

## Chapter 1—Introduction to Cost Management

### LEARNING OBJECTIVES

LO 1	What are the relationships among financial, management, and cost accounting?
LO 2	What are two common organizational strategies?
LO 3	What is a value chain, and what are the major value chain functions?
LO 4	How is a balanced scorecard used to implement an organization's strategy?
LO 5	Why must accountants understand an organization's structure to perform effectively in that organization?
LO 6	What are the sources of ethical standards for cost accountants?
LO 7	What are the sources of authoritative pronouncements for the practice of cost accounting?

### QUESTION GRID

#### True/False

	Difficulty Level			Learning Objectives						
	Easy	Moderate	Difficult	LO 1	LO 2	LO 3	LO 4	LO 5	LO 6	LO 7
1	X			x						
2	X			x						
3	X			x						
4	X			x						
5	X			x						
6	X			x						
7	X			x						
8	X			x						
9	X			x						
10	X			x						
11	X			x						
12	X			x						
13	X				x					
14	X				x					
15	X				x					
16		x				x				
17		x				x				
18		x				x				
19		x				x				
20		x				x				
21		x				x				
22		x				x				
23		x				x				
24		x				x				
25		x				x				
26		x				x				
27		x				x				
28		x				x				
29		x				x				
30		x				x				
31		x				x				

	Difficulty Level			Learning Objectives						
	Easy	Moderate	Difficult	LO 1	LO 2	LO 3	LO 4	LO 5	LO 6	LO 7
32	X					x				
33	X						x			
34	X						x			
35	X							X		
36	X							X		

#### Completion

	Difficulty Level			Learning Objectives						
	Easy	Moderate	Difficult	LO 1	LO 2	LO 3	LO 4	LO 5	LO 6	LO 7
1	X			x						
2	X			x						
3	X			x						
4		x					x			
5		x					x			
6		x					x			
7		x					x			
8	X						x			
9	X						x			
10	X						x			
11	X				x					
12	X				x					
13	X				x					
14	X							X		

#### Multiple Choice

	Difficulty Level			Learning Objectives						
	Easy	Moderate	Difficult	LO 1	LO 2	LO 3	LO 4	LO 5	LO 6	LO 7
1	X			x						
2	X			x						
3	X			x						
4	X			x						
5	X			x						
6	X			x						
7		x		x						
8	X			x						
9	X			x						
10		x		x						
11	X			x						
12	X			x						
13	X			x						
14		x		x						
15	X			x						
16		x		x						
17		x		x						
18	X				x					
19	X				x					
20	X					x				
21	X						x			
22	X						x			
23	X						x			
24	X						x			

	Difficulty Level			Learning Objectives						
	Easy	Moderate	Difficult	LO 1	LO 2	LO 3	LO 4	LO 5	LO 6	LO 7
25	X							X		
26		x						X		
27		x						X		
28	X								x	
29	X								x	
30	X								x	
31	X								x	
32		x							x	
33		x							x	
34		x								x
35		x								x
36		x								x

### Short Answer

	Difficulty Level			Learning Objectives						
	Easy	Moderate	Difficult	LO 1	LO 2	LO 3	LO 4	LO 5	LO 6	LO 7
1		x		x						
2		x						X		
3		x					x			
4		x					x			
5		x							x	

## TRUE/FALSE

1. Return on investment was used in the 1900's to evaluate business operations.

ANS: T                      DIF: Easy                      OBJ: 1-1

2. Financial accounting is most concerned with meeting the needs of internal users.

ANS: F                      DIF: Easy                      OBJ: 1-1

3. Financial accounting is most concerned with meeting the needs of external users.

ANS: T                      DIF: Easy                      OBJ: 1-1

4. Managerial accounting is most concerned with meeting the needs of internal users.

ANS: T                      DIF: Easy                      OBJ: 1-1

5. Financial accounting is most concerned with meeting the needs of external users.

ANS: T                      DIF: Easy                      OBJ: 1-1

6. Financial accounting is highly regulated by rules and regulations.

ANS: T                      DIF: Easy                      OBJ: 1-1

7. Managerial accounting is highly regulated by rules and regulations.

ANS: F                      DIF: Easy                      OBJ: 1-1

8. Financial accounting is most concerned with addressing the needs of the firm as a whole

ANS: T                      DIF: Easy                      OBJ: 1-1

9. Managerial accounting is most concerned with addressing the needs of the firm as a whole

ANS: F                      DIF: Easy                      OBJ: 1-1

10. Financial accounting is most concerned with addressing the needs of individual departments of the firm.

ANS: F                      DIF: Easy                      OBJ: 1-1

11. Managerial accounting is most concerned with addressing the needs of individual departments of the firm.

ANS: T                      DIF: Easy                      OBJ: 1-1

12. Cost accounting serves as a bridge between financial and managerial accounting.

ANS: T                      DIF: Easy                      OBJ: 1-1

13. Mission statements typically remain unchanged throughout the life of an organization.  
ANS: F                      DIF: Easy                      OBJ: 1-2
14. An organization's strategy should reflect the organization's core competencies.  
ANS: T                      DIF: Easy                      OBJ: 1-2
15. An organization's strategy is the guiding force for its mission.  
ANS: F                      DIF: Easy                      OBJ: 1-2
16. The learning and growth perspective of the balanced scorecard focuses on using an organization's intellectual capital to adapt to or influence customer needs and expectations.  
ANS: T                      DIF: Moderate                      OBJ: 1-4
17. The internal business perspective of the balanced scorecard focuses on using an organization's intellectual capital to adapt to or influence customer needs and expectations.  
ANS: F                      DIF: Moderate                      OBJ: 1-4
18. The customer value perspective of the balanced scorecard focuses on using an organization's intellectual capital to adapt to or influence customer needs and expectations.  
ANS: F                      DIF: Moderate                      OBJ: 1-4
19. The financial perspective of the balanced scorecard focuses on using an organization's intellectual capital to adapt to or influence customer needs and expectations.  
ANS: F                      DIF: Moderate                      OBJ: 1-4
20. The internal business perspective of the balanced scorecard addresses the things that an organization needs to do well to meet customer needs and expectations.  
ANS: T                      DIF: Moderate                      OBJ: 1-4
21. The learning and growth perspective of the balanced scorecard addresses the things that an organization needs to do well to meet customer needs and expectations.  
ANS: F                      DIF: Moderate                      OBJ: 1-4
22. The customer value perspective of the balanced scorecard addresses the things that an organization needs to do well to meet customer needs and expectations.  
ANS: F                      DIF: Moderate                      OBJ: 1-4
23. The financial perspective of the balanced scorecard addresses the things that an organization needs to do well to meet customer needs and expectations.  
ANS: F                      DIF: Moderate                      OBJ: 1-4

24. The customer value perspective of the balanced scorecard addresses how well the organization is doing with regard to important customer criteria.
- ANS: T                      DIF: Moderate                      OBJ: 1-4
25. The learning and growth perspective of the balanced scorecard addresses how well the organization is doing with regard to important customer criteria.
- ANS: F                      DIF: Moderate                      OBJ: 1-4
26. The internal business of the balanced scorecard addresses how well the organization is doing with regard to important customer criteria.
- ANS: F                      DIF: Moderate                      OBJ: 1-4
27. The financial perspective of the balanced scorecard addresses how well the organization is doing with regard to important customer criteria.
- ANS: F                      DIF: Moderate                      OBJ: 1-4
28. The financial perspective of the balanced scorecard addresses stakeholder concerns about profitability and organizational growth.
- ANS: T                      DIF: Moderate                      OBJ: 1-4
29. The learning and growth perspective of the balanced scorecard addresses stakeholder concerns about profitability and organizational growth.
- ANS: F                      DIF: Moderate                      OBJ: 1-4
30. The internal business perspective of the balanced scorecard addresses stakeholder concerns about profitability and organizational growth.
- ANS: F                      DIF: Moderate                      OBJ: 1-4
31. The customer value perspective of the balanced scorecard addresses stakeholder concerns about profitability and organizational growth.
- ANS: F                      DIF: Moderate                      OBJ: 1-4
32. An organization's return on assets (ROA) is an example of a lead indicator.
- ANS: F                      DIF: Easy                      OBJ: 1-4
33. Line personnel give assistance to staff employees.
- ANS: F                      DIF: Easy                      OBJ: 1-5
34. Line managers are directly responsible for achieving organizational goals.
- ANS: T                      DIF: Easy                      OBJ: 1-5

35. The Sarbanes-Oxley Act of 2002 provides legal protection for individuals who report illegal organizational activities to appropriate persons or agencies.

ANS: T                      DIF: Easy                      OBJ: 1-6

36. The Foreign Corrupt Practices Act of 1977 provides legal protection for individuals who report illegal organizational activities to appropriate persons or agencies.

ANS: F                      DIF: Easy                      OBJ: 1-6

## COMPLETION

1. The branch of accounting that is most concerned with addressing the needs of the firm as a whole is \_\_\_\_\_ accounting

ANS: financial

DIF: Easy                      OBJ: 1-1

2. The branch of accounting that is most concerned with addressing the needs of specific departments of the firm is \_\_\_\_\_ accounting

ANS: managerial

DIF: Easy                      OBJ: 1-1

3. The branch of accounting that serves as a bridge between financial and managerial accounting is \_\_\_\_\_ accounting.

ANS: cost

DIF: Easy                      OBJ: 1-1

4. The balanced scorecard perspective that focuses on using a firm's intellectual capital to adapt to customer needs through product or service innovations is the \_\_\_\_\_ perspective.

ANS: learning and growth

DIF: Moderate                      OBJ: 1-4

5. The balanced scorecard perspective that addresses things that an organization needs to do well to meet customer needs and expectations is the \_\_\_\_\_ perspective.

ANS: internal business

DIF: Moderate                      OBJ: 1-4

6. The balanced scorecard perspective that addresses how well the organization is meeting specific customer-based criteria is the \_\_\_\_\_ perspective.

ANS: customer value

DIF: Moderate      OBJ: 1-4

7. The balanced scorecard perspective that addresses concerns about organizational growth is the \_\_\_\_\_ perspective.

ANS: financial

DIF: Moderate      OBJ: 1-4

8. The \_\_\_\_\_ restates an organization's strategy into clear and objective performance measures.

ANS: balanced scorecard

DIF: Easy      OBJ: 1-4

9. Outcomes that have resulted from past actions are also referred to as \_\_\_\_\_ indicators.

ANS: lag

DIF: Easy      OBJ: 1-4

10. Data that reflects future financial and non-financial outcomes is referred to as \_\_\_\_\_ indicators.

ANS: lead

DIF: Easy      OBJ: 1-4

11. The expression of what an organization wishes to accomplish and how it will serve its customers is contained in the \_\_\_\_\_.

ANS: mission statement

DIF: Easy      OBJ: 1-2

12. The plan in which an organization indicates how it will fulfill its goals is referred to as a \_\_\_\_\_.

ANS: strategy

DIF: Easy      OBJ: 1-2

13. A function or activity in which an organization seeks to excel above its competitors is a \_\_\_\_\_.

ANS: core competency.

DIF: Easy      OBJ: 1-2

14. The way in which authority and responsibility are distributed in an organization is \_\_\_\_\_.

ANS: organizational structure



DIF: Easy

OBJ: 1-5

## MULTIPLE CHOICE

1. In comparing financial and management accounting, which of the following **more** accurately describes management accounting information?
- historical, precise, useful
  - required, estimated, internal
  - budgeted, informative, adaptable
  - comparable, verifiable, monetary

ANS: C

DIF: Easy

OBJ: 1-1

2. Management and financial accounting are used for which of the following purposes?

Management accounting

Financial accounting

- |             |          |
|-------------|----------|
| a. internal | external |
| b. external | internal |
| c. internal | internal |
| d. external | external |

ANS: A

DIF: Easy

OBJ: 1-1

3. One major difference between financial and management accounting is that
- financial accounting reports are prepared primarily for users external to the company.
  - management accounting is not under the jurisdiction of the Securities and Exchange Commission.
  - government regulations do not apply to management accounting.
  - all of the above are true.

ANS: D

DIF: Easy

OBJ: 1-1

4. Which of the following statements about management or financial accounting is **false**?
- Financial accounting must follow GAAP.
  - Management accounting is not subject to regulatory reporting standards.
  - Both management and financial accounting are subject to mandatory recordkeeping requirements.
  - Management accounting should be flexible.

ANS: C

DIF: Easy

OBJ: 1-1

5. Management accounting
- is more concerned with the future than is financial accounting.
  - is less concerned with segments of a company than is financial accounting.
  - is more constrained by rules and regulations than is financial accounting.
  - all of the above are true.

ANS: A

DIF: Easy

OBJ: 1-1

6. Modern management accounting can be characterized by its
- flexibility.
  - standardization.
  - complexity.

d. precision.

ANS: A                      DIF: Easy                      OBJ: 1-1

7. Which of the following is **not** a valid method for determining product cost?
- a. arbitrary assignment
  - b. direct measurement
  - c. systematic allocation
  - d. cost-benefit measurement

ANS: D                      DIF: Moderate                      OBJ: 1-1

8. Broadly speaking, cost accounting can be defined as a(n)
- a. external reporting system that is based on activity-based costs.
  - b. system used for providing the government and creditors with information about a company's internal operations.
  - c. internal reporting system that provides product costing and other information used by managers in performing their functions.
  - d. internal reporting system needed by manufacturers to be in compliance with Cost Accounting Standards Board pronouncements.

ANS: C                      DIF: Easy                      OBJ: 1-1

9. Cost accounting is directed toward the needs of
- a. regulatory agencies.
  - b. external users.
  - c. internal users.
  - d. stockholders.

ANS: C                      DIF: Easy                      OBJ: 1-1

10. Cost accounting is necessitated by
- a. the high degree of conversion found in certain businesses.
  - b. regulatory requirements for manufacturing companies.
  - c. management's need to be aware of all production activities.
  - d. management's need for information to be used for planning and controlling activities.

ANS: A                      DIF: Moderate                      OBJ: 1-1

11. The process of \_\_\_\_\_ causes the need for cost accounting.
- a. conversion
  - b. sales
  - c. controlling
  - d. allocating

ANS: A                      DIF: Easy                      OBJ: 1-1

12. Financial accounting
- a. is primarily concerned with internal reporting.
  - b. is more concerned with verifiable, historical information than is cost accounting.
  - c. focuses on the parts of the organization rather than the whole.
  - d. is specifically directed at management decision-making needs.

ANS: B                      DIF: Easy                      OBJ: 1-1

13. Financial accounting and cost accounting are both highly concerned with

- a. preparing budgets.
- b. determining product cost.
- c. providing managers with information necessary for control purposes.
- d. determining performance standards.

ANS: B                      DIF: Easy                      OBJ: 1-1

14. Which of the following topics is of **more** concern to management accounting than to cost accounting?
- a. generally accepted accounting principles
  - b. inventory valuation
  - c. cost of goods sold valuation
  - d. impact of economic conditions on company operations

ANS: D                      DIF: Moderate                      OBJ: 1-1

15. Cost and management accounting
- a. require an entirely separate group of accounts than financial accounting uses.
  - b. focus solely on determining how much it costs to manufacture a product or provide a service.
  - c. provide product/service cost information as well as information for internal decision making.
  - d. are required for business recordkeeping as are financial and tax accounting.

ANS: C                      DIF: Easy                      OBJ: 1-1

16. Which of the following statements is **true**?
- a. Management accounting is a subset of cost accounting.
  - b. Cost accounting is a subset of both management and financial accounting.
  - c. Management accounting is a subset of both cost and financial accounting.
  - d. Financial accounting is a subset of cost accounting.

ANS: B                      DIF: Moderate                      OBJ: 1-1

17. Which of the following statements is **false**?
- a. A primary purpose of cost accounting is to determine valuations needed for external financial statements.
  - b. A primary purpose of management accounting is to provide information to managers for use in planning, controlling, and decision making.
  - c. The act of converting production inputs into finished products or services necessitates cost accounting.
  - d. Two primary hallmarks of cost and management accounting are standardization of procedures and use of generally accepted accounting principles.

ANS: D                      DIF: Moderate                      OBJ: 1-1

18. A long-term plan that fulfills the goals and objectives of an organization is known as a(n)
- a. management style.
  - b. strategy.
  - c. mission statement.
  - d. operational mission.

ANS: B                      DIF: Easy                      OBJ: 1-2

19. Core competencies are **not**
- a. internal functions crucial to the success and survival of a company.
  - b. attributes that keep a firm from competing.

- c. different for every organization.
- d. considered influences on corporate strategies.

ANS: B                      DIF: Easy                      OBJ: 1-2

20. The set of processes that convert inputs into services and products that consumers use is called
- a. a core competency.
  - b. an operational plan.
  - c. the value chain.
  - d. the product life cycle.

ANS: C                      DIF: Easy                      OBJ: 1-3

21. The balanced scorecard perspective that focuses on using a firm's intellectual capital to adapt to customer needs through product or service innovations is the:
- a. learning and growth perspective
  - b. internal business perspective
  - c. customer value perspective
  - d. financial perspective

ANS: A                      DIF: Easy                      OBJ: 1-4

22. The balanced scorecard perspective that addresses things that an organization needs to do well to meet customer needs and expectations:
- a. learning and growth perspective
  - b. internal business perspective
  - c. customer value perspective
  - d. financial perspective

ANS: B                      DIF: Easy                      OBJ: 1-4

23. The balanced scorecard perspective that addresses how well the organization is meeting specific customer-based criteria is the:
- a. learning and growth perspective
  - b. internal business perspective
  - c. customer value perspective
  - d. financial perspective

ANS: C                      DIF: Easy                      OBJ: 1-4

24. The balanced scorecard perspective that addresses concerns about organizational growth is the:
- a. learning and growth perspective
  - b. internal business perspective
  - c. customer value perspective
  - d. financial perspective

ANS: D                      DIF: Easy                      OBJ: 1-4

25. The world has essentially become smaller because of
- a. improved technology.
  - b. trade agreements.
  - c. better communications systems.
  - d. all of the above.

ANS: D                      DIF: Easy                      OBJ: 1-5

26. The value chain
- a. reflects the production of goods within an organizational context.
  - b. is concerned with upstream suppliers, but not downstream customers.
  - c. results when all non-value-added activities are eliminated from a production process.
  - d. is the foundation of strategic resource management.

ANS: D                      DIF: Moderate                      OBJ: 1-5

27. In a global economy,
- the trade of goods and services is focused on trade between or among countries on the same continent.
  - the international movement of labor is prohibited except for multilingual persons.
  - the international flows of capital and information are common.
  - all of the above happen in a global economy.
- ANS: C                      DIF: Moderate                      OBJ: 1-5
28. Which of the following U.S. legislation relates to bribes being offered to foreign officials?
- Racketeer Influenced and Corrupt Organizations Act
  - Foreign Illegal Activities Act
  - Foreign Corrupt Practices Act
  - Federal Bribery and Corrupt Practices Act
- ANS: C                      DIF: Easy                      OBJ: 1-6
29. The organization whose primary function is to provide a means to share information among cost and management accountants in the United States is the
- Internal Revenue Service.
  - American Institute of CPAs.
  - Institute of Management Accountants.
  - Institute of Certified Management Accountants.
- ANS: C                      DIF: Easy                      OBJ: 1-6
30. The Institute of Management Accountants issues
- Statements on Accounting Research for Managers.
  - Statements on Management Accounting.
  - Statements on Managerial and Cost Accounting.
  - Cost Accounting Standards.
- ANS: B                      DIF: Easy                      OBJ: 1-6
31. The Institute of Management Accountants' Code of Ethics
- is a legally enforceable contract with all management accountants.
  - should be viewed as a goal for professional behavior.
  - is a legally enforceable contract with all CPAs.
  - provides ways to measure departures from ethical behavior.
- ANS: B                      DIF: Easy                      OBJ: 1-6
32. The ethical standards established for management accountants are in the areas of
- competence, licensing, reporting, and education.
  - budgeting, cost allocation, product costing, and insider trading.
  - competence, confidentiality, integrity, and objectivity.
  - disclosure, communication, decision making, and planning.
- ANS: C                      DIF: Moderate                      OBJ: 1-6
33. The Foreign Corrupt Practices Act is directed at
- U.S. businesses operating overseas.
  - foreign businesses operating in the U.S.
  - all businesses dealing with U.S. consumers.
  - U.S. businesses operating in developed nations.

ANS: A                      DIF: Moderate                      OBJ: 1-6

34. A managerial accountant who communicates information objectively is exercising which of the following standards?
- a. objectivity
  - b. integrity
  - c. competence
  - d. confidentiality

ANS: A                      DIF: Moderate                      OBJ: 1-7

35. A managerial accountant who prepares clear reports and recommendations after analyzing relevant facts is exercising which of the following standards?
- a. objectivity
  - b. integrity
  - c. competence
  - d. confidentiality

ANS: C                      DIF: Moderate                      OBJ: 1-7

36. Cost accounting standards
- a. are legal standards set by the Institute of Management Accountants for use in all manufacturing and professional businesses.
  - b. are set by the Cost Accounting Standards Board and are legally binding on all manufacturers, but not service organizations.
  - c. do not exist except for those legal pronouncements for companies bidding or pricing cost-related contracts with the government.
  - d. are developed by the Cost Accounting Standards Board, issued by the Institute of Management Accountants, and are legally binding on CMAs.

ANS: C                      DIF: Moderate                      OBJ: 1-7

## SHORT ANSWER

1. On what needs do (1) management accounting and (2) financial accounting focus?

ANS:

Management accounting focuses on the needs of users inside an organization. Managers need information related to planning, controlling, decision making, and performance evaluation. Their needs are satisfied through the providing of information designed for their particular uses. Financial accounting focuses on the needs of users outside the organization, such as stockholders, creditors, and regulatory agencies. These users require information that is in conformity with generally accepted accounting principles and, thus, is standardized in the form of general purpose financial statements.

DIF: Moderate                      OBJ: 1-1

2. Define value chain and provide a graphic of the interacting flows of information within the value chain.

ANS:

The value chain is the set of processes that convert inputs into products and services for a firm's customers. It includes both internal and external processes. It encompasses both upstream and downstream entities. A depiction of the value chain and its information flows is shown in Exhibit 1-6.

DIF: Moderate                      OBJ: 1-5

3. List and explain the four perspectives of the balanced scorecard (BSC).

ANS:

Learning and growth perspective--Focuses on using an organization's intellectual capital to adapt to or influence changing customer needs.

Internal business perspective--Addresses those things that an organization needs to do well to meet customer needs and expectations.

Customer value perspective--Addresses how well the organization is doing relative to important customer criteria.

Financial perspective--Addresses the concerns of stakeholders about profitability and organizational growth.

DIF: Moderate      OBJ: 1-4

4. Distinguish between lead indicators and lag indicators, and provide an example of each. Which of these indicators is a better guide for strategic planning?

ANS:

A lag indicator is an outcome that has resulted from past actions. A common lag indicator is profitability. Other similar performance measures are also acceptable answers.

A lead indicator reflects future financial and nonfinancial outcomes. An good example would be the number of employees trained on a new transaction processing system. Lead indicators are better guides for strategic planning, because they provide information on outcomes more quickly than do lag indicators.

DIF: Moderate      OBJ: 1-4

5. What four areas are covered by the Standards of Ethical Conduct for Certified Management Accountants? How are these areas defined?

ANS:

The four areas covered by the Standards of Ethical Conduct for Certified Management Accountants are: competence, confidentiality, integrity, and objectivity. Competence means having the capacity to function in a particular manner.

Confidentiality means having the ability to maintain or keep information undisclosed. Integrity is defined as adherence to a code of moral values. Objectivity is defined as expressing or using facts without distortion by personal feelings or prejudices.

DIF: Moderate      OBJ: 1-6