

Chapter 01 Cost Management and Strategy **Answer Key**

Multiple Choice Questions

1. Which of the following does not represent a main focus of cost management information?
- A. Strategic management.
 - B. Performance measurement.
 - C. Planning and decision making.
 - D. Preparation of financial statements.
 - E.** Internal audit and control.

Difficulty: 1 Easy

Learning Objective: 01-01 Explain the use of cost management information in each of the four functions of management and in different types of organizations; with emphasis on the strategic management function

2. Strategic management can be defined as the development of a sustainable:
- A. Chain of command.
 - B.** Competitive position.
 - C. Cash flow.
 - D. Business entity.
 - E. Company image.

Difficulty: 1 Easy

Learning Objective: 01-01 Explain the use of cost management information in each of the four functions of management and in different types of organizations; with emphasis on the strategic management function

Topic: Strategy

3. Cost management has moved from a traditional role of product costing and operational control to a broader strategic focus, which places an emphasis on:
- A. Competitive pricing.
 - B. Domestic marketing.
 - C. Short-term thinking.
 - D. Strategic thinking.**
 - E. Independent judgment.

Difficulty: 1 Easy

Learning Objective: 01-01 Explain the use of cost management information in each of the four functions of management and in different types of organizations; with emphasis on the strategic management function

Topic: Strategy

4. All of the following are examples of total quality management practices except:
- A. Redesign of a product to reduce its parts by 50 percent.
 - B. Reduction in the movement required in a manufacturing job.
 - C. Separating the sales and services functions.**
 - D. Raising raw material quality standards.
 - E. Cross-training assembly line workers to cover sick leave absences.

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

5. In a local factory, employees are rewarded for finding new and better ways of changing the way they work. This company is motivating its employees to use what management technique?
- A. Benchmarking.
 - B. Activity-Based Costing.
 - C. Theory of Constraints.
 - D. Continuous Improvement.**
 - E. Total Quality Management.

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

6. A company's management accountant is trying to improve the way costs are allocated within the company. Currently, several corporate expenses are grouped together and labeled "overhead." If the accountant wanted to use activity-based costing (ABC) to help solve the problem, what should she do?
- A. She should try to trace the departments' costs to their cost objects, and then charge each department based on those cost relationships.**
 - B. She should research how the company's competitors are allocating their costs, and then implement one of those strategies.
 - C. She should look for bottlenecks within the production process, and try to eliminate them, thus reducing costs.
 - D. She should examine the firm's value chain and apply target costing before adopting ABC.

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

7. The difference between wholesalers and retailers is:
- A. Wholesalers are merchandisers that sell directly to customers whereas retailers are merchandisers that sell to other merchandisers.
 - B.** Wholesalers are merchandisers that sell to other merchandisers whereas retailers are merchandisers that sell directly to consumers.
 - C. Wholesalers are merchandisers that sell directly to the government whereas retailers are merchandisers that sell to other merchandisers.
 - D. Wholesalers are merchandisers that sell directly to customers whereas retailers are merchandisers that sell directly to the government.
 - E. There is no difference between wholesalers and retailers.

Difficulty: 1 Easy

Learning Objective: 01-01 Explain the use of cost management information in each of the four functions of management and in different types of organizations; with emphasis on the strategic management function

Topic: Service

8. When managers produce value for the customer, their orientation consists of all the following except:
- A. Quality and Service.
 - B. Timeliness of delivery.
 - C. The ability to respond to the customer's desire for specific features.
 - D.** State of the art manufacturing facilities.

Difficulty: 1 Easy

Learning Objective: 01-02 Explain the contemporary business environment and how it has influenced cost management

9. A practical example of when the theory of constraints would not be an appropriate management technique to use would be:
- A. Long lines at checkout stands.
 - B. Busy signals on Internet server sites.
 - C. One critical production process provides 60 parts/min. output, compared with a company-wide output of 90 parts/min.
 - D.** Balanced, fast movement of the product through the plant.

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

10. Target costing determines the desired cost for a product upon the basis of a given competitive price such that the product will:
- A. Earn at least a small profit.
 - B.** Earn a desired profit.
 - C. Earn the maximum profit.
 - D. Break even.
 - E. Sell the highest volume.

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

11. Which of the following is not a contemporary management technique used by the management accountant to focus on process improvement?
- A. Enterprise risk management
 - B. Lean manufacturing
 - C. Life cycle costing**
 - D. Enterprise sustainability

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

12. The strategy map is a tool that is used
- A. as one of the key aspects of the contemporary management environment
 - B. to enhance the sustainability of the organization
 - C. to link the perspectives of the balanced scorecard**
 - D. to organize the critical success factors of a company
 - E. to implement strategy

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

13. Cost management information typically is the responsibility of the:

- A. Chief Financial Officer.
- B. Controller.**
- C. Treasurer.
- D. Chief Information Officer.

Difficulty: 2 Medium

Learning Objective: 01-01 Explain the use of cost management information in each of the four functions of management and in different types of organizations; with emphasis on the strategic management function

14. Which of the following aspects of a company would not be considered a critical success factor, for a company that competes on differentiation?

- A. Cutting edge research and development.
- B. Excellent customer service.
- C. Award-winning product quality.
- D. Continually beating competitors to the market with new, innovative products.
- E. A high level of production efficiency**

Difficulty: 1 Easy

Learning Objective: 01-02 Explain the contemporary business environment and how it has influenced cost management

Topic: Strategy

15. Target costing:
- A. Determines cost based on an expected market demand for the product.
 - B. Determines cost based on a budget.
 - C. Determines cost based on standard cost.
 - D. Determines cost based upon market price and desired profit.

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

16. If a firm decided to reevaluate and reorganize the way it did business, in hopes of creating competitive advantage, by changing or decreasing jobs, the company would be using which of the following management technique?
- A. The value chain.
 - B. Business intelligence.
 - C. Business process improvement.
 - D. Product reevaluation.
 - E. Life cycle costing.

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

17. A local area consulting firm is trying to increase the long-term strategic focus of its company reports. Therefore, the firm has decided to use the balanced scorecard. What type of new information, that the company currently doesn't use in its financial reports, should the company include?

- A. Non-financial information, including customer satisfaction, innovation, etc.
- B. Additional financial information, such as profitability measures and market value.
- C. Product life cycle information.
- D. Supplemental accounting reports
- E. Continuous improvement

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

Topic: Service

18. In keeping with the current trend of increased strategic planning, how have management accountants changed their use of life-cycle costing?

- A. They have now shifted their focus from R&D costs to marketing and promotion costs.
- B. They have turned from a sole focus on manufacturing costs to a much wider outlook, taking into account costs from the entire product life-cycle.
- C. They stopped looking at the entire life-cycle, and now focus their attention on product design costs.
- D. Accountants don't use life-cycle costing, that task is left for the operations manager.

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

19. The Institute of Management Accountants' Statement of Ethical Professional Practice for management accountants includes the elements of:

- A. Competence, confidentiality, integrity, and relevance.
- B.** Competence, confidentiality, integrity, and credibility.
- C. Competence, confidentiality, independence, and objectivity.
- D. Competence, accuracy, integrity, and independence.

Difficulty: 2 Medium

Learning Objective: 01-06 Understand the principles and rules of professional ethics and explain how to apply them

Topic: Ethics

20. The five steps of strategic decision making include all of the following except:

- A. Identify the alternative actions.
- B.** Gather, summarize, and report accounting information.
- C. Determine the strategic issues surrounding the problem.
- D. Choose and implement the desired alternative.
- E. Provide an ongoing evaluation of the effectiveness of implementation.

Difficulty: 2 Medium

Learning Objective: 01-04 Explain the different types of competitive strategies

21. Which of the following is not considered part of the Institute of Management Accountants' definition of management accounting?
- A. partnering in management decision making.
 - B. devising planning and performance management systems.
 - C.** analyzing data and providing information.
 - D. providing expertise in financial reporting and control.
 - E. assisting management in the formulation and implementation of an organization's strategy.

Difficulty: 2 Medium

Learning Objective: 01-01 Explain the use of cost management information in each of the four functions of management and in different types of organizations; with emphasis on the strategic management function

22. Which of the following professional certificates is considered to be the most relevant for dealing with cost management issues?
- A. The CPA, which is monitored differently for each state in the U.S.
 - B.** The CMA, which is administered through the Institute of Management Accountants.
 - C. The CFA, since its program focuses on the broadest range of topics and responsibilities for financial analysis.
 - D. The CPA, CMA, and CFA are viewed as equally relevant, since all three require an exam, as well as specific background and experience requirements.

Difficulty: 2 Medium

Learning Objective: 01-05 Describe the professional environment of the management accountant; including professional organizations and professional certifications

23. According to the IMA Statement of Ethical Professional Practice, what should a management accountant do if a significant ethical situation can't be resolved?

- A. The accountant should confront the guilty party and demand the unethical action be stopped.
- B. The accountant should try to rationalize and understand the position of the other party.
- C. The accountant should say nothing about the matter until he or she has retired.
- D. The accountant should first discuss the matter with the immediate supervisor.

Difficulty: 2 Medium

Learning Objective: 01-06 Understand the principles and rules of professional ethics and explain how to apply them

Topic: Ethics

24. Which of the following aspects of the contemporary business environment involves using statistical methods such as regression or correlation analysis to predict consumer behavior, to measure customer satisfaction, or to develop models for setting prices, among other uses.

- A. Business Intelligence
- B. Target Costing
- C. Life Cycle Costing
- D. Benchmarking
- E. Business Process Improvement

Difficulty: 1 Easy

Learning Objective: 01-02 Explain the contemporary business environment and how it has influenced cost management

25. Which of the following is *not* a major change in the business environment that has affected the way many companies think about conducting business?

- A. An increased focus on the customer, especially their opinions about functionality and quality.
- B. A growing emphasis on globalization -new markets for products and new competitors.
- C. A larger number of companies are starting to use advanced information technologies, such as business intelligence.
- D. The development of improved cost management methods.

Difficulty: 2 Medium

Learning Objective: 01-02 Explain the contemporary business environment and how it has influenced cost management

Topic: Global

Topic: Strategy

26. Which of the following is the primary user of management accounting information regarding business units?

- A. Company management.
- B. Investors.
- C. Creditors.
- D. Industry and governmental organizations

Difficulty: 1 Easy

Learning Objective: 01-01 Explain the use of cost management information in each of the four functions of management and in different types of organizations; with emphasis on the strategic management function

27. Management accounting information plays a critical role in all but which of the following management functions?

- A. Profit planning.
- B. Managerial compensation.
- C. Planning and decision making.
- D.** Hiring a new CIO.
- E. Financial reporting to the SEC

Difficulty: 2 Medium

Learning Objective: 01-01 Explain the use of cost management information in each of the four functions of management and in different types of organizations; with emphasis on the strategic management function

28. Corporate management is required to identify and solve problems from a cross-functional view. Instead of viewing a problem as related to a specific business function, management solves these problems by combining skills from different functions simultaneously. This approach is called:

- A. Inclusive approach.
- B.** Integrative approach.
- C. Intra-function approach.
- D. Multilateral approach.

Difficulty: 1 Easy

Learning Objective: 01-01 Explain the use of cost management information in each of the four functions of management and in different types of organizations; with emphasis on the strategic management function

Topic: Strategy

29. JCH Company conducts business in the lumber and building products industry. Last week, JCH purchased 50 railcars of lumber from a mill in Oregon and sold all 50 to a Home Depot store in North Carolina. In this instance, JCH Company would most likely be classified as a:
- A. Manufacturer.
 - B. Retailer.
 - C. Warehouse.
 - D. Wholesaler.

Difficulty: 1 Easy

Learning Objective: 01-01 Explain the use of cost management information in each of the four functions of management and in different types of organizations; with emphasis on the strategic management function

Topic: Service

30. RTP Corp. is developing a new computer processor to compete against Intel's successful product line. RTP has already determined the market price and the required profit margin on each processor sold in order to be successful. Which costing method will RTP most likely use to reduce costs and obtain the desired results?
- A. Target Costing.
 - B. Product costing.
 - C. Relevant costing.
 - D. Cost management.
 - E. Life cycle costing.

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

Topic: Strategy

31. Non-financial measures of operations include all the following except:

- A. Stock price.
- B. Product quality.
- C. Customer satisfaction.
- D. Market share.
- E. Growth opportunities.

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

Topic: Strategy

32. Under the Sarbanes-Oxley Act of 2002, the Public Company Accounting Oversight Board (PCAOB) established rules relating to which of the following areas?

- A. Financial reporting.
- B. Production quality control.
- C. Executive compensation.
- D. Hiring and firing practices.
- E. Audit quality, ethics, and independence.

Difficulty: 2 Medium

Learning Objective: 01-05 Describe the professional environment of the management accountant; including professional organizations and professional certifications

Topic: Ethics

33. With the enactment of the Sarbanes-Oxley Act of 2002, all public companies are now required by the SEC to disclose whether or not the company has:
- A. An audit committee.
 - B. Human resources guidelines.
 - C.** A code of ethics.
 - D. A management compensation plan.
 - E. None of the above.

Difficulty: 1 Easy

Learning Objective: 01-05 Describe the professional environment of the management accountant; including professional organizations and professional certifications

Topic: Ethics

34. The national sales manager for your company has pulled you aside and asked you to prepare a sales document (bill) for one of the company's largest clients before the end of the fiscal year which ends this month. This sales document will include items that have not yet been shipped and are not planned for shipment until after this fiscal year. What should you do in this situation?
- A. Bill the client as asked by the national sales manager.
 - B. Bill the client since this is consistent with past transactions near fiscal year-end.
 - C. Contact the client and notify them that credit terms are being extended on this invoice since the goods have not been shipped.
 - D.** Discuss this situation with your supervisor.
 - E. Bring up the matter with the external auditor.

Difficulty: 3 Hard

Learning Objective: 01-06 Understand the principles and rules of professional ethics and explain how to apply them

Topic: Ethics

35. All of the following actions enhance the new focus on making management accounting information more relevant in helping a firm achieve strategic goals, except:
- A. Increasing emphasis on the management accountant as a partner in management decision making.
 - B.** Increasing emphasis on external financial reporting.
 - C. Decreasing emphasis on financial statement analysis.
 - D. Increasing emphasis on the use of cost information for competitive advantage.

Difficulty: 2 Medium

Learning Objective: 01-01 Explain the use of cost management information in each of the four functions of management and in different types of organizations; with emphasis on the strategic management function

Topic: Strategy

36. The competitive strategy of cost leadership allows a firm to outperform competitors by producing products or services:
- A. With reduced quality standards, thus reducing overall costs.
 - B. In smaller operational units.
 - C.** At lower cost achieved by increased productivity.
 - D. With attractive added features making the product more expensive, or "the cost leader".
 - E. That are heavily promoted and heavily warranted.

Difficulty: 2 Medium

Learning Objective: 01-04 Explain the different types of competitive strategies

Topic: Strategy

37. The competitive strategy of differentiation requires that a product or service must be:
- A. Always readily available.
 - B. Price competitive.
 - C. Produced at the lowest possible cost.
 - D. Unique in some important way, in terms of features, innovation, service or quality.
 - E. Marketed in different ways to different groups.

Difficulty: 1 Easy

Learning Objective: 01-04 Explain the different types of competitive strategies

Topic: Strategy

38. The competitive strategy of differentiation is implemented by a firm's targeted, careful attention to a(n):
- A. Specific feature of the product or service.
 - B. High efficiency level of production.
 - C. Broad possible market.
 - D. Aggressive competitive pricing plan.

Difficulty: 2 Medium

Learning Objective: 01-04 Explain the different types of competitive strategies

Topic: Strategy

39. Which of the following most accurately describes what is included in cost management information?
- A. Only the most up-to-date, accurate financial information available on a firm.
 - B. All the non-financial information about a firm researched and analyzed for a minimum of 2 years.
 - C.** A combination of financial information and relevant non-financial information.
 - D. A detailed report outlining how management currently handles all of a company's costs, and the changes it intends to make in the future.

Difficulty: 1 Easy

Learning Objective: 01-01 Explain the use of cost management information in each of the four functions of management and in different types of organizations; with emphasis on the strategic management function

Topic: Strategy

40. Many companies in the consumer products and electronics industries such as Walmart and Texas Instruments compete using a strategy of:
- A. Professionalism.
 - B. Growth.
 - C.** Cost leadership.
 - D. ABC costing.
 - E. Target costing.

Difficulty: 3 Hard

Learning Objective: 01-04 Explain the different types of competitive strategies

Topic: Strategy

41. A potential weakness of the cost leadership strategy is:
- A. Cutting costs in a way that causes the firm to grow too fast.
 - B.** Deleting key features or reducing quality of products or services.
 - C. Lowering productivity to ensure lower costs.
 - D. Increasing life cycle costs.
 - E. Increasing prices temporarily to undermine competition.

Difficulty: 2 Medium

Learning Objective: 01-04 Explain the different types of competitive strategies

Topic: Strategy

42. Which of the following is not a benefit of using a lean manufacturing system?

- A. Lead times are reduced.
- B. Average inventory is decreased.
- C. Productivity is improved.
- D. Production operations are linked in a smooth, uninterrupted flow.
- E.** Products, on average, have less variety.

Difficulty: 2 Medium

Learning Objective: 01-02 Explain the contemporary business environment and how it has influenced cost management

43. Of the following, which aspect of a contemporary management technique is a framework and process that organizations use to manage the occurrence of possible events that could negatively or positively affect the company's competitiveness and success?

- A. Total quality management
- B. Lean accounting
- C. The theory of constraints
- D. Enterprise sustainability
- E. Enterprise risk management

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

44. Which of the following formulas best reflects target costing?

- A. Target cost = Firm-determined price less desired profit.
- B. Target cost = Market-determined price less desired profit.
- C. Target cost = Firm-determined price less desired revenue.
- D. Target cost = Market-determined price less desired revenue.
- E. Target cost = Firm-determined price less market-determined price.

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

45. A large company has recently been experiencing larger than normal inventory levels. Management would like to implement a theory of constraints system to help control the company's inventories. Which of the following is not a benefit associated with the theory of constraints?
- A. Speed of product development.
 - B. Existing problems such as bottlenecks are highlighted.
 - C. Reduced cycle time.
 - D. Prompt delivery.
 - E. Better product design.**

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

46. The Dodd-Frank Act (2010) includes a variety of new regulations, including the creation of:
- A. The Cost Accounting Standards Board.
 - B. The Consumer Financial Protection Bureau.**
 - C. The Financial Services Industry Control Commission.
 - D. The Wall Street Reform and Protection Board.
 - E. The Executive Compensation Review Board.

Difficulty: 1 Easy

Learning Objective: 01-05 Describe the professional environment of the management accountant; including professional organizations and professional certifications

47. Which of the following contemporary management techniques requires a balancing of multiple goals?

- A. Target costing.
- B. The theory of constraints.
- C. Benchmarking.
- D. Business process improvement.
- E.** Enterprise sustainability.

Sustainability involves the balancing of social, environmental, and financial goals.

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

Topic: Sustainability

48. The competitive strategy in which the firm succeeds by producing at the lowest cost in the industry is termed:

- A. Differentiation.
- B. Cost advantage.
- C. Price strategy.
- D.** Cost leadership.
- E. Resource-based strategy.

Difficulty: 1 Easy

Learning Objective: 01-04 Explain the different types of competitive strategies

49. The competitive strategy in which the firm succeeds by developing and maintaining a unique value for the product, as perceived by the customer, is termed:

- A.** Differentiation.
- B. Specialization advantage.
- C. Design strategy.
- D. Benchmarking.
- E. Product Specialization.

Difficulty: 1 Easy

Learning Objective: 01-04 Explain the different types of competitive strategies

50. The following problems have occurred at your company: management seems to be making decisions based on guesses and intuition, there's a lack of clarity concerning direction and goals, and profitable opportunities are being missed. What is your company suffering from?

- A.** A lack of strategic information; management has not determined its strategic competitive position.
- B. Managers have too much information.
- C. The company is not familiar with business reengineering and value chain analysis.
- D. The company has an inappropriate mission statement.

Difficulty: 1 Easy

Learning Objective: 01-04 Explain the different types of competitive strategies

Topic: Strategy

51. Due in part to increased global competitiveness and changes in management techniques and processes, what has changed about the role of the management accountant?
- A. Management accountants have started to place a greater emphasis on financial information, in order to promote continued growth in earnings.
 - B.** Rather than to focus on problems within functions (such as a marketing problem or a production problem), management accountants are using a strategic approach to address problems in a cross-functional manner.
 - C. Management accountants have developed a variety of new techniques to measure functional area performance.
 - D. There has been a renewed emphasis on short-term profitability, since product life cycles have started getting shorter.

Difficulty: 2 Medium

Learning Objective: 01-01 Explain the use of cost management information in each of the four functions of management and in different types of organizations; with emphasis on the strategic management function

Topic: Global

Topic: Strategy

52. In the current business environment, companies cannot survive without a long-term strategy. What exactly should an effective strategy include?
- A.** A set of plans for using resources to achieve sustainable goals.
 - B. A focus on accurate financial data, thus allowing the firm to effectively compete in any environment.
 - C. A focus on long-term nonfinancial information that will provide the company with versatile management techniques capable of being used in a wide variety of situations.
 - D. A clear, concise mission statement, naming every product and outlining the company's long-term goals of success.

Difficulty: 1 Easy

Learning Objective: 01-04 Explain the different types of competitive strategies

53. Which of the following is considered to be an advantage of using both nonfinancial and financial information in the balanced scorecard?
- A. Nonfinancial information is most helpful in analyzing a company's past performance, while financial information is most useful in evaluating potential future performance.
 - B. Nonfinancial information provides the short-term perspective while financial information provides the long-term perspective of performance.
 - C. Nonfinancial information reflects the company's current and potential competitive advantage, while financial information tends to focus on a firm's achieved financial performance.
 - D. Nonfinancial information should be included with financial information because it is more reliable than financial information.

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

Topic: Strategy

54. If a company is working on strategic positioning, what aspect of the firm is being developed?
- A. How the firm is perceived by its external environment, its competitors, and customers.
 - B. Where the firm's physical plants, buildings, and warehouses will be located.
 - C. The firm's position on important issues, such as the environment and government regulations.
 - D. Which competitive strategy the firm will use to achieve a sustainable competitive advantage.

Difficulty: 2 Medium

Learning Objective: 01-04 Explain the different types of competitive strategies

Topic: Strategy

55. A firm that has traditionally succeeded on the basis of its innovative products and excellent customer service has started to place greater emphasis on reducing waste and providing its customers with the lowest priced product. Which of the following most accurately describes this change of competitive strategy?
- A. Cost leadership to differentiation.
 - B. A balanced strategy to cost leadership.
 - C. Differentiation to a balanced strategy.
 - D. Cost leadership to a balanced strategy.
 - E. Differentiation to cost leadership.

Difficulty: 1 Easy

Learning Objective: 01-04 Explain the different types of competitive strategies

Topic: Service

Topic: Strategy

56. Which of following statements is/are true concerning strategic positioning?
- A. Once a firm has chosen a position, it is unwise to change it, even though the company or business environment might change.
 - B. If a firm does decide to compete on more than one strategic position, it must carefully execute both strategies to be successful.
 - C. Since the business environment is always changing, rather than stick constantly with one strategic position, firms should pay close attention during times of change, and adjust their strategies accordingly.
 - D. A firm following both competitive strategies is likely to succeed only if it achieves one of them significantly.

Difficulty: 1 Easy

Learning Objective: 01-04 Explain the different types of competitive strategies

Topic: Strategy

57. A strategy can be best defined as:

- A. an effective use of the organization's resources.
- B.** a plan for using a firm's resources to achieve sustainable goals within a competitive environment.
- C. a clear and detailed statement of an organization's mission and vision.
- D. a plan developing a firm's mission and vision statements.

Difficulty: 1 Easy

Learning Objective: 01-04 Explain the different types of competitive strategies

Topic: Strategy

58. Which of the following is a contemporary management technique used by the management accountant to identify and monitor the costs of a product throughout all steps from product design to the finished product?

- A. Enterprise risk management.
- B. Target costing.
- C.** Life cycle costing.
- D. Enterprise sustainability.

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

59. Which of the following is not among the management accounting profession's response to changes in the contemporary business environment?

- A. Introduction of the balanced scorecard.
- B. Value chain analysis.
- C. Advances in costing, including activity-based costing.
- D. The introduction of business process improvement.
- E.** New forms of management organization.

Difficulty: 1 Easy

Learning Objective: 01-02 Explain the contemporary business environment and how it has influenced cost management

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

Topic: Strategy

60. Important changes in the contemporary business environments include all of the following except:

- A. Management organizations.
- B.** Climate change.
- C. Information technology.
- D. Customer expectations.
- E. Global competition.

Difficulty: 2 Medium

Learning Objective: 01-02 Explain the contemporary business environment and how it has influenced cost management

61. Which of the following is not a consequence of lack of strategic information?

- A. Inability to effectively benchmark competitors.
- B. Failure to identify most profitable products.
- C.** Inability to trace costs to individual products.
- D. Incorrect investment decisions.

Difficulty: 2 Medium

Learning Objective: 01-04 Explain the different types of competitive strategies

62. Which of the following is not a way for a management accountant to resolve an ethical conflict?

- A.** Bring the matter to the attention of the company's auditor.
- B. Consult an attorney concerning the ethical conflict.
- C. Initiate a confidential discussion with an IMA Ethics Counselor.
- D. Discuss the issue with the management accountant's immediate supervisor except when the supervisor is involved.

Difficulty: 1 Easy

Learning Objective: 01-06 Understand the principles and rules of professional ethics and explain how to apply them

Topic: Ethics

63. Which of the following organizations supports the growth and professionalism of management accounting practice?

- A. CPAAM
- B. CFA
- C. CMAB
- D. FASB
- E. IMA

Difficulty: 1 Easy

Learning Objective: 01-05 Describe the professional environment of the management accountant; including professional organizations and professional certifications

64. The five steps of strategic decision making include all of the following except:

- A. Based on strategy and analysis, choose and implement the desired alternative.
- B. Identify the alternative actions.
- C. Determine the strategic issues surrounding the problem.
- D. Select the proper cost management technique.
- E. Provide an ongoing evaluation of the effectiveness of the decision.

Difficulty: 2 Medium

Learning Objective: 01-04 Explain the different types of competitive strategies

65. The management accountant's responsibility under the Institute of Management Accountants (IMA) Statement of Ethical Professional Practice includes the responsibility to "mitigate actual conflicts of interest." This responsibility fits within which of the four standards in the IMA Statement?

- A. Communication.
- B. Integrity.**
- C. Honesty.
- D. Quality.
- E. Confidentiality.

Difficulty: 3 Hard

Learning Objective: 01-06 Understand the principles and rules of professional ethics and explain how to apply them

Topic: Ethics

66. Which of the following is not one of the ethical standards included in the Institute of Management Accountants (IMA) Statement of Ethical Professional Practice?

- A. Objectivity.**
- B. Integrity.
- C. Competence.
- D. Credibility.
- E. Confidentiality.

Difficulty: 2 Medium

Learning Objective: 01-06 Understand the principles and rules of professional ethics and explain how to apply them

Topic: Ethics

67. The management accountant who planned to improve an organization's operations by developing models of consumer behavior would be using which of the following contemporary management techniques:

- A. Target costing.
- B. Benchmarking.
- C. Business intelligence.**
- D. Lean accounting.
- E. Focus on the customer.

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

Essay Questions

68. In the late 1990s, management at General Motors decided to improve the competitiveness of its products by stressing product quality, style, and innovation. The objective was to improve the image of GM vehicles and thus improve sales and brand loyalty. Managers decided to push this strategy in both the manufacturing and marketing divisions of the firm. One of the key moves to implement this strategy was to insist that GM dealers stop price-cutting and push brand value and image instead. GM exerted some control over dealers' pricing/selling strategy in part by reducing the money it set aside for dealers to use in local ads.

Required: Was General Motors following a strategy of cost leadership or differentiation at this time? Comment on how effective you think the new strategy in dealer relations is likely to be.

The strategy adopted by GM is consistent with the differentiation strategy, a focus on quality, style, and innovation rather than price and cost. Unfortunately, the dealers and some analysts were infuriated by GM's move, believing that "the reality is this is a price-driven market" (Merrill Lynch & Co auto analyst Nicholas Lobaccaro). GM's response to the criticism was to state that brand value is what creates market share and profits, although it can take time to do so. The incident shows that it can be difficult to determine the firm's strategy, and experts can disagree.

Difficulty: 2 Medium

Learning Objective: 01-04 Explain the different types of competitive strategies

Topic: Strategy

69. In six months you are scheduled to graduate with a degree in business. You have a major in accounting and minors in finance and management information systems. In the first few chapters of your cost management text, there are repeated references to the following two terms: strategic management and the strategic emphasis to cost management.

Required: Explain these ideas, using as a framework your need to develop a plan for interviewing successfully for a challenging professional opportunity within the next six months.

Managers must think competitively, across business functions, and integratively. You are in competition with many other upcoming and recent graduates, and must differentiate yourself by academic performance, curriculum selection, or reinforcing extracurricular experiences. Your study of other disciplines, and minors in two of them, indicates your understanding of the need for cross-functional activity for integrating the technical knowledge learned in the individual major and minors. In other words, your college academic (and non-academic) experience reflects the business environment you expect to encounter in six months.

Difficulty: 2 Medium

Learning Objective: 01-02 Explain the contemporary business environment and how it has influenced cost management

Topic: Strategy

70. One of the many changes in the business environment in recent years that has had significant impact on cost management practices is a "focus on the customer". You are part of the management team in a medium-size Internet service company. The company is just three years old and is growing dramatically, doubling its customer base every six months.

Required:

(a) Describe your typical customer's needs and service expectations.

(b) How has the doubling of your firm's customer base every six months affected its ability to maintain this focus on the customer? If this dramatic growth continues, what are some specific actions your firm can take to retain its goal of "focus on the customer"?

(a) An internet subscriber wants regular, dependable and quick access to the Internet, easy availability to support services, and at a competitive price.

(b) Rapid growth diminishes a firm's focus, changes the dynamics within the firm, and often leads to reduced or inferior service or product. Regular review (monthly in this case) of plans to meet the rapid growth is necessary to assure that personnel, physical resources, and capital will be available even before they are needed.

Difficulty: 2 Medium

Learning Objective: 01-02 Explain the contemporary business environment and how it has influenced cost management

Topic: Service

71. Apex Corporation manufactures a complete line of high quality bits for electric drills. Apex has a good record for product innovation and effective marketing and distribution. An increase in domestic and international competition during the past two years has limited the firm's sales growth to 3 percent per year, down from the previous five-year average annual growth of 5 percent. In addition, market share declined by 0.5 percent this past year. Apex is experiencing profit reductions caused by price competition and manufacturing cost increases.

Required: Choose one of the 13 contemporary management techniques introduced in Chapter 1: Explain why the technique you selected is appropriate in helping Apex develop a plan for reversing the decline in sales growth and controlling the growth in costs.

Any one of the 13 contemporary management techniques should be applicable to the solution of Apex Corporation's problems. Some basic principles would apply to the use of all management techniques.

- No single management technique will solve the entire problem.
- No single management technique will remain effective over time.
- Solutions must get at the root causes of problems.
- Most firms use parts of several (or even many) management techniques.
- No management technique will work if it is improperly implemented or half-heartedly supported by top management.

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

Topic: Strategy

72. The manager of a business unit of a large corporation made some projections regarding sales and profits for the upcoming final quarter of the year. The managers' performance evaluation and compensation depended significantly on his ability to meet budget goals. The manager discovered that the final quarter would have to be a particularly good quarter in order to meet these goals. He decided to implement a sales program offering liberal payment terms in order to pull some sales that would normally occur next year into the current year. Customers accepting delivery in the fourth quarter would not have to pay the invoice for 140 days. Also, he sold some equipment that was not being used and realized a significant profit on the sale.

Required: Are these actions ethical? Why or why not?

Each of the manager's actions needs to be considered separately:

- liberal credit terms - OK, a business strategy that should be judged on how it affects the firm's operations and profits
- attempt to pull sales from one period to another - not OK. If the purpose of the change in credit terms is simply to move sales from one period to another, then the result is misleading financial reports and fraudulent; if the objective is to increase sales through management of credit policies, then OK.
- sale of equipment-may be OK, a business decision that should be judged on how it affects the firm's operations and profits; may not be OK if specifically timed just to show a gain that would improve current period profit. The transaction is not unethical, per se, but if it is clear that the only motivation for choosing to sell the equipment at this time is to help the manager achieve his bonus, and the firm as a whole would be better off if the equipment is sold at a different time, then the transaction is unethical-a conflict of interest.

Difficulty: 2 Medium

Learning Objective: 01-06 Understand the principles and rules of professional ethics and explain how to apply them

Topic: Ethics

73. As an inspector for a manufacturer of specialized electronic instruments, you head up the quality assurance program at one of the firm's manufacturing plants. In recent days, it has come to your attention that a large order involving several hundred expensive instruments for an important customer does not meet all the required specifications. Specifically, the circuit which has been designed by your firm to warn the user of possible malfunction does not appear to work consistently. The firm's engineers say that the problem should have no significant results for the customer, as it does not affect the functionality of the instrument in any way. Moreover, the engineers indicate that it is a high priority for them to find an answer to the mysterious behavior of the circuit, and they will develop a fix as soon as possible, and make sure the customer is provided the fix, probably as part of a routine update or maintenance. The marketing V.P. indicates that the customer wants these instruments urgently, and that no quality assurance issues will get in the way.

The quality assurance head knows that the order is very important to the firm, as the firm has faced declining revenues in several recent months. Also, while the intentions of the engineers are likely to be sincere, the quality assurance head knows that they are very busy with current and new products, and are unlikely to have the time to deal with this problem in a timely manner.

Required: What are the ethical issues involved in the case for the quality assurance head? What steps would you suggest be taken?

The principal issues in this case relate to the management accountant's ethical responsibility for integrity. There is a conflict of interest within the firm regarding the urgency of increasing sales versus the desire to deliver to the customer an error-free product. The product fault, while minor, will take some time to identify and fix. This could cause the delay and/or loss of sales.

Some suggested approaches might include:

- ship the product but warn the customer of the fault; explain that a fix will be on the way shortly; expect that some customers will delay their purchase until the fix is in place

- delay selling the product until the fault is fixed, at least with a reasonable degree of certainty.
- sell the product as is (without disclosure) and hope that no problems arise; include the fix in upgrade to be installed by our technicians

The third option is clearly unethical because it deprives the customer of the right to know that the product is potentially unreliable. The choice between one of the first two options should be based on business and competitive reasons. For example, the firm might choose the second option (delay) in order to bolster its reputation for high quality and reliability. Of course, this must be balanced against its need to maintain a favorable reputation for shipping product in a timely manner.

Difficulty: 2 Medium

Learning Objective: 01-06 Understand the principles and rules of professional ethics and explain how to apply them

Topic: Ethics

74. The controller of one division of a large diversified firm is compensated by salary plus bonus. The bonus is a significant part of total compensation, and is based directly on the profits of the division. Thus, the controller has an incentive to find ways to increase profits, including the delay of discretionary expenses such as research and development, delay of maintenance and repair of manufacturing equipment, and delay of sales promotions.

Required:

Is finding ways to increase profits as described above unethical? Why or why not? Who is to blame, if anyone?

Since the actions contemplated by the controller are not in the best interests of the company, these actions are probably not ethical, and are in conflict with the ethical standard of integrity. The situation displays both conflict of interests and an attempt to subvert the firm's performance incentive system.

Probably both the incentive system and the controller are to blame in this case. While it is not reasonable to expect that the firm can design a bias-free incentive system, it appears that the firm has not done an acceptable job of developing a system that will reward performance based upon the firm's critical success factors, instead of short-term profits only. Improvements in the incentive scheme are possible and necessary. On the other hand, the controller cannot be excused by taking advantage of the opportunity to manipulate profits. The standards are clear on the required professional behavior in this case, and the controller has ignored them for self-serving purposes.

Difficulty: 2 Medium

Learning Objective: 01-06 Understand the principles and rules of professional ethics and explain how to apply them

Topic: Ethics

75. Required: Consider the contemporary management techniques and how they might be used in each of the following industry groups. For which industry type is each management technique most applicable?

- 1) Manufacturing, for example, auto manufacturing, appliances, and consumer electronics
- 2) Professional service firms, for example, accounting firms, law firms, and medical practices
- 3) Retail firms, for example, Walmart and Sears

Contemporary Management Technique	Manufacturing Firms	Professional Service Firms	Retail Firms
Benchmarking	Useful for all types of firms; most useful for firms where the benchmarking data is available from industry or other sources		
Total Quality Management	Most often used here to improve product quality and customer satisfaction	A number of CPA firms have focused on quality, competing for the Baldrige quality award	Often used here to improve customer satisfaction
Lean Accounting	Most often used to continuously improve product quality and reduce cost	Often used here to improve customer satisfaction, to speed up the service for the customer and to reduce the cost of the service	
Activity-based costing and management	Most often used here	Rarely applied here	Can be used here to analyze upstream and downstream costs
Business Process Improvement	Use in all types of firms to re-focus on strategy and improve operations		
The Theory of Constraints	Most often used in manufacturing to identify and manage bottlenecks in the manufacturing process	Can be used here to streamline the process of providing the professional service.	Can be used here to speed up the process of serving the customer and restocking the store.
Enterprise Sustainability	Reduce cost, comply with standards, improve customer goodwill		
Enterprise Risk Management	Identify risks that might negatively affect the company so that proactive steps can be taken		
The Value Chain	Develop a more detailed understanding of the specific activities that are critical to the organizations success, so that these can be given particular focus		
Business Intelligence	Data intensive analysis of the organization's competitive environment, used to help the company plan and execute its strategy more effectively		
Target Costing	Primarily used here to determine cost-efficient product designs	Rarely used here	Rarely used here
Life Cycle Costing	Can be used for any type of firm to determine the profitability of serving individual customers, groups of customers, or product lines		
The Balanced Scorecard and Strategy Map	Can be used in any type of firm to integrate operations with strategic goals.		

Difficulty: 3 Hard

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

Topic: Strategy

76. Required: Identify two of the most successful companies or organizations in today's business environment, in your opinion. Explain why they are so successful.

There are a number of possible answers, including:

Walmart: low cost

3M, Hewlett Packard: innovation

Johnson & Johnson: reputation, product excellence, reliability

Amazon.com, Nordstrom Stores: customer service

Walt Disney: attention to detail, customer satisfaction

UPS, Dell: speed of service

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the contemporary management techniques and how they are used in cost management to respond to the contemporary business environment

Topic: Strategy

77. Samsung, the large Korean manufacturer of electronics, has just developed a new 80-inch plasma TV. The TV is expected to retail in the range of \$50,000. Normally, Samsung sells its TVs and other electronics in Big Box retailers such as Best Buy. In this case, Samsung is thinking of choosing a different means to retail the product.

Required: What retail store or stores, or what method would you suggest Samsung should use in selling its new TV?

Since the new TV is clearly a high-end item, it is unlikely that most shoppers at Best Buy or WalMart will be able to afford the product. On the other hand, the appearance of the new 80" TV in their stores could be an advantage to Best Buy and Walmart, or similar retailer, because it would attract traffic into the store, and perhaps help the store to draw a new type of customer, one expecting very high end merchandise such as the Samsung TV. However, on balance, the product is clearly intended for the unique customer, and in fact, Samsung chose to market it through a single store, the Chicago-area Abt Electronics. The Danish manufacturer of high-end sound systems, Bang & Olufsen has also chosen to market its products in the Abt store. The reason? Abt creates special "boutiques" within the store that are designed to highlight the features of a given class of electronic merchandise. Only very high-end merchandise is available, so that the shopper's experience is focused on the uniqueness and attractiveness of the merchandise.

Difficulty: 2 Medium

Learning Objective: 01-04 Explain the different types of competitive strategies

Topic: Strategy

78. In 2003 the premier auto manufacturer, BMW, introduced a new compact SUV (the X3) in an effort to grab a greater share of the overall luxury car market. Because its own resources were pretty well tapped out by a large number of new vehicles BMW had already introduced, the automaker decided to have the new SUV built by the parts manufacturer, Magma International, based in Toronto. The vehicles would be manufactured by Magma in an Austrian plant.

Required: Comment on the strategic issues surrounding BMW's introduction of this new SUV. Do you think the company made the right decisions? Why or why not?

The critical question for BMW is how the use of another manufacturer might affect customers' confidence in the BMW brand. Most would say that BMW is a differentiated firm, and its customers expect quality and features over cost. The X3 has been a great success for BMW (both in sales and reviews), so it is apparent that customers have accepted the contract manufacturing of the vehicle.

Perhaps more interesting is BMW's plan to "protect its brand by not entering the minivan market." According to BMW's CEO, "We do not have a van because a van as it is in the market today does not fulfill any of the BMW group brand values." On balance, BMW has succeeded in the luxury, high-end of the SUV market, but has determined that the luxury, high-end market currently has no place for a minivan.

Difficulty: 2 Medium

Learning Objective: 01-04 Explain the different types of competitive strategies

Topic: Strategy

79. The story of the telecom giant WorldCom came to a sad turn in 2002 as the firm filed for bankruptcy, with some of the managers facing criminal charges for fraud. In 2000 a severe slump in the telecom business led to pressures within WorldCom to reduce expenses and improve the financial statements to meet investor expectations. On orders from top managers, accountants within the firm created fraudulent financial statements, ultimately resulting in an \$11 billion fraud. The fraud was detected as a result of an inquiry by the SEC, which led an internal auditor within WorldCom to start an investigation that uncovered the fraud in 2002. The successor firm, MCI (which had previously merged with WorldCom and is now part of Verizon), under the leadership of new top management, formed the office of chief ethics officer who had the responsibility for MCI's policy of training all MCI's U.S.-based employees, an ethics hotline, an ethics pledge signed by the firm's top 100 executives, and a company code of ethics, among other responsibilities.

Required: What should be the role of an ethics officer? To whom should the ethics officer report within the organization? Do you think MCI had a good plan for ensuring ethical behavior within the firm? How would you change the MCI ethics policy, if at all?

The WorldCom scandal is one of the most significant and extensive frauds in U.S. history. The important part of this story is that the survivor organization, MCI, is doing well under new leadership and has begun an ethical compliance program. The question is intended primarily as a basis for class discussion, and there are likely to be a wide range of views. I begin by noting that the announcement of a Chief Ethics Officer is a good strategic move for MCI, given the recent history of the company. It is important for the firm to make a clear statement about the importance of ethical behavior in the years ahead.

It is difficult to determine the precise role for an ethics officer; the concept is new and there is not much experience to provide guidance. The functions set out in the MCI announcement make sense—employee training, hotline, pledge, and code of ethics. It is clear in the MCI case that the officer has the strong support of top management. So the role and responsibilities of the chief ethics officer should be watched closely at the top management level -- both CEO and CFO. From the experience with WorldCom and other frauds, where both the CEO and

CFO were culpable, it is probably also important that the chief ethics officer report not only to the CEO and CFO, but also to the firm's audit committee (a subset of the firm's board of directors with responsibility for managing the audit function and providing oversight of internal control procedures within the firm).

Difficulty: 2 Medium

Learning Objective: 01-06 Understand the principles and rules of professional ethics and explain how to apply them

Topic: Ethics