CHAPTER 1: INTRODUCTION TO COST MANAGEMENT

1. An accounting information system collects, records, summarizes, analyzes, and manages data to transform inputs into information that is provided to users.
   a. True
   b. False

   ANSWER: True

2. The two major subsystems of the accounting information system are the financial accounting information system and the cost management accounting information system.
   a. True
   b. False

   ANSWER: True

3. The cost management information system is primarily concerned with producing outputs for external users.
   a. True
   b. False

   ANSWER: False

4. The three broad objectives of financial accounting information systems are to provide information for costing out services and products, planning and control, and decision making.
   a. True
   b. False

   ANSWER: False

5. Preparing reports for division managers is an activity associated with the cost management information system.
   a. True
   b. False

   ANSWER: True

6. The cost management information system has two major subsystems: the cost accounting information system and the operational control information system.
   a. True
   b. False

   ANSWER: True
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7. Changes in the way business is conducted worldwide have broadened the focus of cost management accounting systems.
   a. True
   b. False

   ANSWER: True

8. One of the major advances in information technology that affects firms is the emergence of electronic commerce.
   a. True
   b. False

   ANSWER: True

9. The service sector of the U.S. economy has decreased in importance as traditional industries have declined in importance.
   a. True
   b. False

   ANSWER: False

10. Enterprise resource planning (ERP) software has the objective of providing an integrated system capability and is able to run all the operations of a company.
    a. True
    b. False

    ANSWER: True

11. In just-in-time (JIT) manufacturing, each operation produces only what is necessary for the succeeding operations.
    a. True
    b. False

    ANSWER: True

12. JIT is a critical part of a more comprehensive approach referred to as Lean Manufacturing.
    a. True
    b. False

    ANSWER: True

13. The focus of Lean Manufacturing is to eliminate waste, which is anything that does not add value to the end user (customer).
    a. True
    b. False

    ANSWER: True
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14. The role of cost and management accountants is one of support and teamwork and assistance of those who are responsible for achieving a company’s basic objectives.
   a. True
   b. False
   
   ANSWER: True

15. Positions that have direct responsibility for basic objectives are referred to as staff positions, and those indirectly responsible are called line positions.
   a. True
   b. False
   
   ANSWER: False

16. The Controller of a company supervises all the accounting departments and is often viewed as a member of the top management team.
   a. True
   b. False
   
   ANSWER: True

17. The Treasurer of a company is responsible for all taxation activities, including dealing with the IRS.
   a. True
   b. False
   
   ANSWER: False

18. Evaluating the performance of a segment of the company is an example of planning.
   a. True
   b. False
   
   ANSWER: False

19. The process of choosing among competing alternatives is called decision making.
   a. True
   b. False
   
   ANSWER: True

20. Business ethics is learning what is right or wrong in the work environment and choosing what is right.
   a. True
   b. False
   
   ANSWER: True
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21. Employee and customer loyalty are NOT a result of strong codes of ethics.
   a. True
   b. False

   ANSWER: False

22. Firms subject to the Sarbanes-Oxley Act of 2002 do not have to disclose whether they have a code of ethics for senior financial officers, nor why.
   a. True
   b. False

   ANSWER: False

23. The Institute of Management accountants has established ethical standards for management accountants.
   a. True
   b. False

   ANSWER: True

24. In resolving an ethical conflict, it would be appropriate to take the matter to the press where there’s no legal requirement.
   a. True
   b. False

   ANSWER: False

25. Divulging company information when not legally obligated to do so violates the confidentiality part of the IMA Code of Conduct.
   a. True
   b. False

   ANSWER: True

26. Three of the major certifications available to management accountants are Certificates in Management Accounting, Public Accounting, and Internal Auditing.
   a. True
   b. False

   ANSWER: True

27. For each certification, all an applicant has to do is meet specific educational and experience requirements.
   a. True
   b. False

   ANSWER: False
   a. True
   b. False
   ANSWER: True

29. The Certificate of Public Accounting does not include the right to serve as external auditors.
   a. True
   b. False
   ANSWER: False

30. The Certified Internal Auditor must pass a comprehensive examination designed to ensure technical competence and have two years’ work experience.
   a. True
   b. False
   ANSWER: True

31. The ___________ information system is primarily concerned with producing outputs for internal users using inputs and processes needed to satisfy management objectives.
   ANSWER: cost management

32. The cost management subsystem designed to assign costs to individual products and services is called the ___________ information system.
   ANSWER: cost accounting

33. ___________ is the persistent pursuit and elimination of waste which results in the decrease of lead time.
   ANSWER: Lean Manufacturing

34. The ___________ is a method used to continuously improve manufacturing and nonmanufacturing activities.
   ANSWER: theory of constraints

35. The role of ___________ accountants is to assist and support those responsible for carrying out an organization’s basic objectives.
   ANSWER: cost and management
36. Positions in a company that have direct responsibility for its basic objectives are called _______________ positions, and the positions indirectly responsible for the company’s objectives are called ______________________ positions.

**ANSWER:** line; staff

37. The standards of ethical conduct for management accountants include competence, confidentiality, integrity, resolution of ethical conflict, and __________.

**ANSWER:** credibility

38. Companies with a strong __________ can benefit from strong customer and employee loyalty.

**ANSWER:** Code of Ethics

39. The IMA’s program to recognize professional competence in the field of management accounting yields a designation as a __________ Accountant.

**ANSWER:** Certified Management

40. Only Certified Public Accountants are permitted by law to serve as __________.

**ANSWER:** external auditors

41. In an accounting information system, the inputs are usually
   a. financial statements.
   b. analyzing data.
   c. performance reports.
   d. economic events.

**ANSWER:** d

42. In an accounting information system, which of the following is NOT a transformational process?
   a. collecting data
   b. analyzing data
   c. performance reporting
   d. summarizing data

**ANSWER:** c

43. Which of the following is NOT a process associated with an accounting information system?
   a. auditing existing data
   b. collecting and recording data
   c. providing information to users
   d. analyzing and managing data

**ANSWER:** a
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44. _______________ is devoted to providing information for external users.
   a. Management accounting
   b. Financial accounting
   c. Internal accounting
   d. Cost accounting

   ANSWER: b

45. Financial accounting information is used for
   a. investment decisions.
   b. regulatory measures.
   c. stewardship evaluation.
   d. all of the above.

   ANSWER: d

46. Which of the following does NOT describe cost management system?
   a. evaluation of segments or products within the firm
   b. emphasis on the future
   c. externally focused
   d. focus on effective use of resources

   ANSWER: c

47. Which of the following is NOT part of the financial accounting information system?
   a. filing reports with the SEC
   b. reporting a large contingent liability to current and potential shareholders
   c. determining the future cash flows of a proposed flexible manufacturing system
   d. preparing GAAP financial statements

   ANSWER: c

48. Cost management reports are prepared
   a. to meet the needs of decision makers within the firm.
   b. whenever stockholders request them.
   c. according to guidelines prepared by the Securities and Exchange Commission.
   d. according to financial accounting standards.

   ANSWER: a
49. Which of the following is NOT provided by cost accountants?
   a. cost information in accordance with GAAP
   b. cost information about processes and activities
   c. financial information for external users
   d. cost information about products, customers, and services

   ANSWER: c

50. The primary objective of the cost management information system is to provide
   a. stockholders and potential investors with useful information for decision making.
   b. banks and other creditors with information useful in making credit decisions.
   c. management with information useful for planning and control of operations.
   d. the Internal Revenue Service with information about taxable income.

   ANSWER: c

51. The cost management information system is concerned with
   a. reporting financial information according to GAAP.
   b. providing cost information that is used in planning, control, and decision-making.
   c. reporting to external users.
   d. providing financial information to investors.

   ANSWER: b

52. Cost accounting
   a. is concerned with assigning costs to various cost objects.
   b. attempts to satisfy the costing objectives of both financial accounting and management accounting.
   c. provides cost information that supports planning, controlling, and decision making.
   d. all of these.

   ANSWER: d

53. Cost management is the branch of accounting concerned with reporting to
   a. internal managers.
   b. stockholders.
   c. the government.
   d. bankers.

   ANSWER: a
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54. The type of management which broadens the focus of accounting because it is concerned with factors that drive costs, such as cycle time and process productivity is called:
   a. Cost accounting
   b. Cost management
   c. Financial management
   d. Financial accounting

   ANSWER: b

55. Which of the following activities is NOT associated with the cost management information system?
   a. preparing a cost of quality report
   b. preparing a performance report that compares actual costs to budgeted costs
   c. determining the cost of a customer
   d. using future expected earnings to estimate the price of a share of common stock

   ANSWER: d

56. Which of the following costing activities is associated with the financial accounting system?
   a. determining the cost of a department
   b. determining the cost of goods sold for financial statements
   c. preparing budgets
   d. determining the cost of a customer

   ANSWER: b

57. Which of the following activities is associated with the cost management information system?
   a. preparing reports for division managers
   b. preparing reports for the IRS
   c. preparing reports for the SEC
   d. preparing financial statements that conform to GAAP

   ANSWER: a

58. The operational control system is concerned with
   a. investment decisions.
   b. what activities should be performed and assessing how well they are performed.
   c. consumption of productive resources by individual products.
   d. none of these.

   ANSWER: b
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59. Which of the following activities is NOT associated with the financial accounting information system?
   a. reporting on the cost of quality
   b. reporting to the SEC
   c. preparing reports for the IRS
   d. preparing a statement of cash flows

   ANSWER: a

60. Which of the following is a cost management subsystem designed to assign costs to individual products and services and other objects, as specified by management
   a. financial accounting information system
   b. operational control system
   c. cost accounting information system
   d. all of the above

   ANSWER: c

61. Which of the following statements is TRUE?
   a. The service sector comprises approximately three quarters of the United States' economy and employment.
   b. The service sector comprises approximately 20 percent of the United States' economy and employment.
   c. Traditional smokestack industries have increased in importance in recent years.
   d. The service sector has decreased in importance in recent years.

   ANSWER: a

62. Any form of commerce that is executed using information and communications technology is called:
   a. ERP
   b. OLAP
   c. electronic commerce
   d. DSS

   ANSWER: c

63. Factors that have led to a global market for manufacturing and service firms are
   a. improved transportation and communications systems.
   b. improved telemarketing and communications.
   c. improved telemarketing and transportation systems.
   d. None of these factors have contributed.

   ANSWER: a