Managerial Accounting 8th Edition by Hartgraves & Morse
Practice Quiz Solutions

Chapter 1—Managerial Accounting: Tools for Decision Making

1. Which of the following is a characteristic of Managerial Accounting?

a. No external standards
b. Provides information for internal users
c. Information is more detailed
d. All of the above

Answer: *d*
Rationale: All are characteristics of managerial accounting.

2. Strategic position analysis is:

a. The study of factors that cause or influence costs
b. The study of value-producing activities, stretching from basic raw materials to the final consumer of a product or service
c. An examination of an organization's basic way of competing to sell products or services
d. All of the above

Answer: *c*
Rationale: Strategic position analysis is one component of strategic cost management. The other two components are cost driver analysis (the study of factors that cause or influence costs) and value chain analysis (the study of value-producing activities).

3. Michael Porter's Strategic Position Analysis model generally recognizes all of the following as possible strategic positions, except:

a. Goal setting
b. Cost leadership
c. Product differentiation
d. Market niche

Answer: *a*
Rationale: Porter's model recognizes three basic strategic position alternatives: cost leadership, product differentiation, and market niche.

4. Organizing is the process of:

a. Selecting goals and adopting strategies for achieving them
b. Making the organization into a well-ordered whole
c. Motivating employees for the attainment of goals
d. Ensuring that results agree with plans

Answer: *b*
Rationale: Organizing is the process of making the organization into a well-ordered whole. In organizing, the authority to take action is to implement plans is delegated to other managers and employees.

5. International business competition has been fueled primarily by the adoption of international treaties, such as the North American Free Trade Agreement.

a. True
b. False

Answer: *b*
Rationale: International treaties, such as the North American Free Trade Agreement and the General Agreement on Tariffs and Trade, merely recognize an already existing and inevitable condition made possible by advances in telecommunications (to move data), computers (to process data into information), and transportation (to move products and people).

6. To be successful in a competitive international economic environment, businesses must be able to compete on the basis of:

a. Price
b. Quality
c. Service
d. All of the above

Answer: *d*
Rationale: Managers of successful companies today compete in a global market with instant communications. Because the competition is hungry and always striving to gain a competitive advantage, world-class companies must continuously struggle to improve performance on these three interrelated dimensions: price/cost, quality, and service.

7. Which of the following is not a cost driver?

a. The gender of the wait staff at a restaurant
b. The number of customers in a restaurant
c. The size of a restaurant
d. The policy of empowering a waitress to make the decision to give a customer a free dessert because of the delay in delivering the main entrée

Answer: *a*
Rationale: The number of customers in a restaurant is a cost driver because the more customers, the more food cost is incurred. The size of the restaurant is a cost driver because the larger the restaurant, the greater the utility costs. Allowing waitresses to make a decision about providing a free dessert to a customer is a cost driver that increases short-term costs, but results in happier customers and increased overall profitability of the company. The gender of the wait staff should not have any influence on the restaurant's cost structure.

8. Which of the following is one of the three basic types of cost drivers discussed in the text?

a. Organizational cost drivers
b. Direct cost drivers
c. Both a and b
d. Neither a nor b

Answer: *a*
Rationale: The text discusses three types of cost drivers: activity, organizational, and structural cost drivers.

9. Which of the following is not likely to be regarded as an action that has ethical implications in today's business environment?

a. Purchasing supplies from a relative or friend rather than seeking bids
b. Using different depreciation methods for calculating depreciation expense for the financial statements and the income tax return
c. Failing to recognize obsolete inventory to avoid missing a profit forecast
d. Shifting costs for one contract to another to make the profits of the contracts line up with initial forecasts

Answer: *b*
Rationale: Using different depreciation methods between the financial statements and the tax returns is permitted, if not encouraged, by the tax laws and generally accepted accounting principles. In the current business environment this practice is not likely to raise questions of ethics. The other answers to this question represent actions that would likely raise questions about whether the company is deliberately trying to deceive the shareholders or other users of the financial statements.

10. Which of the following statements about business ethics is *true?*

a. Ethical dilemmas often involve a trade-off between current results and future results, such as delaying recognizing an expense until the future when profits are expected to be higher.
b. Ethical dilemmas often result from a series of small compromises that evolve over time into major ethical breaches.
c. One of the important goals of corporate codes of ethics is to provide employees with a common foundation for addressing ethical issues.
d. All of the above are true

Answer: *d*
Rationale: Answers a, b, and c are all true statements regarding business ethics. Many public accounting failures such as that of WorldCom involved the inappropriate shifting of expenses between periods in order to manage earnings and protect the stock price. Most major ethical failures in business do not typically begin as major conspiracies to defraud the company, but as small ethical failures that accumulate into large violations over time. To help companies minimize ethical problems and equip employees to recognize and deal with ethical dilemmas, many companies have adopted codes of ethics.