***Fundamentals of Cost Accounting, 6e* (Lanen)**

**Chapter 1 Cost Accounting: Information for Decision Making**

1) 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.

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

3) 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.

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

5) 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 value-added activities.

6) Cost information itself is a product with its own customers.

7) Financial accounting information is sufficient for making operational decisions.

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

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

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

11) 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).

12) A cost driver is a factor that causes costs.

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

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

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

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

17) 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.

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

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

20) Benchmarking is a continuous process of measuring a company's products, services, or activities against competitors' performance.

21) Activity-based costing (ABC) is a management tool that focuses on the continuous improvement of all dimensions of a business.

22) Lean manufacturing techniques are used only in the production process.

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

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

25) Compliance with Sarbanes-Oxley does not mean that the manager has met all of his or her ethical responsibilities.

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

27) Cost accounting information can be used by managers to defraud customers, creditors, and owners.

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

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

A) value chain.

B) supply chain.

C) demand chain.

D) cost-benefit analysis.

30) Which of the following activities would **not** be considered a value-added activity?

A) Production

B) Marketing

C) Accounting

D) Distribution

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

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

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

C) 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.

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

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

A) Perfect information.

B) Estimated information.

C) Actual information.

D) Financial information.

33) Which of the following is a nonvalue-added activity?

A) Product design

B) Customer service

C) Research and development

D) Rework of defective items

34) (CMA adapted) A costing method that first assigns costs to activities and then assigns them to products based on the products' consumption of those activities is:

A) full-absorption costing.

B) activity-based costing.

C) variable costing.

D) benchmarking.

35) (CMA adapted) Cost drivers are:

A) activities that cause costs to increase as the activity increases.

B) accounting techniques and practices used to control costs.

C) accounting reimbursements used to evaluate whether performance is proceeding according to plan.

D) a mechanical basis, such as machine hours, computer time, or factory square footage, used to assign costs to activities.

36) During 2020, the Beach Restaurant had sales revenues and food costs of $800,000 and $600,000, respectively. During 2021, Beach plans to introduce a new menu item that is expected to increase sales revenues by $100,000 and food costs by $40,000. Assuming **no** changes are expected for the other food items, operating profits for 2021 are expected to increase by:

A) $260,000.

B) $100,000.

C) $60,000.

D) $40,000.

37) (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:

A) budgeting.

B) benchmarking.

C) cost-benefit analysis.

D) value-added analysis.

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

A) cost accounting.

B) financial accounting.

C) managerial accounting.

D) responsibility accounting.

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

A) cost accounting.

B) financial accounting.

C) responsibility accounting.

D) international accounting.

40) The just-in-time (JIT) method of production focuses on:

A) increasing sales revenue.

B) reducing inventories.

C) increasing customer service.

D) reducing operating expenses.

41) (CIA adapted) The primary reason for adopting total quality management (TQM) is to achieve:

A) reduced delivery time.

B) reduced delivery charges.

C) greater customer satisfaction.

D) greater employee participation.

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

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

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

C) consult with the local police.

D) discuss the situation with an immediate supervisor.

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

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

B) call the IMA's ethics hotline.

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

D) discuss the situation with an immediate supervisor, except when it appears that the supervisor is involved, or with the next level supervisor if involvement of the immediate supervisor is suspected.

44) Which of the following is **not** one of the basic standards of the Institute of Management Accountants (IMA) Code of Ethics?

A) Competence

B) Confidentiality

C) Honesty

D) Integrity

45) Which of the following is **not** one of the overarching ethical principles of the Institute of Management Accountants (IMA) Code of Ethics?

A) Competence

B) Responsibility

C) Honesty

D) Objectivity

46) A general term for a metric that indicates how well an individual, business, product, or firm is working is called:

A) a performance measure.

B) benchmarking.

C) a budget.

D) a responsibility center.

47) The cost accounting system that minimizes wasteful or unnecessary transaction processes is:

A) performance measure.

B) benchmarking.

C) budgeting.

D) lean accounting.

48) The continual process of measuring a company's own products, services, or activities against competitors' performance is:

A) performance measure.

B) benchmarking.

C) budgeting.

D) responsibility center.

49) The costing method that first assigns costs to activities and then assigns them to products based on the products' consumption of activities is called:

A) lean accounting.

B) responsibility centers.

C) activity-based costing.

D) budgeting.

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

A) lean accounting.

B) responsibility centers.

C) activity-based costing.

D) outsourcing.

51) Systems that identify the costs of producing defective units as well as low-quality items that lose sales are called:

A) customer relationship management systems.

B) distribution chains.

C) enterprise resource planning systems.

D) cost of quality systems.

52) Systems that allow firms to target profitable customers by assessing customer revenue and costs are called:

A) customer relationship management systems.

B) distribution chains.

C) enterprise resource planning systems.

D) cost of quality systems.

53) Information technology that links the various processes of the company into a single comprehensive information system is called:

A) a customer relationship management system.

B) a distribution chain.

C) a cost of quality system.

D) an enterprise resource planning system.

54) A management method by which the organization seeks to excel on all dimensions of quality is called:

A) customer relationship management.

B) a just-in-time method.

C) total quality management.

D) cost of quality.

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

A) Chief financial officer

B) Treasurer

C) External auditor

D) Controller

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

A) Research and development

B) Purchasing

C) Administration

D) Distribution

57) In 2020, the TransUnion Company had consulting revenues of $1,000,000 while costs were $750,000. In 2021, TransUnion will be introducing a new service that will generate $150,000 in sales revenues and $60,000 in costs. Assuming no changes are expected for the other services, operating profits are expected to increase between 2020 and 2021 by:

A) $250,000.

B) $150,000.

C) $90,000.

D) $60,000.

58) In 2020, the Merkel Company had revenues of $2,000,000 and costs of $1,500,000. During 2021, Merkel will be introducing a new product line that is expected to increase sales revenue by $200,000 and costs by $160,000. Assuming no changes are expected for the other products, the operating profits are expected to increase by:

A) $540,000.

B) $200,000.

C) $160,000.

D) $40,000.

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

A) cost-benefit analysis.

B) value-added activity.

C) activity-based cost.

D) nonvalue-added activity.

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

A) differential costs.

B) cost-benefit analysis.

C) activity-based costs.

D) cost drivers.

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

A) Research and Development

B) Customer Service

C) Design

D) Accounting

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

A) Customer Service

B) Marketing

C) Design

D) Supply

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

A) Production

B) Design

C) Marketing

D) Distribution

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

A) Distribution chain.

B) Financial accounting system.

C) Cost accounting system.

D) Supply chain.

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

A) Production.

B) Research and Development.

C) Distribution.

D) Marketing and sales.

66) Which part of the value chain is outside the firm?

A) Design component

B) Research and Development component

C) Production activity

D) Distribution chain

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

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

B) Value chain components do not overlap.

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

D) Administrative functions are not included as a separate component of the value chain.

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

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

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

C) 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.

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

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

A) Inspection of product

B) Advertising

C) Raw materials

D) Distribution

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

A) ABDC

B) ACDB

C) BDCA

D) BADC

71) Managers evaluate value-added activities to determine how they contribute to the final product's:

A) service only.

B) quality only.

C) cost only.

D) service, quality, and cost.

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

A) Because it is only used by investors and creditors.

B) Because no publicly traded companies use cost accounting.

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

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

73) Financial accounting:

A) focuses on the future.

B) must comply with GAAP (generally accepted accounting principles).

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

D) is prepared for the use of management.

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

A) vice president of marketing.

B) factory supervisor.

C) department manager.

D) company shareholder.

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

A) decision making on the factory floor.

B) improving the performance level of customer service.

C) planning the budget for next year.

D) preparing the income statement for shareholders.

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

A) future costs.

B) historical costs.

C) current costs.

D) externally reported costs.

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

A) the company's overall performance.

B) comparability across firms.

C) financial position and income according to accounting rules.

D) some aspect of operations that is different from expectations.

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

A) reporting to shareholders.

B) a current perspective.

C) the future.

D) past transactions.

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

A) cost-benefit analysis.

B) performance measurement.

C) nonvalue-added analysis.

D) preparation of financial statements.

80) 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?

A) Departmental profit compared to budgeted departmental profit.

B) Trends in general and administrative expenses for each store.

C) Growth in departmental sales compared to the prior period sales

D) Departmental customer satisfaction.

81) Snuggle Toys, Inc. had the following summarized results for the month ending July 31:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Actual | | |  | Budget | | |
| Revenues | $ | 60,000 |  |  | $ | 52,000 |  |
| Costs |  | 53,600 |  |  |  | 45,600 |  |
| Operating profits | $ | 6,400 |  |  | $ | 6,400 |  |

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

A) The departmental manager is performing to expectations because budgeted profits equals actual profits.

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

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

D) Costs are 17.5% above budget and the department manager's position should be critically evaluated by senior management.

82) CraftMaster Corporation purchased a machine 7 years ago for $339,000 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 $353,000 or by a new model 280 machine costing $332,000. 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 $332,000 invested in the new machine could instead have been invested in a project that would have returned a total of $426,000. In making the decision to buy the model 280 machine rather than the model 360 machine, the differential cost was:

A) $21,000.

B) $87,000.

C) $7,000.

D) $14,000.

83) When comparing activity-based costing (ABC) with conventional costing methods, which of the following is the key benefit of the ABC method?

A) It is cheaper to implement.

B) It is based on only one or two factors, generally volume-related.

C) It is simpler.

D) It provides more accurate cost numbers.

84) Geno's Body Shop had sales revenues and operating costs in 2020 of $650,000 and $525,000, respectively. In 2021, Geno plans to expand the services it provides to customers to include detailing services. Revenues are expected to increase by $85,000 and operating costs by $50,000 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 2021 by:

A) $125,000.

B) $85,000.

C) $160,000.

D) $35,000.

85) Geno's Body Shop had sales revenues and operating costs in 2020 of $650,000 and $525,000, respectively. In 2021, Geno plans to expand the services it provides to customers to include detailing services. Revenues are expected to increase by $85,000 and operating costs by $50,000 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 be earned in 2021?

A) $125,000

B) $85,000

C) $160,000

D) $35,000

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

A) the ability to decide whether goals can be achieved.

B) the resources needed to carry out its tasks.

C) anticipated revenues to be generated.

D) the consistent application of generally accepted accounting principles.

87) In 2020, the Allen Company had consulting revenues of $1,000,000, while operating costs were $750,000. In 2021, Allen will be introducing a new service that will generate $150,000 in sales revenues and $60,000 in operating costs. Assuming no changes are expected for the other services, the differential operating costs for 2021 will be:

A) $250,000.

B) $150,000.

C) $90,000.

D) $60,000.

88) In 2020, the Allen Company had consulting revenues of $1,000,000 while operating costs were $750,000. In 2021, Allen will be introducing a new service that will generate $150,000 in sales revenues and $60,000 in operating costs. Assuming no changes are expected for the other services, the differential revenue for 2021 will be:

A) $250,000.

B) $150,000.

C) $90,000.

D) $60,000.

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Alternative A | | |  | Alternative B | | |
| Material costs | $ | 35,000 |  |  | $ | 57,000 |  | |
| Processing costs |  | 36,000 |  |  |  | 57,000 |  | |
| Building costs |  | 12,000 |  |  |  | 28,000 |  | |
| Equipment rental |  | 19,000 |  |  |  | 19,000 |  | |

Are the materials costs and processing costs differential in the choice between alternatives A and B? (Ignore the building costs and equipment rental in this question.)

A) Neither materials costs nor processing costs are differential.

B) Both materials costs and processing costs are differential.

C) Only processing costs are differential.

D) Only materials costs are differential.

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Alternative A | | |  | Alternative B | | |
| Material costs | $ | 35,000 |  |  | $ | 57,000 |  | |
| Processing costs |  | 36,000 |  |  |  | 57,000 |  | |
| Building costs |  | 12,000 |  |  |  | 28,000 |  | |
| Equipment rental |  | 19,000 |  |  |  | 19,000 |  | |

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

A) $161,000.

B) $131,500.

C) $59,000.

D) $102,000.

91) 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 | $ | 44,000 |  | |  | | $ | 56,000 |  | |
| Processing costs |  | 37,000 |  | |  | |  | 59,000 |  | |
| Building costs |  | 14,000 |  | |  | |  | 14,000 |  | |
| Equipment rental |  | 11,000 |  | |  | |  | 11,000 |  | |

Are the materials costs and processing costs differential in the choice between alternatives X and Y? (Ignore the building costs and equipment rental in this question.)

A) Both materials costs and processing costs are differential.

B) Only materials costs are differential.

C) Only processing costs are differential.

D) Neither materials costs nor processing costs are differential.

92) 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 | $ | 44,000 |  | |  | | $ | 56,000 |  | |
| Processing costs |  | 37,000 |  | |  | |  | 59,000 |  | |
| Building costs |  | 14,000 |  | |  | |  | 14,000 |  | |
| Equipment rental |  | 11,000 |  | |  | |  | 11,000 |  | |

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

A) $140,000

B) $123,000

C) $34,000

D) $106,000

93) 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?

A) Advertising

B) Warranty repairs

C) Vendor certification

D) Patent applications

94) 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?

A) Advertising

B) Warranty repairs

C) Vendor certification

D) Website creation, hosting, and maintenance

95) 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?

A) Advertising

B) Warranty repairs

C) Vendor certification

D) Patent applications

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

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

B) a single database that collects data and feeds it into applications that support each of the company's business activities, such as purchases, production, distribution, and sales.

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

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

97) The approaches and activities of managers in short-run and long-run planning and control decisions that increase value for customers and lower costs of products and services are known as:

A) value chain management.

B) enterprise resource planning.

C) cost management.

D) customer value management.

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

A)  the value chain.

B) benchmarking.

C) marketing.

D) the supply chain.

99) All of the following words describe benchmarking **except**:

A) ongoing.

B) one-time event.

C) continuous.

D) measuring process.

100) All of the following are examples of total quality management (TQM) practices except:

A) Redesigning a product to reduce its parts by 50 percent.

B) Reducing the movement required in a manufacturing job.

C) Separating the sales and services functions.

D) Raising raw material quality standards.

101) Which area(s) of a business can be improved by using a just-in-time (JIT) system?

A) Production, purchasing, and delivery.

B) Production only.

C) Purchasing only.

D) Production and purchasing only.

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

A) cost accounting policies.

B) budgeting.

C) investor relations.

D) general ledger.

103) Cost accounting is an integral part of the \_\_\_\_\_\_\_\_ function in an organization.

A) treasurer's

B) controller's

C) internal auditor's

D) president's

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

A) increasing emphasis on the management accountant as a business partner.

B) increasing emphasis on external financial reporting.

C) decreasing emphasis on financial statement inventory cost valuation.

D) increasing emphasis on timely and useful information.

105) Which of the following statements is false regarding total quality management (TQM)?

A) The adoption of TQM means that the organization is managed to excel on all dimensions.

B) The adoption of TQM means that the customer ultimately defines quality.

C) With TQM, managers determine the company's performance standards according to what is important to them.

D) TQM is a management method focused on quality for the customer.

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

A) competence, confidentiality, integrity, and relevance.

B) competence, confidentiality, integrity, and credibility.

C) competence, confidentiality, independence, and objectivity.

D) competence, accuracy, integrity, and independence.

107) According to the IMA Code of Ethics, what should a management accountant do if a significant ethical situation can't be resolved?

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

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

C) The accountant should say nothing about the matter until he or she has retired.

D) The accountant should first discuss the matter with the immediate supervisor.

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

A) stipulating that the financial statements do not omit material information.

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

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

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

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

A) internal audits of strategic decisions.

B) a code of ethics.

C) a system of preparing and reporting on investment decisions.

D) a system that limits information available to investors.

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

A) performance-based incentives.

B) monetary rewards.

C) compensation.

D) rewards for products.

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

A) Compliance with Sarbanes-Oxley guarantees that a manager has met all of his or her ethical responsibilities.

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

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

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

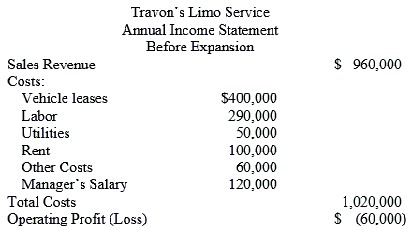
112) Carley Inc. incurs many types of costs in its operations. Place the number of the appropriate stage in the value chain in Column 2 in the blank next to each cost in column 1.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Cost** | **Stage in the Value Chain** | |
| \_\_\_ | 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 cost for the design testing center | 4. Marketing |  |  |
| \_\_\_ | Costs to survey customers about their satisfaction | 5. Production |  |  |
| \_\_\_ | Costs to sponsor a sporting event | 6. Design |  |  |

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

114) 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 $275,000 per year. The total cost to lease additional delivery vehicles from the local dealer is $60,000 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 15% when the package delivery service is added.



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.

115) Morris Inc. is a management consulting firm that specializes in management training programs. Tackle Manufacturing Inc. 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 |  |  |  |  | $ | 360,000 |  | |
| Costs: |  |  |  |  |  |  |  | |
| Labor | $ | 120,000 |  |  |  |  |  | |
| Equipment Lease |  | 12,000 |  |  |  |  |  | |
| Rent |  | 24,000 |  |  |  |  |  | |
| Utilities |  | 8,400 |  |  |  |  |  | |
| Supplies |  | 23,600 |  |  |  |  |  | |
| Other Costs |  | 14,400 |  |  |  |  |  | |
| Manager's Salary |  | 80,000 |  |  |  |  |  | |
| Total Costs |  |  |  |  |  | 282,400 |  | |
| Operating Profit (Loss) |  |  |  |  | $ | 77,600 |  | |

To satisfy the Tackle contract, another part-time trainer will need to be hired at $42,000. Supplies will increase by 12% and other costs will increase by 15%. In addition, new equipment will need to be leased at a cost of $2,500.

a. What are the differential costs that would be incurred if the Tackle contract is signed?

b. If Tackle will pay $55,000 for one year, should Morris accept the contract? Explain your answer.

116) 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 (6,500 Controllers at $130 each) | $ | 845,000 |  | |
| Cost of sales |  | 390,000 |  | |
| Distribution costs |  | 65,000 |  | |
| Advertising expense |  | 275,000 |  | |
| Salaries |  | 25,000 |  | |
| Building costs |  | 145,000 |  | |
| Operating loss | $ | (55,000 | ) | |

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

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
| Sales | $ | 260,000 |  | |
| Cost of goods sold |  | 125,000 |  | |
| Building expenses |  | 88,000 |  | |
| Selling and administrative expenses |  | 75,000 |  | |

All building expenses of the company are fully allocated to products in the company's accounting system. Further investigation has revealed that $42,000 of the building expenses and $48,000 of the selling and administrative expenses will **not** be incurred if product ABC123 is discontinued.

a. According to the company's accounting system, what are the operating profits earned by product ABC123?

b. What would be the impact on the company's overall operating profits if product ABC123 is dropped? Should the product be dropped?

118) 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 | $ | 650,000 |  | |
| Cost of goods sold | $ | 293,000 |  | |
| Building expenses | $ | 221,000 |  | |
| Selling and administrative expenses | $ | 150,000 |  | |

In the company's accounting system all building expenses of the company are fully allocated to products. Further investigation has revealed that $95,000 of the building expenses and $85,000 of the selling and administrative expenses will **not** be incurred if product EX123 is discontinued.

a. According to the company's accounting system, what are the operating profits (losses) earned by product EX123?

b. What would be the effect on the company's overall operating profits if product EX123 is dropped?

119) 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 QuickBook's Professional Accountant Division. | E. | Distribution | |
|  |  | Creation of new movie ideas at Universal Studios. | F. | Customer Service | |

120) 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 | $ | 75,000 |  |
| Costs: |  |  |  |
| Food supplies |  | 20,000 |  |
| Labor |  | 16,000 |  |
| Utilities |  | 4,000 |  |
| Rent |  | 12,000 |  |
| Other |  | 4,000 |  |
| Manager's salary |  | 25,000 |  |
| Total Costs |  | 81,000 |  |
| Operating Profits (Losses) | $ | (6,000 | ) |

The President of the company is considering adding sandwiches to the menu. Sales will be expected to increase by $60,000. The cost of sandwich supplies would be $30,000. Labor costs would increase 40% and other costs 10%. The current manager will continue to manage the operation.

a. Prepare a quantitative analysis of the decision to add sandwiches to the menu.

b. What qualitative considerations should the company consider in this decision?

121) 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 | $ | 5,000 |  |
| Other utilities, including water, heat and telephone |  | 500 |  |
| Costs of running automobiles |  | 800 |  |
| Cost of private school |  | 2,000 |  |
| Total monthly budget | $ | 8,300 |  |

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 $7,000 per month, while the cost of running automobiles would increase 20% and other utilities 10%. Mortgage interest costs are tax deductible and the Brogans are in the 25% tax bracket. Assume that $700 of the increase in their monthly budget is for mortgage interest. What are the costs and benefits of moving? Which can be quantified and which **cannot**?

122) 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 |  |  |

123) 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 $300 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 | $ | 9,000,000 |  |
| Labor costs | $ | 3,000,000 |  |
| Support costs | $ | 8,500,000 |  |
| Units produced |  | 40,000 |  |

a. Compute the manufacturing cost per unit for each Giant Watt produced in June.

b. Suppose production will be reduced to 30,000 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.

124) 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 |  |

125) 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. 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.

126) 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.

127) Snacking Macs, Inc., 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?

128) Clancy Mining Company mines iron ore for production into various metal products. During recent years, the company had large fluctuations in its inventories of metal ingots. Much of the volatility of the inventory levels is due to the variability of demand by the company's largest customers, automobile manufacturers. For large orders, the company has the technology to quickly shift production from one product to another. Explain how the company can improve its inventory control system and give the advantages of whatever you recommend.

129) 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 100 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?

130) 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."

|  |  |  |  |
| --- | --- | --- | --- |
| Income Statement for the Year | | | |
| Ending December 31 | | | |
| Sales Revenue | $ | 457,234 |  | |
| Cost of Goods Sold |  | 296,348 |  | |
| Gross Margin |  | 160,886 |  | |
| Selling Costs |  | 76,234 |  | |
| Administrative Costs |  | 62,350 |  | |
| Profit before Taxes | $ | 22,302 |  | |

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.

131) Create a diagram of the value chain by putting the following components into the correct order: a) purchasing; b) marketing and sales; c) research and development; d) customer service; e) distribution; f) design; g) production.

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

133) 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.

134) 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.

135) 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."

136) What are characteristics of information used in decision making?

137) 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., 2021). The Flamboyant Flirt's income statement for the most recent year is presented below.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| The Flamboyant Flirt | | | | | | | |
| Income Statement for the Year Ended December 2020 | | | | | | | |
| Sales Revenue |  |  |  |  | $ | 220,000 |  |
| Costs: |  |  |  |  |  |  |  |
| Labor | $ | 52,000 |  |  |  |  |  |
| Utilities |  | 12,000 |  |  |  |  |  |
| Supplies |  | 45,000 |  |  |  |  |  |
| Rent |  | 18,000 |  |  |  |  |  |
| Miscellaneous |  | 5,000 |  |  |  |  |  |
| Manager's Salary |  | 30,000 |  |  |  | 162,000 |  |
| Operating Profits |  |  |  |  | $ | 58,000 |  |

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?

138) 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 managers' 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**?

139) 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?

140) Dockside Sandal Company, a manufacturer of women's sandals, recently implemented a quality improvement program aimed at streamlining the manufacturing process. Bo Mattison, industrial engineer and a resident expert on process improvement, was assigned the task of implementing the program.

Mattison's first task was to educate all the employees involved with the production process. He sent a memo to representatives in product design and development, materials management (including purchasing), marketing, distribution, customer service and accounting, in addition to those in the production department, inviting them to attend an information session on the improvement program.

He began the meeting by thanking all those who were present (over 35 in number) and spent the first hour explaining the need for such a program. Soon after, the attendees were engaged in a discussion. Several questions were raised during the discussion. Among these, three questions stood out.

1. What is the need for including members from design, marketing, and other functional areas when the improvement program's focus is on streamlining the manufacturing process?

2. What is the role of the cost management expert in this program?

3. Finally, why should the machine operators be involved, as they are **not** engineers?

Consider the three questions that stood out in the discussion. Assume the role of Bo Mattison and prepare a response addressing the questions.

141) Megan Kris, the Vice-President for Human Resources in Learning, Inc. was concerned about a recent memo she had recently received from the CEO's office regarding the possibility of outsourcing the payroll function to Salary Experts, a growing provider of a variety of human resource services. She was shocked that the CEO's office had discussed this matter with the Board of Directors but failed to consult her.

Megan was preparing for a meeting with the CEO. In reading the memo and its attachments, Megan observed the following comparison of costs in a report prepared by the controller's office:

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
| Payroll department expenses: |  |  |  | |
| Salaries of employees | $ | 210,000 |  | |
| Share of utilities |  | 75,000 |  | |
| Share of building rent |  | 39,350 |  | |
| Manager's salary |  | 69,000 |  | |
| Computers and supplies |  | 26,000 |  | |
| Other department expenses |  | 20,000 |  | |
| Total annual expenses | $ | 439,350 |  | |

Megan also noted that Salary Experts quoted a fixed fee of $125,000 and variable processing costs of $7.50 per employee transaction. She did **not** believe that the company will actually save money by outsourcing the payroll function. For one, she did **not** think that the company will actually save all of the above-mentioned amounts. She knew that the payroll department manager could **not** be removed from the company because he had to oversee the payroll function and serve as a liaison with the outside company. However, all other employees in the department would likely **not** be required.

a. Assume Learning Inc. has 14,000 employees on its payroll. Can the company save money by outsourcing the payroll function?

b. What are the pros and cons of outsourcing the payroll function?

142) Mr. Lee is the production manager of Cathy Company. It is the beginning of the month and he storms into the controller's department, clutching a large folder of reports. "Why am I getting so many reports? I don't need them nor do I want all the details. I've delegated responsibility to my managers so I don't have to worry about details. You've got to do something about this, John."

John, the controller, starts to think about the problem that seems to have come about as the company decentralized with many layers of responsibility. He has a vague memory of something he learned from his old cost accounting class and has called you, his former professor, for some advice or suggestions in order to reduce the paper flow.

Briefly describe the concept of the hierarchy of performance reports.

143) 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 adopt 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.

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?

144) Traditionally, companies in the United States have employed a "push" manufacturing style. Studies in Activity Based Management and Quality Control have indicated that this approach is filled with many nonvalue-added activities, which increase overall costs and reduce profits. The "push" style is being replaced with a "pull" approach.

Briefly describe the major differences between the push and pull approaches. What nonvalue-added activities are eliminated in a pull manufacturing system?

145) 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-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**)

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?