***Managerial Accounting, Cdn. 3e* (Braun)**

**Chapter 1 Introduction to Managerial Accounting**

1.1 Identify managers' four primary responsibilities.

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-1

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-1

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-1

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-1

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-1

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-1

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-1

Bloom's Taxonomy: Remember

8) Making adjustments to keep the company moving forward is related to the management responsibility of controlling.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-1

Bloom's Taxonomy: Remember

9) Planning involves which of the following activities?

A) Setting goals and objectives for the company

B) Overseeing the company's day-to-day operations

C) Evaluating the results of operations

D) Getting feedback on results

Answer: A

Diff: 2 Type: MC

LO: 1-1

Bloom's Taxonomy: Understand

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

A) Directing

B) Controlling

C) Decision-making

D) Planning

Answer: B

Diff: 1 Type: MC

LO: 1-1

Bloom's Taxonomy: Remember

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

A) Directing and planning

B) Planning and decision-making

C) Controlling and decision-making

D) Planning and controlling

Answer: C

Diff: 2 Type: MC

LO: 1-1

Bloom's Taxonomy: Remember

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

A) Decision-making

B) Feedback

C) Planning

D) Controlling

Answer: A

Diff: 3 Type: MC

LO: 1-1

Bloom's Taxonomy: Understand

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

A) controlling, planning, and decision-making.

B) directing, controlling, and planning.

C) directing, planning, and decision-making.

D) controlling, directing, and planning.

Answer: C

Diff: 3 Type: MC

LO: 1-1

Bloom's Taxonomy: Understand

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

A) Directing, planning, and decision-making

B) Directing, controlling, and planning

C) Controlling, planning, and decision-making

D) Analyzing, directing, and planning

Answer: A

Diff: 3 Type: MC

LO: 1-1

Bloom's Taxonomy: Understand

15) Budgets are the way that managers can express their

A) plans.

B) decision-making.

C) control.

D) hiring practices.

Answer: A

Diff: 1 Type: MC

LO: 1-1

Bloom's Taxonomy: Remember

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

A) controlling.

B) decision-making.

C) directing.

D) planning.

Answer: A

Diff: 1 Type: MC

LO: 1-1

Bloom's Taxonomy: Remember

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

A) controlling.

B) decision-making.

C) directing.

D) planning.

Answer: C

Diff: 1 Type: MC

LO: 1-1

Bloom's Taxonomy: Remember

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

A) controlling.

B) decision-making.

C) directing.

D) planning.

Answer: D

Diff: 1 Type: MC

LO: 1-1

Bloom's Taxonomy: Remember

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

A) controlling.

B) decision-making.

C) directing.

D) planning.

Answer: A

Diff: 1 Type: MC

LO: 1-1

Bloom's Taxonomy: Remember

20) Management accounting

A) helps managers make decisions.

B) is useful for external and internal users.

C) creates technical reports that require external audit for verification.

D) is the same as cost accounting.

Answer: A

Diff: 2 Type: MC

LO: 1-1

Bloom's Taxonomy: Understand

21) The budgetary control function may include evaluating the difference

A) between current operating costs and last year's operating costs.

B) between budgeted amounts and actual results.

C) between the original budget and the final adjusted budget.

D) between the historical cost and the current cost.

Answer: B

Diff: 2 Type: MC

LO: 1-1

Bloom's Taxonomy: Understand

22) What are the four primary responsibilities of managers as described in Chapter 1? Give an example of each type of responsibility.

Answer: The following are managers' four primary responsibilities:

a. Planning: An example of planning is when the manager of a local McDonald's restaurant makes the schedule of employee work hours for the upcoming week.

b. Directing: An example of directing is when the manager of the local McDonald's adjusts the menu to reflect local tastes and preferences.

c. Controlling: An example of controlling is when the manager of the local McDonald's compares the actual number of hamburger patties used over the past week to the budgeted number of hamburger patties.

d. Decision-making: The owners of the local McDonald's franchise analyze the potential of the current location and decide to open a second location five miles away in a popular shopping plaza.

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

Diff: 2 Type: ES

LO: 1-1

Bloom's Taxonomy: Understand

**Match the following:**

A) Controlling

B) Directing

C) Decision making

D) Planning

23) Setting goals and objectives.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Remember

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

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Remember

25) Evaluating results of business operations.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Remember

26) Determining how to achieve company goals.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Remember

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

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Remember

Answers: 23) D 24) C 25) A 26) D 27) B

**Match the following:**

A) Decision making

B) Planning

C) Directing

D) Controlling

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

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Understand

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

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Understand

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

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Understand

31) Monitor both voluntary and involuntary employee turnover.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Understand

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

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Understand

33) Increasing marketing efforts.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Understand

34) Implement an employee training program to improve moral.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Understand

35) Setting a target level of employee turnover.

Diff: 1 Type: MA

LO: 1-1

Bloom's Taxonomy: Understand

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

Diff: 2 Type: MA

LO: 1-1

Bloom's Taxonomy: Understand

37) Set prices at a competitive level.

Diff: 2 Type: MA

LO: 1-1

Bloom's Taxonomy: Understand

38) Improve the design of the corporate website.

Diff: 2 Type: MA

LO: 1-1

Bloom's Taxonomy: Understand

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

Diff: 2 Type: MA

LO: 1-1

Bloom's Taxonomy: Understand

Answers: 28) B 29) C 30) A 31) D 32) A 33) C 34) C 35) B 36) B 37) C 38) C 39) D

1.2 Distinguish financial accounting from managerial accounting.

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

Answer: TRUE

Diff: 2 Type: TF

LO: 1-2

Bloom's Taxonomy: Remember

2) International Financial Reporting Standards (IFRS) must be followed when managerial accounting reports are prepared.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Remember

11) Employee behaviour is one of the factors that must be considered when designing the managerial accounting control system.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-2

Bloom's Taxonomy: Remember

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

A) It is prepared annually and quarterly.

B) It is audited.

C) It emphasizes relevance.

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

Answer: C

Diff: 2 Type: MC

LO: 1-2

Bloom's Taxonomy: Remember

13) Management accounting focuses on

A) external reporting.

B) internal reporting.

C) tax preparation.

D) auditing.

Answer: B

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Remember

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

A) bank loan officer.

B) plant manager.

C) vice president of plant operations.

D) product manager.

Answer: A

Diff: 2 Type: MC

LO: 1-2

Bloom's Taxonomy: Understand

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

A) Plant managers

B) Current shareholders

C) Sales territory managers

D) CEO

Answer: B

Diff: 2 Type: MC

LO: 1-2

Bloom's Taxonomy: Understand

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

A) Audit accounting

B) Financial accounting

C) Managerial accounting

D) Tax accounting

Answer: C

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Remember

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

A) shareholders.

B) creditors.

C) internal decision-makers.

D) both shareholders and creditors.

Answer: C

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Remember

18) Which of following is TRUE?

A) Management accounting focuses on historical transactions.

B) Financial accounting uses the cash basis for recording transactions.

C) Financial accounting focuses on future data.

D) Management accounting focuses on relevant data.

Answer: D

Diff: 2 Type: MC

LO: 1-2

Bloom's Taxonomy: Remember

19) Which of the following statements is FALSE?

A) Financial accounting provides sufficient information for managers to effectively plan and control operations.

B) Financial accounting reports help creditors make decisions.

C) Financial accounting helps investors make decisions.

D) Financial accounting provides external reports.

Answer: A

Diff: 2 Type: MC

LO: 1-2

Bloom's Taxonomy: Remember

20) Which of the following is TRUE?

A) Managerial accounting reports are audited by professional accountants.

B) Managerial accounting reports provide detailed internal information.

C) Managerial accounting reports aid potential investors.

D) Managerial accounting reports must follow GAAP.

Answer: B

Diff: 2 Type: MC

LO: 1-2

Bloom's Taxonomy: Remember

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

A) Vendors

B) Customers

C) Managers

D) Shareholders

Answer: C

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Remember

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

A) Annual financial statements

B) Monthly financial statements

C) Annual financial budgets

D) Budgets

Answer: A

Diff: 2 Type: MC

LO: 1-2

Bloom's Taxonomy: Remember

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

A) Managers

B) Customers

C) Creditors

D) Suppliers

Answer: A

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Remember

24) Owners of a company are its

A) creditors.

B) customers.

C) managers.

D) shareholders.

Answer: D

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Remember

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

A) budget reports.

B) financial accounting reports.

C) managerial accounting reports.

D) planning reports.

Answer: B

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Remember

26) In what way do managers benefit from the use of a management information system?

A) Data can be entered at numerous input terminals within the organization.

B) The managers would not be completely responsible for the information that is entered into the database system.

C) The managers could combine or adjust data to answer the questions from particular internal and external users.

D) Managers can store old documents in hard copy.

Answer: C

Diff: 2 Type: MC

LO: 1-2

Bloom's Taxonomy: Understand

27) Financial accounting

A) focuses on the future and includes activities such as preparing next year's operating budget.

B) must comply with IFRS/ASPE.

C) reports include detailed information on the various operating segments of the business such as product lines or departments.

D) is prepared for the use of department heads and other employees.

Answer: B

Diff: 1 Type: MC

LO: 1-2

Bloom's Taxonomy: Remember

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

Answer:

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

Diff: 3 Type: ES

LO: 1-2

Bloom's Taxonomy: Understand

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

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

a. comparison of budgeted costs versus actual costs.

b. tracking of safety incidents.

c. quality costs.

d. product line profitability.

e. profitability by shift.

(Student examples may vary.)

Diff: 3 Type: ES

LO: 1-2

Bloom's Taxonomy: Evaluate

30) Describe management accounting and financial accounting.

Answer: Management accounting provides information to internal decision makers of the business such as top executives, managers, sales representatives, and production supervisors. Its purpose is to help managers predict and evaluate future results. Reports are generated often and usually broken down into smaller reporting divisions such as department or product line. There are no rules to be complied with since these reports are for internal use only. Management accounting embraces more extensively such topics as the development and implementation of strategies and policies, budgeting, special studies and forecasts, influence on employee behaviour, and nonfinancial as well as financial information.

Financial accounting, by contrast, provides information to external decision makers such as investors and creditors. Its purpose is to present a fair picture of the financial condition of the company. Reports are generated quarterly or annually and report on the company as a whole. The financial statements must comply with IFRS/ASPE. A CPA audits, or verifies, that the IFRS/ASPE are being followed.

Diff: 2 Type: ES

LO: 1-2

Bloom's Taxonomy: Understand

1.3 Describe organizational structure and the roles and skills required of management accountants within the organization.

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-3

Bloom's Taxonomy: Remember

11) Management accountants only advise cross-functional teams because teams consist of employees from R&D, design, production, marketing, distribution, and customer service.

Answer: FALSE

Diff: 2 Type: TF

LO: 1-3

Bloom's Taxonomy: Understand

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

A) Stockholders

B) The controller

C) The company's board of directors

D) The CEO

Answer: D

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Remember

13) Who typically provides oversight for large corporations?

A) Stockholders

B) The CEO

C) The Board of Directors

D) The company president

Answer: C

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Remember

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

A) The CFO

B) The COO

C) The CEO

D) The Board of Directors

Answer: B

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Remember

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

A) Internal controls

B) The annual audit

C) Financial, managerial, and tax accounting

D) Research and development, production, and distribution

Answer: D

Diff: 2 Type: MC

LO: 1-3

Bloom's Taxonomy: Remember

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

A) The treasurer and controller

B) The CFO and internal audit department

C) The internal audit department and the independent CPA firm

D) The CFO and the independent CPA firm

Answer: C

Diff: 2 Type: MC

LO: 1-3

Bloom's Taxonomy: Remember

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

A) The CEO

B) The CFO

C) The COO

D) The Treasurer

Answer: D

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Remember

18) What has been the key factor in changing the role of managerial accountants?

A) Stricter audit standards

B) Stricter GAAP standards

C) Technology

D) Government licensing

Answer: C

Diff: 2 Type: MC

LO: 1-3

Bloom's Taxonomy: Remember

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

A) Audit committee

B) Financial committee

C) Managerial committee

D) Stockholders' committee

Answer: A

Diff: 2 Type: MC

LO: 1-3

Bloom's Taxonomy: Remember

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

A) The Treasurer

B) The CEO

C) The CFO

D) The COO

Answer: B

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Remember

21) Managerial accountants often work on teams called

A) audit teams.

B) cross-functional teams.

C) multi-functional teams.

D) work groups.

Answer: B

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Remember

22) A company's Board of Directors meets

A) annually.

B) monthly.

C) periodically, and at least annually.

D) quarterly.

Answer: C

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Remember

23) The Toronto Stock Exchange (TSE/TSX) requires that members of a board of directors for a listed company have

A) members experienced in business.

B) two independent members.

C) membership that represents the diversity of Canada.

D) only stockholders as members.

Answer: B

Diff: 2 Type: MC

LO: 1-3

Bloom's Taxonomy: Remember

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

A) CEO.

B) CFO.

C) COO.

D) Treasurer.

Answer: B

Diff: 1 Type: MC

LO: 1-3

Bloom's Taxonomy: Remember

25) Which of the following statements is true regarding the changing role of management accountants?

A) Management accountants are no longer involved with recording transactions.

B) Because of the increased emphasis on analyzing business operations, management accountants have become key organizational decision makers.

C) The increasing scope of the regulatory environment has changed the focus of management accountants.

D) Technology has changed the role of management accountants.

Answer: D

Diff: 3 Type: MC

LO: 1-3

Bloom's Taxonomy: Understand

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

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

Diff: 2 Type: ES

LO: 1-3

Bloom's Taxonomy: Understand

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

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

Diff: 2 Type: ES

LO: 1-3

Bloom's Taxonomy: Understand

1.4 Describe the role of CPA Canada and apply its guidelines for ethical behaviour.

1) Recognition of ethical issues that may arise in work to be performed is evidence of Adhering to Integrative Analysis in the CPA Guidelines for Ethical Behaviour.

Answer: FALSE

Diff: 2 Type: TF

LO: 1-4

Bloom's Taxonomy: Understand

2) Anticipation of issues and identification of possible alternatives is evidence of Adhering to Integrative Analysis in the CPA Guidelines for Ethical Behaviour.

Answer: TRUE

Diff: 2 Type: TF

LO: 1-4

Bloom's Taxonomy: Understand

3) Having the requisite knowledge to perform certain tasks is an example of Adherence to Rules of Professional Conduct in the CPA Guidelines for Ethical Behaviour.

Answer: FALSE

Diff: 2 Type: TF

LO: 1-4

Bloom's Taxonomy: Understand

4) Having the requisite knowledge to perform certain tasks is an example of Enabling Competencies in the CPA Guidelines for Ethical Behaviour.

Answer: TRUE

Diff: 2 Type: TF

LO: 1-4

Bloom's Taxonomy: Understand

5) No ownership interest in an audit client is an example of Adherence to Rules of Professional Conduct in the CPA Guidelines for Ethical Behaviour.

Answer: TRUE

Diff: 2 Type: TF

LO: 1-4

Bloom's Taxonomy: Understand

6) Professional Accountants in Canada are represented by the Certified Professional Accountants of Canada (CPA Canada) in addition to provincial accounting associations.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-4

Bloom's Taxonomy: Remember

7) Which of the following organizations is the association of professional accountants in Canada?

A) The Society of Management Accountants

B) The Institute of Chartered Accountants

C) The Certified General Accountants

D) The Chartered Professional Accountants

Answer: D

Diff: 1 Type: MC

LO: 1-4

Bloom's Taxonomy: Remember

8) To resolve ethical dilemmas, management accountants should FIRST

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

B) discuss the unethical situation with their immediate supervisor.

C) consult an attorney.

D) call the Society of Management Accountants "Ethics Hotline."

Answer: A

Diff: 1 Type: MC

LO: 1-4

Bloom's Taxonomy: Remember

9) Having the requisite knowledge to perform certain tasks is an example of \_\_\_\_\_\_\_\_ in the CPA Guidelines for Ethical Behaviour.

A) Adherence to Rules of Professional Conduct

B) Enabling Competencies

C) Assessing the Situation

D) Integrative Analysis

Answer: B

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Understand

10) No ownership interest in an audit client is an example of \_\_\_\_\_\_\_\_ in the CPA Guidelines for Ethical Behaviour.

A) Adherence to Rules of Professional Conduct

B) Enabling Competencies

C) Assessing the Situation

D) Integrative Analysis

Answer: A

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Understand

11) Planning and identifying possible conflicts of interest is an example of \_\_\_\_\_\_\_\_ in the CPA Guidelines for Ethical Behaviour.

A) Adherence to Rules of Professional Conduct

B) Enabling Competencies

C) Assessing the Situation

D) Integrative Analysis

Answer: C

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Understand

12) Scrutinizing ethical constraints to determine the best way forward is an example of \_\_\_\_\_\_\_\_ in the CPA Guidelines for Ethical Behaviour.

A) Adherence to Rules of Professional Conduct

B) Enabling Competencies

C) Assessing the Situation

D) Integrative Analysis

Answer: D

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Understand

13) Recognition of ethical issues that may arise in work to be performed is evidence of \_\_\_\_\_\_\_\_ in the CPA Guidelines for Ethical Behaviour.

A) Adherence to Rules of Professional Conduct

B) Enabling Competencies

C) Assessing the Situation

D) Integrative Analysis

Answer: C

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Understand

14) Anticipation of issues and identification of possible alternatives is evidence of \_\_\_\_\_\_\_\_ in the CPA Guidelines for Ethical Behaviour.

A) Adherence to Rules of Professional Conduct

B) Enabling Competencies

C) Assessing the Situation

D) Integrative Analysis

Answer: D

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Understand

15) Compilation of allowed and disallowed behaviours is evidence of \_\_\_\_\_\_\_\_ in the CPA Guidelines for Ethical Behaviour.

A) Adherence to Rules of Professional Conduct

B) Enabling Competencies

C) Conclude, Advise and Communicate

D) Integrative Analysis

Answer: A

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Understand

16) A clear and transparent decision based on the ethical analysis is evidence of \_\_\_\_\_\_\_\_ in the CPA Guidelines for Ethical Behaviour.

A) Adherence to Rules of Professional Conduct

B) Conclude, Advise and Communicate

C) Assessing the Situation

D) Integrative Analysis

Answer: B

Diff: 2 Type: MC

LO: 1-4

Bloom's Taxonomy: Understand

1.5 Discuss and analyze the implications of regulatory and business trends.

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 2 Type: TF

LO: 1-5

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 2 Type: TF

LO: 1-5

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Remember

14) The "triple bottom line" includes measuring a corporations results in terms of environmental sustainability, social responsibility, and profit.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-5

Bloom's Taxonomy: Remember

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

A) CFO.

B) CEO.

C) CFO and CEO.

D) Controller.

Answer: C

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Remember

16) IFRS stands for

A) International and Foreign Reporting Systems.

B) International Financial Reporting Standards.

C) Important Foreign Registering Systems.

D) International and Foreign Registering Standards.

Answer: B

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Remember

17) XBRL stands for

A) eXtensible Business Reporting Language.

B) eXisting Business Responsibility Language.

C) eXtensive Business Registering Location.

D) eXtractable Business Reporting Location.

Answer: A

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Remember

18) XBRL is essentially a

A) new set of accounting standards.

B) new set of auditing standards.

C) tagging system which allows computer programs to extract information from financial reports.

D) new set of ethical standards.

Answer: C

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Remember

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

A) 5 years

B) 10 years

C) 15 years

D) 20 years

Answer: D

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Remember

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

A) ERP

B) XBRL

C) TQM

D) IFRS

Answer: C

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Remember

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

A) TQM

B) ERP

C) Total Integrated Software

D) JIT

Answer: B

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Remember

22) E-commerce refers to the

A) conduct of business on the internet.

B) exchange of information with customers and suppliers.

C) production of superior goods and services.

D) quick delivery of goods and services.

Answer: A

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Remember

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

A) ERP.

B) JIT.

C) Supply-chain management.

D) TQM.

Answer: C

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Remember

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

A) JIT survey.

B) TQM survey.

C) ISO 9001:2000 survey.

D) cost-benefit analysis.

Answer: D

Diff: 2 Type: MC

LO: 1-5

Bloom's Taxonomy: Understand

25) The "triple bottom line" focuses on what three factors that influence a firm's ability to survive and thrive in the long run?

A) People, places, things

B) Profit, people, planet

C) Profit, people, place

D) Planet, profit, place

Answer: B

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Remember

26) In recent years, there has been an increasing awareness and growing interest in \_\_\_\_\_\_\_\_ and social responsibility by both consumers and corporations.

A) the bottom line

B) total quality management

C) sustainability

D) just-in-time

Answer: C

Diff: 1 Type: MC

LO: 1-5

Bloom's Taxonomy: Remember

**Match the following:**

A) ISO

B) SOX

C) Supply-Chain Management

D) Lean production

E) JIT

F) XBRL

G) ERP

H) IFRS

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

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Remember

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

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Remember

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

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Remember

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

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Remember

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

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Remember

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

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Remember

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

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Remember

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

Diff: 2 Type: MA

LO: 1-5

Bloom's Taxonomy: Remember

Answers: 27) C 28) D 29) G 30) F 31) A 32) B 33) H 34) E

1.6 Describe a lean production system.

1) Lean production systems keep large inventories.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-6

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-6

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 2 Type: TF

LO: 1-6

Bloom's Taxonomy: Remember

4) Lean production systems typically carry large inventories.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-6

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-6

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-6

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-6

Bloom's Taxonomy: Remember

8) Lean production systems typically produce large batches.

Answer: FALSE

Diff: 1 Type: TF

LO: 1-6

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-6

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-6

Bloom's Taxonomy: Remember

11) Lean production systems typically emphasize quality.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-6

Bloom's Taxonomy: Remember

12) Implementing Total Quality Management (TQM) is part of the ISO 9001:9008 quality standard.

Answer: FALSE

Diff: 2 Type: TF

LO: 1-6

Bloom's Taxonomy: Understand

13) Shortened manufacturing cycle times is a feature of Total Quality Management.

Answer: FALSE

Diff: 2 Type: TF

LO: 1-6

Bloom's Taxonomy: Remember

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

A) It will have like machines grouped together.

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

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

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

Answer: B

Diff: 2 Type: MC

LO: 1-6

Bloom's Taxonomy: Remember

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

A) Customer orders drive the production process.

B) Inventory levels are maintained at high levels.

C) Raw materials are purchased in large quantities.

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

Answer: A

Diff: 2 Type: MC

LO: 1-6

Bloom's Taxonomy: Remember

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

A) traditional system.

B) lean production system.

C) activity-based system.

D) full costing system.

Answer: B

Diff: 1 Type: MC

LO: 1-6

Bloom's Taxonomy: Remember

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

A) ABC.

B) Traditional production system

C) internal failure costs.

D) JIT production.

Answer: D

Diff: 1 Type: MC

LO: 1-6

Bloom's Taxonomy: Remember

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

A) Traditional production system

B) Supply chain management

C) Just-in-time inventory

D) TQM

Answer: C

Diff: 1 Type: MC

LO: 1-6

Bloom's Taxonomy: Remember

19) As part of \_\_\_\_\_\_\_\_ , each business function examines its own activities and works to improve performance by continually setting higher goals.

A) TQM

B) ISO 9001:9008

C) supply chain management

D) lean production

Answer: A

Diff: 1 Type: MC

LO: 1-6

Bloom's Taxonomy: Remember

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

A) lean production.

B) thin manufacturing.

C) TQM.

D) ISO 900.

Answer: A

Diff: 1 Type: MC

LO: 1-6

Bloom's Taxonomy: Remember

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

A) ERP

B) JIT

C) TQM

D) ISO

Answer: B

Diff: 1 Type: MC

LO: 1-6

Bloom's Taxonomy: Remember

22) ISO 9001:2008 is a(n)

A) certification that a company complies with international quality standards.

B) software system which integrates all departments.

C) system where production occurs only when needed.

D) effective exchange of information between vendors and customers.

Answer: A

Diff: 1 Type: MC

LO: 1-6

Bloom's Taxonomy: Remember

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

A) SEC

B) IFRS

C) IMA

D) ISO

Answer: D

Diff: 1 Type: MC

LO: 1-6

Bloom's Taxonomy: Remember

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

A) IFRS

B) JIT

C) ISO

D) XBRL

Answer: B

Diff: 1 Type: MC

LO: 1-6

Bloom's Taxonomy: Remember

25) The philosophy that centres on production as needed is known as

A) ERP.

B) JIT.

C) Supply-chain management.

D) TQM.

Answer: B

Diff: 1 Type: MC

LO: 1-6

Bloom's Taxonomy: Remember

26) The philosophy of providing superior goods and services is

A) ERP.

B) JIT.

C) Supply-chain management.

D) TQM.

Answer: D

Diff: 1 Type: MC

LO: 1-6

Bloom's Taxonomy: Remember

**Match the following:**

A) Traditional

B) Lean

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

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Remember

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

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Remember

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

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Remember

30) Set-up times are shorter.

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Remember

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

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Remember

32) Products are made in larger batches.

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Remember

33) Emphasis is placed on shortening manufacturing cycle times.

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Remember

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

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Remember

35) Set-up times are longer.

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Remember

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

Diff: 1 Type: MA

LO: 1-6

Bloom's Taxonomy: Remember

Answers: 27) B 28) B 29) B 30) B 31) B 32) A 33) B 34) A 35) A 36) A

1.7 Describe and use the costs of quality framework.

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

Answer: TRUE

Diff: 1 Type: TF

LO: 1-7

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-7

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-7

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 1 Type: TF

LO: 1-7

Bloom's Taxonomy: Remember

5) Product testing is a prevention cost.

Answer: TRUE

Diff: 1 Type: TF

LO: 1-7

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 2 Type: TF

LO: 1-7

Bloom's Taxonomy: Remember

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

Answer: FALSE

Diff: 2 Type: TF

LO: 1-7

Bloom's Taxonomy: Remember

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

Answer: TRUE

Diff: 2 Type: TF

LO: 1-7

Bloom's Taxonomy: Remember

9) Prevention and appraisal costs are sometimes referred to as "conformance costs."

Answer: TRUE

Diff: 1 Type: TF

LO: 1-7

Bloom's Taxonomy: Remember

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

A) Warranty expenses on defective products

B) Technical support provided to employees

C) Supervision of quality inspections

D) Net cost of spoiled units

Answer: B

Diff: 2 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) Net cost of scrap

B) Customer returns of defective products

C) Training for quality control employees

D) Patent cost for a new product

Answer: A

Diff: 2 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) Net cost of scrap

B) Customer returns of defective products

C) Technical support provided to suppliers

D) Supplies used in the quality inspection program

Answer: B

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) would usually increase.

B) would usually decrease.

C) would usually remain the same.

D) could not be predicted.

Answer: A

Diff: 2 Type: MC

LO: 1-7

Bloom's Taxonomy: Understand

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

A) would usually increase.

B) would usually decrease.

C) would usually remain the same.

D) could not be predicted.

Answer: B

Diff: 2 Type: MC

LO: 1-7

Bloom's Taxonomy: Understand

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

A) prevention cost.

B) appraisal cost.

C) internal failure cost.

D) external failure cost.

Answer: A

Diff: 2 Type: MC

LO: 1-7

Bloom's Taxonomy: Understand

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

A) prevention cost.

B) appraisal cost.

C) internal failure cost.

D) external failure cost.

Answer: A

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) prevention cost.

B) appraisal cost.

C) internal failure cost.

D) external failure cost.

Answer: C

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) prevention cost.

B) appraisal cost.

C) internal failure cost.

D) external failure cost.

Answer: C

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) prevention cost.

B) appraisal cost.

C) internal failure cost.

D) external failure cost.

Answer: B

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Understand

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

A) Development costs

B) Inventory failure costs

C) Marketing costs

D) Prevention costs

Answer: D

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) Appraisal costs

B) External failure costs

C) Internal failure costs

D) Prevention costs

Answer: A

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) Appraisal costs

B) External costs

C) Internal failure costs

D) Prevention costs

Answer: D

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) appraisal costs.

B) external failure costs.

C) internal failure costs.

D) prevention costs.

Answer: C

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) appraisal cost.

B) prevention cost.

C) internal failure cost.

D) external failure cost.

Answer: A

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) prevention cost.

B) appraisal cost.

C) internal failure cost.

D) external failure cost.

Answer: D

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) internal failure cost.

B) prevention cost.

C) external failure cost.

D) appraisal cost.

Answer: B

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) external failure cost.

B) internal failure cost.

C) prevention cost.

D) appraisal cost.

Answer: C

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) appraisal cost.

B) external failure cost.

C) internal failure cost.

D) prevention cost.

Answer: B

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) prevention costs.

B) internal failure costs.

C) appraisal costs.

D) external failure costs.

Answer: D

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) internal failure cost.

B) external failure cost.

C) prevention cost.

D) appraisal cost.

Answer: C

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) External failure cost

B) Internal failure cost

C) Prevention cost

D) Appraisal cost

Answer: B

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) appraisal costs.

B) activity-based costing.

C) value engineering.

D) prevention costs.

Answer: A

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) appraisal costs.

B) activity-based costing.

C) value engineering.

D) prevention costs.

Answer: D

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) Appraisal costs

B) Activity-based costing

C) Value engineering

D) Prevention costs

Answer: D

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) Appraisal costs

B) Activity-based costing

C) Value engineering

D) Prevention costs

Answer: A

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) Internal failure costs

B) Value added activity

C) Lean production

D) External failure costs

Answer: A

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) Internal failure costs

B) Value-added activity

C) Just-in-time production

D) External failure costs

Answer: D

Diff: 1 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) Prevention costs

B) Appraisal costs

C) Internal failure costs

D) External failure costs

Answer: C

Diff: 2 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) Prevention costs

B) Appraisal costs

C) Internal failure costs

D) External failure costs

Answer: D

Diff: 2 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) Prevention costs

B) Appraisal costs

C) Internal failure costs

D) External failure costs

Answer: B

Diff: 2 Type: MC

LO: 1-7

Bloom's Taxonomy: Understand

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

A) Prevention costs

B) Appraisal costs

C) Internal failure costs

D) External failure costs

Answer: A

Diff: 2 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

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

A) Prevention costs

B) Appraisal costs

C) Internal failure costs

D) External failure costs

Answer: D

Diff: 2 Type: MC

LO: 1-7

Bloom's Taxonomy: Remember

***Use the information below to answer the following question(s).***

Dylan Products has a budget of $1,200,000 in 2015 for prevention costs. If it decides to automate a portion of its prevention activities, it will save $90,000 in variable costs. The new method will require $40,000 in training costs and $150,000 in annual equipment costs. Management is willing to adjust the budget for an amount up to the cost of the new equipment. The budgeted production level is 210,000 units.

Appraisal costs for the year are budgeted at $500,000. The new prevention procedures will save appraisal costs of $50,000. Internal failure costs average $20 per failed unit of finished goods. The internal failure rate is expected to be 4% of all completed items. The proposed changes will cut the internal failure rate by one-half. Internal failure units are destroyed. External failure costs average $48 per failed unit. The company's average external failures average 2.5% of units sold. The new proposal will reduce this rate to 1%. Assume all units produced are sold and there are no ending inventories.

43) What is the net change in the budget of prevention costs if the procedures are automated in 2015? Will management agree with the changes?

A) $100,000 decrease, yes

B) $90,000 decrease, yes

C) $190,000 increase, no

D) $100,000 increase, yes

E) $90,000 increase, no

Answer: D

Explanation: D)

New costs: Training $ 40,000

New equipment 150,000 $190,000

Savings (90,000)

Net increase in budget $ 100,000

Diff: 3 Type: MC

LO: 1-7

Bloom's Taxonomy: Analyze

44) How much will appraisal costs change assuming that the new prevention methods reduce material failures by 30% in the appraisal phase?

A) $150,000 decrease

B) $229,000 decrease

C) $50,000 increase

D) $50,000 decrease

E) $84,000 decrease

Answer: D

Explanation: D) The new prevention procedures will save appraisal costs of $50,000.

Diff: 3 Type: MC

LO: 1-7

Bloom's Taxonomy: Analyze

45) How much will internal failure costs change if the internal product failures are reduced by 50% with the new procedures?

A) $168,000 decrease

B) $126,000 decrease

C) $ 84,000 decrease

D) $ 84,000 increase

E) $50,000 decrease

Answer: C

Explanation: C)

Internal failure rate (210,000 × 0.04) 8,400

Cost per unit × $20

Total $168,000

Savings rate × 0.50

Savings $84,000

Diff: 3 Type: MC

LO: 1-7

Bloom's Taxonomy: Analyze

46) How much do external failure costs change if all the changes are as the new prevention procedures anticipated? Assume all units produced are sold and there are no ending inventories.

A) $126,000 decrease

B) $156,400 decrease

C) $100,800 decrease

D) $158,900 decrease

E) $151,200 decrease

Answer: E

Explanation: E)

External failure costs - before (210,000 × 0.025 × $48) $252,000

External failure costs - after (210,000 × 0.01 × $48) ($100,800)

Savings $151,200

Diff: 3 Type: MC

LO: 1-7

Bloom's Taxonomy: Analyze

47) Try-Us-First Motors manufactures and sells off-road vehicles. The September sales were $6,000,000. Monthly design costs are $112,000 and rework is running at $75,000 per month. Its painting department is fully automated and requires substantial inspection to keep the machines operating properly. An improperly painted vehicle is very expensive to correct, and inspection hours for the 8,000 vehicles painted in September totaled 2,000 hours by 14 employees, who earn an average of $28 an hour. Ten litres of paint were used on average for each vehicle. The standard amount of paint per vehicle is nine litres. The cost of inspection for September was equal to the budgeted amount of $56,000.

What are appraisal costs as a percentage of sales?

A) 0.93%

B) 1.25%

C) 1.87%

D) 2.20%

E) 2.80%

Answer: A

Explanation: A) 56,000/6,000,000 = 0.93%

Diff: 2 Type: MC

LO: 1-7

Bloom's Taxonomy: Analyze

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

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

Warranty returns $240,000

Training personnel 20,000

Litigation on product liability claims 350,000

Inspecting 10% of final products 10,000

Rework 20,000

Production loss due to machine breakdowns 90,000

Inspection of raw materials 10,000

Required:

A. Complete the Cost of Quality Report.

B. Do any additional subjective costs appear to be missing from the report?

C. What can be learned from the report?

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

Answer:

Requirement A:

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

Requirement B:

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

Requirement C:

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

Diff: 3 Type: SA

LO: 1-7

Bloom's Taxonomy: Apply

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

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

Warranty returns $144,000

Training personnel 120,000

Litigation on product liability claims 210,000

Inspecting 10% of final products 6,000

Rework 12,000

Production loss due to machine breakdowns 54,000

Inspection of raw materials 6,000

Required:

A.Complete the Cost of Quality Report.

B.Do any additional subjective costs appear to be missing from the report?

C.What can be learned from the report?

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

Answer:

Requirement A:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Costs**  **Incurred** | **Total Costs**  **of Quality** | **Percentage of**  **Total Costs**  **of Quality** |
| Prevention Costs: |  |  |  |
| Personnel training | $12,000 |  |  |
| Total prevention costs |  | $12,000 | 3% |
| **Appraisal Costs:** |  |  |  |
| Inspecting raw materials | $6,000 |  |  |
| Inspecting 10% of final products | $6,000 |  |  |
| Total appraisal costs |  | $12,000 | 3% |
| **Internal Failure Costs:** |  |  |  |
| Rework | $12,000 |  |  |
| Production loss due to  machine breakdown | $54,000 |  |  |
| Total internal failure costs |  | $66,000 | 15% |
| **External Failure Costs:** |  |  |  |
| Litigation costs from product liability claims | $210,000 |  |  |
| Warranty return costs | $144,000 |  |  |
| Total external failure costs |  | $354,000 | 79% |
| Total costs of quality |  | $444,000 | 100% |

Requirement B:

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

Requirement C:

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

Diff: 3 Type: SA

LO: 1-7

Bloom's Taxonomy: Apply

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

Warranty claims $210,000

Cost of defective products found at the inspection point 47,000

Training factory personnel 13,000

Recall of Batch #59374 87,500

Inspecting products when halfway through the production process 27,500

Cost of disposing of rejected products 6,000

Preventive maintenance on factory equipment 3,500

Production loss due to machine breakdowns 7,500

Inspection of raw materials 2,500

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

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

Answer:

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

Diff: 3 Type: SA

LO: 1-7

Bloom's Taxonomy: Apply

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

Warranty claims $315,000

Cost of defective products found at the inspection point 70,000

Training factory personnel. 20,000

Recall of Batch #59374 130,000

Inspecting products when halfway through the production process 45,000

Cost of disposing of rejected products 9,000

Preventive maintenance on factory equipment 5,000

Production loss due to machine breakdowns 12,000

Inspection of raw materials 4,000

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

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

Answer:

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

Diff: 3 Type: SA

LO: 1-7

Bloom's Taxonomy: Apply

52) Carl Clarkson and Lenny Lenid have been assigned to review the costs of quality at the Sprotton Chemicals Ltd. for the month of September. All amounts are in thousands (000's).

|  |  |
| --- | --- |
| **Cost Item** | **Amount** |
| Product testing | $350 |
| Clean up of toxic spills within the plant | $14,200 |
| Employee training | $200 |
| Quality Engineering | $675 |
| Supplies used in testing | $500 |
| Statistical Process Control | $1,750 |
| Payments on lawsuits from product failures | $25,000 |

Some information from a competitor, Sheltonville Industries, has been leaked. You learn that Sheltonville's costs of quality (as a percentage of total costs of quality) is 15% on external failure, 20% on internal failure, 35% on appraisal and the rest on prevention.

Required:

a. Prepare a cost of quality report for September for the Sprotton Chemicals including calculations of each cost category as a percentage of total costs of quality.

b. Compare Sprotton's approach to quality management to Sheltonville's. Comment on your findings. (What are the implications of the differences?)

Answer: a.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Sprotton Sept | % of Cost | Sheltonville |
| *Prevention:* |  |  |  |
| Quality Engineering | $675 |  |  |
| Employee Training | $200 |  |  |
| Statistical Process Control | $1,750 |  |  |
| Total Prevention Costs | $2,625 | 6.15% | 30.00% |
| *Appraisal:* |  |  |  |
| *Product Testing* | *$350* |  |  |
| *Supplies used in Testing* | *$500* |  |  |
| *Total Appraisal Costs* | *$850* | *1.99%* | *35.00%* |
| *Internal Failure:* |  |  |  |
| *Cleanup of toxic spills in plant* | *$14,200* |  |  |
| *Total Internal Failure* | *$14,200* | *33.27%* | *20.00%* |
| *External Failure:* |  |  |  |
| *Lawsuits* | *$25,000* |  |  |
| *Total External Failure* | *$25,000* | *58.58%* | *15.00%* |
| *Total Costs of Quality* | *$42,675* |  |  |

b. There is a distinct difference as to the distribution of the costs of quality between the two organizations. Sheltonville invests more in upstream costs (65% in prevention and appraisal costs) compared to Sprotton (8.14%). Failures downstream are generally more costly in terms of both actual costs (product costs are incurred when units fail and external failure costs tend to be high) and the opportunity costs from lost sales.

Diff: 3 Type: SA

LO: 1-7

Bloom's Taxonomy: Apply

53) Cari and Jereme just bought a bed and breakfast inn at a very attractive price. The business had been doing poorly. Before they reopened the inn for business, they attended a seminar on operating a high quality business. Now that they are ready to open the inn, they need some advice on quality costs and management.

Required:

Identify four categories of quality costs. In addition, identify three items that would be classified in each of the categories.

Answer:

Prevention:

Hiring employees with good references.

Training of owners and employees.

Good security.

Good reservation system.

Purchasing quality furniture.

Appraisal:

Verifying accuracy of reservation and registration procedures.

Inspecting rooms, facilities, building and grounds regularly.

Observing activities of employees.

Testing furniture and fixtures.

Taste testing food.

Internal failure:

Recleaning rooms and facilities.

Restocking rooms with linens, glasses, etc.

Out of stock supplies.

Reinspection.

Failure to bill on a timely basis.

External failure:

Responding to complaints about rooms and food.

Responding to complaints about reservations.

Emergency cleaning of rooms when not ready on time.

Customer refunds because of unsatisfactory conditions.

Opportunity cost of lost revenue resulting from unhappy customers.

Diff: 3 Type: ES

LO: 1-7

Bloom's Taxonomy: Apply