management accounting is future oriented. Financial accounting is past oriented.
3. Management accounting measurement and reporting does not have to follow GAAP but are based on cost-benefit analysis. Financial accounting measurement and reporting must be prepared in accordance with GAAP and be certified by external, independent auditors.

Diff: 2

Terms: financial accounting, management accounting

Objective: 2

AACSB: Analytical skills

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

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

Companies follow one of two broad strategies. One is provide a *quality* product or service at *low* prices. The other is to compete on their ability to offer a *unique* product or service that is generally offered at a *higher* price.

Diff: 2

Terms: total quality management (TQM)

Objective: 2

AACSB: Reflective thinking

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

Answer:

ONE: To choose *strategy*, to communicate it, and to determine how best to implement it.

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

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

Diff: 2

Terms: strategy, planning

Objective: 2

AACSB: Reflective thinking

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

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

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

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

Diff: 3

Terms: total quality management (TQM)

Objective: 2

AACSB: Reflective thinking

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

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

Diff: 2

Terms: total quality management (TQM)

Objective: 2

AACSB: Reflective thinking

Objective 1.3

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

Customer service

Design

Marketing

Production

A) Customer Service, Design, Production, Marketing

B) Customer Service, Marketing, Production, Design

C) Design, Production, Marketing, Customer Service

D) Design, Customer Service, Production, Marketing

Answer: C

Diff: 2

Terms: value chain

Objective: 3

AACSB: Reflective thinking

2) R&D, production, and customer service are business functions that are all included as part of:

A) the value chain

B) benchmarking

C) marketing

D) the supply chain

Answer: A

Diff: 1

Terms: value chain

Objective: 3

AACSB: Analytical skills

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

Answer: D

Diff: 2

Terms: value chain

Objective: 3

AACSB: Reflective thinking

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

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

Answer: A

Diff: 1

Terms: research and development

Objective: 3

AACSB: Analytical skills

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

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

Answer: B

Diff: 1

Terms: design of products, services, or processes

Objective: 3

AACSB: Reflective thinking

- 6) _____ is the acquisition, coordination, and assembly of resources to produce a product or deliver a service.

- A) Research and development
- B) Customer service
- C) Production
- D) Marketing

Answer: C

Diff: 1

Terms: production

Objective: 3

AACSB: Reflective thinking

7) _____ is the manner by which companies promote and sell their products or services to customers or prospective customers.

- A) Distribution
- B) Customer service
- C) Research and development
- D) Marketing

Answer: D

Diff: 1

Terms: marketing

Objective: 3

AACSB: Reflective thinking

8) _____ is the delivery of products or services to customers.

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

Answer: A

Diff: 1

Terms: distribution

Objective: 3

AACSB: Reflective thinking

9) _____ is the after-sale support provided to customers.

- A) Distribution
- B) Customer service
- C) Production
- D) Marketing

Answer: B

Diff: 1

Terms: customer service

Objective: 3

AACSB: Reflective thinking

10) _____ is a strategy that integrates people and technology in all business functions to enhance relationships with customers, partners, and distributors.

- A) Supply-chain analysis
- B) Customer relationship management
- C) Value-chain analysis
- D) Continuous quality improvement

Answer: B

Diff: 1

Terms: customer relationship management

Objective: 3

AACSB: Use of Information Technology

11) Customer relationship management initiatives use technology to coordinate all:

- A) production activities
- B) research activities
- C) customer-facing activities
- D) inventory management activities

Answer: C

Diff: 1

Terms: customer relationship management

Objective: 3

AACSB: Use of Information Technology

12) _____ describe(s) the flow of goods, services, and information from the purchase of materials to the delivery of products to consumers, regardless of whether those activities occur in the same organization or with other organizations.

- A) Supply chain
- B) Key success factors
- C) Continuous improvement
- D) Customer focus

Answer: A

Diff: 1

Terms: supply chain

Objective: 3

AACSB: Reflective thinking

13) Processing orders and shipping products or services to customers (also called outbound logistics) is also known as

- A) customer focus
- B) distribution
- C) marketing
- D) supply chain

Answer: B

Diff: 2

Terms: value chain

Objective: 3

AACSB: Reflective thinking

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

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

Answer: D

Diff: 2

Terms: quality

Objective: 3

AACSB: Reflective thinking

15) Which item is NOT an area that customers want to see improved levels of performance in?

- A) innovation
- B) quality
- C) cost and efficiency
- D) profit

Answer: D

Diff: 2

Terms: supply chain

Objective: 3

AACSB: Reflective thinking

16) Which of the following statements about a company's supply chain is true?

- A) A company's supply chain is always internal to a firm.
- B) A company's supply chain is always external to a firm.
- C) A company's supply chain is the same thing as a company's value chain.
- D) Management accountants provide information to enhance a company's supply chain.

Answer: D

Diff: 1

Terms: supply chain

Objective: 3

AACSB: Communication

17) _____ describes the flow of goods, services, and information from the initial sources of materials and services to the delivery of products to consumers, regardless of whether those activities occur in the same organization or in other organizations.

- A) The value chain
- B) The supply chain
- C) Product differentiation
- D) Distribution

Answer: B

Diff: 2

Terms: total quality management (TQM)

Objective: 3

AACSB: Reflective thinking

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

- A) board of directors' perception
- B) customers' perception
- C) president's perception
- D) stockholders' perception

Answer: B

Diff: 2

Terms: total quality management (TQM)

Objective: 3

AACSB: Reflective thinking

19) _____ aims to improve operations throughout the value chain and to deliver products and services that exceed customer expectations.

- A) Total Quality Management
- B) Innovation
- C) Customer response time
- D) Cost and efficiency

Answer: A

Diff: 2

Terms: total quality management (TQM)

Objective: 3

AACSB: Reflective thinking

20) Customers are demanding improved performance related to:

- A) reduced costs
- B) both reduced costs and increased quality
- C) lower costs, improved quality, and improved customer service
- D) All of these answers are correct.

Answer: D

Diff: 2

Terms: total quality management (TQM)

Objective: 3

AACSB: Analytical skills

21) Customer response time involves:

- A) the speed it takes a customer to respond to an advertisement and place an order
- B) the speed at which an organization responds to customer requests
- C) the speed it takes to develop a new product
- D) the speed it takes an organization to develop a Total Quality Management (TQM) program

Answer: B

Diff: 2

Terms: total quality management (TQM)

Objective: 3

AACSB: Reflective thinking

22) Which of the following is NOT a way for a company to improve customer response time?

- A) Increase capacity of bottleneck operations.
- B) Purchase material in larger quantities.
- C) Use faster delivery procedures.
- D) Produce the product more quickly.

Answer: B

Diff: 2

Terms: total quality management (TQM)

Objective: 3

AACSB: Analytical skills

- 23) The supply chain refers to the sequence of business functions in which customer usefulness is added to products or services.
Answer: FALSE
Explanation: The value chain refers to the sequence of business functions in which customer usefulness is added to products or services.
Diff: 1
Terms: supply chain
Objective: 3
AACSB: Reflective thinking
- 24) An effective way to cut costs is to eliminate activities that do NOT improve the product attributes that customers value.
Answer: TRUE
Diff: 1
Terms: cost management
Objective: 3
AACSB: Reflective thinking
- 25) For optimal planning success it is best if each business function within the value chain is performed one at a time in sequence.
Answer: FALSE
Explanation: Optimally, success is achieved when two or more of the individual business functions work concurrently as a team.
Diff: 1
Terms: value chain
Objective: 3
AACSB: Analytical skills
- 26) For best results, cost management emphasizes independently coordinating supply chain activities within your company and with other companies that act as suppliers and customers.
Answer: TRUE
Diff: 2
Terms: cost management
Objective: 3
AACSB: Analytical skills
- 27) Technological innovation has led to longer product-life cycles and lessened the need to bring new products to market more rapidly.
Answer: FALSE
Explanation: Technological innovation has led to shorter product-life cycles and increased the need to bring new products to market more rapidly.
Diff: 1
Terms: design of products, services, or processes
Objective: 3
AACSB: Use of Information Technology

28) Key success factors include cost, quality, timeliness, and innovation.

Answer: TRUE

Diff: 1

Terms: value chain

Objective: 3

AACSB: Reflective thinking

29) Customers are demanding increased levels of performance in all aspects of the value chain and the supply chain.

Answer: TRUE

Diff: 1

Terms: value chain

Objective: 3

AACSB: Analytical skills

30) The supply chain describes the flow of goods, services, and information from the initial sources of materials and services to the delivery of products to consumers.

Answer: FALSE

Explanation: The value chain describes the flow of goods, services, and information from the initial sources of materials and services to the delivery of products to consumers.

Diff: 1

Terms: value chain

Objective: 3

AACSB: Reflective thinking

31) The supply chain always occurs within a single organization.

Answer: FALSE

Explanation: The supply chain can include organizations external to a single organization.

Diff: 1

Terms: supply chain

Objective: 3

AACSB: Analytical skills

32) Distribution refers to promoting and selling products or services to customers or prospective customers.

Answer: FALSE

Explanation: Marketing refers to promoting and selling products or services to customers or prospective customers.

Diff: 1

Terms: distribution

Objective: 3

AACSB: Communication

33) The production component of the value chain refers detailed planning, engineering, and testing of products and processes.

Answer: FALSE

Explanation: The design of products, services, and processes component of the value chain refers detailed planning, engineering, and testing of products and processes.

Diff: 1

Terms: design of products, services, or processes

Objective: 3

AACSB: Reflective thinking

34) Management accountants might provide information on decisions on whether to buy a product from outside or manufacture it in-house.

Answer: TRUE

Diff: 1

Terms: cost-benefit approach

Objective: 3

AACSB: Communication

35) Key success factors are geared to improving customer satisfaction.

Answer: TRUE

Diff: 2

Terms: value chain

Objective: 3

AACSB: Analytical skills

36) Value chain refers to its value to the employee.

Answer: FALSE

Explanation: Value chain refers to its value to the *customer*.

Diff: 1

Terms: value chain

Objective: 3

AACSB: Reflective thinking

37) Companies have to follow strict guidelines when designing a management accounting system.

Answer: FALSE

Explanation: The design of a management accounting system should be guided by the challenges facing managers.

Diff: 1

Terms: treasury

Objective: 3

AACSB: Analytical skills

38) Tracking what is happening in other companies is illegal.

Answer: FALSE

Explanation: Tracking what is happening in other companies alerts managers to changes in their industry and can be accomplished in many legal ways such as visiting competitor's Web sites and reviewing their financial statements.

Diff: 1

Terms: total quality management (TQM)

Objective: 3

AACSB: Analytical skills

39) Increased global competition is placing pressure on companies to reduce costs.

Answer: TRUE

Diff: 1

Terms: total quality management (TQM)

Objective: 3

AACSB: Analytical skills

40) The increasing pace of technological innovation has resulted in shorter product life cycles.

Answer: TRUE

Explanation: The increasing pace of technological information has resulted in shorter product lifecycles.

Diff: 1

Terms: total quality management (TQM)

Objective: 3

AACSB: Use of Information Technology

41) A bottleneck occurs when the work to be performed exceeds the available capacity.

Answer: TRUE

Diff: 1

Terms: cost management

Objective: 3

AACSB: Reflective thinking

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

Item:

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

Answer:

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

Diff: 2

Terms: value chain

Objective: 3

AACSB: Analytical skills

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

Item:

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

Answer:

- a. (4) marketing
- b. (3) production
- c. (5) distribution
- d. (4) marketing
- e. (5) distribution
- f. (3) production
- g. (1) research and development
- h. (2) design

Diff: 2

Terms: value chain

Objective: 3

AACSB: Analytical skills

44) Describe the value chain and how it can help organizations become more effective.

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

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

Diff: 3

Terms: value chain

Objective: 3

AACSB: Reflective thinking

45) Value chain and classification of costs, car company.

General Motors incurs the following costs:

- a.** Electricity costs for the plant assembling the Chevrolet Camaro
- b.** Transportation costs for shipping the Camaro to dealers
- c.** Payment to Shelby Designs for the design of the Camaro.
- d.** Salary of an engineer working on the next generation of Camaros
- e.** Cost of GM employees' visit to an auto show to demonstrate the Camaro
- f.** Testing the Camaro at the GM track
- g.** Payment to television network for running Camaro advertisements
- h.** Cost of brake pads purchased from outside supplier to be installed on the Camaro

Required:

Classify each of the cost items (**a-h**) into one of the business functions of the value chain.

- 1) Research and development
- 2) Design of products and processes
- 3) Production
- 4) Marketing
- 5) Distribution
- 6) Customer service

Answer:

- a. 3) Production
- b. 5) Distribution
- c. 2) Design of products and processes
- d. 1) Research and development
- e. 4) Marketing
- f. 2) Design of products and processes
- g. 4) Marketing
- h. 3) Production

Diff: 2

Terms: value chain

Objective: 3

AACSB: Reflective thinking

Objective 1.4

- 1) Place the five steps in the decision-making process in the correct order:

A = Obtain information

B = Make decisions by choosing among alternatives

C = Identify the problem and uncertainties

D = Implement the decision

E = Make predictions about the future

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

Answer: C

Diff: 2

Terms: decision model

Objective: 4

AACSB: Reflective thinking

2) Planning consists of all of these areas EXCEPT:

- A) selecting organizational goals
- B) deciding how to attain the desired goals
- C) evaluating performance
- D) predicting results under various alternatives

Answer: C

Diff: 2

Terms: planning

Objective: 4

AACSB: Reflective thinking

3) The most important planning tool is a _____.

- A) performance evaluation report
- B) balanced scorecard
- C) goal
- D) budget

Answer: D

Diff: 2

Terms: budget

Objective: 4

AACSB: Analytical skills

4) A report showing the actual financial results for a period compared to the budgeted financial results for that same period would most likely be called a:

- A) strategic plan
- B) management forecast
- C) performance report
- D) revised plan

Answer: C

Diff: 1

Terms: budget

Objective: 4

AACSB: Reflective thinking

5) The process of preparing a budget:

- A) forces coordination and communication across business functions
- B) increases accounting efficiencies
- C) reduces overcapacity
- D) promotes production automation

Answer: A

Diff: 2

Terms: budget

Objective: 4

AACSB: Analytical skills

- 6) Planning includes all of the following EXCEPT
- A) identifying the problem and uncertainties.
 - B) obtaining information.
 - C) providing feedback to help with future decision making.
 - D) making predictions about the future.

Answer: C

Diff: 1

Terms: planning

Objective: 4

AACSB: Reflective thinking

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

Answer: D

Diff: 1

Terms: budget

Objective: 4

AACSB: Reflective thinking

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

Answer: D

Diff: 1

Terms: budget

Objective: 4

AACSB: Analytical skills

- 9) Employees _____ how their performance is measured.
- A) pay close attention to
 - B) pay no attention to
 - C) rarely know
 - D) None of the above are correct.

Answer: A

Diff: 1

Terms: control

Objective: 4

AACSB: Reflective thinking

10) Linking rewards to performance:

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

Answer: A

Diff: 2

Terms: control

Objective: 4

AACSB: Analytical skills

11) Control measures should:

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

Answer: D

Diff: 2

Terms: control

Objective: 4

AACSB: Reflective thinking

12) A well-conceived plan allows managers the ability to:

- A) not make decisions again until the next planning session
- B) keep lower-level managers from implementing change
- C) underestimate costs so that actual operating results will be favorable when comparisons are made
- D) take advantage of unforeseen opportunities

Answer: D

Diff: 2

Terms: planning

Objective: 4

AACSB: Analytical skills

13) Which of the following statements concerning performance reports is NOT correct?

- A) The performance report shows actual performance as compared to the budget.
- B) The performance report is a feedback tool.
- C) The performance report often leads to more investigations and action.
- D) The performance report contains no actual results due to confidentiality.

Answer: D

Diff: 2

Terms: budget

Objective: 4

AACSB: Reflective thinking

14) Management accounting is considered most likely to be successful when it:

- A) helps creditors evaluate the company's performance
- B) helps investors improve their decisions
- C) is timely
- D) is relevant and reported annually

Answer: C

Diff: 2

Terms: treasury

Objective: 4

AACSB: Analytical skills

15) The last step in the decision-making process is to make decisions by choosing among alternatives.

Answer: FALSE

Explanation: The last step in the decision-making process is to implement the decision, evaluate performance, and learn.

Diff: 1

Terms: decision model

Objective: 4

AACSB: Reflective thinking

16) One of the steps in planning is making predictions about the future.

Answer: TRUE

Diff: 1

Terms: planning

Objective: 4

AACSB: Reflective thinking

17) It is difficult to control activities without a budget.

Answer: TRUE

Diff: 1

Terms: budget

Objective: 4

AACSB: Analytical skills

18) To take advantage of changing market opportunities, the annual budget should be strictly enforced.

Answer: FALSE

Explanation: To take advantage of changing market opportunities, the annual budget should be updated to reflect those changes.

Diff: 2

Terms: budget

Objective: 4

AACSB: Analytical skills

19) A budget is a quantitative expression of a plan.

Answer: TRUE

Diff: 2

Terms: budget

Objective: 4

AACSB: Reflective thinking

20) The process of preparing a budget forces coordination and communication throughout the company.

Answer: TRUE

Diff: 1

Terms: budget

Objective: 4

AACSB: Communication

21) Linking rewards to performance is a major deterrent to good management performance.

Answer: FALSE

Explanation: Linking rewards to performance helps to motivate good management performance.

Diff: 1

Terms: control

Objective: 4

AACSB: Analytical skills

22) Employees pay little attention to how their performance is measured.

Answer: FALSE

Explanation: Employees are very aware of how their performance is measured.

Diff: 1

Terms: feedback

Objective: 4

AACSB: Analytical skills

23) A budget may be used as a planning tool, but NOT as a control tool.

Answer: FALSE

Explanation: A budget may be used as a planning tool and also as a control tool.

Diff: 1

Terms: budget

Objective: 4

AACSB: Reflective thinking

24) Financial accounting reports financial and non financial information that helps managers implement company strategies.

Answer: FALSE

Explanation: *Management* accounting reports financial and nonfinancial information that helps managers implement company strategies.

Diff: 1

Terms: financial accounting

Objective: 4

AACSB: Reflective thinking

25) Feedback and learning helps in the future decision-making process.

Answer: TRUE

Diff: 1

Terms: control

Objective: 4

AACSB: Communication

26) Control includes deciding what feedback to provide that will help with future decision making.

Answer: TRUE

Diff: 1

Terms: control

Objective: 4

AACSB: Communication

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

Answer: TRUE

Diff: 2

Terms: learning

Objective: 4

AACSB: Analytical skills

28) A performance report compares actual performance to the amount budgeted.

Answer: TRUE

Diff: 1

Terms: budget

Objective: 4

AACSB: Reflective thinking

29) Management accounting is playing an increasingly important role by helping managers develop and implement strategy.

Answer: TRUE

Diff: 1

Terms: management accounting, strategy

Objective: 4

AACSB: Reflective thinking

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

Answer:

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

Diff: 2

Terms: decision model

Objective: 4

AACSB: Analytical skills

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

Item:

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

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

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

Diff: 3

Terms: planning, control

Objective: 4

AACSB: Analytical skills

32) Briefly explain the planning and control activities in management accounting. How are these two activities linked to each other?

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

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

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

Diff: 2

Terms: planning, control

Objective: 4

AACSB: Reflective thinking

33) Explain how a budget can help management implement strategy.

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

The budget also helps with coordination.

Diff: 3

Terms: budget

Objective: 4

AACSB: Reflective thinking

34) Explain how a customer focus can result in increased profits for a company.

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

Diff: 3

Terms: total quality management (TQM)

Objective: 4

AACSB: Reflective thinking

35) Complete a performance report for the month of May, 2011, for the Daily Bulletin, a regional newspaper showing four columns: 1) Actual Result; 2) Budgeted Amount; 3) Difference: Actual Result minus Budgeted Amount; 4) Difference as a Percentage of Budgeted Amount, given the following data:

Actual pages sold	550
Budgeted advertising pages	500
Actual Advertising revenue	\$3,850,000
Budgeted Advertising revenue	\$4,000,000

Does the report indicate any cause for managerial investigation?

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

	Actual Result (1)	Budgeted Amount (2)	Difference (Actual Result - Budgeted Amount) (3) = (1) - (2)	Difference as a Percentage of Budgeted Amount (4) = (3) / (2)
Advertising pages sold	550 pages	500 pages	50 pages Favorable	10.00% Favorable
Average rate per page (Advertising Revenues) / (Advertising pages sold)	\$7,000	\$8,000	\$1,000 Unfavorable	12.50% Unfavorable
Advertising revenues	\$3,850,000	\$4,000,000	\$150,000 Unfavorable	3.75% Unfavorable

The overall 3.75% unfavorable difference in advertising revenue is caused by offsetting differences in advertising pages sold (favorable) and the average rate per page (unfavorable). The performance report highlights the favorable increase in the advertising pages sold. While the percentage drop in advertising revenue per page is also dramatic, management might want to investigate the reasons behind such a drop. Some possibilities include: aggressive price reductions to obtain revenue, or some aggressive competition, or an unrealistic budget.

Diff: 3

Terms: budget

Objective: 4

AACSB: Analytical skills

Objective 1.5

1) Which item is NOT a guideline used by management accountants to assist in strategic and operational decision making?

- A) cost-benefit approach
- B) behavioral and technical considerations
- C) different costs for different purposes
- D) balanced scorecard

Answer: D

Diff: 2

Terms: treasury

Objective: 5

AACSB: Reflective thinking

2) The scenario that resources should be spent if the expected benefits to the company exceed the expected costs describes:

- A) cost-benefit approach
- B) behavioral and technical considerations
- C) balanced scorecard
- D) different costs for different purposes

Answer: A

Diff: 2

Terms: cost-benefit approach

Objective: 5

AACSB: Reflective thinking

3) The act of simply measuring and reporting information:

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

Answer: A

Diff: 2

Terms: control, learning

Objective: 5

AACSB: Analytical skills

4) Which statement is true?

- A) Management is primarily a technical activity.
- B) People do not react to measurements.
- C) Employees spend more attention on those variables that are getting measured.
- D) Resources should be spent if the expected benefits to the company are less than the expected costs.

Answer: C

Diff: 2

Terms: control, learning

Objective: 5

AACSB: Analytical skills

5) The primary criterion when faced with a resource allocation decision is:

- A) cost minimization
- B) reduction in the amount of time required to perform a particular job
- C) achievement of organizational goals
- D) how well the alternative options help achieve organizational goals in relation to the costs incurred for these systems

Answer: D

Diff: 3

Terms: cost-benefit approach

Objective: 5

AACSB: Analytical skills

6) Which of the following statements about the cost-benefit approach is true?

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

Answer: A

Diff: 2

Terms: cost-benefit approach

Objective: 5

AACSB: Reflective thinking

7) It is generally easy to quantify expected benefits and costs when applying the cost-benefit approach.

Answer: FALSE

Explanation: It is challenging and generally costly to quantify expected benefits and costs when applying the cost-benefit approach.

Diff: 2

Terms: cost-benefit approach

Objective: 5

AACSB: Analytical skills

8) The technical considerations of budgeting encourage managers and other employees to strive for achieving the goals of the organization.

Answer: FALSE

Explanation: The behavioral considerations of budgeting encourage managers and other employees to strive for achieving the goals of the organization.

Diff: 2

Terms: budget

Objective: 5

AACSB: Reflective thinking

9) A cost concept used for external reporting purposes may not be appropriate for internal, routine reporting to managers.

Answer: TRUE

Diff: 2

Terms: cost accounting, financial accounting

Objective: 5

AACSB: Analytical skills

10) Accounting method for internal reporting purposes are specified by Generally Accepted Accounting Principles (GAAP).

Answer: FALSE

Explanation: Accounting methods for internal reporting are not specified by Generally Accepted Accounting principles (GAAP)

Diff: 2

Terms: treasury

Objective: 5

AACSB: Reflective thinking

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

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

Diff: 3

Terms: cost-benefit approach

Objective: 5

AACSB: Reflective thinking

12) Discuss the potential behavior implications of performance evaluation.

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

Diff: 3

Terms: control, learning

Objective: 5

AACSB: Reflective thinking

Objective 1.6

1) The person(s) directly responsible for attaining of organizational objectives is/are:

- A) the treasurer
- B) line management
- C) the controller
- D) the chief financial officer

Answer: B

Diff: 1

Terms: line management

Objective: 6

AACSB: Reflective thinking

2) The person(s) responsible for providing advice and assistance to line managers is/are:

- A) the controller
- B) the chief financial officer
- C) staff management
- D) the treasurer

Answer: C

Diff: 1

Terms: staff management

Objective: 6

AACSB: Reflective thinking

3) _____ includes providing financial information for reports to managers and shareholders, and overseeing the overall operations of the accounting system.

- A) Internal audit
- B) External audit
- C) Controllership
- D) Treasury

Answer: C

Diff: 2

Terms: conversion costs

Objective: 6

AACSB: Communication

4) _____ includes banking and short- and long-term financing, investments, and cash management.

- A) Risk management
- B) Internal audit
- C) Controllership
- D) Treasury

Answer: D

Diff: 2

Terms: treasury

Objective: 6

AACSB: Analytical skills

5) Line management includes:

- A) manufacturing managers
- B) human-resource managers
- C) information-technology managers
- D) management-accounting managers

Answer: A

Diff: 2

Terms: line management

Objective: 6

AACSB: Analytical skills

6) Staff management includes:

- A) manufacturing managers
- B) human-resource managers
- C) purchasing managers
- D) distribution managers

Answer: B

Diff: 2

Terms: staff management

Objective: 6

AACSB: Analytical skills

7) Responsibilities of a CFO include all of the following EXCEPT:

- A) providing financial reports to shareholders
- B) managing short-term and long-term financing
- C) investing in new equipment
- D) preparing federal, state, and international tax returns

Answer: C

Diff: 3

Terms: chief financial officer (CFO)

Objective: 6

AACSB: Reflective thinking

8) The _____ is primarily responsible for management accounting and financial accounting.

- A) COO (Chief Operating Officer)
- B) CIO (Chief Information Officer)
- C) treasurer
- D) controller

Answer: D

Diff: 1

Terms: internal audit

Objective: 6

AACSB: Analytical skills

9) All of the following report to the CFO EXCEPT the:

- A) controller
- B) tax department manager
- C) production manager
- D) treasurer

Answer: C

Diff: 1

Terms: chief financial officer (CFO)

Objective: 6

AACSB: Reflective thinking

10) Examples of the controller's functions include all EXCEPT:

- A) operations administration
- B) budgeting
- C) investor relations
- D) general ledger

Answer: C

Diff: 1

Terms: internal audit

Objective: 6

AACSB: Reflective thinking

11) Long term financing is an integral part of the _____ function in an organization.

- A) treasurer's
- B) controller's
- C) internal audit
- D) president's

Answer: A

Diff: 1

Terms: management accounting, controller

Objective: 6

AACSB: Reflective thinking

12) Line management is directly responsible for attaining the goals of the organization.

Answer: TRUE

Diff: 1

Terms: line management

Objective: 6

AACSB: Reflective thinking

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

Answer: FALSE

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

Diff: 1

Terms: controllership

Objective: 6

AACSB: Communication

14) Treasury includes banking and short- and long-term financing, investments, and cash management.

Answer: TRUE

Diff: 2

Terms: controllership

Objective: 6

AACSB: Analytical skills

15) The controller is usually responsible for banking, short- and long-term financing, investments, and cash management.

Answer: TRUE

Diff: 1

Terms: internal audit

Objective: 6

AACSB: Reflective thinking

16) The controller (also called the chief accounting officer) is the financial executive primarily responsible for both management accounting and financial accounting.

Answer: TRUE

Diff: 1

Terms: internal audit

Objective: 6

AACSB: Reflective thinking

17) An external audit includes reviewing and analyzing financial and other records to attest to the integrity of the organization's financial reports and to adherence to its policies and procedures.

Answer: FALSE

Explanation: Internal audit includes reviewing and analyzing financial and other records to attest to the integrity of the organization's financial reports and to adherence to its policies and procedures.

Diff: 2

Terms: internal audit

Objective: 6

AACSB: Communication

18) The controller is generally a staff position.

Answer: TRUE

Diff: 1

Terms: internal audit

Objective: 6

AACSB: Analytical skills

19) Management accountants must have behavioral and interpersonal skills.

Answer: TRUE

Diff: 1

Terms: internal audit

Objective: 6

AACSB: Analytical skills

20) What areas of responsibility does a chief financial officer have in a typical organization?

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

Diff: 3

Terms: chief financial officer (CFO)

Objective: 6

AACSB: Reflective thinking

21) How does a controller help "control" a company?

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

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

Diff: 3

Terms: internal audit

Objective: 6

AACSB: Reflective thinking

Objective 1.7

1) Which of the following issues is NOT addressed by the Sarbanes-Oxley legislation?

- A) improving internal control
- B) corporate governance
- C) disclosure practices of public corporations
- D) disclosure practices of private companies

Answer: D

Diff: 1

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

2) The Standards of Ethical Conduct for management accountants include concepts related to:

- A) competence, performance, integrity, and reporting
- B) competence, confidentiality, integrity, and credibility
- C) experience, integrity, reporting, and objectivity
- D) None of these answers are correct.

Answer: B

Diff: 2

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

3) Which item is NOT an indication of competence under the Standards of Ethical Conduct?

- A) Maintain an appropriate level of professional expertise by continually developing knowledge and skills.
- B) Keep information confidential except when disclosure is authorized or legally required.
- C) Perform professional duties in accordance with relevant laws, regulations, and technical standards.
- D) Provide decision support information and recommendations that are accurate, clear, concise, and timely.

Answer: B

Diff: 2

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

4) Which item is NOT an indication of confidentiality under the Standards of Ethical Conduct?

- A) Keep information confidential except when disclosure is authorized or legally required.
- B) Inform all relevant parties regarding appropriate use of confidential information.
- C) Refrain from using confidential information for unethical or illegal advantage.
- D) All of the above indicate confidentiality.

Answer: D

Diff: 2

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

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

Answer: A

Diff: 2

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

- 6) Which item is an indication of credibility under the Standards of Ethical Conduct?
- A) Maintain an appropriate level of professional expertise by continually developing knowledge and skills.
 - B) Refrain from using confidential information for unethical or illegal advantage.
 - C) Abstain from engaging in or supporting any activity that might discredit the profession.
 - D) Disclose delays or deficiencies in information, timeliness, processing, or internal controls in conformance with organization policy and/or applicable law.

Answer: D

Diff: 2

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

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

Answer: D

Diff: 2

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

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

Answer: D

Diff: 2

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

9) If there is an ethical conflict concerning your direct supervisor, you may contact all of the following groups EXCEPT:

- A) local media
- B) audit committee
- C) executive committee
- D) board of directors

Answer: A

Diff: 2

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

10) If there is an ethical conflict concerning your direct supervisor, when is it appropriate to contact authorities or individuals NOT employed by the organization?

- A) when there is a personal conflict
- B) when your supervisor is about to receive a bonus
- C) when there is a clear violation of the law
- D) when you are about to be terminated

Answer: C

Diff: 2

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

11) Credibility includes maintaining an appropriate level of professional expertise by continually developing knowledge and skills.

Answer: FALSE

Explanation: Competence includes maintaining an appropriate level of professional expertise by continually developing knowledge and skills.

Diff: 1

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

12) The Sarbanes-Oxley legislation does NOT provide a process for employees to report violations of illegal and unethical acts.

Answer: FALSE

Explanation: This legislation does provide employees with the right to report violations.

Diff: 1

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

13) Management accountants have important ethical responsibilities that are related to competence, confidentiality, integrity, and credibility.

Answer: TRUE

Diff: 1

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

14) A managerial accountant should NOT disclose confidential information to an outside party (such as a newspaper) unless legally obligated to do so.

Answer: TRUE

Diff: 1

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

15) If a managerial accountant were NOT keeping up with current developments in managerial accounting, that behavior might violate a competence standard of professional ethical behavior.

Answer: TRUE

Diff: 1

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

16) If a managerial accountant suspected his or her immediate superior of wrongdoing, the managerial accountant should request an immediate meeting with the Board of Directors.

Answer: FALSE

Explanation: If a managerial accountant suspected his or her immediate superior of wrongdoing, the managerial accountant should first present the situation to the next higher managerial level.

Diff: 1

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

17) The Institute of Management Accountants provides a hotline to discuss ethical issues.

Answer: TRUE

Diff: 1

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

18) When faced with a potential ethical conflict, the managerial accountant should first consult any internal procedures of that organization.

Answer: TRUE

Diff: 1

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

19) When confronted with a potential ethical conflict, a managerial accountant should not contact his or her personal attorney concerning rights and obligations.

Answer: FALSE

Explanation: When confronted with a potential ethical conflict, a managerial accountant should contact his or her personal attorney concerning rights and obligations.

Diff: 2

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

20) Integrity includes mitigating actual conflicts of interest, regularly communicating with business associates to avoid apparent conflicts of interest, and advising all parties of any potential conflicts.

Answer: TRUE

Diff: 1

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

21) List the four standards of ethical conduct for management accountants. For each standard, give an example that demonstrates compliance with that standard.

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

1. Competence: Maintain an appropriate level of professional expertise by continually developing knowledge and skills
2. Confidentiality: Refrain from using confidential information for unethical or illegal advantage
3. Integrity: Abstain from engaging in or supporting any activity that might discredit the profession
4. Credibility: Communicate information fairly and objectively

Diff: 3

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning

22) 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.

Answer: The management accountant should first consult any internal company procedures concerning the resolution of ethical issues, and make sure these procedures are followed as closely as possible. At the same time, the management accountant should make sure that the facts are accurate, and are not based on rumors or inaccurate information. If these policies do not resolve the situation, present the facts to the next higher managerial level. Clarify the relevant ethical issues with an objective advisor (e.g., Institute of Management Accountants hotline). Consult your own attorney to be aware of your own rights and responsibilities. If all internal review procedures have still not resolved the ethical situation, the managerial accountant might have to resign and write an informative letter to an appropriate representative of the organization, and perhaps notify other parties.

Diff: 3

Terms: professional ethics

Objective: 7

AACSB: Ethical reasoning