

Testbank

to accompany

Management accounting

3rd edition

by

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Chapter 1: The role of accounting information in management decision making

True/False questions

1. A vision statement is a theoretical description of what an organisation should become.

- *a. True
- b. False

LO 1

2. An organisational vision is a short term plan for maximizing financial results.

- a. True
- *b. False

LO 1

3. Most organisations have one stakeholder.

- a. True
- *b. False

LO 1

4. Organisational core competencies unrelated to the organizational vision.

- a. True
- *b. False

LO 1

5. Organisational strategies are the same as operating plans.

- a. True
- *b. False

LO 1

6. The starting point for managerial decisions is monitoring actual operations.

- a. True
- *b. False

LO 1

7. Desirable employee behaviour can be motivated by trying employee performance evaluation and pay to long term or short term results.

- *a. True
- b. False

LO 1

8. Organisational information systems only collect accounting information.

- a. True
- *b. False

LO 2

9. Cost accounting information is used for both management accounting and financial accounting activities.

- *a. True
- b. False

LO 2

10. Management accounting is the process of gathering, summarizing and reporting financial and non-financial information used internally to make decisions.

- *a. True
- b. False

LO 2

11. Intellectual capital is a type of financial resource that is captured by the organisation's information system.

- a. True
- *b. False

LO 2

12. It is easy to differentiate between internal and external reports.

- a. True
- *b. False

LO 2

13. The design of the management accounting system structure is influenced by both external and internal factors.

- *a. True
- b. False

LO 2

14. Technological advances have allowed management accountants to develop previously infeasible cost and management accounting systems.

- *a. True
- b. False

LO 2

15. GAAP stands for Generally Agreed Accounting Practices

- a. True
- *b. False

LO 2

16. Only large established organisations require a management accounting function.

- a. True
- *b. False

LO 2

17. Relevant information helps decision makers evaluate and choose between alternative courses of action.

- *a. True
- b. False

LO 2

18. Relevant information relates to events that happened in the past and is therefore quantifiable and accurate.

- a. True
- *b. False

LO 2

19. Higher quality information is more certain, complete, relevant, timely and valuable.

- *a. True
- b. False

LO 3

20. The use of sophisticated information systems means that uncertainty is eliminated.

- a. True
- *b. False

LO 3

21. Opportunity costs are the benefits forgone when we choose one alternative over the next best alternative.

- *a. True
- b. False

LO 3

22. Cost-benefit analysis means that all decisions will provide a financial benefit to the organisation.

- a. True
- *b. False

LO 3

23. Tuition fees are an opportunity cost of earning a university degree.

- a. True
- *b. False

LO 3

24. High quality information will generally have fewer uncertainties if it is based on viable assumptions.

- *a. True
- b. False

LO 3

25. Michael Porter was the first person to apply the generic value chain to the wine industry.

- a. True
- *b. False

LO 4

26. The value chain represents the key activities engaged in by an organisation or industry.

- *a. True
- b. False

LO 4

27. The central feature of the value chain is its focus on activities and processes rather than functions or departments.

- *a. True
- b. False

LO 4

28. A value chain framework ignores customers and suppliers as it requires the organisation to focus on its internal processes.

- a. True
- *b. False

LO 4

29. Value chain analysis can be used in conjunction with other management accounting developments such as Activity Based Costing and strategic cost management.

- *a. True
- b. False

LO 4

30. Value chain analysis can be used to inform decision such as outsourcing and strategic alliances.

- *a. True
- b. False

LO 4

32. Supply chain analysis is incompatible with value chain analysis as supply chain is only concerned with external suppliers.

- a. True
- *b. False

LO 4

33. Research and development would be considered a downstream activity in value chain analysis.

- a. True
- *b. False

LO 4

34. Non-value added activities are unnecessary and wasteful activities that can never be eliminated.

- a. True
- *b. False

LO 4

35. Customers are prepared to pay for value added activities.

- *a. True
- b. False

LO 4

36. Cost object is anything that costs are measured for.

- *a. True
- b. False

LO 4

37. The manufacturing division of an oil refinery is an example of a cost object.

- *a. True
- b. False

LO 4

38. Cost objects are the same as cost drivers.

- a. True
- *b. False

LO 4

39. The inputs or activities that cause total costs to increase or decrease are cost drivers.

- *a. True
- b. False

LO 4

40. One way of classifying cost drivers is as structural or equivalent.

- a. True
- *b. False

LO 4

41. Structural costs drivers relate to the underlying economic structure of the organisational.

- *a. True
- b. False

LO 4

42. Total quality management is an example of a structural cost driver.

- a. True
- *b. False

LO 4

43. Organisations that are highly decentralized typically have multiple business units and divisions overseen directly by the CEO.

- a. True
- *b. False

LO 4

Multiple-choice questions

44. Which of the following influences organisational strategies?

- a. Tax rates
- b. Financial statement results
- *c. Organisational vision
- d. Number of employees

LO 1

45. Which of the following statements regarding organisational vision is **false**?

- *a. Organisational vision is the same as operating plans
- b. Organisational vision is one tool for expressing an organisation's main purpose
- c. Organisational vision should be communicated to all employees
- d. Managers sometimes divide the organisational vision into one or more written statements

LO 1

46. An organisational vision is sometimes broken down into:

- I Mission statement
- II Core values statement
- III Code of conduct
- IV Statement of Stakeholders

- a. I only
- b. I and II only
- *c. I, II, and III
- d. I, II and IV only

LO 1

47. Organisational core competencies can include:

- a. A mission statement
- b. Favourable economic conditions in the external environment
- c. A code of conduct
- *d. An innovative product design

LO 1

48. How are organisational strategies related to core competencies?

- a. Competencies are the tactics managers use to take advantage of strategies
- b. Broad based organisational strategies are the same as the core competencies.
- *c. Strategies help managers exploit competencies
- d. Strategies and competencies are actually two ways of expressing the same idea

LO 1

49. Organisational strategies are:

- *a. A key influence on the structure of the organisational information system
- b. Secondary to operating plans
- c. Reconsidered quarterly
- d. Unrelated to long term goals

LO 1

50. Which of the following is an element of an operating plan?

- a. Developing an organisational mission
- b. Preparing financial statements
- c. Defining core values
- *d. Outlining specific performance objectives

LO 1

51. Types of decisions that managers make include all of the following except:

- a. Choosing which products to sell.
- b. Designing performance evaluation systems
- *c. Setting tax rates
- d. Hiring employees

LO 1

52. The term cost accounting is:

- *a. The precursor to management accounting
- b. Commonly used to refer to financial accounting.
- c. Encompasses both financial and management reporting
- d. The same as budgeting

LO 2

53. An example of cost accounting information that is used in financial accounting is:

- a. staff absentee rates
- b. quality assurance processes
- *c. valuation of ending inventory
- d. machine break down hours

LO 2

54. Which of the following is a type of internal report produced by an organisation's information system?

- a. News release
- *b. Analysis of potential acquisition
- c. Credit report
- d. Tax return

LO 2

55. Which of the following is true:

- *a. Internal reports present information for use within an organisation
- b. Internal reports present information predominantly for use outside an organisation.
- c. Internal reports are always for one time use only
- d. Internal reports are also used for reporting to government

LO 2

56. Which of the following is the best example of an internal report that might come from an organisation's information system?

- a. Environmental Protection Agency regulatory report
- *b. Cash flow plan
- c. Income tax returns
- d. Credit rating agency report

LO 2

57. Financial statements are:

- a. Internal reports produced from an organisation's information system
- b. Never used for internal decision making
- c. Only true when they are audited
- *d. Necessary to meet external reporting requirements

LO 2

58. Information gathered outside the organisation includes:

- *a. Customer preferences
- b. Product design specifications
- c. Product mix plans
- d. Number of employees hired

LO 2

59. The following are all stages found in a management accounting system except for:

- a. Processing
- b. Output
- *c. Outcome
- d. Input

LO 2

60. Influences on the nature of the management accounting system include all of the following except:

- a. organisational structure
- *b. geographical location
- c. organisational culture and vision
- d. types of decisions managers are confronted with

LO 2

61. The routine measuring, monitoring and feedback processes to managers relating to operations is:

- *a. part of the management accounting system's role
- b. not required in organisations with only one product
- c. required for long term strategic decision making
- d. an organisational core competency

LO 2

62. Cost accounting practices has been influenced by all of the following except:

- a. Increased competition
- b. Technological innovation
- c. Changing organisational environments
- *d. Conformance to GAAP

LO 2

63. Start up internet companies have no need for a management accounting function because:

- *a. Even start up internet companies' need management accounting.
- b. They have innovative profit offerings.
- c. Their financial structure is uniform.
- d. They have no physical product.

LO 2

64. Relevant information:

- a. Does not vary with the decision taken.
- b. Is only useful if there are only two alternative courses of action
- c. Considers past costs.
- *d. Is always dependent on the decision and other factors.

LO 2

65. Identify the irrelevant information in the following scenario:

Eve is choosing between two part time jobs. Job A offers a high hourly wage but is located out of town and she will have to pay for public transport to get there. Job B is based locally and Eve can walk from home. The second job pays a lower hourly rate but there is more opportunity to pick up extra hours. The first job has a set number of hours. Last month Eve purchased a monthly gym pass for \$80 for a gym located near Job B.

- a. Hourly pay rates.
- b. Number of working hours.
- *c. Cost of the gym pass.
- d. Public transport cost.

LO 2

66. Higher quality decisions result from:

- a. Higher quality information
- b. Higher quality reports
- c. Higher quality decision making processes
- *d. All of the above

LO 3

67. Which of the following are NOT associated with higher quality decisions:

- a. Timely information
- b. Unbiased decision making processes
- *c. Ignoring uncertainties
- d. Available and understandable reports

LO 3

68. Opportunity costs can be defined as:

- *a. The benefit foregone by choosing one alternative over another
- b. The cost of collecting information for decision making purposes.
- c. The costs incurred when the wrong decision is made
- d. All of the above

LO 3

69. Cost benefit analysis is only necessary when:

- a. There are opportunity costs to consider
- b. There are more than two courses of action
- c. When the decision concerns the reliability of product cost data
- *d. None of the above.

LO 3

70. Uncertainty may hinder a manager's ability to:

- I Adequately define a problem
- II Identify all potential solution options
- III Predict the outcome of various solution options

- a. I and III only
- b. II and III only
- c. II only
- *d. I, II, and III

LO 3

71. Managers can make higher-quality decisions by relying on all of the following **except**:

- a. More complete information
- *b. Irrelevant information
- c. Better decision-making processes
- d. Information having less uncertainty

LO 3

72. Which of the following adjectives describes higher quality information?

- I Complete
- II Costly to develop
- III Relevant

- a. I and II only
- b. II and III only
- c. I, II, and III
- *d. I and III only

LO 3

73. Higher quality reports are more:

- I Relevant
- II Understandable
- III Available

- a. I and II only
- b. I and III only
- c. II and III only
- *d. I, II, and III

LO 3

74. The process of making higher quality business decisions requires each of the following **except**:

- a. Distinguishing between relevant and irrelevant information
- b. Recognising and evaluating assumptions
- c. Relying on gut instinct to make decisions more quickly
- *d. Considering organisational values and core competencies

LO 3

75. Irrelevant information may be:

- I Useful in decision making
- II Internally-generated
- III Accurate

- a. I only
- b. I and II only
- *c. II and III only
- d. None of the above

LO 2

76. Whether a given type of information is relevant or irrelevant depends on:

- a. Whether it is expressed in financial terms
- b. Its objectivity
- *c. Its relation to the decision to be made
- d. Its accuracy

LO 2

77. In a decision to lease premises or to build office space in Brisbane, which of the following is relevant?

- a. The cost of office space for sale in Melbourne
- *b. The costs associated with construction of the new office space.
- c. The age of the employees currently working for the company
- d. The personal preferences of the decision maker

LO 2

78. Frank is considering transportation modes to a client's office. He can drive his own car, at an incremental cost of \$0.75 per kilometre, or take a company car. If he takes his own car, he can be reimbursed \$0.55 per kilometre. If Frank makes his decision strictly from his personal economic point of view, what is the relevant net cost associated with driving his own car?

- a. \$0.75
- *b. \$0.20
- c. \$0.55
- d. \$0.00

LO 2

79. A value chain is the sequence of business processes in which:

- a. Costs are determined with activity-based principles
- b. All non-value-added activities are eliminated
- *c. Value is added to a product or service
- d. Managers determine prices

LO 4

80. Value chains are most commonly viewed at the:

- *a. organisational level
- b. industry level
- c. product level
- d. management level

LO 4

81. An organisation's value chain provides a framework for considering a range of management accounting issues such as:

- I Reinforcing initiatives such as activity based costing
- II Breaking down traditional representations of organisational activity.
- III Reflecting value chain relationships in terms of cost
- IV Encourages a broader organisational view

- a. I and II
- b. I and III
- c. II and IV
- *d. I, II, III, and IV

LO 4

82. Managers often break activities into four groups for value chain analysis. Which of the following is **not** an activity category among those four groups?

- a. Unnecessary activities that can be eliminated eventually
- b. Necessary activities that could be changed to improve the process
- c. Necessary activities that cannot be improved upon at this time
- *d. Unnecessary activities that cannot be eliminated

LO 4

83. The supply chain:

- a. Does not include inside suppliers
- b. Does not include outside suppliers
- *c. Is the flow of resources from initial supplier through to delivery to end customers
- d. Is the flow of resources from initial supplier through to the final product

LO 4

84. Which of these statements concerning the value chain is correct?

- a. The value chain and the supply chain are different names for the same thing
- b. The value chain essentially internalises an organisations' thinking
- *c. Enables the financial measurement of downstream and upstream activities
- d. All of the statements are correct

LO 4

85. Cost objects are:

- a. always physical products
- b. non value added activities
- c. the same as cost drivers
- *d. a thing or activity for which cost measurement is required

LO 4

86. Inputs or activities that cause changes in the total cost of a cost object are:

- a. value added activities
- *b. cost drivers
- c. quality costs
- d. unimportant in Activity Based Costing

LO 4

87. The following are examples of executional cost drivers except for:

- a. capacity utilization
- b. product configuration
- c. workforce involvement
- *d. experience

LO 4

88. In decentralised structures it is common for there to be:

- *a. separate business units or divisions
- b. little organisational complexity
- c. direct reporting lines to the CEO
- d. all of the above

LO 4

Essay/Matching questions

89. Consider the following activities, which could be undertaken by managers at Air New Zealand. Indicate whether each item is most likely part of:

S - organisational strategies

P - operating plans

A - actual operations or

M - measuring, monitoring and motivating.

Each item has only one correct response.

1. comparing actual revenues with budgeted revenues
2. developing processes for handling customer complaints
3. handling customer complaints
4. hosting an annual employee picnic
5. maintaining high quality customer service
6. negotiating contracts with the flight attendant union over the next six months
7. opening a new route to Perth
8. implementing a new luggage tracking system
9. valuing training for employees to increase organisational competence
10. reporting periodic financial results

LO 1

Answer:

1. comparing actual revenues with budgeted revenues = M
2. developing processes for handling customer complaints = P
3. handling customer complaints = A
4. hosting an annual employee picnic = M
5. maintaining high quality customer service = S
6. negotiating contracts with the flight attendant union over the next six months = A
7. opening a new route to Perth = A
8. implementing a new luggage tracking system = A
9. valuing training for employees to increase organisational competence = S
10. reporting periodic financial results = M

90. The owner of a local delicatessen is deciding whether to lease a company van. If the van is leased, the company would avoid paying its vendors to deliver the supplies and food purchases. The owner has negotiated a potential lease contract that would require a down payment plus a flat monthly rental payment. At the end of each year, an additional “contingency” rental payment would be required if the total number of kilometres driven exceeds 12 000. The owner has estimated that the van will be driven 900 kilometres per month for picking up supplies and food purchases, so she does not expect to incur a contingency annual payment. Based on these kilometres, the owner has calculated the expected amount of cost for fuel, repairs, and maintenance. She has received a quote from her insurance company for the next six months’ insurance. She plans to hire a part-time employee at \$15 per hour to drive the van. The employee will work a flexible schedule based on the deliveries required. Items 1 through 7 are relevant costs for this decision. Indicate whether the dollar amount of each relevant cost is most likely

C certain or
U uncertain.

Each item has only one correct response.

- 1 Lease down payment
- 2 Monthly lease rental payments
- 3 Contingency annual payment
- 4 Fuel, repairs, and maintenance
- 5 Van insurance for the next six months
- 6 Part-time employee wages
- 7 Reduction in vendor delivery charges

LO 2

Answer:

- 1 Lease down payment = C
- 2 Monthly lease rental payments = C
- 3 Contingency annual payment = U
- 4 Fuel, repairs, and maintenance = U
- 5 Van insurance for the next six months = C
- 6 Part-time employee wages = U
- 7 Reduction in vendor delivery charges = U

91. Indicate whether each of the following items is primarily:

I an internal report or

E an external report.

Each item has only one correct response.

1analysis of potential acquisitions

2analysis of product mix

3bonus calculations

4cash flow plan

5credit reports

6financial statements

7inventory reports for suppliers

8news release

9analysis of supplier quality

10 ASIC reports

LO 2

Answer:

1analysis of potential acquisitions = I

2analysis of product mix = I

3capital budgets = I

4cash flow plan = I

5credit reports = E

6financial statements = E

7inventory reports for suppliers = E

8news release = E

9analysis of supplier quality = I

10 tax returns = E

92. Rick is an accountant. His boss has asked him to make a recommendation about buying or leasing new computer equipment for the accounting department. A decision has already been made to acquire a particular type of equipment. The only remaining decision is whether the equipment will be purchased or leased. Several pieces of information Rick might consider in his decision are listed below. Indicate whether each of the following items is:

R relevant or
I irrelevant to the decision.

- 1 cost of current computer equipment
- 2 interest rate for lease
- 3 training costs for operating new computer
- 4 cost of purchasing new equipment
- 5 depreciation on old equipment
- 6 future reliability of new equipment
- 7 independent quality ratings on new equipment
- 8 trade-in value of old equipment
- 9 tax incentives to lease
- 10 future depreciation rates

LO 2

Answer:

- 1 cost of current computer equipment = I
- 2 interest rate for lease = R
- 3 training costs for operating new computer = R
- 4 cost of purchasing new equipment = R
- 5 depreciation on old equipment = I
- 6 future reliability of new equipment = I
- 7 independent quality ratings on new equipment = I
- 8 trade-in value of old equipment = I
- 9 tax incentives to lease = R
- 10 future depreciation rates = R

93. A value chain is the sequence of business processes in which value is added to a product or service. Consider a manufacturing company that produces and sells dog food. Match each business activity listed on the left with the element of the value chain that best describes it. Each item has only one correct answer.

Advertising products to consumers	Supplier and raw material management
Combining material, labour and overhead to produce dog food	Research and development
Responding to internet enquiries for new flavours.	Customer service
Enforcing time and quality standards for raw material suppliers	Product manufacture
Investigating ways to develop a range of cat food	Product and process design
Implementing a new quality assurance process.	Marketing and sales
Selecting retailers to sell dog food to end consumers	Distribution management

LO 4

Answer:

- 1 Advertising products to consumers = Marketing and sales
- 2 Combining material, labour and overhead to produce dog food = Product manufacture
- 3 Responding to internet enquiries for new flavours = Customer Service
- 4 Enforcing time and quality standards for raw material suppliers = Supplier and raw material management
- 5 Investigating ways to develop a range of cat food = Research and development
- 6 Implementing a new quality assurance process = Product and process design
- 7 Selecting retailers to sell dog food to end consumers = Distribution management