

TEST ITEM FILE
MARVIN BOUILLON • THOMAS HOAR

TENTH EDITION

COST ACCOUNTING

A MANAGERIAL EMPHASIS



HORNGREN FOSTER DATA R

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Prentice Hall

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CHAPTER 1: THE ACCOUNTANT'S ROLE IN THE ORGANIZATION

True/False:

1. Internal routine reporting for decisions of managers is a major purpose of accounting systems.

Answer: True Difficulty: 1 Key 1: K Objective: 1

2. Accounting systems do not help decision making that furthers the goals of the organization.

Answer:

False

Accounting systems **exist** to help decision making that furthers the goals of the organization.

Difficulty: 1 Key 1: K Objective: 1

3. Management accounting focuses on reporting to external parties.

Answer:

False

Financial accounting focuses on reporting to external parties.

Difficulty: 1 Key 1: K Objective: 2

4. Cost accounting provides information to only management accounting.

Answer:

False

Cost accounting provides information to **both management accounting and financial accounting**.

Difficulty: 1 Key 1: K Objective: 1

5. Cost management is not practiced in isolation.

Answer: True Difficulty: 1 Key 1: K Objective: 2

6. A budget is the quantitative expression of a proposed plan of action by management for a future time period and an aid to the coordination and implementation of the plan.

Answer: True Difficulty: 1 Key 1: K Objective: 3

7. Control is deciding on organization goals, predicting results under various alternative ways of achieving those goals, and then deciding how to attain the designed goals.

Answer:

False

Planning is deciding on organization goals, predicting results under various alternative ways of achieving those goals, and then deciding how to attain the designed goals.

Difficulty: 1 Key 1: K Objective: 3

8. Feedback involves managers examining past performance and systematically exploring ways to make better informed decisions in the future.

Answer: True Difficulty: 1 Key 1: K Objective: 3

9. Problem solving is the accumulation of data and reporting reliable results to all levels of management.

Answer:

False

Scorekeeping is the accumulation of data and reporting reliable results to all levels of management.

Difficulty: 1 Key 1: K Objective: 4

10. Managers are best served by the management accounting information provided being both relevant and timely.

Answer: True Difficulty: 1 Key 1: K Objective: 4

11. Production is the detailed planning and engineering of products, services, or processes.

Answer:

False

Design of products, services, or processes is the detailed planning and engineering of products, services, or processes.

Difficulty: 1 Key 1: K Objective: 5

12. Distribution is the delivery of products or services to the customer.

Answer: True Difficulty: 1 Key 1: K Objective: 5

13. Senior managers of an organization (including those from individual business functions of the value chain) are responsible for deciding on its overall strategy, how resources are to be obtained and shared, and how rewards are to be given.

Answer: True Difficulty: 1 Key 1: K Objective: 5

14. Key success factors are operational factors that directly affect the economic viability of the organization.

Answer: True Difficulty: 1 Key 1: K Objective: 6

15. Customer focus by competitors creates a never-ending search for higher levels of performance within many organizations.

Answer:

False

Continuous improvement by competitors creates a never-ending search for higher levels of performance within many organizations.

Difficulty: 1 Key 1: K Objective: 6

16. A cost-benefit approach should be used in resource allocation decisions.

Answer: True Difficulty: 1 Key 1: K Objective: 7

17. A cost concept used for the external reporting purpose needs to be the appropriate concept for the purpose of internal routine reporting to managers.

Answer:

False

A cost concept used for the external reporting purpose need **not** be the appropriate concept for the purpose of internal routine reporting to managers.

Difficulty: 1 Key 1: K Objective: 7

18. The controller is also called the finance director.

Answer:

False

The chief financial officer (CFO) is also called the finance director.

Difficulty: 1 Key 1: K Objective: 8

CHAPTER 1: THE ACCOUNTANT'S ROLE IN THE ORGANIZATION

19. The controller (also called the chief accounting officer) is the financial executive primarily responsible for both management accounting and financial accounting.

Answer: True Difficulty: 1 Key 1: K Objective: 8

20. Management accountants have important ethical responsibilities that are related to competence, confidentiality, integrity, and objectivity.

Answer: True Difficulty: 1 Key 1: K Objective: 9

Multiple Choice:

21. The primary reason that accountants would benefit from the use of a database, or "data warehouse," is that
- a. data could be entered at numerous input terminals within the organization.
 - b. the accountants would not be completely responsible for the information that is entered into the database system.
 - c. the accountants could combine or adjust these data to answer the questions from particular internal and external users.
 - d. managers could generate their own reports.

Answer: c Difficulty: 2 Key 1: C Objective: 1

22. Accounting is a major means of helping managers:
- a. to administer each of the activity or functional areas for which they are responsible.
 - b. to coordinate those activities or functions within the framework of the organization as a whole.
 - c. both a and b.
 - d. none of the above.

Answer: c Difficulty: 1 Key 1: K Objective: 1

23. Financial accounting is concerned PRIMARILY with
- a. external reporting to investors, government authorities, etc.
 - b. cost planning and cost controls.
 - c. profitability analysis.
 - d. providing information for strategic and tactical decisions.

Answer: a Difficulty: 1 Key 1: K Objective: 1

24. Financial accounting provides a historical perspective, whereas management accounting
- a. emphasizes the future in addition to historical reports.
 - b. only enables managers to make decisions.
 - c. emphasizes a current perspective.
 - d. emphasizes reports to shareholders.

Answer: a Difficulty: 2 Key 1: C Objective: 1

25. Management accounting has a dual focus in that it assists managers
- in making decisions in both the internal and external environments.
 - in determining how resources should be allocated and where they are from.
 - by determining the profitability and cost of competitors' products and services.
 - in forecasting costs and setting budgets.

Answer: a Difficulty: 2 Key 1: K Objective: 1

26. Management accountants must satisfy their users; therefore, they should do all the following EXCEPT
- provide specialized information that specific managers can use.
 - provide them with high quality information.
 - focus on preparing information for external financial reporting.
 - continuously strive to provide better quality information faster, and at a lower cost.

Answer: c Difficulty: 2 Key 1: K Objective: 1

27. _____ measures and reports financial and nonfinancial information that helps managers make decisions to fulfill the goals of an organization.
- Management accounting
 - Financial accounting
 - Planning
 - Control

Answer: a Difficulty: 1 Key 1: K Objective: 1

28. _____ focuses on reporting to external parties.
- Management accounting
 - Financial accounting
 - Planning
 - Control

Answer: b Difficulty: 1 Key 1: K Objective: 1

29. "Cost management" describes
- the activities of managers in short-run and long-run planning and control of costs.
 - the identification of excessive costs in the production process.
 - the satisfaction of customers' needs.
 - actions by managers to satisfy customers while maintaining current cost levels.

Answer: a Difficulty: 1 Key 1: K Objective: 2

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30. _____ is deciding on organization goals, predicting results under various alternative ways of achieving those goals, and then deciding how to attain the designed goals.
- a. Management accounting
 - b. Financial accounting
 - c. Planning
 - d. Control

Answer: c Difficulty: 1 Key 1: K Objective: 3

31. _____ is (a) deciding on and taking actions that implement the planning decisions, and (b) deciding on performance evaluation and the related feedback that will help future decision making.
- a. Management accounting
 - b. Financial accounting
 - c. Planning
 - d. Control

Answer: d Difficulty: 1 Key 1: K Objective: 3

32. A budget is defined as
- a. the qualitative expression of a plan.
 - b. an aid in controlling income.
 - c. the quantitative expression of a plan of action and an aid to the coordination and implementation of that plan.
 - d. the quantitative expression of a plan and an aid in controlling income.

Answer: c Difficulty: 1 Key 1: K Objective: 3

33. Once a plan is implemented, the control process
- a. forces managers to follow the pre-existing plan.
 - b. should allow the originating manager(s) to keep lower-level managers from making changes.
 - c. should be flexible.
 - d. should be followed rigidly.

Answer: c Difficulty: 2 Key 1: C Objective: 3

34. A well-conceived plan allows managers to have the ability to
- a. stay with the pre-existing plan when things start to change for the better.
 - b. leave the system and let the plan continue on its own.
 - c. underestimate the costs so that actual operating results will be favorable when comparisons are made.
 - d. take advantage of unforeseen opportunities.

Answer: d Difficulty: 1 Key 1: C Objective: 3

35. By using feedback controls within an organization's production planning system, the managers could
- a. improve past performances.
 - b. predict future successes and failures.
 - c. change goals, search for alternative ways of reaching goals, predict future events, and change the reward system.
 - d. determine that the planning process is inefficient and eliminate the feedback controls.

Answer: c Difficulty: 2 Key 1: C Objective: 3

36. Many organizations now have management accountants whose responsibilities concentrate on
- a. financing the purchase of fixed assets.
 - b. internal auditing of multi-divisional units.
 - c. external reporting.
 - d. only the attention-directing or the problem-solving function.

Answer: d Difficulty: 2 Key 1: K Objective: 4

37. _____ is responsible for accumulating and reporting reliable results to all levels of management.
- a. An accounting system
 - b. Scorekeeping
 - c. Management accounting
 - d. Attention directing

Answer: b Difficulty: 1 Key 1: K Objective: 4

38. Which of the following lists a scorekeeping activity first, followed by an attention directing activity, followed by a problem-solving activity?
- a. recording sales to customers, customer returns, and accounts receivable.
 - b. recording sales, comparing the financial advantages of leasing a fleet of vehicles, and highlighting rapidly growing markets where the company may be underfunding its investment.
 - c. recording sales to customers, explaining ways to avoid cost overruns, and recording purchases from vendors.
 - d. recording sales, highlighting rapidly growing markets where the company may be underfunding its investment, and comparing the financial advantages of leasing a fleet of vehicles.

Answer: d Difficulty: 3 Key 1: A Objective: 4

39. _____ means reporting and interpreting information that helps managers to focus on operating problems, imperfections, inefficiencies, and opportunities.
- a. Scorekeeping
 - b. Attention-directing
 - c. Problem-solving
 - d. None of the above

Answer: b Difficulty: 1 Key 1: K Objective: 4

40. _____ is the aspect of accounting that quantifies the likely results of possible courses of action and often recommends the best course to follow.
- a. Scorekeeping
 - b. Attention-directing
 - c. Problem-solving
 - d. None of the above

Answer: c Difficulty: 1 Key 1: K Objective: 4

41. A clerk prepares a monthly report comparing the actual phone bill with the expected phone costs. This activity would be classified as
- a. problem-solving.
 - b. scorekeeping.
 - c. planning.
 - d. attention-directing.

Answer: d Difficulty: 2 Key 1: C Objective: 4

42. Management accounting may be deemed most successful if it
- a. helps creditors evaluate the company's performance.
 - b. helps managers improve their decisions.
 - c. is accurate.
 - d. is easily understood by the user.

Answer: b Difficulty: 2 Key 1: C Objective: 5

43. The value chain is the
- a. sequence of business functions in which value is deducted from the products or services of an organization.
 - b. sequence of business functions in which value is proportionately added to the products or services of an organization.
 - c. process by which products and services are critiqued for their value.
 - d. sequence of business functions in which utility (usefulness) is added to the products or services of an organization.

Answer: d Difficulty: 1 Key 1: K Objective: 5

44. _____ is the generation of, and experimentation with, ideas related to new products, services, or processes.
- a. Research and development
 - b. Design of products, services, or processes
 - c. Production
 - d. Marketing

Answer: a Difficulty: 1 Key 1: K Objective: 5

45. _____ is the detailed planning and engineering of products, services, or processes.
- a. Distribution
 - b. Design of products, services, or processes
 - c. Production
 - d. Marketing

Answer: b Difficulty: 1 Key 1: K Objective: 5

46. _____ is the acquisition, coordination and assembly of resources to produce a product or deliver a service.
- a. Distribution
 - b. Customer service
 - c. Production
 - d. Marketing

Answer: c Difficulty: 1 Key 1: K Objective: 5

47. _____ is the manner by which companies promote and sell their products or services to customers or perspective customers.
- a. Distribution
 - b. Customer service
 - c. Production
 - d. Marketing

Answer: d Difficulty: 1 Key 1: K Objective: 5

48. _____ is the delivery of products or services to the customer.
- a. Distribution
 - b. Customer service
 - c. Production
 - d. Marketing

Answer: a Difficulty: 1 Key 1: K Objective: 5

49. _____ is the after-sale support activities provided to customers.
- a. Distribution
 - b. Customer service
 - c. Production
 - d. Marketing

Answer: b Difficulty: 1 Key 1: K Objective: 5

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50. Whose perceptions of the company's products or services are the most important to the manager?
- a. board of directors' perception
 - b. customers' perception
 - c. president's perception
 - d. stockholders' perception

Answer: b Difficulty: 1 Key 1: C Objective: 6

51. _____ assumes customers are pivotal to success of an organization.
- a. Customer focus
 - b. Key success factors
 - c. Continuous improvement
 - d. Supply chain

Answer: a Difficulty: 1 Key 1: K Objective: 6

52. _____ are operational factors that directly affect the economic viability of the organization.
- a. Customer focus
 - b. Key success factors
 - c. Continuous improvement
 - d. Supply chain

Answer: b Difficulty: 1 Key 1: K Objective: 6

53. _____ by competitors creates a never-ending search for higher levels of performance within many organizations.
- a. Customer focus
 - b. Key success factors
 - c. Continuous improvement
 - d. Supply chain

Answer: c Difficulty: 1 Key 1: K Objective: 6

54. _____ describes the flow of goods, services, and information from cradle to grave, regardless of whether those activities occur in the same organization or other organizations.
- a. Supply chain
 - b. Key success factors
 - c. Continuous improvement
 - d. Customer focus

Answer: a Difficulty: 1 Key 1: K Objective: 6

55. To be successful, a company should be
- a. customer driven.
 - b. "driven" by the board of directors.
 - c. employee driven.
 - d. management driven.

Answer: a Difficulty: 1 Key 1: C Objective: 6

56. Customers are demanding improved performance related to
- a. reduced costs.
 - b. both reduced costs and increased quality.
 - c. lower costs, improved quality, and improved customer service.
 - d. lower costs, improved quality, improved customer service, and innovative products and services.

Answer: d Difficulty: 2 Key 1: C Objective: 6

57. The primary criterion for choosing among alternative accounting systems is
- a. cost minimization.
 - b. reduction in the amount of time required to perform a particular job.
 - c. achievement of organizational goals.
 - d. how well they help achieve organizational goals in relation to the costs incurred for these systems.

Answer: d Difficulty: 2 Key 1: C Objective: 7

58. The primary reason for implementing a new budgeting system for an organization is
- a. managers' need for more information in making better purchasing decisions.
 - b. managers' need for more information for variance analysis.
 - c. the expected benefits exceed the costs of the old system.
 - d. the relative expected benefits of the new system exceed its costs.

Answer: d Difficulty: 2 Key 1: K Objective: 7

59. The CFO is also called the
- a. finance director
 - b. CAO
 - c. chief accounting officer
 - d. president

Answer: a Difficulty: 1 Key 1: K Objective: 8

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60. Changes in the way managers run their departments often forces them to re-evaluate the design and operation of the
- a. financial accounting system.
 - b. current decision-making process.
 - c. management accounting system.
 - d. performance appraisal system.

Answer: c Difficulty: 2 Key 1: C Objective: 8

61. The person(s) directly responsible for the attainment of organizational objectives is/are
- a. staff management.
 - b. line management.
 - c. both staff and line management.
 - d. the chief financial officer.

Answer: b Difficulty: 1 Key 1: C Objective: 8

62. As teamwork has become more prominent in the last few years, the differences between staff and line management
- a. have increased.
 - b. have become more important relative to promotions.
 - c. have diminished.
 - d. have only been evident in the employee reward system.

Answer: c Difficulty: 2 Key 1: C Objective: 8

63. The _____ is also called the chief financial officer.
- a. finance director
 - b. controller
 - c. internal auditor
 - d. treasurer

Answer: a Difficulty: 1 Key 1: K Objective: 8

64. Which of the following is the financial executive primarily responsible for both management and financial accounting?
- a. treasurer
 - b. controller
 - c. chief financial officer
 - d. auditor

Answer: b Difficulty: 1 Key 1: K Objective: 8

65. Which of the following individuals focuses on reporting and interpreting relevant financial information used to manage the company?
- a. chief financial officer
 - b. controller
 - c. line management
 - d. treasurer

Answer: b Difficulty: 2 Key 1: C Objective: 8

66. What is the professional designation for management accountants?
- a. certified public accountant
 - b. certified management accountant
 - c. certified internal auditor
 - d. certified financial executive

Answer: b Difficulty: 1 Key 1: K Objective: 9

67. The most common certifications of internal accountants is
- a. CIA.
 - b. CPA.
 - c. CMA.
 - d. IMA.

Answer: c Difficulty: 2 Key 1: C Objective: 9

68. Which of the following statements is TRUE according to the textbook?
- a. IMA is the common certification of management accountants.
 - b. CPA is the common certification of management accountants.
 - c. Ethical issues do not affect management accountants.
 - d. Accountants consistently rank high in public opinion.

Answer: d Difficulty: 2 Key 1: C Objective: 9

69. Professional ethics for a certified management accountant in the United States were established by
- a. the AICPA.
 - b. the FASB.
 - c. the CIMA.
 - d. the IMA.

Answer: d Difficulty: 1 Key 1: K Objective: 9

70. The Standards of Ethical Conduct for management accountants includes concepts related to
- a. competence, performance, integrity, and reporting.
 - b. competence, confidentiality, integrity, and objectivity.
 - c. integrity, experience, reporting, and objectivity.
 - d. confidentiality, reporting, competence, and objectivity.

Answer: b Difficulty: 1 Key 1: K Objective: 9

Exercises and Problems:

71. The accounting system is the principal, and the most credible, quantitative information system in most organizations. Briefly describe the three broad purposes of an accounting system.

Answer:

Internal routine reporting for the decisions of managers. This purpose covers information provided for decisions that occur with some regularity. For example, an oil company such as Texaco makes daily planning decisions on the price they charge retail outlets (such as service stations) for refined oil. Daily reports on the gross margin Texaco earns for refined oil is one input into these decisions. As a second example, Marriott monitors weekly cost reports (covering items such as labor and energy) at each of its hotels as part of its cost control practices.

Internal nonroutine reporting for the decisions of managers. This purpose covers information for decisions that occur irregularly or even without precedent. For example, a planning decision by Xerox to have an independent company manage its information technology function (that is, outsourcing this function) included analysis of cost data that were specifically collected for that decision. Xerox had previously made a decision of this type. As a second example, a consumer products company (such as H.J. Heinz Company) may design a special cost control tracking system to help manage the costs of implementing the recall of all units of a recently sold product due to an unprecedented safety scare.

External reporting to investors, government authorities, and other outside parties on the organization's financial position, operations, and related activities. For some outside parties, this purpose is guided by regulatory bodies such as the Financial Accounting Standards Board or the Internal Revenue Service. In other cases, the information is often used in the decisions of managers in other organizations. For example, a company may provide its financial statements to a potential new supplier who is assessing the financial risk of selling on credit instead of cash. A second example would be the financial statements that a movie company, such as Twentieth Century Fox, provides to screen stars whose compensation includes a percentage of movie revenues or movie profits.

Difficulty: 1 Key 1: C Objective: 1