Chapter 01

Cost Accounting: Information for Decision Making

**True / False Questions**

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| 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.    True    False |

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

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| 3. | Under the value chain concept, instead of perceiving whether individual activities in the chain add value, customers only consider the overall utility of the goods or services they purchase.    True    False |

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| 4. | A *cost driver* is a factor that causes costs.    True    False |

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| 5. | A cost can be considered a differential cost for one particular course of action but not for another course of action.    True    False |

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| 6. | A responsibility center can be a department, division, or segment, but not a subsidiary of the parent company.    True    False |

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| 7. | It is important that the manager assigned to lead a responsibility center be held accountable for its operations.    True    False |

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| 8. | Budgeting is primarily used to determine year-end bonuses based on managerial and organizational performance.    True    False |

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| 9. | 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 |

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| 10. | Cost data can be used for one managerial decision but not for another managerial decision.    True    False |

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| 11. | Financial accounting information is designed for decision-makers who are directly involved in the daily management of the firm.    True    False |

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| 12. | It is more important for financial accounting information to be comparable between firms than to be useful for managerial decision-making.    True    False |

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| 13. | 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 |

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| 14. | Cost accounting information can be used by managers to defraud customers, creditors, and owners.    True    False |

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| 15. | Benchmarking is a continuous process of measuring a company's products, services, or activities against competitors' performance.    True    False |

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| 16. | Activity-based costing (ABC) is a management tool that focuses on the continuous improvement of all dimensions of a business.    True    False |

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| 17. | Customer satisfaction is an example of a non-financial performance measure.    True    False |

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| 18. | Managers face ethical situations on a daily basis, while accountants face them infrequently.    True    False |

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| 19. | A person who makes unethical decisions in their personal life is likely to make unethical decisions in their professional life.    True    False |

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| 20. | Ethical behavior depends more on a firm's code of conduct than the individual's personal beliefs.    True    False |

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| 21. | The Value chain is comprised of the activities that take place during the production process.    True    False |

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| 22. | Cost accounting plays a significant role in management decision making.    True    False |

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| 23. | Cost accounting provides information only for cost accounting purposes.    True    False |

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| 24. | Cost accounting is broader in scope than financial accounting.    True    False |

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| 25. | Financial accounting receives information only from cost accounting activity.    True    False |

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| 26. | Financial accounting provides financial and nonfinancial information that helps managers in the decision making process.    True    False |

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| 27. | A value chain consists of the major subassemblies that add value to a product.    True    False |

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| 28. | The lean thinking model focuses on reducing defects to as close to zero as possible.    True    False |

**Multiple Choice Questions**

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| 29. | The set of activities that transforms raw resources into the goods and services of an organization is called:      |  |  | | --- | --- | | A. | Value chain. |  |  |  | | --- | --- | | B. | Supply chain. |  |  |  | | --- | --- | | C. | Demand chain. |  |  |  | | --- | --- | | D. | Cost-benefit analysis. | |

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| 30. | Which of the following activities would not be considered a value-added activity?      |  |  | | --- | --- | | A. | Production |  |  |  | | --- | --- | | B. | Marketing |  |  |  | | --- | --- | | C. | Accounting |  |  |  | | --- | --- | | D. | Distribution | |

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| 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. | Accounting systems are important because they provide all the information for 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. | |

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| 32. | Managers do not make decisions about future events based on:      |  |  | | --- | --- | | A. | Perfect information. |  |  |  | | --- | --- | | B. | Estimated information. |  |  |  | | --- | --- | | C. | Actual information. |  |  |  | | --- | --- | | D. | Financial information. | |

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| 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 | |

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| 34. | (CMA adapted) An accounting system that collects financial and operating data on the basis of the underlying nature and extent of cost drivers is      |  |  | | --- | --- | | A. | full-absorption costing. |  |  |  | | --- | --- | | B. | activity-based costing. |  |  |  | | --- | --- | | C. | variable costing. |  |  |  | | --- | --- | | D. | benchmarking. | |

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| 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. | |

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| 36. | During 2013, the JKL Restaurant had sales revenues and food costs of $800,000 and $600,000, respectively. During 2014, JKL 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 2013 are expected to increase by      |  |  | | --- | --- | | A. | $260,000. |  |  |  | | --- | --- | | B. | $100,000. |  |  |  | | --- | --- | | C. | $60,000. |  |  |  | | --- | --- | | D. | $40,000. | |

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| 37. | (CMA adapted) The process of creating a formal plan and translating goals into a quantitative format is referred to as      |  |  | | --- | --- | | A. | budgeting. |  |  |  | | --- | --- | | B. | benchmarking. |  |  |  | | --- | --- | | C. | cost-benefit analysis. |  |  |  | | --- | --- | | D. | value-added analysis. |  |  |  | | --- | --- | | E. | activity-based costing. | |

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| 38. | The field of accounting that depends on generally accepted accounting principles (GAAP) is called      |  |  | | --- | --- | | A. | cost accounting. |  |  |  | | --- | --- | | B. | financial accounting. |  |  |  | | --- | --- | | C. | managerial accounting. |  |  |  | | --- | --- | | D. | responsibility accounting. |  |  |  | | --- | --- | | E. | international accounting. | |

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| 39. | Which field of accounting emphasizes relevancy over comparability?      |  |  | | --- | --- | | A. | Cost accounting |  |  |  | | --- | --- | | B. | Financial accounting |  |  |  | | --- | --- | | C. | Responsibility accounting |  |  |  | | --- | --- | | D. | International accounting | |

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| 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. |  |  |  | | --- | --- | | E. | increasing product quality. | |

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| 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. |  |  |  | | --- | --- | | E. | better managerial decisions. | |

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| 42. | According to the Institute of Management Accountants (IMA), the final step in resolving an ethical dilemma is to      |  |  | | --- | --- | | A. | resign from the organization. |  |  |  | | --- | --- | | B. | call the IMA's ethics hotline. |  |  |  | | --- | --- | | C. | report the circumstances to a local newspaper. |  |  |  | | --- | --- | | D. | consult with an objective, independent advisor. |  |  |  | | --- | --- | | E. | discuss the situation with an immediate supervisor. | |