

Student name: _____

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

true

false

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

true

false

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

true

false

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

true

false

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

true

false

Cost information is a product with its own customers.

true

false

Financial accounting information is always sufficient for making operational decisions.

true

false

Cost accounting information is commonly used in developing financial accounting information.

true

false

Financial accounting information is designed for decision makers who are directly involved in the daily management of the firm.

true

false

It is more important for financial accounting information to be comparable between firms than to be useful for managerial decision making.

true

false

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

true

false

A cost driver is a factor that causes costs.

true

false

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

true

false

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

true

false

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

true

false

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

true

false

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

true

false

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

true

false

Accounting systems are important because they are a primary source of information for managers.

true

false

Critical thinking is a systematic process used to analyze a business issue or decision.

true

false

Data visualization is the systematic evaluation of information to address a decision problem.

true

false

Big data is defined by the amount of data, the speed the data is generated and made available, or the variety of data available.

true

false

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

true

false

Managers face ethical situations on a daily basis, while accountants face them infrequently.

true

false

Compliance with Sarbanes-Oxley does not mean that the manager has met all of their ethical responsibilities.

true

false

Ethical behavior for an individual depends more on the individual's personal beliefs than a firm's code of conduct.

true

false

Cost accounting information can be used to defraud customers, creditors, and owners.

true

false

The boundary between what is cost accounting and what belongs in another discipline is often blurred.

true

false

The set of activities that transforms raw resources into the goods and services end users purchase and consume is called the:

value chain.

supply chain.

demand chain.

cost–benefit analysis.

Which of the following activities would **not** be considered a value-added activity in a manufacturing organization?

Production

Marketing

Accounting

Distribution

Which of the following statements is **false**?

In essence, the value chain and the supply chain are similar; each creates something for which the customer is willing to pay.

Financial accounting information is important since it is sufficient to provide all the information for operational decisions commonly made by managers.

The supply or distribution chain is a linked set of organizations that exchange goods and services in combination to provide a final product or service to the customer.

Eliminating nonvalue-added activities always reduces costs without affecting the value of the product to customers.

Managers do **not** make decisions about future events based on:

perfect information.

estimated information.

actual information.

financial information.

Which of the following is a nonvalue-added activity?

Product design

Customer service

Research and development

Rework of defective items

The systematic evaluation of information to address a decision problem is:

enterprise resource planning.

data analytics.

big data.

data visualization.

Data visualization is:

how the results of the data analysis are summarized and presented.

the volume and speed with which information is generated and made available.

the systematic evaluation of information to address a decision problem.

a systematic process used to analyze a business issue or decision.

During 2026, the Beach Restaurant had sales revenues and food costs of \$850,000 and \$625,000, respectively. During 2027, Beach plans to introduce a new menu item that is expected to increase sales revenues by \$125,000 and food costs by \$50,000. Assuming **no** changes are expected for the other food items, operating profits for 2027 are expected to increase by:

\$225,000.

\$125,000.

\$75,000.

\$50,000.

During 2026, the Beach Restaurant had sales revenues and food costs of \$970,000 and \$720,000, respectively. During 2027, Beach plans to introduce a new menu item that is expected to increase sales revenues by \$130,000 and food costs by \$54,000. Assuming **no** changes are expected for the other food items, operating profits for 2027 are expected to increase by:

\$250,000.

\$130,000.

\$76,000.

\$54,000.

(CMA adapted) The process of creating a financial plan of the revenues and resources needed to carry out activities and meet financial goals is referred to as:

budgeting.

benchmarking.

cost–benefit analysis.

value-added analysis.

The field of accounting that reports according to generally accepted accounting principles (GAAP) is called:

cost accounting.

financial accounting.

managerial accounting.

responsibility accounting.

The field of accounting that focuses on the criterion of relevant information rather than comparability of firms is:

cost accounting.

financial accounting.

responsibility accounting.

international accounting.

Enterprise resource planning (ERP) is an information technology that:

evaluates information to address a decision problem.

links individual systems into a single comprehensive system.

summarizes and presents the results of data analysis.

refers to the volume and speed information is generated and made available.

Which of the following is **not** a goal of integrating various activities in an organization through enterprise resource planning (ERP) systems?

Avoid lost orders

Avoid duplication of effort

Avoid compliance with the Sarbanes-Oxley Act

Avoid costly studies about the state of the enterprise

According to the Institute of Management Accountants (IMA), the final step in resolving an ethical dilemma is to:

consult your attorney as to legal obligations and rights concerning the ethical conflict.

clarify relevant ethical issues by initiating a confidential discussion with an IMA Ethical Counselor, an appropriate and confidential ethics hotline, or another impartial advisor.

consult with the local police.

discuss the situation with an immediate supervisor.

According to the Institute of Management Accountants (IMA), the first step in resolving an ethical dilemma is to:

consult your attorney as to legal obligations and rights concerning the ethical conflict.

call the IMA's ethics hotline.

clarify relevant ethical issues by initiating a confidential discussion with an IMA Ethical Counselor or other impartial advisor.

discuss the situation with an immediate supervisor or with the next-level supervisor if involvement of the immediate supervisor is suspected.

Which of the following is **not** one of the basic standards in the “Statement of Ethical Professional Practice” from the Institute of Management Accountants (IMA)?

Professional competence

Confidentiality

Independence

Integrity

The Sarbanes-Oxley Act of 2002 requires which of the following individuals to sign financial statements and stipulate that the financial statements do not omit material information?

CEO and CFO

Cost Accountant and Controller

Financial Accountant and Cost Accountant

CEO and Internal Auditor

A general term for a systematic process used to analyze a business issue or decision is:

critical thinking.

data visualization.

enterprise resource planning.

value chain.

The volume and speed with which information is generated and made available is:

enterprise resource planning.

data visualization.

data analytics.

big data.

Which of the following critical thinking questions can data visualization help answer?

What are the relevant questions?

How can I effectively and persuasively communicate the results of my analysis?

What are the data relevant to the analysis, and where do I find them?

What are the appropriate tools for analyzing data?

Which of the following critical thinking questions can big data help to best answer?

What are the relevant questions?

How can I effectively and persuasively communicate the results of my analysis?

What are the data relevant to the analysis, and where do I find them?

What are the appropriate tools for analyzing data?

Having one or more of the firm's activities performed by another firm or individual in the supply or distribution chain is called:

lean accounting.

responsibility centers.

activity-based costing.

outsourcing.

Data visualization can include the use of which of the following?

Numbers only

Graphics only

Words and numbers only

Words, numbers, and graphics

Which of the following ensures compliance with laws, regulations, and company policies and procedures?

Internal auditor

Controller

Cost accountant

Treasurer

The controller of an organization performs all of the following duties **except**:

determining cost accounting policies.

maintaining accounting records.

designing incentive systems.

determining policy on debt versus equity financing.

Cross-functional teams add value to decision making by all of the following **except**:

bringing a variety of expertise and perspectives.

ensuring the needs of the customer are considered.

ensuring the accounting department makes all final decisions.

determining the economic feasibility of projects.

Which of the following is **not** a key financial manager in an organization?

Chief financial officer

Treasurer

External auditor

Controller

Which of the following is **not** normally considered part of the value chain?

Research and development

Purchasing

Administration

Distribution

In 2026, the TransUnion Company had consulting revenues of \$1,090,000, while costs were \$690,000. In 2027, TransUnion will be introducing a new service that will generate \$195,000 in sales revenues and \$69,000 in costs. Assuming no changes are expected for the other services, operating profits are expected to increase between 2026 and 2027 by:

\$400,000.

\$195,000.

\$126,000.

\$69,000.

In 2026, the TransUnion Company had consulting revenues of \$1,200,000, while costs were \$950,000. In 2027, TransUnion will be introducing a new service that will generate \$175,000 in sales revenues and \$80,000 in costs. Assuming no changes are expected for the other services, operating profits are expected to increase between 2026 and 2027 by:

\$250,000.

\$175,000.

\$95,000.

\$80,000.

In 2026, the Merkel Company had revenues of \$2,832,000 and costs of \$2,300,000. During 2027, Merkel will be introducing a new product line that is expected to increase sales revenue by \$280,000 and costs by \$176,000. Assuming no changes are expected for the other products, the operating profits are expected to increase by:

\$832,000.

\$520,000.

\$416,000.

\$104,000.

In 2026, the Merkel Company had revenues of \$1,800,000 and costs of \$1,400,000. During 2027, Merkel will be introducing a new product line that is expected to increase sales revenue by \$250,000 and costs by \$200,000. Assuming no changes are expected for the other products, the operating profits are expected to increase by:

\$400,000.

\$250,000.

\$200,000.

\$50,000.

Moving of inventory is an example of a(n):

cost–benefit analysis.

value-added activity.

activity-based cost.

nonvalue-added activity.

Costs that differ among or between two or more alternative courses of action are:

differential costs.

cost–benefit analysis.

activity-based costs.

cost drivers.

Which of the following activities would **not** be included in the value chain of a manufacturing company?

Research and Development

Customer Service

Design

Accounting

A firm's reply to customer questions via email would be an example of which component of the value chain?

Customer Service

Marketing

Design

Supply

The delivery of products or services to customers is an example of which element in the value chain?

Production

Design

Marketing

Distribution

Which of the following provides much of the information necessary for the coordination of the value chain?

Distribution chain

Financial accounting system

Cost accounting system

Supply chain

Advertising costs would be associated with which of the following value chain components?

Production

Research and Development

Distribution

Marketing and sales

Which part of the value chain is outside the firm?

Design component

Research and development component

Production activity

Distribution chain

Which of the following statements regarding the value chain is true?

Service firms benefit from the value chain more than manufacturing firms.

Value chain components do not overlap.

Value is not created until after the research and development stage.

Administrative functions are not included as separate components of the value chain.

Which of the following statements concerning the value chain is **false**?

The goal of a value chain is to find areas where a company can either add value or reduce cost.

The value chain focuses on the entire production process, as well as the sale of the product and service after the sale.

If a company cannot compete in a specific area of the value chain, it might outsource that portion of the value chain to another entity which can perform it better.

Successful firms are ones that operate within the entire value chain, thereby overseeing every aspect of the value chain for the customer.

Which of the following could be considered part of the value chain in a service firm?

Inspection of product

Advertising

Raw materials

Distribution

Place the four components in the order they appear along the value chain: A = Customer service; B = Design; C = Distribution; and D = Production.

ABDC

ACDB

BDCA

BADC

Managers evaluate value-added activities to determine how they contribute to the final product's:
service only.

quality only.

cost only.

service, quality, and cost.

Which of the following is the best reason why cost accounting information does **not** need to be comparable to similar information in other organizations?

Because it is only used by investors and creditors.

Because no publicly traded companies use cost accounting.

Because IFRS and cost accounting are converging, which eliminates the need for comparability.

Because managers that use this information are making decisions only for their organization.

Financial accounting:

focuses on the future.

must comply with GAAP (generally accepted accounting principles).

reports include detailed information on the various operating segments of the business.

is prepared for the use of management.

The individual who would most likely use only financial accounting information in making decisions is a:

vice president of marketing.

factory supervisor.

department manager.

company shareholder.

The financial accounting system is the primary source of information for:

decision making on the factory floor.

improving the performance level of customer service.

planning the budget for next year.

preparing the income statement for shareholders.

Managerial decisions using cost accounting are more appropriate for which types of costs?

Future costs

Historical costs

Current costs

Externally reported costs

At the middle management level, where managers supervise work and make operating decisions, cost information highlights:

the company's overall performance.

comparability across firms.

financial position and income according to accounting rules.

some aspect of operations that is different from expectations.

Financial accounting provides a historical perspective, while cost accounting emphasizes:

reporting to shareholders.

a current perspective.

the future.

past transactions.

The concept of considering both the costs and benefits of a proposal is known as:

cost–benefit analysis.

performance measurement.

nonvalue-added analysis.

preparation of financial statements.

Departmental managers at Boswell Department Store are allowed considerable discretion in both sourcing and pricing of products, based on local tastes and competition, as well as being responsible for departmental staffing. Based on the concept of the responsibility center, which of the following would **not** be a performance measure that would be useful in evaluating the performance of departmental managers at the stores?

Departmental profit compared to budgeted departmental profit.

Trends in general and administrative expenses for each store.

Growth in departmental sales compared to the prior period sales.

Departmental customer satisfaction.

Snuggle Toys, Incorporated, had the following summarized results for the month ending July 31:

	Actual	Budget
Revenues	\$ 90,000	\$ 82,000
Costs	73,600	65,600
Operating profits	\$ 16,400	\$ 16,400

As the cost accountant, which single statement related to the above financial results is most appropriate in the report to management?

The departmental manager is performing to expectations because budgeted profits equal actual profits.

Revenues are above budget, and a bonus based on this increase should be considered.

Costs as a percentage of revenues are above budget, and a further scrutiny of the results might be appropriate.

Costs are above budget, and the department manager's position should be critically evaluated by senior management.

CraftMaster Corporation purchased a machine 7 years ago for \$349,000 when it launched product X05K. Unfortunately, this machine has broken down and **cannot** be repaired. The machine could be replaced by a new model 360 machine costing \$383,000 or by a new model 280 machine costing \$345,000. Management has decided to buy the model 280 machine. It has less capacity than the model 360 machine, but its capacity is sufficient to continue making product X05K. Management also considered, but rejected, the alternative of dropping product X05K and **not** replacing the old machine. If that were done, the \$345,000 invested in the new machine could instead have been invested in a project that would have returned a total of \$472,000. In making the decision to buy the model 280 machine rather than the model 360 machine, the differential cost was:

\$127,000.

\$49,000.

\$38,000.

\$26,000.

CraftMaster Corporation purchased a machine 7 years ago for \$360,000 when it launched product X05K. Unfortunately, this machine has broken down and **cannot** be repaired. The machine could be replaced by a new model 360 machine costing \$394,000 or by a new model 280 machine costing \$371,000. Management has decided to buy the model 280 machine. It has less capacity than the model 360 machine, but its capacity is sufficient to continue making product X05K. Management also considered, but rejected, the alternative of dropping product X05K and **not** replacing the old machine. If that were done, the \$371,000 invested in the new machine could instead have been invested in a project that would have returned a total of \$462,000. In making the decision to buy the model 280 machine rather than the model 360 machine, the differential cost was:

\$91,000.

\$34,000.

\$23,000.

\$11,000.

Which of the following is **not** true of the Sarbanes-Oxley Act of 2002?

It has provisions that affect both companies and accounting firms.

It requires that the CEO and CFO take responsibility for a company's financial statements.

It requires managers to attest to the adequacy of their internal controls.

It guarantees that all managers will behave ethically.

Geno's Body Shop had sales revenues and operating costs in 2026 of \$690,000 and \$545,000, respectively. In 2027, Geno plans to expand the services it provides to customers to include detailing services. Revenues are expected to increase by \$93,000 and operating costs by \$54,000 as a result of this expansion. Assuming that there are no changes to the existing body shop business, operating profits would be expected to increase during 2027 by:

\$145,000.

\$93,000.

\$184,000.

\$39,000.

Geno's Body Shop had sales revenues and operating costs in 2026 of \$630,000 and \$510,000, respectively. In 2027, Geno plans to expand the services it provides to customers to include detailing services. Revenues are expected to increase by \$80,000 and operating costs by \$46,000 as a result of this expansion. Assuming that there are no changes to the existing body shop business, operating profits would be expected to increase during 2027 by:

\$154,000.

\$120,000.

\$80,000.

\$34,000.

Geno's Body Shop had sales revenues and operating costs in 2026 of \$800,000 and \$600,000, respectively. In 2027, Geno plans to expand the services it provides to customers to include detailing services. Revenues are expected to increase by \$115,000 and operating costs by \$65,000 as a result of this expansion. Assuming that there are no changes to the existing body shop business, what is the amount of operating profits that are expected to be earned in 2027?

\$200,000

\$115,000

\$250,000

\$50,000

Geno's Body Shop had sales revenues and operating costs in 2026 of \$630,000 and \$510,000, respectively. In 2027, Geno plans to expand the services it provides to customers to include detailing services. Revenues are expected to increase by \$80,000 and operating costs by \$46,000 as a result of this expansion. Assuming that there are no changes to the existing body shop business, what is the amount of operating profits that are expected to be earned in 2027?

\$120,000

\$80,000

\$154,000

\$34,000

The goals and objectives of establishing budgeting in an organization include all of the following **except**:

the ability to decide whether goals can be achieved.

the resources needed to carry out its tasks.

the generation of anticipated revenues.

the consistent application of generally accepted accounting principles.

In 2026, the Allen Company had consulting revenues of \$1,222,000, while operating costs were \$730,000. In 2027, Allen will be introducing a new service that will generate \$167,000 in sales revenues and \$58,000 in operating costs. Assuming no changes are expected for the other services, the differential operating costs for 2027 will be:

\$492,000.

\$167,000.

\$109,000.

\$58,000.

In 2026, the Allen Company had consulting revenues of \$1,100,000, while operating costs were \$825,000. In 2027, Allen will be introducing a new service that will generate \$160,000 in sales revenues and \$75,000 in operating costs. Assuming no changes are expected for the other services, the differential operating costs for 2027 will be:

\$275,000.

\$160,000.

\$85,000.

\$75,000.

In 2026, the Allen Company had consulting revenues of \$1,197,000, while operating costs were \$720,000. In 2027, Allen will be introducing a new service that will generate \$165,000 in sales revenues and \$57,000 in operating costs. Assuming no changes are expected for the other services, the differential revenue for 2027 will be:

\$477,000.

\$165,000.

\$108,000.

\$57,000.

In 2026, the Allen Company had consulting revenues of \$1,100,000, while operating costs were \$825,000. In 2027, Allen will be introducing a new service that will generate \$160,000 in sales revenues and \$75,000 in operating costs. Assuming no changes are expected for the other services, the differential revenue for 2027 will be:

\$275,000.

\$160,000.

\$85,000.

\$75,000.

San Juan, Incorporated, is considering two alternatives: A and B. The costs associated with the alternatives are listed below:

	Alternative A	Alternative B
Material costs	\$ 44,000	\$ 66,000
Processing costs	35,000	66,000
Building costs	21,000	37,000
Equipment rental	28,000	28,000

Are the materials costs and processing costs differential in the choice between alternatives A and B?

Neither materials costs nor processing costs are differential.

Both materials costs and processing costs are differential.

Only processing costs are differential.

Only materials costs are differential.

San Juan, Incorporated, is considering two alternatives: A and B. The costs associated with the alternatives are listed below:

	Alternative A	Alternative B
Material costs	\$ 37,000	\$ 64,000
Processing costs	42,000	64,000
Building costs	13,500	34,000
Equipment rental	20,500	20,500

If only the differential costs of the two decisions are considered, the total differential costs of Alternative B are:

\$182,500.

\$152,500.

\$69,500.

\$92,500.

San Juan, Incorporated, is considering two alternatives: A and B. The costs associated with the alternatives are listed below:

	Alternative A	Alternative B
Material costs	\$ 45,000	\$ 68,000
Processing costs	45,000	65,000
Building costs	17,000	32,000
Equipment rental	28,000	28,000

If only the differential costs of the two decisions are considered, the total differential costs of Alternative B are:

\$165,000.

\$193,000.

\$58,000.

\$107,000.

Two alternatives, identified X and Y, are under consideration at Hayden Corporation. Costs associated with the alternatives are listed below:

	Alternative X	Alternative Y
Material costs	\$ 47,000	\$ 60,000
Processing costs	40,000	63,000
Building costs	17,000	18,000
Equipment rental	14,000	14,000

Are the materials costs and processing costs differential in the choice between alternatives X and Y?

Both materials costs and processing costs are differential.

Only materials costs are differential.

Only processing costs are differential.

Neither materials costs nor processing costs are differential.

Two alternatives, identified X and Y, are under consideration at Hayden Corporation. Costs associated with the alternatives are listed below:

	Alternative X	Alternative Y
Material costs	\$ 43,000	\$ 60,000
Processing costs	38,000	64,000
Building costs	14,700	14,700
Equipment rental	11,700	11,700

What are the total differential costs of Alternative Y over Alternative X?

\$150,400

\$28,900

\$43,000

\$107,400

Two alternatives, identified X and Y, are under consideration at Hayden Corporation. Costs associated with the alternatives are listed below:

	Alternative X	Alternative Y
Material costs	\$ 47,000	\$ 60,000
Processing costs	40,000	63,000
Building costs	17,000	17,000
Equipment rental	14,000	14,000

What are the total differential costs of Alternative Y over Alternative X?

\$154,000

\$118,000

\$36,000

\$23,000

Marcus Roberts is putting together a training session about value chain components. Which of the following would be a good example of a cost for the component of purchasing?

Advertising

Warranty repairs

Vendor certification

Patent applications

Anna Potts is putting together a training session about value chain components. Which of the following would be a good example of a cost for the component of distribution?

Advertising

Warranty repairs

Vendor certification

Website creation, hosting, and maintenance

Megan Towe is putting together a training session about value chain components. Which of the following would be a good example of a cost for the component of research and development?

Advertising

Warranty repairs

Vendor certification

Patent applications

An Enterprise Resource Planning (ERP) System can best be described as:

a collection of programs that use a variety of unconnected databases.

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.

a database that is primarily used by a purchasing department to determine the correct amount of a particular supply item to purchase.

a sophisticated means of linking two or more companies to facilitate their planning processes.

The specific unit of an organization that is assigned to a manager who is held accountable for that unit's operations and resources is known as a:

responsibility center.

cost driver.

nonvalue-added activity.

budget.

Research and development (R&D), production, and customer service are business functions that are included as part of:

the value chain.

benchmarking.

marketing.

the supply chain.

Examples of the controller's functions include all of the following **except**:

cost accounting policies.

budgeting.

investor relations.

general ledger.

Cost accounting is an integral part of the _____ function in an organization.

treasurer's

controller's

internal auditor's

president's

All of the following actions enhance the new focus on making cost accounting information more relevant in helping a firm achieve strategic goals **except**:

increasing emphasis on the management accountant as a business partner.

increasing emphasis on external financial reporting.

decreasing emphasis on financial statement inventory cost valuation.

increasing emphasis on timely and useful information.

The Institute of Management Accountants' (IMA) standards of ethical conduct for management accountants includes the elements of:

confidentiality, independence, integrity, and relevance.

competence, confidentiality, integrity, and credibility.

competence, confidentiality, and independence.

competence, accuracy, integrity, and independence.

According to the IMA Code of Ethics, what should a management accountant do if a significant ethical situation cannot be resolved by following established policies?

The accountant should confront the guilty party and demand the unethical action be stopped.

The accountant should try to rationalize and understand the position of the other party.

The accountant should say nothing about the matter until they have retired.

The accountant should first discuss the matter with their immediate supervisor.

With the enactment of the Sarbanes-Oxley Act of 2002, CEOs and CFOs are now responsible for all of the following **except**:

stipulating that the financial statements do not omit material information.

attesting to the adequacy of the company's internal controls.

attesting to the accuracy of the company's credit rating with the largest rating agencies.

disclosing that they have notified the company's auditors and audit committee of any fraud that involves management.

The Sarbanes-Oxley Act of 2002 requires an effective internal control system for publicly owned firms. Therefore, with regard to strategic investment decisions, it is important that management consider including all of the following **except**:

internal audits of strategic decisions.

a code of ethics.

a system of preparing and reporting on investment decisions.

a system that limits information available to investors.

Where there is a lack of good performance measures, it is difficult to motivate managers by using:

performance-based incentives.

monetary rewards.

compensation.

rewards for products.

Which of the following is a false statement regarding cost information and ethical responsibilities?

Compliance with Sarbanes-Oxley guarantees that a manager has met all of their ethical responsibilities.

Sarbanes-Oxley is important for managers who design cost information systems.

Managers must be aware of the potential that cost information could be misleading or support fraudulent activity.

Managers need to understand that performance measurement and compensation systems can lead to unethical conduct.

Carley Incorporated incurs many types of costs in its operations.

Required:

Place the number of the appropriate stages in the value chain in Column 2 in the blank next to each cost in Column 1.

Cost		Stage in the Value Chain
_____	Transportation costs to ship vans to customers	1. Customer Service

_____	Labor costs for factory workers	2. Distribution

_____	Overtime costs for scientists working on new engine technology	3. Research & Development

_____	Utilities costs for the design testing center	4. Marketing

_____	Costs to survey customers about their satisfaction	5. Production

_____	Costs to sponsor a sporting event	6. Design

SuperMax is an integrated provider of genetically engineered corn. Many types of costs are incurred in its operations.

Required:

Place the number of the appropriate stage in the value chain in Column 2 in the blank next to each cost in Column 1.

Cost		Stage in the Value Chain
_____	Warehouse costs to store seed awaiting shipment to customers	1. Customer Service

_____	Utility costs for seed mill	2. Distribution

_____	Equipment costs in genetics laboratory	3. Research & Development

_____	Labor costs to staff help-line call center	4. Marketing

_____	Costs to prepare advertising campaign in national agriculture magazine	5. Production

_____	Costs to contract with growers to provide seed	6. Design

Travon's Limo Service provides transportation services in and around Bentonville. Its profits have been declining, and management is planning to add a package delivery service that is expected to increase revenue by \$290,000 per year. The total cost to lease additional delivery vehicles from the local dealer is \$65,000 per year. The present manager will continue to supervise all services. However, labor and utilities costs will increase by 40%, and rent and other costs will increase by 20% when the package delivery service is added.

Required:

- a. Prepare a report of the differential costs and revenues if the delivery service is added.
- b. Should management start up the delivery service? Explain your answer.

Morris Incorporated is a management consulting firm that specializes in management training programs. Tackle Manufacturing Incorporated has approached Morris to contract for management training for a one-year period. Last year's income statement for Morris is as follows:

Sales Revenue		\$ 380,000
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Costs:

Labor	\$ 125,000	
Equipment Lease	13,000	
Rent	26,000	
Utilities	8,600	
Supplies	23,400	
Other Costs	15,400	
Manager's Salary	82,000	
Total Costs		293,400
Operating Profit (Loss)		
		\$ 86,600

To satisfy the Tackle contract, another part-time trainer will need to be hired at \$45,000. Supplies will increase by 15%, and other costs will increase by 20%. In addition, new equipment will need to be leased at a cost of \$2,000.

Required:

- What are the differential costs that would be incurred if the Tackle contract is signed?
- If Tackle will pay \$58,000 for one year, should Morris accept the contract? Explain your answer.

The Arielle Company reported the following results for the manufacture and sale of one of its products known as Controllers during the most recent year:

Sales (6,400 Controllers at \$150 each)	\$ 960,000
Cost of sales	440,000
Distribution costs	72,000
Advertising expense	290,000
Salaries	65,000
Building costs	140,000
Operating loss	<u>\$ (47,000)</u>

The Arielle Company is trying to determine whether or not to discontinue the manufacture and sale of Controllers. The operating results reported above for last year are expected to continue in the foreseeable future if the product is **not** dropped. The building costs represent the costs of production facilities and equipment that the Controllers product shares with other products produced by Arielle. If the Controllers product were dropped, there would be no change in the building costs of the company. Management has determined that discontinuing the manufacture and sale of Controllers will have no effect on the company's other product lines.

Required:

Determine the change in operating profits that will happen if the manufacture and sale of Controllers is discontinued.

The management of Parachute Corporation is considering dropping product ABC123. Data from the company's accounting system appear below:

Sales	\$ 300,000
Cost of goods sold	155,000
Building expenses	90,000
Selling and administrative expenses	80,000

All building expenses of the company are fully allocated to products in the company's accounting system. Further investigation has revealed that \$45,000 of the building expenses and \$48,000 of the selling and administrative expenses will **not** be incurred if product ABC123 is discontinued.

Required:

- According to the company's accounting system, what are the operating profits earned by product ABC123?
- What would be the impact on the company's overall operating profits if product ABC123 is dropped? Should the product be dropped?

The management of Marvel Corporation has been concerned for some time with the financial performance of its product EX123 and has considered discontinuing it on several occasions. Data from the company's accounting system appear below:

Sales	\$ 675,000
Cost of goods sold	304,000
Building expenses	232,000
Selling and administrative expenses	160,000

In the company's accounting system, all building expenses of the company are fully allocated to products. Further investigation has revealed that \$100,000 of the building expenses and \$87,000 of the selling and administrative expenses will **not** be incurred if product EX123 is discontinued.

Required:

- According to the company's accounting system, what are the operating profits (losses) earned by product EX123?
- What would be the effect on the company's overall operating profits if product EX123 is dropped?

Place the letter of the appropriate element of an organization's value chain in Column 2 in the blank next to each operation in Column 1.

Column 1	Column 2
_____ Macy's replies to customers' questions on _____ merchandise	A. Research and Development
_____ Updating PetSmart's electronic Internet _____ catalogue of chew bones and leash _____ merchandise	B. Design
_____ Development of new software applications at _____ Apple	C. Production
_____ Contracting with United Parcel Services to _____ ship computers to customers at Best Buy	D. Marketing
_____ Writing of software programs at QuickBooks' _____ Professional Accountant Division	E. Distribution
_____ Creation of new movie ideas at Universal _____ Studios	F. Customer Service

Old-Fashion Flavors is a local ice cream shop. The company currently is showing an operating loss, as evidenced by the income statement below:

Sales	\$ 80,000
Costs:	
Food supplies	25,000
Labor	17,000
Utilities	5,000
Rent	13,000
Other	5,000
Manager's salary	24,000
Total Costs	89,000
Operating Profits (Losses)	\$ (9,000)

The president of the company is considering adding sandwiches to the menu. Sales will be expected to increase by \$70,000. The cost of sandwich supplies would be \$35,000. Labor costs would increase by 40% and other costs by 15%. The current manager will continue to manage the operation.

Required:

- Prepare a quantitative analysis of the decision to add sandwiches to the menu.
- What qualitative considerations should the company consider in this decision?

The Brogan family currently lives in a suburb of a major city. They have a lovely home close to major routes of transportation. Both Mr. and Mrs. Brogan have convenient commutes of 30 minutes or less. Because the school system in their town does **not** have a quality reputation, they currently send their daughter to private school, conveniently located less than one mile from their home. The family's current monthly living expenses are listed below:

	Monthly Budget
Mortgage, including taxes and insurance	\$ 6,000
Other utilities, including water, heat, and telephone	700
Costs of running automobiles	1,000
Cost of private school	2,175
Total monthly budget	<u>\$ 9,875</u>

The Brogans are considering moving to a town approximately 20 minutes away. Because of the desirability of the local schools and strict zoning, housing is very expensive in this town. Their daughter would attend public schools. The Brogans estimate that their monthly mortgage, taxes, and insurance would increase to \$8,200 per month, while the cost of running automobiles would increase by 15% and other utilities by 10%. Mortgage interest costs are tax deductible, and the Brogans are in the 25% tax bracket. Assume that \$800 of the increase in their monthly budget is for mortgage interest.

Required:

What are the costs and benefits of moving? Which can be quantified, and which **cannot**?

Place the letter of the appropriate business function of the value chain in Column 2 in the blank next to each cost item in Column 1.

Column 1	Column 2
_____ Cost of customer order forms	A. Research and Development
_____ Cost of paper used in manufacture of books	B. Design
_____ Cost of paper used in packing cartons to ship books	C. Production
_____ Cost of paper used in display at national trade show	D. Marketing
_____ Depreciation of trucks used to transport books to college bookstores	E. Distribution
_____ Cost of the wood used to manufacture paper	F. Customer Service
_____ Salary of the scientists attempting to find another source of printing ink	
_____ Cost of defining the book size so that a standard-sized box is filled to capacity	

Morgantown Manufacturing produces electronic storage devices and uses the following three-part classification for its manufacturing costs: materials, labor, and support costs. Total support costs for June were \$350 million and were allocated to each product on the basis of labor costs of each line. Summary data (in millions) for June for the most popular electronic storage device, the Giant Watt, was:

Material costs	\$ 10,000,000
Labor costs	\$ 3,500,000
Indirect manufacturing costs	\$ 9,000,000
Units produced	45,000

Required:

- Compute the manufacturing cost per unit for each Giant Watt produced in June.
- Suppose production will be reduced to 35,000 units in July. Speculate as to whether the unit costs in July will most likely be higher or lower than unit costs in June; it is not necessary to calculate the exact July unit cost. Briefly explain your reasoning.

The list of representative cost drivers in the right column below are randomized with respect to the list of functions in the left column. That is, they do not match.

Function	Representative Cost Driver
Purchasing	A Number of . employees
Billing	B Number of . shipments
Shipping	C Number of . customers
Computer Support	D Number of invoices .
Personnel	E Number of desktop . computers
Customer Service	F Number of purchase . orders

Required:

Match each business function with its representative cost driver.

Function	Insert letter of appropriate driver (A through F)
1 Purchasing	
2 Billing	
3 Shipping	
4 Computer Support	
5 Personnel	
6 Customer Service	

A restaurant is deciding whether it wants to update its image or not. It currently has a cozy appeal with an outdated décor that is still in good condition, menus and carpet that need to be replaced anyway, and loyal customers.

Required:

Identify the following for the restaurant management:

- a. Costs that are relevant to this decision.
- b. Costs that would not be differential to this decision.
- c. Any qualitative factors that should be considered.

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 company assets to personal use. Briefly describe the steps you might take to resolve this dilemma.

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

MegaStores is a large, publicly held corporation. The company does about 80% of its work in government contracts. All contracts use a cost-plus-fixed-fee basis; costs of jobs are agreed upon by contract. Any overruns will result in losses to the company. The company controller, Ricky Bowers CPA, CMA, is discussing two current jobs with the Job Supervisor, Leslie Dawn. Job 101 is currently coming in under budget, but due to construction problems, Job 102 is 20% over

budget. Bowers is considering the possibility of having employees who work on Job 102 record their time to Job 101. What are the implications of this decision?

The owner of a small retail business asks, "Why do I need cost accountants? My CPA produces financial statements, which are sufficient for me to discover my costs. Look at my Income Statement. I expect sales to increase by 10% next year, so I am planning on a 10% increase in profits. I don't need a cost accountant to tell me that."

Use your knowledge of the concept of differential costs and explain why a cost accountant would question the conclusion that a 10% increase in sales would yield a 10% increase in profit.

Create a diagram of the value chain by putting the following components into the correct order:

1. (a) purchasing;
2. (b) marketing and sales;
3. (c) research and development;
4. (d) customer service;
5. (e) distribution;
6. (f) design;
7. (g) production.

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

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

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

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

What are characteristics of information used in decision making?

The Flamboyant Flirt is a small but prosperous hair-cutting salon. Diane Stock, the manager of the salon, has been asked by several clients if she will ever offer other "hair related" services (e.g., perm, dye, etc.). After careful thought, Ms. Stock is considering expanding her offerings. However, in order to do so, she will have to hire one additional stylist at a salary of \$26,000 per year. Other expenses will increase as follows: rent by 20%, supplies and utilities by 25%, and miscellaneous expenses by 10%. Her revenues from additional services are likely to be \$55,000 for the next year (i.e., 2027). The Flamboyant Flirt's income statement for the most recent year is presented below:

Required:

- a. Based on your financial analysis, should Diane Stock go ahead with the expansion?
- b. What other factors must Ms. Stock consider before making a final decision?

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

Are these actions ethical? Why or why **not**?

The controller of one division of IntroTel, a large, diversified firm, is compensated by salary plus bonus. The bonus is a significant part of total compensation and is based directly on the profits of the division. Thus, the controller has an incentive to find ways to increase profits, including the delay of discretionary expenses, such as research and development, delay of maintenance and repair of manufacturing equipment, and delay of sales promotions.

Is finding ways to increase profits as described above unethical? Why or why **not**? Who is to blame, if anyone?

Critical thinking is a process used to analyze a business issue or decision. There are a number of resources available to aid in that process, including big data, data analytics, and data visualization. Briefly describe each of those resources and how they aid in the critical thinking process.

Adair Company has been busy over the first few years of its existence in penetrating its market and gaining a respectable market share. To facilitate this, Mr. Adair, the CEO, and his controller, Mr. Brown, have been developing the annual master budgets. To date, this approach has worked well.

Adair has been acquired by a company in a related business but will continue to operate as an independent subsidiary. The CFO of the acquiring company, Mr. Horwitz, has suggested to Mr. Adair that, since it was expected that his company would continue to grow, it adopts a departmental budgeting system; a suggestion Mr. Adair agreed to readily. Mr. Horwitz explained to Adair's departmental managers the concepts of a departmental participative budgeting system and their involvement. The managers were encouraged to take the information and come back with suggestions which could then be put into a formal budget process.

Required:

- a. What benefits will accrue to Adair under this new budgeting system?
- b. What behavioral issues might arise for departmental managers and for production workers?
- c. What is the most probable long-term reaction of Adair's people to the participative budget system?

The *New York Times* recently reported that a number of publicly held corporations have been accused of illegally doctoring hourly employees' time records. Examples included:

- Workers sued Family Dollar and Pep Boys, accusing managers of deleting hours from their time records.
- More than a dozen former Walmart employees said in interviews and depositions that managers had altered time records to shortchange employees.
- The Department of Labor reached two back-pay settlements with Kinko's photocopy centers after finding that managers had erased time for 13 employees.

When interviewed, many of the managers cited pressure from upper-level management and the impact of their actions on their own compensation as underlying causes for their actions. All of the companies strongly denied encouraging such illegal and unethical behavior by managers. Compensation experts interviewed agreed that the companies' incentive performance systems may have contributed to the managers' behavior. (*New York Times*, April 4, 2004)

Required:

- a. Explain how the incentive performance systems of the above-named companies could have contributed to this illegal behavior by managers.
- b. Discuss the ethical issues involved in the design of incentive performance systems. In designing a performance-based incentive system, what measures should companies take to avoid illegal and unethical behavior by supervisors?

Answer Key

Test name: CH1 Fundamentals of Cost Accounting E7

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