

**Horngren *Cost Accounting, 16e* (Horngren/Datar/Rajan)**  
**Chapter 1 The Manager and Management Accounting**

**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: 1

Objective: 1

AACSB: Analytical thinking

2) Managers use management accounting information to \_\_\_\_\_.

- A) help external users such as investors, banks, regulators, and suppliers
- B) communicate, develop, and implement strategies
- C) communicate a firm's financial position to investors, banks, regulators, and other outside parties
- D) ensure that financial statements are consistent with the SEC rules

Answer: B

Diff: 1

Objective: 1

AACSB: Analytical thinking

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) is the process of measuring, analyzing, and reporting financial and nonfinancial information related to the costs of acquiring or using resources in an organization
- D) is prepared for the use of department heads and other employees

Answer: B

Diff: 1

Objective: 1

AACSB: Analytical thinking

4) The primary user of financial accounting information is a \_\_\_\_\_.

- A) factory shift supervisor
- B) distribution manager
- C) current shareholder
- D) department manager

Answer: C

Diff: 1

Objective: 1

AACSB: Analytical thinking

5) The primary user of management accounting information is a(n) \_\_\_\_\_.

- A) the controller
- B) a shareholder evaluating a stock investment
- C) bondholder
- D) external regulator

Answer: A

Diff: 1

Objective: 1

AACSB: Analytical thinking

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: 1

Objective: 1

AACSB: Analytical thinking

7) Which of the following is true of management accounting information?

- A) It focuses on documenting past business actions of a firm.
- B) It is prepared based on SEC rules and FASB accounting principles.
- C) It is prepared for shareholders.
- D) It co-ordinates product design, production, and marketing decisions.

Answer: D

Diff: 2

Objective: 1

AACSB: Analytical 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 manager's compensation on reported financial results.

Answer: A

Diff: 2

Objective: 1

AACSB: Analytical thinking

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

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

Answer: A

Diff: 1

Objective: 1

AACSB: Analytical thinking

10) Management accounting information typically 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

Objective: 1

AACSB: Application of knowledge

11) Cost accounting \_\_\_\_\_.

- A) measures the costs of acquiring or using resources in an organization
- B) helps managers to develop, communicate, and implement strategies
- C) coordinates product design, production, and marketing decisions and evaluate a company's performance
- D) communicates information to investors, banks, regulators, and other outside parties

Answer: A

Diff: 1

Objective: 1

AACSB: Analytical thinking

12) Which of the following differentiates cost accounting and financial accounting?

- A) The primary users of cost accounting are the investors, whereas the primary users of financial accounting are the managers.
- B) Cost accounting deals with product design, production, and marketing strategies, whereas financial accounting deals mainly with pricing of the products.
- C) Cost accounting measures only the financial information related to the costs of acquiring fixed assets in an organization, whereas financial accounting measures financial and nonfinancial information of a company's business transactions.
- D) Cost accounting measures information related to the costs of acquiring or using resources in an organization, whereas financial accounting measures a financial position of a company to investors, banks, and external parties.

Answer: D

Diff: 2

Objective: 1

AACSB: Analytical thinking

13) Which of the following is true of financial accounting information?

- A) It is prepared based on cost-benefit analysis.
- B) It is primarily used by managers to make internal business decisions.
- C) It focuses on the past-oriented financial performance of a company.
- D) It only measures the cash transactions of a company.

Answer: C

Diff: 2

Objective: 1

AACSB: Analytical 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

Objective: 1

AACSB: Analytical thinking

15) Which of the following is true of cost accounting?

- A) It provides financial information about cash-based transactions only.
- B) It accounts only the financial information of business transactions, not the nonfinancial information.
- C) It provides financial information regarding the cost of acquiring resources.
- D) It must be prepared in accordance with GAAP.

Answer: C

Diff: 2

Objective: 1

AACSB: Analytical thinking

16) Which of the following deals with management accounting?

- A) identifying the costs of acquiring the resources of the company
- B) developing budgets
- C) preparing the income statement
- D) preparing the statement of cash flows

Answer: B

Diff: 1

Objective: 1

AACSB: Analytical thinking

17) Financial accounting is concerned primarily with \_\_\_\_\_.

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

Answer: A

Diff: 1

Objective: 1

AACSB: Analytical 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

Objective: 1

AACSB: Analytical 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: 2

Objective: 1

AACSB: Analytical thinking

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

Objective: 1

AACSB: Analytical thinking

21) Financial accounting information focuses on internal reporting.

Answer: FALSE

Explanation: Management accounting information focuses on internal reporting and financial accounting focuses on external reporting.

Diff: 1

Objective: 1

AACSB: Analytical thinking

22) Cost accounting provides information for both management accounting and financial accounting professionals.

Answer: FALSE

Explanation: Cost accounting provides information for both management accounting and financial accounting professionals.

Diff: 2

Objective: 1

AACSB: Analytical thinking

23) Management accounting information and reports do not have to follow set principles or rules such as GAAP.

Answer: TRUE

Diff: 1

Objective: 1

AACSB: Analytical thinking

24) Management accounting ensures communication of an organization's financial position to investors, banks, and regulators.

Answer: FALSE

Explanation: Financial accounting, not management accounting, ensures communication of an organization's financial position to investors, banks, and regulators.

Diff: 1

Objective: 1

AACSB: Analytical thinking

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

Objective: 1

AACSB: Analytical thinking

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

Answer: FALSE

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

Diff: 1

Objective: 1

AACSB: Analytical thinking

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

Answer: TRUE

Diff: 2

Objective: 1

AACSB: Analytical thinking

28) Cost accounting is the process of measuring, analyzing, and reporting financial and nonfinancial information related to the costs of acquiring or using resources in an organization.

Answer: TRUE

Diff: 1

Objective: 1

AACSB: Analytical 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: 2

Objective: 1

AACSB: Analytical thinking

30) For management accounting, internal measurement and reporting are based on cost-benefit analysis.

Answer: TRUE

Diff: 2

Objective: 1

AACSB: Analytical 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

Objective: 1

AACSB: Analytical thinking

32) Financial accounting provides an organization's past-oriented information such as the previous years' financial statements.

Answer: TRUE

Explanation: Financial accounting provides an organization's past-oriented information such as the previous years' financial statements.

Diff: 1

Objective: 1

AACSB: Analytical thinking

33) Cost management not only helps reducing costs but also improving customer satisfaction and the quality of a firm's products.

Answer: TRUE

Diff: 1

Objective: 1

AACSB: Analytical 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: 3

Objective: 1

AACSB: Application of knowledge

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 GAAP is being followed.

Diff: 3

Objective: 1

AACSB: Analytical thinking

36) Cost accounting provides information for both management accounting and financial accounting professionals. Explain.

Answer: Cost accounting is the process of measuring, analyzing, and reporting financial and nonfinancial information related to the costs of acquiring or using resources in an organization. For example, calculating the cost of a product is a cost accounting function that meets both the financial accountant's inventory-valuation needs and the management accountant's decision-making needs such as deciding how to price products and choosing which products to promote.

Diff: 3

Objective: 1

AACSB: Analytical 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

Objective: 1

AACSB: Analytical 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: 3

Objective: 1

AACSB: Analytical thinking

## Objective 1.2

1) Which of the following statements concerning an organization's strategy is true?

- A) Strategy specifies how an organization matches its own capabilities with the opportunities in the marketplace to accomplish its objectives.
- B) Cost accountants formulate strategy in an organization since they have more inputs about costs.
- C) A good strategy will always overcome poor implementation.
- D) Businesses usually follow one of two broad strategies: offering a quality product at a high price, or offering a unique product or service priced lower than the competition.

Answer: A

Diff: 2

Objective: 2

AACSB: Analytical thinking

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

Objective: 2

AACSB: Analytical thinking

3) Which of the following is not a concern for management accountants in formulating a strategy?

- A) identifying the most important warehouse location for the distribution of goods
- B) substituting products that exist in the marketplace
- C) strategizing compliance with GAAP (Generally Accepted Accounting Principles)
- D) maintaining adequate fixed assets available to implement the strategy

Answer: C

Explanation: C) This is more of a concern of financial accountants than of management accountants.

Diff: 2

Objective: 2

AACSB: Analytical thinking

4) Strategy is formulated \_\_\_\_\_.

- A) by identifying the most important customers
- B) by forecasting the composition of adequate fixed assets
- C) based on the qualified opinion of external auditors
- D) by eliminating sunk costs

Answer: A

Diff: 2

Objective: 2

AACSB: Analytical thinking

5) In designing strategy, a company must match its opportunities in the marketplace with \_\_\_\_\_.

- A) environment friendly goals
- B) its resources and capabilities
- C) branding opportunities
- D) the requirements of credit rating agencies

Answer: B

Diff: 2

Objective: 2

AACSB: Analytical thinking

6) Which of the following statements about customer value is 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) Customer value is the only focus that helps managers to formulate strategies.
- D) Customer value is lost with increase in costs of the product.

Answer: B

Diff: 2

Objective: 2

AACSB: Analytical thinking

7) A company's strategy specifies how an organization matches its capabilities with the opportunities in the marketplace.

Answer: TRUE

Diff: 2

Objective: 2

AACSB: Analytical thinking

8) The two broad strategies that companies follow are cost leadership strategy and product differentiation strategy.

Answer: TRUE

Diff: 1

Objective: 2

AACSB: Analytical thinking

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

Objective: 2

AACSB: Analytical thinking

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

Answer: TRUE

Diff: 1

Objective: 2

AACSB: Analytical 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

Objective: 2

AACSB: Analytical thinking

12) Management accountants work closely with managers in various departments to formulate strategies by providing information about the sources of competitive advantage.

Answer: TRUE

Diff: 2

Objective: 2

AACSB: Analytical 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

Objective: 2

AACSB: Analytical 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: 2

Objective: 2

AACSB: Analytical thinking

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

Answer: FALSE

Explanation: Strategic cost management describes cost management that specifically focuses on strategic issues.

Diff: 2

Objective: 2

AACSB: Analytical thinking

16) Identifying a company's most important customers helps to formulate a strategy.

Answer: TRUE

Diff: 1

Objective: 2

AACSB: Analytical thinking

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

Answer: TRUE

Diff: 1

Objective: 2

AACSB: Analytical thinking

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: 3

Objective: 2

AACSB: Analytical thinking

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

Objective: 2

AACSB: Analytical thinking

20) Briefly describe the list of items that managers undertake to formulate strategies.

Answer: ONE: Identifying the most important customers, and how the company can be competitive and deliver value to them.

TWO: Identifying the substitute products existing in the marketplace, and how do they differ from our product in terms of features, price, cost, and quality.

THREE: Identifying most critical capability-whether it is technology, production or marketing.

FOUR: Checking the adequacy of cash available to fund the strategy, or will additional funds need to be raised-through issue of debt or equity.

Diff: 3

Objective: 2

AACSB: Analytical 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

Objective: 2

AACSB: Application of knowledge

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: 3

Objective: 2

AACSB: Application of knowledge

### 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

Objective: 3

AACSB: Analytical 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) customer relationship management

D) the supply chain

Answer: A

Diff: 1

Objective: 3

AACSB: Analytical thinking

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) producing and delivering the product or service is of prime importance
- 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

Objective: 3

AACSB: Analytical 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

Objective: 3

AACSB: Analytical thinking

5) \_\_\_\_\_ is the detailed planning and engineering and testing of products, services, or processes.

- A) Plan of implementation
- B) Design
- C) Production
- D) Research and development

Answer: B

Diff: 1

Objective: 3

AACSB: Analytical thinking

6) Production is the \_\_\_\_\_.

- A) generation of, and experimentation with, ideas related to new products, services, or processes
- B) processing orders and shipping products or services to customers
- C) acquisition, coordination, and assembly of resources to produce a product or deliver a service
- D) detailed planning and engineering of products, services, or processes

Answer: C

Diff: 2

Objective: 3

AACSB: Analytical thinking

7) Marketing is the \_\_\_\_\_.

- A) generation of, and experimentation with, ideas related to new products, services, or processes
- B) detailed planning and engineering of products, services, or processes
- C) acquisition, coordination, and assembly of resources to produce a product or deliver a service
- D) the manner by which companies promote and sell their products or services to customers or perspective customers

Answer: D

Diff: 2

Objective: 3

AACSB: Analytical thinking

8) Which of the following differentiates marketing from customer service?

- A) Marketing is the process of promoting and selling products or services to customers or prospective customers, whereas customer service is the process of providing after-sales service to customers.
- B) Marketing is the process of processing orders and shipping products or services to customers, whereas customer service is the process of providing additional information to customers about the product.
- C) Marketing is the process of detailed planning, engineering, and testing of products and processes, whereas customer service concentrates on existing customers.
- D) Marketing is the process of processing orders and shipping products or services to customers, whereas customer service is concerned with choosing the right customer for the product.

Answer: A

Diff: 2

Objective: 3

AACSB: Analytical thinking

9) \_\_\_\_\_ is an after-sale support provided to customers.

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

Answer: B

Diff: 1

Objective: 3

AACSB: Analytical 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

Objective: 3

AACSB: Analytical thinking



11) Customer relationship management initiatives use technology to coordinate all \_\_\_\_\_.

- A) advertising and marketing techniques to attract customers
- B) research activities
- C) customer-facing activities
- D) quality control management activities

Answer: C

Diff: 1

Objective: 3

AACSB: Analytical thinking

12) \_\_\_\_\_ describes 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) Production process
- C) Quality control
- D) Customer relationship management

Answer: A

Diff: 1

Objective: 3

AACSB: Analytical thinking

13) Processing orders and shipping products or providing services to customers is known as \_\_\_\_\_.

- A) after-sales services
- B) distribution
- C) marketing
- D) supply chain

Answer: B

Diff: 1

Objective: 3

AACSB: Analytical 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: 1

Objective: 3

AACSB: Analytical thinking

15) Which of the following is an area that customers want to see improved levels of performance?

- A) higher sales margin
- B) quality of the product
- C) lower marginal costs
- D) profit margins

Answer: B

Diff: 2

Objective: 3

AACSB: Analytical 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: 2

Objective: 3

AACSB: Analytical thinking

17) Management accounting information helps managers calculate a target cost for a product \_\_\_\_\_.

- A) by subtracting from the target price the operating income per unit of product that the company wants to earn
- B) by subtracting from the target price the net income per unit of product that the company wants to earn
- C) by subtracting profit margin per unit from the target price of product that the company wants to earn
- D) by adding the operating income per unit and the contribution margin per unit

Answer: A

Diff: 2

Objective: 3

AACSB: Analytical thinking

18) The \_\_\_\_\_ function supports the six functions of value-chain analysis.

- A) administration
- B) controlling
- C) planning
- D) direction

Answer: B

Diff: 1

Objective: 3

AACSB: Analytical 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: 1

Objective: 3

AACSB: Analytical thinking

20) New-product development time is the time taken by companies to \_\_\_\_\_.

- A) test the prototype and start the large scale production of a product
- B) design and develop the prototype product
- C) create new products and bring them to market
- D) improvise existing products and re-launch them to market

Answer: C

Diff: 2

Objective: 3

AACSB: Analytical thinking

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

Objective: 3

AACSB: Analytical thinking

22) Which of the following is true of sustainability?

- A) It helps in implementing strategies to improvise the product.
- B) It concerns with purchase of material in larger quantities.
- C) It helps the development and implementation of strategies to achieve long-term financial, social, and environmental goals.
- D) It helps manufacturing firms produce products more efficiently ensuring lower costs at an optimum use of available resources.

Answer: C

Diff: 2

Objective: 3

AACSB: Analytical thinking

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: 2

Objective: 3

AACSB: Analytical 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

Objective: 3

AACSB: Analytical 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: 2

Objective: 3

AACSB: Analytical thinking

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

Objective: 3

AACSB: Analytical thinking

27) Technological innovation has led to shorter product-life cycles and increased the need to bring new products to market more rapidly.

Answer: TRUE

Diff: 1

Objective: 2

AACSB: Analytical thinking

28) Management accounting information helps managers calculate a target cost for a product by subtracting from the target price the net income per unit of product that the company wants to earn.

Answer: FALSE

Explanation: Management accounting information helps managers calculate a target cost for a product by subtracting from the target price the operating income per unit of product that the company wants to earn.

Diff: 2

Objective: 2

AACSB: Analytical thinking

29) Customer relationship management initiatives use technology to coordinate all customer-facing activities (such as marketing, sales calls, distribution, and after-sales support) and the design and production activities necessary to get products to customers.

Answer: TRUE

Diff: 2

Objective: 3

AACSB: Analytical thinking

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: TRUE

Diff: 2

Objective: 3

AACSB: Analytical 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

Objective: 3

AACSB: Analytical thinking

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

Objective: 3

AACSB: Analytical thinking

33) The design of products, services, and processes component of the supply chain refers to the detailed planning, engineering, and testing of products and processes.

Answer: TRUE

Diff: 2

Objective: 3

AACSB: Analytical 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

Objective: 3

AACSB: Analytical thinking

35) The parts of the value chain associated with producing and delivering a product or service—production and distribution—are referred to as the supply chain.

Answer: TRUE

Diff: 2

Objective: 3

AACSB: Analytical thinking

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

Answer: FALSE

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

Diff: 1

Objective: 3

AACSB: Analytical thinking

37) Managers track the costs incurred in each value-chain category is to reduce costs and to improve efficiency.

Answer: TRUE

Diff: 1

Objective: 3

AACSB: Analytical thinking

38) Competitive information serves as a benchmark that managers use to continuously improve their operations.

Answer: TRUE

Diff: 1

Objective: 3

AACSB: Analytical thinking

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

Answer: TRUE

Diff: 1

Objective: 3

AACSB: Analytical thinking

40) The increasing pace of technological information has resulted in longer product lifecycles.

Answer: FALSE

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

Diff: 2

Objective: 3

AACSB: Application of knowledge

41) Managers rely on management accounting information to evaluate alternative investment and R&D decisions.

Answer: TRUE

Diff: 1

Objective: 3

AACSB: Analytical 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: 3

Objective: 3

AACSB: Application of knowledge

43) Classify each cost item of Ripon Printers given below into one of the business functions of the value chain, either (1) R&D, (2) design of products and processes, (3) production, (4) marketing (including sales), (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 designing the book size so that a standard-sized box is filled to capacity

Answer:

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

Diff: 3

Objective: 3

AACSB: Application of knowledge

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 by focusing on the organization's objectives.

Diff: 2

Objective: 3

AACSB: Application of knowledge

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 and sales
- 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 and sales
- f. 2) Design of products and processes
- g. 4) Marketing and sales
- h. 3) Production

Diff: 3

Objective: 3

AACSB: Application of knowledge



## 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, evaluate performance, and learn

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

Objective: 4

AACSB: Analytical thinking

2) Which of the following is true of planning in decision making?

A) It helps an organization to select goals and strategies.

B) It improves the quality of products.

C) It helps in evaluating performance.

D) It helps in the analysis of actual performance.

Answer: A

Diff: 1

Objective: 4

AACSB: Analytical thinking

3) The most important planning tool is a \_\_\_\_\_.

A) performance evaluation report

B) fishbone diagram

C) control chart

D) budget

Answer: D

Diff: 2

Objective: 4

AACSB: Analytical thinking

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: 2

Objective: 4

AACSB: Analytical thinking

5) A budget \_\_\_\_\_.

- A) is the qualitative expression of a proposed plan of action by management
- B) is an aid to coordinating what needs to be done to execute a plan
- C) helps in identifying problems and uncertainties
- D) promotes production automation

Answer: B

Diff: 2

Objective: 4

AACSB: Analytical thinking

6) Which of the following is true of planning?

- A) It makes predictions about the future.
- B) It assumes the functional hierarchy of any business is linear.
- C) It improves the quality of products.
- D) It evaluates customer feedback

Answer: A

Diff: 1

Objective: 4

AACSB: Analytical thinking

7) A budget serves as much as a control tool as a planning tool because \_\_\_\_\_.

- A) it aids in the coordination and communication among various business functions
- B) it helps to evaluate customer needs and feedback
- C) it is a benchmark against which actual performance can be compared
- D) it helps to make predictions about the future

Answer: C

Diff: 2

Objective: 4

AACSB: Analytical thinking

8) Which of the following is an example of an extrinsic reward?

- A) receiving a high rating on customer service
- B) appreciation mail from a customer
- C) promotions based on performance
- D) verbal appreciation from CEO

Answer: C

Diff: 1

Objective: 4

AACSB: Application of knowledge

9) Which of the following is an example of an intrinsic reward?

- A) bonuses paid to employees
- B) recognition of job well done
- C) promotions based on performance
- D) salaries paid to employees

Answer: B

Diff: 1

Objective: 4

AACSB: Application of knowledge

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) enhances agency costs

Answer: A

Diff: 2

Objective: 4

AACSB: Analytical thinking

11) Control measures should \_\_\_\_\_.

- A) be set and not changed until the next budget cycle
- B) be set by excluding nonfinancial information
- 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 help future planning

Answer: D

Diff: 2

Objective: 4

AACSB: Analytical 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

Objective: 4

AACSB: Analytical thinking

13) Which of the following statements is true of performance reports?

- A) The performance report shows actual performance as compared to the budget.
- B) The performance report depicts the performance of a firm's competitors.
- C) The performance report compares only the budgeted performance over the years.
- D) The performance report contains no actual results due to confidentiality.

Answer: A

Diff: 2

Objective: 4

AACSB: Analytical 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

Objective: 4

AACSB: Analytical thinking

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

Objective: 4

AACSB: Analytical thinking

16) One of the steps in planning is evaluating the performance and taking corrective measures.

Answer: FALSE

Diff: 2

Objective: 4

AACSB: Analytical thinking

17) A budget helps to control activities by adhering to the prescribed plan.

Answer: TRUE

Diff: 1

Objective: 4

AACSB: Analytical thinking

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

Objective: 4

AACSB: Analytical thinking

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

Answer: FALSE

Explanation: Explanation: A budget is a quantitative expression of a plan.

Diff: 1

Objective: 4

AACSB: Analytical thinking

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

Answer: TRUE

Diff: 1

Objective: 4

AACSB: Analytical thinking

21) Linking rewards to performance helps in good management performance.

Answer: TRUE

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

Diff: 1

Objective: 4

AACSB: Analytical thinking

22) Control comprises taking actions that implement the planning decisions, evaluating past performance, and providing feedback and learning to help future decision making.

Answer: TRUE

Diff: 1

Objective: 4

AACSB: Analytical thinking

23) A budget can only be used as a planning tool.

Answer: FALSE

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

Diff: 1

Objective: 4

AACSB: Analytical thinking

24) Gathering information before making a decision leads to a wastage of time and is not helpful.

Answer: FALSE

Explanation: Gathering information before making a decision helps managers gain a better understanding of uncertainties.

Diff: 1

Objective: 4

AACSB: Analytical thinking

25) Evaluating a performance helps in the future decision-making process.

Answer: FALSE

Explanation: Feedback and learning helps in the future decision-making process.

Diff: 1

Objective: 4

AACSB: Analytical thinking

26) Bonuses given to employees based on performance is an example of extrinsic reward.

Answer: TRUE

Diff: 2

Objective: 4

AACSB: Application of knowledge

27) A budget is a benchmark against which actual performance can be compared.

Answer: TRUE

Diff: 2

Objective: 4

AACSB: Analytical thinking

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

Answer: TRUE

Diff: 1

Objective: 4

AACSB: Analytical thinking

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

Answer: TRUE

Diff: 1

Objective: 4

AACSB: Analytical 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

Objective: 4

AACSB: Analytical thinking

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

Objective: 4

AACSB: Application of knowledge

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: 3

Objective: 4

AACSB: Analytical 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: 1

Objective: 4

AACSB: Analytical thinking

34) What is planning in decision making? Explain how budget helps in planning.

Answer: Planning consists of selecting an organization's goals and strategies, predicting results under various alternative ways of achieving those goals, deciding how to attain the desired goals, and communicating the goals and how to achieve them to the entire organization. Management accountants serve as business partners in these planning activities because they understand the key success factors and what creates value.

The most important planning tool when implementing strategy is a budget. A budget is the quantitative expression of a proposed plan of action by management and is an aid to coordinating what needs to be done to execute that plan. It helps in the production, distribution, and customer-service costs to achieve the company's sales goals; the anticipated cash flows; and the potential financing needs.

Diff: 3

Objective: 4

AACSB: Analytical thinking

35) Complete a performance report for the month of May, 2014, for Times Corp, 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	\$4,200,000
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)	\$7,636.36	\$8,000	\$363.64 Unfavorable	4.54% Unfavorable
Advertising revenues	\$4,200,000	\$4,000,000	\$200,000 Favorable	5% Favorable

The overall 5% favorable 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. The percentage drop in advertising revenue per page is marginal in comparison with the favorable increase of the pages sold.

Diff: 3

Objective: 4

AACSB: Application of knowledge



## Objective 1.5

1) Which of the following is a guideline used by management accountants to assist in strategic and operational decision making?

- A) employing a cost-benefit approach
- B) employing a supply chain approach
- C) employing a six sigma approach
- D) employing a regression approach

Answer: A

Diff: 1

Objective: 5

AACSB: Analytical 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: 1

Objective: 5

AACSB: Analytical thinking

3) Which of the following is true of a budgeting system?

- A) It compels managers to plan ahead.
- B) It increases agency costs.
- C) It is easy to measure the exact benefits of a budgeting system.
- D) It leads to operational inefficiency.

Answer: A

Diff: 2

Objective: 5

AACSB: Analytical thinking

4) In a cost-benefit approach, managers should spend resources if the \_\_\_\_\_.

- A) marginal costs to the company exceed the marginal benefits
- B) expected benefits to the company exceed the expected costs
- C) marginal costs to the company equal the marginal benefits
- D) expected benefits to the company equal the expected costs

Answer: B

Diff: 3

Objective: 5

AACSB: Analytical thinking

5) Technical consideration \_\_\_\_\_.

- A) help managers make wise economic decisions by providing them with the desired information
- B) focus on encouraging individuals to do their jobs better
- C) focus on compensating the managers for good performance
- D) emphasize on different costs for different purposes

Answer: A

Diff: 2

Objective: 5

AACSB: Analytical thinking

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

- A) Resources should be spent if the expected costs exceed the expected benefits of the company.
- B) In a cost-benefit analysis, both costs and benefits are not easy to measure.
- 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 budgeting system.

Answer: B

Diff: 2

Objective: 5

AACSB: Analytical thinking

7) Management is primarily a human activity that should focus on encouraging individuals to do their jobs better.

Answer: TRUE

Diff: 1

Objective: 5

AACSB: Analytical thinking

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

Objective: 5

AACSB: Analytical thinking

9) The same cost concept used for external and internal reporting purposes.

Answer: FALSE

Diff: 2

Objective: 5

AACSB: Analytical thinking

10) Accounting methods 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

Objective: 5

AACSB: Analytical 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. Companies now use budgeting system that compels managers to plan ahead, compare actual to budgeted information, learn, and take corrective action.

Diff: 3

Objective: 5

AACSB: Analytical thinking

12) Discuss the behavioral considerations that provide value to strategic decision making.

Answer: Management is primarily a human activity that should focus on encouraging individuals to do their jobs better. Budgets have a behavioral effect by motivating and rewarding employees for achieving an organization's goals. So, when workers underperform, for example, behavioral considerations suggest that managers need to discuss ways to improve their performance with them rather than just sending them a report highlighting their underperformance.

Diff: 3

Objective: 5

AACSB: Analytical thinking

## Objective 1.6

1) Which of the following is true of line management?

- A) It is directly responsible for achieving the goals of the organization.
- B) It is responsible of management accounting functions.
- C) It provides advice, support, and assistance to staff management.
- D) It only includes the top level management.

Answer: A

Diff: 2

Objective: 6

AACSB: Analytical thinking

2) Which of the following is true of staff management?

- A) It plans income taxes, sales taxes, and international taxes.
- B) It is directly responsible for achieving the goals of the organization.
- C) It provides advice, support, and assistance to line management.
- D) It controls the main business functions such as production and marketing.

Answer: C

Diff: 2

Objective: 6

AACSB: Analytical thinking

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

- A) Risk management
- B) Treasury management
- C) Controllership
- D) Strategic planning

Answer: C

Diff: 1

Objective: 6

AACSB: Analytical thinking

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

- A) Risk management
- B) Strategic planning
- C) Controllership
- D) Treasury management

Answer: D

Diff: 1

Objective: 6

AACSB: Analytical thinking

5) Line management includes \_\_\_\_\_.

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

Answer: A

Diff: 1

Objective: 6

AACSB: Analytical thinking

6) Staff management includes \_\_\_\_\_.

- A) manufacturing managers
- B) management accountants
- C) purchasing managers
- D) distribution managers

Answer: B

Diff: 1

Objective: 6

AACSB: Application of knowledge

7) Which of the following is a responsibility of the CFO?

- A) preparing financial statements
- B) managing short-term and long-term financing
- C) investing in new equipment
- D) conducting internal audit

Answer: B

Diff: 2

Objective: 6

AACSB: Analytical 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: 2

Objective: 6

AACSB: Analytical thinking

9) Which of the following reports to the CFO?

- A) external auditor
- B) distribution manager
- C) production manager
- D) treasurer

Answer: D

Diff: 2

Objective: 6

AACSB: Application of knowledge

10) Which of the following is a function of a controller?

- A) operations administration
- B) controlling the stock price
- C) communication with the shareholders
- D) interest-rate risk management

Answer: A

Diff: 2

Objective: 6

AACSB: Analytical thinking

11) Long-term financing is an integral part of the \_\_\_\_\_ function in an organization.

- A) CFO's
- B) controller's
- C) auditor's
- D) president's

Answer: A

Diff: 1

Objective: 6

AACSB: Analytical thinking

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

Answer: TRUE

Diff: 1

Objective: 6

AACSB: Analytical thinking

13) Staff management, such as management accountants and information technology and human-resources management, provides advice, support, and assistance to line management.

Answer: TRUE

Diff: 1

Objective: 6

AACSB: Analytical thinking

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

Answer: TRUE

Diff: 1

Objective: 6

AACSB: Analytical thinking

15) The controller is usually responsible for budgeting.

Answer: TRUE

Diff: 1

Objective: 6

AACSB: Analytical thinking

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

Answer: FALSE

Diff: 2

Objective: 6

AACSB: Analytical thinking

17) Management accountants must work well in cross-functional teams and as a business partner.

Answer: TRUE

Diff: 1

Objective: 6

AACSB: Analytical thinking

18) A company's CFO oversees banking and short- and long-term financing, investments, and cash management.

Answer: TRUE

Diff: 2

Objective: 6

AACSB: Analytical thinking

19) Management accountants must promote fact-based analysis and make tough-minded, critical judgments without being adversarial.

Answer: TRUE

Diff: 1

Objective: 6

AACSB: Analytical thinking

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: 2

Objective: 6

AACSB: Analytical thinking

21) The successful management accountant possesses several skills and characteristics that reach well beyond

basic analytical abilities. Discuss.

Answer: The skills required are as follows:

Management accountants must work well in cross-functional teams and as a business partner.

They must promote fact-based analysis and make tough-minded, critical judgments without being adversarial.

They must lead and motivate people to change and be innovative.

They must communicate clearly, openly, and candidly.

They must have a strong sense of integrity.

Diff: 3

Objective: 6

AACSB: Analytical thinking

## Objective 1.7

1) Which of the following issues is addressed by the Sarbanes-Oxley legislation?

A) safety aspects of products

B) environmental damages caused by industries

C) disclosure practices of public corporations

D) disclosure practices of private companies

Answer: C

Diff: 2

Objective: 7

AACSB: Analytical thinking

2) The Standards of Ethical Conduct for management accountants include concepts related to \_\_\_\_\_.

A) competence, performance, diligence, and reporting

B) competence, confidentiality, integrity, and credibility

C) experience, diligence, reporting, and objectivity

D) diligence, objectivity, conflicts of interest, and credibility

Answer: B

Diff: 2

Objective: 7

AACSB: Ethical understanding and reasoning

3) Which item is 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) Abstain from engaging in or supporting any activity that might discredit the profession.
- D) Refrain from engaging in any conduct that would prejudice carrying out duties ethically.

Answer: A

Diff: 2

Objective: 7

AACSB: Ethical understanding and reasoning

4) Which of the following differentiates confidentiality and credibility under the Standards of Ethical Conduct?

- A) Credibility deals with refraining from activities that would prejudice carrying out duties ethically, while confidentiality deals with communicating information fairly and objectively.
- B) Confidentiality deals with refraining from the usage of critical information for unethical or illegal advantage, while credibility ensures disclosing the relevant information that would help the intended user's understanding.
- C) Credibility deals with refraining from the usage of critical information for unethical or illegal advantage, while confidentiality ensures disclosing the relevant information that would help the user's understanding.
- D) Credibility ensures appropriate level of professional expertise by continually developing knowledge and skills, while confidentiality encourages mitigation of actual conflicts of interest.

Answer: B

Diff: 3

Objective: 7

AACSB: Ethical understanding and 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

Objective: 7

AACSB: Ethical understanding and 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

Objective: 7

AACSB: Ethical understanding and 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) adhering to the principles of accounting
- C) whether to file a tax return this year
- D) whether to accept gifts higher incentives from the company for their performance

Answer: A

Diff: 2

Objective: 7

AACSB: Ethical understanding and 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) Clarify relevant ethical issues by initiating a confidential discussion with an IMA Ethics Counselor.
- C) Consult the attorney as to legal obligations and rights concerning the ethical conflict.
- D) Follow the organization's procedures concerning resolution of such a conflict.

Answer: D

Diff: 2

Objective: 7

AACSB: Ethical understanding and reasoning

9) If there is an ethical conflict concerning your direct supervisor, you may contact \_\_\_\_\_.

- A) local media
- B) IMA Ethics Counselor
- C) attorney
- D) board of directors

Answer: D

Diff: 2

Objective: 7

AACSB: Ethical understanding and 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 be promoted
- C) when there is a clear violation of the law
- D) when you face injustice from your supervisor

Answer: C

Diff: 2

Objective: 7

AACSB: Ethical understanding and reasoning

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

Answer: TRUE

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

Diff: 1

Objective: 7

AACSB: Ethical understanding and reasoning

12) As part of the Sarbanes-Oxley Act, internal auditors are solely responsible for the fair representation of the business operations in the financial statements.

Answer: FALSE

Explanation: As part of the Sarbanes-Oxley Act, CEOs and CFOs must certify that the financial statements of their firms fairly represent the results of their operations.

Diff: 2

Objective: 7

AACSB: Analytical thinking

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

Answer: TRUE

Diff: 1

Objective: 7

AACSB: Ethical understanding and reasoning

14) As per IMA statement of ethical professional practice, integrity refers to disclosing all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, analyses, or recommendations is a responsibility.

Answer: FALSE

Explanation: As per IMA statement of ethical professional practice, credibility refers to disclosing all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, analyses, or recommendations is a responsibility.

Diff: 2

Objective: 7

AACSB: Ethical understanding and reasoning

15) Performing professional duties in accordance with relevant laws, regulations, and technical standards is a competent responsibility.

Answer: TRUE

Diff: 1

Objective: 7

AACSB: Ethical understanding and reasoning

16) If a managerial accountant suspected his or her immediate superior of unethical behavior, who happens to be a chief executive officer or equivalent, the managerial accountant should request an immediate meeting with the executive committee or the audit committee.

Answer: TRUE

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: 2

Objective: 7

AACSB: Ethical understanding and reasoning

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

Answer: TRUE

Diff: 1

Objective: 7

AACSB: Analytical thinking

18) When faced with a potential ethical conflict, the managerial accountant should first consult IMA ethics counselor.

Answer: FALSE

Diff: 1

Objective: 7

AACSB: Ethical understanding and reasoning

19) IMA's overarching ethical principles include: Honesty, Fairness, Objectivity, and Responsibility.

Answer: TRUE

Diff: 2

Objective: 7

AACSB: Ethical understanding and reasoning

20) Integrity is to abstain from engaging in or supporting any activity that might discredit the profession.

Answer: TRUE

Diff: 1

Objective: 7

AACSB: Ethical understanding and 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: 2

Objective: 7

AACSB: Ethical understanding and 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. If these policies do not resolve the situation, present the facts to the next higher managerial level. If your immediate superior is the chief executive officer or equivalent, the acceptable reviewing authority may be a group such as the audit committee, executive committee, board of directors, board of trustees, or owners. 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

Objective: 7

AACSB: Ethical understanding and reasoning