

Managerial Accounting, Second Canadian Edition (Braun, Tietz, Pyper)
Chapter 1 Introduction to Managerial Accounting

Section 1.1

1) Controlling means overseeing the company's day-to-day operations.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-1

Bloom's Taxonomy: Knowledge

2) Managerial accounting gathers, summarizes, and reports the cost and revenue data relevant to decisions.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-1

Bloom's Taxonomy: Knowledge

3) Evaluating the results of business operations against a plan and then making adjustments to that plan is called budgeting.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-1

Bloom's Taxonomy: Knowledge

4) The four primary responsibilities of managers are planning, directing, controlling, and decision making.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-1

Bloom's Taxonomy: Knowledge

5) Managerial accounting develops reports that help internal parties effectively and efficiently run the company.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-1

Bloom's Taxonomy: Knowledge

6) Directing means setting goals and objectives for the company and determining how to achieve them.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-1

Bloom's Taxonomy: Knowledge

7) Budgets are the quantitative expression of management's plans.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-1

Bloom's Taxonomy: Knowledge

8) Planning involves which of the following activities?

- A) Setting goals and objectives for the company
- B) Overseeing the company's day-to-day operations
- C) Evaluating the results of operations
- D) Getting feedback on results

Answer: A

Diff: 1 Type: MC

LO: 1-1

Bloom's Taxonomy: Knowledge

9) When management compares the budget to actual results, which of the following is being fulfilled?

- A) Directing
- B) Controlling
- C) Decision-making
- D) Planning

Answer: B

Diff: 2 Type: MC

LO: 1-1

Bloom's Taxonomy: Knowledge

10) Which of the following management responsibilities are being fulfilled when management uses feedback to take corrective action on the budgets?

- A) Directing and planning
- B) Planning and decision-making
- C) Controlling and decision-making
- D) Planning and controlling

Answer: C

Diff: 2 Type: MC

LO: 1-1

Bloom's Taxonomy: Knowledge

11) Which one of the following manager responsibilities encompasses the other three?

- A) Decision-making
- B) Feedback
- C) Planning
- D) Controlling

Answer: A

Diff: 2 Type: MC

LO: 1-1

Bloom's Taxonomy: Comprehension

12) Using product cost information to determine sales prices is an example of

- A) controlling, planning, and decision-making.
- B) directing, controlling, and planning.
- C) directing, planning, and decision-making.
- D) controlling, directing, and planning.

Answer: C

Diff: 3 Type: MC

LO: 1-1

Bloom's Taxonomy: Comprehension

13) Using hourly sales reports to determine the level of staffing needed to service customers fulfills which of management's four primary responsibilities?

- A) Directing, planning, and decision-making
- B) Directing, controlling, and planning
- C) Controlling, planning, and decision-making
- D) Analyzing, directing, and planning

Answer: A

Diff: 3 Type: MC

LO: 1-1

Bloom's Taxonomy: Comprehension

14) Budgets are the way that managers can express their

- A) plans.
- B) decision-making.
- C) control.
- D) hiring practices.

Answer: A

Diff: 1 Type: MC

LO: 1-1

Bloom's Taxonomy: Knowledge

15) Comparing actual results to budgets is an example of the management function of

- A) controlling.
- B) decision-making.
- C) directing.
- D) planning.

Answer: A

Diff: 1 Type: MC

LO: 1-1

Bloom's Taxonomy: Knowledge

16) Overseeing the day-to-day operations of a company is an example of the management function of

- A) controlling.
- B) decision-making.
- C) directing.
- D) planning.

Answer: C

Diff: 1 Type: MC

LO: 1-1

Bloom's Taxonomy: Knowledge

17) Preparing budgets is an example of the management function of

- A) controlling.
- B) decision-making.
- C) directing.
- D) planning.

Answer: D

Diff: 1 Type: MC

LO: 1-1

Bloom's Taxonomy: Knowledge

18) Evaluating results against the plan is an example of the management function of

- A) controlling.
- B) decision-making.
- C) directing.
- D) planning.

Answer: A

Diff: 1 Type: MC

LO: 1-1

Bloom's Taxonomy: Knowledge

19) What are the four primary responsibilities of managers as described in the chapter? Give an example of each type of responsibility.

Answer: The following are managers' four primary responsibilities:

- a. Planning: An example of planning is when the manager of a local McDonald's restaurant makes the schedule of employee work hours for the upcoming week.
- b. Directing: An example of directing is when the manager of the local McDonald's adjusts the menu to reflect local tastes and preferences.
- c. Controlling: An example of controlling is when the manager of the local McDonald's compares the actual number of hamburger patties used over the past week to the budgeted number of hamburger patties.
- d. Decision-making: The owners of the local McDonald's franchise analyze the potential of the current location and decide to open a second location five miles away in a popular shopping plaza.

Note that student examples of each type of responsibility may vary.

Diff: 2 Type: ES

LO: 1-1

Bloom's Taxonomy: Comprehension

Match the following:

- A) Decision making
- B) Controlling
- C) Planning
- D) Directing

20) Setting goals and objectives

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Knowledge

21) The process in which management engages while it plans directs and controls operations.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Knowledge

22) Evaluating results of business operations.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Knowledge

23) Determining how to achieve company goals.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Knowledge

24) Overseeing the company's day to day operations.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Knowledge

Answers: 20) C 21) A 22) B 23) C 24) D

Match the following:

A) Decision making

B) Controlling

C) Planning

D) Directing

25) Setting a 20% increase in sales as goal for the next fiscal period.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Comprehension

26) Streamline company procedures to reduce the time required per unit of product produced.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Comprehension

27) Selecting the best corporate website design from a number of proposals.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Comprehension

28) Monitor both voluntary and involuntary employee turnover.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Comprehension

29) Making a determination about the appropriate level of advertising expenditures.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Comprehension

30) Increasing marketing efforts.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Comprehension

31) Implement an employee training program to improve moral.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Comprehension

32) Setting a target level of employee turnover.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Comprehension

33) Determine that R & D costs should be increased by 10% in the upcoming fiscal quarter.

Diff: 2 Type: MA

LO: 1-1

Bloom's Taxonomy: Comprehension

34) Set prices at a competitive level.

Diff: 2 Type: MA

LO: 1-1

Bloom's Taxonomy: Comprehension

35) Improve the design of the corporate website.

Diff: 2 Type: MA

LO: 1-1

Bloom's Taxonomy: Comprehension

36) Monitor web traffic through the use of an online counting device.

Diff: 2 Type: MA

LO: 1-1

Bloom's Taxonomy: Comprehension

Answers: 25) C 26) D 27) A 28) B 29) A 30) D 31) D 32) C 33) C 34) D 35) D 36) B

Section 1.2

1) The design of a management accounting system should consider how reports affect employees' behavior.

Answer: TRUE

Diff: 2 Type: TF

LO: 1-2

Bloom's Taxonomy: Knowledge

2) GAAP must be followed when managerial accounting reports are prepared.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Knowledge

3) Management accounting requires independent audits of the firm's books.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Knowledge

4) The primary purpose of managerial accounting information is to help external users make investing and lending decisions.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Knowledge

5) The primary users of managerial accounting information are internal users such as managers.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Knowledge

6) The primary managerial accounting product is the company's audited financial statements.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Knowledge

7) Managerial accounting information emphasizes relevance, more than reliability and objectivity.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Knowledge

8) Managerial accounting information tends to report on segments of the business.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Knowledge

9) Managerial accounting reports are always prepared on a quarterly and annual basis.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Knowledge

10) Managerial information is always based on historical transactions with external parties.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Knowledge

11) Which of the following statements is TRUE about managerial accounting information?

A) It is prepared annually and quarterly.

B) It is audited.

C) It emphasizes relevance.

D) It must be prepared in conformity with generally accepted accounting principles (GAAP).

Answer: C

Diff: 2 Type: MC

LO: 1-2

Bloom's Taxonomy: Knowledge

12) Management accounting focuses on

A) external reporting.

B) internal reporting.

C) tax preparation.

D) auditing.

Answer: B

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Knowledge

13) The person MOST likely to use ONLY financial accounting information would be the

A) bank loan officer.

B) plant manager.

C) vice president of plant operations.

D) product manager.

Answer: A

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Comprehension

14) Which of the following persons or groups would be LEAST likely to receive detailed managerial accounting reports?

A) Plant managers

B) Current shareholders

C) Sales territory managers

D) CEO

Answer: B

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Comprehension

15) Which of the following types of accounting is designed to meet the needs of decision-makers inside a company?

- A) Audit accounting
- B) Financial accounting
- C) Managerial accounting
- D) Tax accounting

Answer: C

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Knowledge

16) The primary goal of managerial accounting is to provide information to

- A) shareholders.
- B) creditors.
- C) internal decision-makers.
- D) both shareholders and creditors.

Answer: C

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Knowledge

17) Which of following is TRUE?

- A) Management accounting focuses on historical transactions.
- B) Financial accounting uses the cash basis for recording transactions.
- C) Financial accounting focuses on future data.
- D) Management accounting focuses on relevant data.

Answer: D

Diff: 2 Type: MC

LO: 1-2

Bloom's Taxonomy: Knowledge

18) Which of the following statements is FALSE?

- A) Financial accounting provides sufficient information for managers to effectively plan and control operations.
- B) Financial accounting reports help creditors make decisions.
- C) Financial accounting helps investors make decisions.
- D) Financial accounting provides external reports.

Answer: A

Diff: 2 Type: MC

LO: 1-2

Bloom's Taxonomy: Knowledge

19) Which of the following is TRUE?

- A) Managerial accounting reports are audited by professional accountants.
- B) Managerial accounting reports provide detailed internal information.
- C) Managerial accounting reports aid potential investors.

D) Managerial accounting reports must follow GAAP.

Answer: B

Diff: 2 Type: MC

LO: 1-2

Bloom's Taxonomy: Knowledge

20) Which of the following are the internal decision-makers of a company?

A) Vendors

B) Customers

C) Managers

D) Shareholders

Answer: C

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Knowledge

21) Which of the following reports must be audited by an outside agency?

A) Annual financial statements

B) Monthly financial statements

C) Annual financial budgets

D) Budgets

Answer: A

Diff: 2 Type: MC

LO: 1-2

Bloom's Taxonomy: Knowledge

22) Which of the following groups are most likely to use a company's budget information?

A) Managers

B) Customers

C) Creditors

D) Suppliers

Answer: A

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Knowledge

23) Owners of a company are its

A) creditors.

B) customers.

C) managers.

D) shareholders.

Answer: D

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Knowledge

24) Information for external parties about past performance is provided by

A) budget reports.

B) financial accounting reports.

C) managerial accounting reports.

D) planning reports.

Answer: B

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Knowledge

25) Discuss at least four differences between financial accounting and managerial accounting.

Answer:

| Item | Managerial accounting | Financial accounting |
|------------------------|---------------------------------|--|
| Primary users | Internal | External |
| Purpose of information | To help managers make decisions | To help investors and creditors make decisions |
| Focus | Segments | Entire organization as a whole |
| Frequency | As needed | Quarterly and annually |
| Auditing | Not subject to audit | Publicly held companies are audited |
| Required? | No | Required by GAAP, SEC, IRS, and others |
| Time frame focus | Future | Past (historical transactions) |

Diff: 3 Type: ES

LO: 1-2

Bloom's Taxonomy: Comprehension

26) Is financial accounting or managerial accounting more useful to a plant (factory) manager? Explain your answer.

Answer: Managerial accounting is likely to be much more useful to a plant manager than financial accounting. Financial accounting typically gives financial information for the company as a whole; the plant manager would find very little information in the financial accounting reports which relate directly to the plant environment and the performance of the plant itself. Managerial accounting, on the other hand, could provide the plant manager with information relating to just the plant. Examples of some types of information provided by managerial accounting are:

- a. comparison of budgeted costs versus actual costs.
- b. tracking of safety incidents.
- c. quality costs.
- d. product line profitability.
- e. profitability by shift.

(Student examples may vary.)

Diff: 2 Type: ES

LO: 1-2

Bloom's Taxonomy: Comprehension

Section 1.3

1) The CFO of a company is responsible for the day-to-day running of the company.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Knowledge

2) The treasurer and the controller report directly to the CFO.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Knowledge

3) The internal audit department reports directly to the subcommittee of the board of directors called the audit committee.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Knowledge

4) In most companies, managerial accountants no longer perform routine mechanical accounting tasks.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Knowledge

5) Managerial accountants are now considered to be similar to advisors and business analysts.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Knowledge

6) Oral and written communications skills are considered among the most valuable skills a management accountant can possess.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Knowledge

7) Technology has been a driving factor in the changing roles of management accountants.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Knowledge

8) Management accountants spend more time planning, analyzing and interpreting accounting data and less time recording routine accounting transactions than they have in the past.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Knowledge

9) The only skill required of managerial accountants is that they have a solid knowledge of both financial and managerial accounting.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Knowledge

10) Managerial accountants only need a solid understanding of managerial accounting, and not financial accounting.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Knowledge

11) Which of the following certifications is issued by the Society of Management Accountants?

A) CPA

B) CMA

C) CIA

D) CFP

Answer: B

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Knowledge

12) Who typically manages the daily operations of a company?

A) Stockholders

B) The controller

C) The company's board of directors

D) The CEO

Answer: D

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Knowledge

13) Who typically provides oversight for large corporations?

A) Stockholders

B) The CEO

C) The Board of Directors

D) The company president

Answer: C

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Knowledge

14) The vice-president of operations directly reports to which person(s)?

A) The CFO

B) The COO

C) The CEO

D) The Board of Directors

Answer: B

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Knowledge

15) The COO is responsible for managing which of the following aspect(s) of the company?

A) Internal controls

B) The annual audit

C) Financial, managerial, and tax accounting

D) Research and development, production, and distribution

Answer: D

Diff: 2 Type: MC

LO: 1-3

Bloom's Taxonomy: Knowledge

16) Which of the following report to the audit committee of the Board of Directors?

A) The treasurer and controller

B) The CFO and internal audit department

C) The internal audit department and the independent CPA firm

D) The CFO and the independent CPA firm

Answer: C

Diff: 2 Type: MC

LO: 1-3

Bloom's Taxonomy: Knowledge

17) Who is primarily responsible for raising capital and investing funds?

A) The CEO

B) The CFO

C) The COO

D) The Treasurer

Answer: D

Diff: 2 Type: MC

LO: 1-3

Bloom's Taxonomy: Knowledge

18) What has been the determining factor in the way that we now view managerial accountants?

A) Stricter audit standards

B) Stricter GAAP standards

C) Technology

D) Government licensing

Answer: C

Diff: 2 Type: MC

LO: 1-3

Bloom's Taxonomy: Knowledge

19) Which would be a subgroup of the Board of Directors?

A) Audit committee

B) Financial committee

C) Managerial committee

D) Stockholders' committee

Answer: A

Diff: 2 Type: MC

LO: 1-3

Bloom's Taxonomy: Knowledge

20) Which person is hired directly by the board of directors to run the company?

A) The Treasurer

B) The CEO

C) The CFO

D) The COO

Answer: B

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Knowledge

21) Managerial accountants often work on teams called

A) audit teams.

B) cross-functional teams.

C) multi-functional teams.

D) work groups.

Answer: B

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Knowledge

22) A company's Board of Directors meets

A) annually.

B) monthly.

C) periodically, as needs dictate.

D) quarterly.

Answer: C

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Knowledge

23) Who requires companies listed on the New York Stock Exchange to have an internal audit function?

A) The Board of Directors

B) The NYSE

C) The internal revenue service (IRS)

D) The stockholders

Answer: B

Diff: 2 Type: MC

LO: 1-3

Bloom's Taxonomy: Knowledge

24) The person or position who is directly responsible for all financial concerns is the

A) CEO.

B) CFO.

C) COO.

D) Treasurer.

Answer: B

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Knowledge

25) Why is it important that all managerial accountants adhere to professional and ethical standards as codified by the profession?

Answer: At the root of all business relationships is trust. Without trust, business cannot function.

Diff: 2 Type: ES

LO: 1-3

Bloom's Taxonomy: Comprehension

26) Describe the position of the CFO, the treasurer, and the controller within the organization. Describe the main functions of the treasurer and the controller.

Answer: The treasurer and controller both report to the CFO. The treasurer is responsible for the investing functions of the organization (i.e., obtaining financing, paying down debt, issuing stock, etc.). The controller is responsible for the financial accounting system and the managerial accounting system of the organization.

Diff: 2 Type: ES

LO: 1-3

Bloom's Taxonomy: Comprehension

Section 1.4

1) The Society of Management Accountants is the professional association for managerial accountants.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

2) The CMA designation is issued by the Society of Management Accountants of Canada.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

3) Your company sends you to a conference to update your skills. You decide to skip the afternoon session and go sightseeing. This violates the professional competency and integrity standards.

Answer: TRUE

Diff: 2 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

4) The Society of management Accountants Code of Professional Ethics always gives clear guidance for every ethical situation.

Answer: FALSE

Diff: 2 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

5) Just because a behavior is legal does not always make it ethical.

Answer: TRUE

Diff: 2 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

6) The Society of Management Accountants ethical principles include: responsibility, loyalty, honour and independence.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

7) When faced with an ethical dilemma, the Society of Management Accountants suggests that the first thing management accountants should do is call the Society's ethics hotline.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

8) To resolve ethical dilemmas management accountants should FIRST

A) follow their company's established policies for Reporting unethical behavior.

- B) discuss the unethical situation with their immediate supervisor.
- C) consult an attorney.
- D) call the Society of Management Accountants "Ethics Hotline."

Answer: A

Diff: 1 Type: MC

LO: 1-4

Bloom's Taxonomy: Knowledge

9) The standards of the Society of Management Accountants Code of Professional Ethics include which of the following?

- A) Integrity
- B) Honesty
- C) Fairness
- D) Objectivity

Answer: A

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Knowledge

10) Preparing financial statements in accordance with GAAP is an example of

- A) competence.
- B) integrity.
- C) objectivity.
- D) credibility.

Answer: A

Diff: 1 Type: MC

LO: 1-4

Bloom's Taxonomy: Comprehension

11) Communicating information fairly and objectively represents what ethical standard?

- A) Competence
- B) Confidentiality
- C) Credibility
- D) Integrity

Answer: C

Diff: 1 Type: MC

LO: 1-4

Bloom's Taxonomy: Comprehension

12) Performing duties in accordance with relevant laws, regulations, and technical standards make up which SMA professional ethics standard?

- A) Competence
- B) Confidentiality
- C) Credibility
- D) Integrity

Answer: A

Diff: 1 Type: MC

LO: 1-4

Bloom's Taxonomy: Knowledge

13) You "pad" your expenses on a company sponsored conference. You are in violation of what ethical standard?

- A) Competence
- B) Confidentiality
- C) Credibility
- D) Integrity

Answer: D

Diff: 1 Type: MC

LO: 1-4

Bloom's Taxonomy: Comprehension

14) A company ships out pre-ordered merchandise the last week of December, instead of in mid-January as originally scheduled, to ensure a profit for the year. This action could be seen as a violation of what ethical standard?

- A) Competence
- B) Confidentiality
- C) Integrity
- D) Independence

Answer: C

Diff: 1 Type: MC

LO: 1-4

Bloom's Taxonomy: Comprehension

15) You tell your sister that the company you work for is going to report higher than expected earnings. What ethical standard is being violated?

- A) Competence
- B) Confidentiality
- C) Credibility
- D) Integrity

Answer: B

Diff: 1 Type: MC

LO: 1-4

Bloom's Taxonomy: Comprehension

16) An accountant who does not understand how "accrual accounting" works has failed which standard?

- A) Competence
- B) Confidentiality
- C) Credibility
- D) Integrity

Answer: A

Diff: 1 Type: MC

LO: 1-4

Bloom's Taxonomy: Comprehension

17) You take printer paper home from work for personal use. You have violated which ethical standard?

- A) Competence
- B) Confidentiality
- C) Credibility
- D) Integrity

Answer: D

Diff: 1 Type: MC

LO: 1-4

Bloom's Taxonomy: Comprehension

18) What is the name of the professional association for managerial accountants?

- A) Association of Management Accountants
- B) Society of Management Accountants
- C) Society of Professional Accountants
- D) Professional Accountants Association

Answer: B

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Knowledge

19) The Society of Management Accountants issues what certification?

- A) CMA
- B) CPA
- C) CISA
- D) CFP

Answer: A

Diff: 1 Type: MC

LO: 1-4

Bloom's Taxonomy: Knowledge

20) Attending class to maintain professional knowledge is an example of which ethical standard?

- A) Competence
- B) Confidentiality
- C) Credibility
- D) Integrity

Answer: A

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Comprehension

21) Not disclosing confidential information is an example of which ethical standard?

- A) Competence
- B) Confidentiality
- C) Credibility
- D) Integrity

Answer: B

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Knowledge

22) Refusing gifts or favors that would influence actions is an example of which ethical standard?

- A) Competence
- B) Confidentiality
- C) Credibility
- D) Independence

Answer: D

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Comprehension

23) Taking on a responsibility you know can be better completed by someone else would violate the ethical conduct standard of

- A) competency.
- B) confidentiality.
- C) credibility.
- D) integrity.

Answer: A

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Comprehension

24) Not disclosing relevant information would violate the ethical conduct standard of

- A) competency.
- B) confidentiality.
- C) credibility.
- D) integrity.

Answer: C

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Knowledge

25) Failure to mitigate conflicts of interest would violate the ethical conduct standard of

- A) competency.
- B) confidentiality.
- C) credibility.
- D) independence.

Answer: D

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Comprehension

Section 1.5

1) The Sarbanes-Oxley Act was designed to hold corporations accountable for internal control and financial reporting functions.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

2) The Sarbanes-Oxley Act has significantly impacted the responsibility for financial reporting by publicly traded corporations.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

3) The Sarbanes-Oxley Act does not allow public accounting firms to provide certain non-audit services to clients during the same period they are providing audit services.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

4) Trends in the modern business environment include a shift to a service economy and the rise of the global marketplace.

Answer: TRUE

Diff: 2 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

5) The decision to bill customers electronically, which saves the company money, would be a positive benefit when performing cost-benefit analysis.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

6) Lean production cuts the throughput time of a manufacturing concern.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

7) ISO 9001:2008 is a certification program for companies that adhere to an international set of quality management standards and guidelines.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

8) According to SOX, at least one member of the audit committee should be a financial expert.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

9) IFRS stands for "important financial reporting standards."

Answer: FALSE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

10) XBRL will be required of both public and private companies.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

11) Managerial accounting has its roots in the industrial age of manufacturing.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

12) Lean production is both a philosophy and a business strategy of manufacturing without waste.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

13) Sustainability is generally described as the ability to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

14) Company initiatives to address sustainability and corporate responsibility not only "do the right thing," but also can lead to economic profits by increasing demand for the company's products and services.

Answer: TRUE

Diff: 2 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

15) The advantages of XBRL include decreases in the need for manual searches through corporate reports for specific pieces of information as well as facilitating the comparison of companies results to industry averages and to each other.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

16) SOX requires that the company's financial statements be certified by the company's

- A) CFO.
- B) CEO.
- C) CFO and CEO.
- D) Controller.

Answer: C

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

17) IFRS stands for

- A) International and Foreign Reporting Systems.
- B) International Financial Reporting Standards.
- C) Important Foreign Registering Systems.
- D) International and Foreign Registering Standards.

Answer: B

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

18) XBRL stands for

- A) eXtensible Business Reporting Language.
- B) eXisting Business Responsibility Language.
- C) eXtensive Business Registering Location.
- D) eXtractable Business Reporting Location.

Answer: A

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

19) XBRL is essentially a

- A) new set of accounting standards.
- B) new set of auditing standards.
- C) a tagging system which allows computer programs to extract information from financial reports.
- D) new set of ethical standards.

Answer: C

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

20) The philosophy and a business strategy of manufacturing without waste is referred to as

- A) lean production.
- B) thin manufacturing.
- C) TQM.
- D) ISO 900.

Answer: A

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

21) Under Sarbanes-Oxley, what is the maximum number of years of imprisonment for knowingly destroying or creating documents to obstruct any federal investigation?

- A) 5 years
- B) 10 years
- C) 15 years
- D) 20 years

Answer: D

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

22) Which reflects a philosophy of providing customers with superior products and services?

- A) ERP
- B) XBRL
- C) TQM
- D) IFRS

Answer: C

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

23) Which of the following describes a system in which suppliers deliver materials at the time they are needed?

- A) ERP
- B) JIT
- C) TQM
- D) ISO

Answer: B

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

24) ISO 9001:2008 is a(n)

- A) certification that a company complies with international quality standards.
- B) software system which integrates all departments.
- C) system where production occurs only when needed.
- D) effective exchange of information between vendors and customers.

Answer: A

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

25) What is the abbreviation of the name given to software systems that can integrate all departments?

- A) TQM
- B) ERP
- C) Total Integrated Software
- D) JIT

Answer: B

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

26) E-commerce refers to the

- A) conduct of business on the internet.
- B) exchange of information with customers and suppliers.
- C) production of superior goods and services.
- D) quick delivery of goods and services.

Answer: A

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

27) Companies that wish to demonstrate their commitment to international quality standards may become certified by what organization?

- A) SEC
- B) IFRS
- C) IMA
- D) ISO

Answer: D

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

28) Throughput time is cut when which of the following methods is used?

- A) IFRS
- B) JIT
- C) ISO
- D) XBRL

Answer: B

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

29) Exchanging information to reduce costs, speed delivery, and improve quality is best described as

- A) ERP.
- B) JIT.
- C) Supply-chain management.
- D) TQM.

Answer: C

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

30) The philosophy that centers on production as needed is known as

- A) ERP.
- B) JIT.
- C) Supply-chain management.
- D) TQM.

Answer: B

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

31) The philosophy of providing superior goods and services is

- A) ERP.
- B) JIT.
- C) Supply-chain management.
- D) TQM.

Answer: D

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

32) Wonder Company is considering installing an ERP system. To make a good decision, Wonder needs to conduct a(n)

- A) JIT survey.
- B) TQM survey.
- C) ISO 9001:2000 survey.
- D) cost-benefit analysis.

Answer: D

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Comprehension

Match the following:

- A) ERP
- B) Supply-Chain Management
- C) ISO
- D) SOX
- E) XBRL
- F) IFRS

G) Lean production
H) JIT

33) Exchange of information with suppliers to reduce costs, improve quality, and speed delivery of goods and services from suppliers to the company itself and on to customers.

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Knowledge

34) A philosophy and business strategy of manufacturing without waste.

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Knowledge

35) Software systems that can integrate all of a company's worldwide functions, departments, and data into a single system.

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Knowledge

36) A data tagging system that enables companies to release financial and business information in a format that can be accessed over the internet.

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Knowledge

37) An organization which supports and issues quality-related certifications.

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Knowledge

38) A US law that enhances internal control and financial Reporting requirements and establishes new regulatory requirements for publicly traded companies and their independent auditors.

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Knowledge

39) Set of standards which must be adopted for all publicly traded companies and may differ from ASPE/IFRS.

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Knowledge

40) A system where production is triggered by orders (demand).

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Knowledge

Answers: 33) B 34) G 35) A 36) E 37) C 38) D 39) F 40) H

Section 1.6

1) Lean production systems keep large inventories.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

2) Lean production may be regarded as a general philosophy of manufacturing without waste, rather than a particular type of manufacturing process.

Answer: TRUE

Diff: 2 Type: TF

LO: 1-4

Bloom's Taxonomy: Comprehension

3) Lean production systems typically carry large inventories.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

4) Lean production systems typically arrange production activities in self-contained cells.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

5) Lean production systems typically strive for shorter setup times.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

6) Lean production systems typically have employees cross-trained to perform more than one activity.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

7) Lean production systems typically produce large batches.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

8) Lean production systems typically focus on lengthening the manufacturing cycle time.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

9) Lean production systems typically focus on strengthening supply-chain management.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

10) Lean production systems typically emphasize quality.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-4

Bloom's Taxonomy: Knowledge

11) Which of the following pertains to a lean production system?

A) It will have like machines grouped together.

B) It will produce goods in smaller batches than a traditional production system.

C) It will require higher inventory levels than a traditional production system.

D) It will require longer set-up times than a traditional system.

Answer: B

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Knowledge

12) Which of the following is TRUE about a lean production system?

A) Customer orders drive the production process.

B) Inventory levels are maintained at high levels.

C) Raw materials are purchased in large quantities.

D) Finished goods are produced ahead of customers' orders to protect against running out of finished goods inventory.

Answer: A

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Knowledge

13) The production system designed to eliminate waste is called a(n)

A) traditional system.

B) lean production system.

C) activity-based system.

D) full costing system.

Answer: B

Diff: 1 Type: MC

LO: 1-4

Bloom's Taxonomy: Knowledge

14) A system in which companies purchase raw materials only when needed is called

A) ABC.

B) external failure costs.

C) internal failure costs.

D) JIT production.

Answer: D

Diff: 1 Type: MC

LO: 1-4

Bloom's Taxonomy: Knowledge

15) Which term listed below describes a system where companies purchase raw materials when needed in production and complete finished goods when needed by customers?

- A) Internal failure costs
- B) Backflush costing
- C) Just-in-time
- D) External failure costs

Answer: C

Diff: 1 Type: MC

LO: 1-4

Bloom's Taxonomy: Knowledge

Match the following:

- A) Lean
- B) Traditional

16) Quality tends to be "build-in" rather than "inspect-in."

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Knowledge

17) Manufacturing plants tend to be organized with self-contained production cells.

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Knowledge

18) The company maintains lower quantities of raw materials, work in process, and finished goods inventories.

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Knowledge

19) Set-up times are shorter.

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Knowledge

20) High quality is stressed in every aspect of production.

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Knowledge

21) Products are made in larger batches.

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Knowledge

22) Emphasis is placed on shortening manufacturing cycle times.

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Knowledge

23) Manufacturing plants tend to group like machinery together in different parts of the plant.

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Knowledge

24) Set-up times are longer.

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Knowledge

25) The company maintains high inventory levels to guarantee supply.

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Knowledge

Answers: 16) A 17) A 18) A 19) A 20) A 21) B 22) A 23) B 24) B 25) B

Section 1.7

1) Appraisal costs are incurred to detect poor-quality goods or services.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

2) Internal failure costs occur when the company detects and corrects poor-quality goods or services after delivery to customers.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

3) Inspection of incoming raw materials and production loss caused by downtime are examples of prevention costs.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

4) Internal failure costs occur when poor-quality goods or services are not detected until after delivery to customers.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

5) Product testing is a prevention cost.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

6) An example of an appraisal cost is the cost of automating the production process.

Answer: FALSE

Diff: 2 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

7) The cost of training employees would be classified as an external failure cost.

Answer: FALSE

Diff: 2 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

8) An example of a prevention cost is the cost of redesigning the product to reduce its complexity.

Answer: TRUE

Diff: 2 Type: TF

LO: 1-5

Bloom's Taxonomy: Knowledge

9) Which of the following cost items should be classified as a prevention cost on a cost of quality report?

- A) Warranty expenses on defective products
- B) Technical support provided to employees
- C) Supervision of quality inspections
- D) Net cost of spoiled units

Answer: B

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

10) Which of the following cost items should be classified as an internal failure cost on a cost of quality report?

- A) Net cost of scrap
- B) Customer returns of defective products
- C) Training for quality control employees
- D) Patent cost for a new product

Answer: A

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

11) Which of the following cost items should be classified as an external failure cost on a cost of quality report?

- A) Net cost of scrap
- B) Customer returns of defective products
- C) Technical support provided to suppliers
- D) Supplies used in the quality inspection program

Answer: B

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

12) If a company were to increase its appraisal costs by inspecting more units as the units are completed, the company's internal failure costs

- A) would usually increase.
- B) would usually decrease.
- C) would usually remain the same.
- D) could not be predicted.

Answer: A

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Comprehension

13) If a company were to increase its appraisal costs by inspecting more units as the units are completed, the company's external failure costs

- A) would usually increase.
- B) would usually decrease.
- C) would usually remain the same.

D) could not be predicted.

Answer: B

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Comprehension

14) The cost of supplier evaluation from a supplier would be classified as a(n)

A) prevention cost.

B) appraisal cost.

C) internal failure cost.

D) external failure cost.

Answer: A

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Comprehension

15) The cost of maintaining testing equipment would be classified as a(n)

A) prevention cost.

B) appraisal cost.

C) internal failure cost.

D) external failure cost.

Answer: A

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

16) The cost of downtime caused by quality problems with the raw materials would be classified as a(n)

A) prevention cost.

B) appraisal cost.

C) internal failure cost.

D) external failure cost.

Answer: C

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

17) The cost of fixing defective units found during the quality inspections would be classified as a(n)

A) prevention cost.

B) appraisal cost.

C) internal failure cost.

D) external failure cost.

Answer: C

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

18) The cost of training quality control supervisors would be classified as a(n)

A) prevention cost.

B) appraisal cost.

C) internal failure cost.

D) external failure cost.

Answer: B

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Comprehension

19) Which of the following is one of the four cost categories typically found on a cost of quality report?

A) Development costs

B) Inventory failure costs

C) Marketing costs

D) Prevention costs

Answer: D

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

20) Which of the following refers to costs incurred in detecting poor quality goods or services?

A) Appraisal costs

B) External failure costs

C) Internal failure costs

D) Prevention costs

Answer: A

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

21) What costs are incurred to avoid poor quality goods or services in the first place?

A) Appraisal costs

B) External costs

C) Internal failure costs

D) Prevention costs

Answer: D

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

22) The costs incurred when poor quality goods or services are detected and corrected before delivery to customers are called

A) appraisal costs.

B) external failure costs.

C) internal failure costs.

D) prevention costs.

Answer: C

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

23) The cost of inspection at various stages of production is an example of a(n)

A) appraisal cost.

B) prevention cost.

- C) internal failure cost.
- D) external failure cost.

Answer: A

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

24) The cost of warranty work is an example of a(n)

- A) prevention cost.
- B) appraisal cost.
- C) internal failure cost.
- D) external failure cost.

Answer: D

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

25) The cost of evaluating potential raw material suppliers is an example of a(n)

- A) internal failure cost.
- B) prevention cost.
- C) external failure cost.
- D) appraisal cost.

Answer: B

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

26) The cost of improved production equipment and production processes is a(n)

- A) external failure cost.
- B) internal failure cost.
- C) prevention cost.
- D) appraisal cost.

Answer: C

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

27) The cost of product liability claims is an example of a(n)

- A) appraisal cost.
- B) external failure cost.
- C) internal failure cost.
- D) prevention cost.

Answer: B

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

28) The lost profits from lost customers are an example of

- A) prevention costs.
- B) internal failure costs.

- C) appraisal costs.
- D) external failure costs.

Answer: D

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

29) The cost of training production personnel on their job tasks is an example of a(n)

- A) internal failure cost.
- B) external failure cost.
- C) prevention cost.
- D) appraisal cost.

Answer: C

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

30) Production loss caused by downtime is an example of what type of cost?

- A) External failure cost
- B) Internal failure cost
- C) Prevention cost
- D) Appraisal cost

Answer: B

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

31) Costs incurred to detect poor quality goods and services refer to

- A) appraisal costs.
- B) activity-based costing.
- C) value engineering.
- D) prevention costs.

Answer: A

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

32) Costs incurred to avoid poor quality goods or services are considered

- A) appraisal costs.
- B) activity-based costing.
- C) value engineering.
- D) prevention costs.

Answer: D

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

33) Which of the following terms best describes costs incurred to avoid poor quality goods or services?

- A) Appraisal costs
- B) Activity-based costing

- C) Value engineering
- D) Prevention costs

Answer: D

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

34) Which of the following terms best describes costs incurred to detect poor quality goods or services?

- A) Appraisal costs
- B) Activity-based costing
- C) Value engineering
- D) Prevention costs

Answer: A

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

35) Which term listed below describes costs incurred when the company detects poor quality goods or services before delivery to the customer?

- A) Internal failure costs
- B) Value added activity
- C) Lean production
- D) External failure costs

Answer: A

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

36) Which term listed below describes costs incurred when the company fails to detect poor quality goods or services?

- A) Internal failure costs
- B) Value-added activity
- C) Just-in-time production
- D) External failure costs

Answer: D

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

37) Which term below best describes the quality cost category for "cost to re-inspect reworked food processors"?

- A) Prevention costs
- B) Appraisal costs
- C) Internal failure costs
- D) External failure costs

Answer: C

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

38) Which term below best describes the quality cost category for "cost of warranty repairs on food processors"?

- A) Prevention costs
- B) Appraisal costs
- C) Internal failure costs
- D) External failure costs

Answer: D

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

39) Which term below best describes the quality cost category for "cost of testing food processors before sale"?

- A) Prevention costs
- B) Appraisal costs
- C) Internal failure costs
- D) External failure costs

Answer: B

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Comprehension

40) Which term below best describes the quality cost category for "preventive maintenance on machinery"?

- A) Prevention costs
- B) Appraisal costs
- C) Internal failure costs
- D) External failure costs

Answer: A

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

41) Which term below best describes the quality cost category for "lost profits from lost sales"?

- A) Prevention costs
- B) Appraisal costs
- C) Internal failure costs
- D) External failure costs

Answer: D

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Knowledge

42) The CEO of Oakville Machine Parts (OMP) is concerned with the quality of its products and the amount of resources currently spent on customer returns. The CEO would like to analyze the costs incurred in conjunction with the quality of the product.

The following information was collected from various departments within the company:

| | |
|------------------|-----------|
| Warranty returns | \$240,000 |
|------------------|-----------|

| | |
|---|---------|
| Training personnel | 20,000 |
| Litigation on product liability claims | 350,000 |
| Inspecting 10% of final products | 10,000 |
| Rework | 20,000 |
| Production loss due to machine breakdowns | 90,000 |
| Inspection of raw materials | 10,000 |

Required:

- Complete the Cost of Quality Report.
- Do any additional subjective costs appear to be missing from the report?
- What can be learned from the report?

| | Costs Incurred | Total Costs of Quality | Percentage of Total Costs of Quality |
|--|----------------|------------------------|--------------------------------------|
| Prevention Costs: | | | |
| Personnel training | | | |
| Total prevention costs | | | |
| Appraisal Costs: | | | |
| Inspecting raw materials | | | |
| Inspecting 10% of final products | | | |
| Total appraisal costs | | | |
| Internal Failure Costs: | | | |
| Rework | | | |
| Production loss due to machine breakdown | | | |
| Total internal failure costs | | | |
| External Failure Costs: | | | |
| Litigation costs from product liability claims | | | |
| Warranty return costs | | | |
| Total external failure costs | | | |
| Total costs of quality | | | |

Answer: Requirement A:

| | Costs Incurred | Total Costs of Quality | Percentage of Total Costs of Quality |
|--------------------------|----------------|------------------------|--------------------------------------|
| Prevention Costs: | | | |
| Personnel training | \$20,000 | | |

| | | | |
|--|-----------|-----------|------|
| Total prevention costs | | \$20,000 | 3% |
| Appraisal Costs: | | | |
| Inspecting raw materials | \$10,000 | | |
| Inspecting 10% of final products | \$10,000 | | |
| Total appraisal costs | | \$20,000 | 3% |
| Internal Failure Costs: | | | |
| Rework | \$20,000 | | |
| Production loss due to machine breakdown | \$90,000 | | |
| Total internal failure costs | | \$110,000 | 15% |
| External Failure Costs: | | | |
| Litigation costs from product liability claims | \$350,000 | | |
| Warranty return costs | \$240,000 | | |
| Total external failure costs | | \$590,000 | 79% |
| Total costs of quality | | \$740,000 | 100% |

Requirement B:

Because the company has warranty returns and litigation costs it is possible that it has a reputation for poor quality. This may be resulting in lost sales and hence lost profits.

Requirement C:

The Cost of Quality report show that little is being spent on prevention and maintenance.

Diff: 3 Type: SA

LO: 1-5

Bloom's Taxonomy: Application

43) The CEO of Prairie Machine Parts (PMP) is concerned with the quality of its products and the amount of resources currently spent on customer returns. The CEO would like to analyze the costs incurred in conjunction with the quality of the product.

The following information was collected from various departments within the company:

| | |
|---|-----------|
| Warranty returns | \$144,000 |
| Training personnel | 120,000 |
| Litigation on product liability claims | 210,000 |
| Inspecting 10% of final products | 6,000 |
| Rework | 12,000 |
| Production loss due to machine breakdowns | 54,000 |
| Inspection of raw materials | 6,000 |

Required:

- Complete the Cost of Quality Report.
- Do any additional subjective costs appear to be missing from the report?
- What can be learned from the report?

| | Costs Incurred | Total Costs of Quality | Percentage of Total Costs of Quality |
|--|-----------------------|-------------------------------|---|
| Prevention Costs: | | | |
| Personnel training | | | |
| Total prevention costs | | | |
| Appraisal Costs: | | | |
| Inspecting raw materials | | | |
| Inspecting 10% of final products | | | |
| Total appraisal costs | | | |
| Internal Failure Costs: | | | |
| Rework | | | |
| Production loss due to machine breakdown | | | |
| Total internal failure costs | | | |
| External Failure Costs: | | | |
| Litigation costs from product liability claims | | | |
| Warranty return costs | | | |
| Total external failure costs | | | |
| Total costs of quality | | | |

Answer: Requirement A:

| | Costs Incurred | Total Costs of Quality | Percentage of Total Costs of Quality |
|--|-----------------------|-------------------------------|---|
| Prevention Costs: | | | |
| Personnel training | \$12,000 | | |
| Total prevention costs | | \$12,000 | 3% |
| Appraisal Costs: | | | |
| Inspecting raw materials | \$6,000 | | |
| Inspecting 10% of final products | \$6,000 | | |
| Total appraisal costs | | \$12,000 | 3% |
| Internal Failure Costs: | | | |
| Rework | \$12,000 | | |
| Production loss due to machine breakdown | \$54,000 | | |
| Total internal failure costs | | \$66,000 | 15% |

| | | | |
|--|-----------|-----------|------|
| External Failure Costs: | | | |
| Litigation costs from product liability claims | \$210,000 | | |
| Warranty return costs | \$144,000 | | |
| Total external failure costs | | \$354,000 | 79% |
| Total costs of quality | | \$444,000 | 100% |

Requirement B:

Because the company has warranty returns and litigation costs it is possible that it has a reputation for poor quality. This may be resulting in lost sales and hence lost profits.

Requirement C:

The Cost of Quality report show that little is being spent on prevention and maintenance.

Diff: 3 Type: SA

LO: 1-5

Bloom's Taxonomy: Application

44) The CEO of Yuppie Prepared Meals is concerned about the amount of resources currently spent on customer warranty claims. Each box of snacks is printed with the guarantee: "Satisfaction guaranteed or your money back." Since the claims are so high, she would like to evaluate what costs are being incurred to ensure the quality of the product. The following information was collected from various departments within the company:

| | |
|---|-----------|
| Warranty claims | \$210,000 |
| Cost of defective products found at the inspection point | 47,000 |
| Training factory personnel | 13,000 |
| Recall of Batch #59374 | 87,500 |
| Inspecting products when halfway through the production process | 27,500 |
| Cost of disposing of rejected products | 6,000 |
| Preventive maintenance on factory equipment | 3,500 |
| Production loss due to machine breakdowns | 7,500 |
| Inspection of raw materials | 2,500 |

As the new cost accountant, the CEO has requested that you complete the following Cost of Quality Report:

| | Costs Incurred | Total Costs of Quality | Percentage of Total Costs of Quality |
|-------------------------|-----------------------|-------------------------------|---|
| Prevention Costs: | | | |
| | | | |
| | | | |
| Total prevention costs | | | |
| Appraisal Costs: | | | |
| | | | |
| | | | |
| Total appraisal costs | | | |
| Internal Failure Costs: | | | |

| | | | |
|--------------------------------|--|--|--|
| | | | |
| | | | |
| | | | |
| Total Internal Failure costs | | | |
| External Failure Costs: | | | |
| | | | |
| | | | |
| Total external failure costs | | | |
| Total costs of quality | | | |

Answer:

| | Costs Incurred | Total Costs of Quality | Percentage of Total Costs of Quality |
|--|-----------------------|-------------------------------|---|
| Prevention Costs: | | | |
| Personnel training | \$13,000 | | |
| Preventative maintenance on factory equipment | \$3,500 | | |
| Total prevention costs | | \$16,500 | 4% |
| Appraisal Costs: | | | |
| Mid-point inspection | \$27,500 | | |
| Inspection of raw materials | \$2,500 | | |
| Total appraisal costs | | \$30,000 | 7% |
| Internal Failure Costs: | | | |
| Cost of defective products found at the inspection point | \$47,000 | | |
| Cost of disposing of defective product | \$6,000 | | |
| Production loss due to machine breakdowns | \$7,500 | | |
| Total Internal Failure Costs | | \$60,500 | 15% |
| External Failure Costs: | | | |
| Warranty claims | \$210,000 | | |
| Cost of recall | \$87,500 | | |
| Total external failure costs | | \$297,500 | 74% |
| Total costs of quality | | \$404,500 | 100% |

Diff: 3 Type: SA

LO: 1-5

Bloom's Taxonomy: Application

45) The CEO of Yuppie Prepared Meals is concerned about the amount of resources currently spent on customer warranty claims. Each box of snacks is printed with the guarantee: "Satisfaction guaranteed or your money back." Since the claims are so high, she would like to evaluate what costs are being incurred to ensure the quality of the product. The following information was collected from various departments within the company:

| | |
|---|-----------|
| Warranty claims | \$315,000 |
| Cost of defective products found at the inspection point | 70,000 |
| Training factory personnel. | 20,000 |
| Recall of Batch #59374 | 130,000 |
| Inspecting products when halfway through the production process | 45,000 |
| Cost of disposing of rejected products | 9,000 |
| Preventive maintenance on factory equipment | 5,000 |
| Production loss due to machine breakdowns | 12,000 |
| Inspection of raw materials | 4,000 |

As the new cost accountant the CEO has requested that you complete the following Cost of Quality Report:

| | Costs Incurred | Total Costs of Quality | Percentage of Total Costs of Quality |
|--------------------------------|-----------------------|-------------------------------|---|
| Prevention Costs: | | | |
| | | | |
| | | | |
| Total prevention costs | | | |
| Appraisal Costs: | | | |
| | | | |
| | | | |
| Total appraisal costs | | | |
| Internal Failure Costs: | | | |
| | | | |
| | | | |
| Total Internal Failure costs | | | |
| External Failure Costs: | | | |
| | | | |
| | | | |
| Total external failure costs | | | |
| Total costs of quality | | | |

Answer:

| | Costs Incurred | Total Costs of Quality | Percentage of Total Costs of Quality |
|--|-----------------------|-------------------------------|---|
| Prevention Costs: | | | |
| Personnel training | \$20,000 | | |
| Preventative maintenance on factory equipment | \$5,000 | | |
| Total prevention costs | | \$25,000 | 4% |
| Appraisal Costs: | | | |
| Mid-point inspection | \$45,000 | | |
| Inspection of raw materials | \$4,000 | | |
| Total appraisal costs | | \$49,000 | 8% |
| Internal Failure Costs: | | | |
| Cost of defective products found at the inspection point | \$70,000 | | |
| Cost of disposing of defective products | \$9,000 | | |
| Production loss due to machine breakdowns | \$12,000 | | |
| Total Internal Failure Costs | | \$91,000 | 15% |
| External Failure Costs: | | | |
| Warranty claims | \$315,000 | | |
| Cost of recall | \$130,000 | | |
| Total external failure costs | | \$445,000 | 73% |
| Total costs of quality | | \$610,000 | 100% |

Diff: 3 Type: SA

LO: 1-5

Bloom's Taxonomy: Application