Horngren's Cost Accounting 18th edition Datar Test Bank

SKU: 9780135337936-TEST-BANK

Horngren's Cost Accounting, 18e **(Datar/Rajan)**
Chapter 1 The Manager and Management Accounting

Objective 1.1 Financial Accounting, Management Accounting, and Cost Accounting

1) Management accounting:
A) focuses on estimating future revenues, costs, and other measures to forecast activities and their results
B) provides information about the company as a whole
C) reports information that has occurred in the past that is verifiable and reliable
D) provides information that is generally available only on a quarterly or annual basis
Answer: A
Explanation: Management accounting has a forward-looking orientation as opposed to financial accounting which has a historical perspective.
Diff: 1
Objective: 1
AACSB: Analytical thinking

2) Managers use management accounting information to:
A) help external users such as investors, banks, regulators, and suppliers
B) communicate, develop, and implement strategies
C) communicate a firm's financial position to investors, banks, regulators, and other outside parties
D) ensure that financial statements are consistent with the SEC rules
Answer: B
Diff: 1
Objective: 1
AACSB: Analytical thinking

3) Financial accounting:
A) focuses on the future and includes activities such as preparing next year's operating budget
B) must comply with GAAP (generally accepted accounting principles)
C) is the process of measuring, analyzing, and reporting financial and nonfinancial information related to the costs of acquiring or using resources in an organization
D) is prepared for the use of department heads and other employees
Answer: B
Diff: 1
Objective: 1
AACSB: Analytical thinking

4) Which of the following would most likely be the user of financial accounting information?
A) factory shift supervisor
B) distribution manager
C) current shareholder
D) department manager
Answer: C
Diff: 1
Objective: 1
AACSB: Analytical thinking

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5) The primary user of management accounting information is a(n):
A) controller
B) shareholder evaluating a stock investment
C) bondholder
D) external regulator
Answer: A
Diff: 1
Objective: 1
AACSB: Analytical thinking

6) Financial accounting provides the primary source of information for:
A) decision making in the assembly and finishing department
B) improving distribution and customer service
C) preparing the income statement for shareholders and other external parties
D) planning next year's plans and specifically; the operating budget
Answer: C
Diff: 1
Objective: 1
AACSB: Analytical thinking

7) Which of the following is true of management accounting information?
A) It focuses on documenting past business actions of a firm.
B) It is prepared based on SEC rules and FASB accounting principles.
C) It is prepared for shareholders.
D) It helps with the coordination of elements of the value chain.
Answer: D
Diff: 2
Objective: 1
AACSB: Analytical thinking

8) Which of the following statements refers to management accounting information?
A) There are no regulations governing the reports.
B) The reports are generally delayed and historical.
C) The audience tends to be stockholders, creditors, and tax authorities.
D) It primarily measures manager's compensation on reported financial results.
Answer: A
Diff: 2
Objective: 1
AACSB: Analytical thinking

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9) Which of the following groups would be least likely to receive detailed management accounting reports?
A) stockholders
B) sales managers
C) production supervisors
D) distribution managers
Answer: A
Diff: 1
Objective: 1
AACSB: Analytical thinking

10) Management accounting information typically includes:
A) tabulated results of customer satisfaction surveys
B) the cost of producing a product
C) the percentage of units produced that are defective
D) All of these answers are correct.
Answer: D
Diff: 1
Objective: 1
AACSB: Application of knowledge

11) Cost accounting:
A) measures the costs of acquiring or using resources in an organization
B) measures the financial and nonfinancial information that helps managers make decisions to fulfill the goals of an organization
C) coordinates product design, production, and marketing decisions and evaluate a company's performance
D) communicates information to investors, banks, regulators, and other outside parties
Answer: A
Diff: 1
Objective: 1
AACSB: Analytical thinking

12) Which of the following differentiates cost accounting and financial accounting?
A) The primary users of cost accounting are the investors, whereas the primary users of financial accounting are the managers.
B) Cost accounting deals with product design, production, and marketing strategies, whereas financial accounting deals mainly with pricing of the products.
C) Cost accounting measures only the financial information related to the costs of acquiring fixed assets in an organization, whereas financial accounting measures financial and nonfinancial information of a company's business transactions.
D) Cost accounting measures information related to the costs of acquiring or using resources in an organization, whereas financial accounting measures a financial position of a company to investors, banks, and external parties.
Answer: D
Diff: 2
Objective: 1
AACSB: Analytical thinking

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13) Which of the following is true of financial accounting information?
A) It is prepared based on cost-benefit analysis.
B) It is primarily used by managers to make internal business decisions.
C) It focuses on the past-oriented financial performance of a company.
D) It only measures the cash transactions of a company.
Answer: C
Diff: 2
Objective: 1
AACSB: Analytical thinking

14) The acronym of a central database system that provides inputs to modules and applications that support activities such planning, purchasing, production, distribution, and sales is called:
A) ABC
B) CRM
C) ERP
D) VAT
Answer: C
Diff: 1
Objective: 1
AACSB: Analytical thinking

15) Which of the following is true of cost accounting?
A) It is a subset of management accounting and therefore its information is used only to meet the needs of managers.
B) It is used only by manufacturers.
C) It is part of both management and financial accounting systems.
D) The distinction between management accounting and cost accounting is clear-cut.
Answer: C
Diff: 2
Objective: 1
AACSB: Analytical thinking

16) Which of the following deals with management accounting?
A) identifying the costs of acquiring the resources of the company
B) developing budgets
C) preparing the income statement
D) preparing the statement of cash flows
Answer: B
Diff: 1
Objective: 1
AACSB: Analytical thinking

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17) Financial accounting is concerned primarily with:
A) external reporting to investors, creditors, and government authorities
B) cost planning and cost controls
C) product design and marketing strategies
D) providing information for strategic and tactical decisions
Answer: A
Diff: 1
Objective: 1
AACSB: Analytical thinking

18) Financial accounting provides a historical perspective, whereas management accounting emphasizes:
A) the future
B) past transactions
C) a current perspective
D) reports to shareholders
Answer: A
Diff: 1
Objective: 1
AACSB: Analytical thinking

19) Rules for measurement and reporting for management accounting:
A) state that information must only be useful to management
B) do not need to follow GAAP but must meet the cost-benefit test
C) must follow GAAP
D) must follow GAAP, IRS rules or government standards
Answer: B
Diff: 2
Objective: 1
AACSB: Analytical thinking

20) The approaches and activities of managers in short-run and long-run planning and control decisions that increase value for customers and lower costs of products and services are known as:
A) value chain management
B) enterprise resource planning
C) cost management
D) customer value management
Answer: C
Diff: 1
Objective: 1
AACSB: Analytical thinking

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21) How can generative AI tools help management accountants in optimizing pricing strategies?
A) by analyzing competitor pricing strategies and customer behavior
B) by eliminating the need for budgeting
C) by reducing the workload for accountants
D) by completely replacing human managers
Answer: A
Diff: 1
Objective: 1
AACSB: Analytical thinking

22) Financial accounting information focuses on internal reporting.
Answer: FALSE
Explanation: Management accounting information focuses on internal reporting and financial accounting focuses on external reporting.
Diff: 1
Objective: 1
AACSB: Analytical thinking

23) Cost accounting provides information for both management accounting and financial accounting professionals.
Answer: TRUE
Diff: 2
Objective: 1
AACSB: Analytical thinking

24) Management accounting information and reports do not have to follow set principles or rules such as GAAP but should be useful to its audience and meet the cost/benefit test.
Answer: TRUE
Diff: 1
Objective: 1
AACSB: Analytical thinking

25) Management accounting ensures communication of an organization's financial position to investors, banks, and regulators.
Answer: FALSE
Explanation: Financial accounting, not management accounting, ensures communication of an organization's financial position to investors, banks, and regulators.
Diff: 1
Objective: 1
AACSB: Analytical thinking

26) The balance sheet and income statement are primarily management accounting reports.
Answer: FALSE
Explanation: The balance sheet and income statement are primarily financial accounting reports produced for owners, investors, and other external parties that provide capital or regulate the business.
Diff: 1
Objective: 1
AACSB: Analytical thinking

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27) Financial accounting is broader in scope than management accounting in that financial accounting can include external reporting and reporting that helps managers plan and control operations.
Answer: FALSE
Explanation: Management accounting is broader in scope than financial accounting as it can encompass some GAAP issues such as inventory valuation and cost of goods sold and it also provides reporting to help managers make decisions and plan and control operations.
Diff: 1
Objective: 1
AACSB: Analytical thinking

28) Cost accounting measures and reports short-term, long-term, financial, and non-financial information.
Answer: TRUE
Diff: 2
Objective: 1
AACSB: Analytical thinking

29) Cost accounting is the process of measuring, analyzing, and reporting financial and nonfinancial information related to the costs of acquiring or using resources in an organization.
Answer: TRUE
Diff: 1
Objective: 1
AACSB: Analytical thinking

30) Management accounting has to strictly follow the rules of generally accepted accounting principles for the purposes of measurement and reporting.
Answer: FALSE
Explanation: Internal measures and reports do not have to follow GAAP. Usefulness and the cost/benefit approach are the guiding principles of management accounting.
Diff: 2
Objective: 1
AACSB: Analytical thinking

31) For management accounting, internal measurement and reporting are based on cost-benefit analysis.
Answer: TRUE
Diff: 2
Objective: 1
AACSB: Analytical thinking

32) Management accounting report time spans can vary from one hour to many years, while financial accounting report time periods usually span a quarter or a year.
Answer: TRUE
Diff: 1
Objective: 1
AACSB: Analytical thinking

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33) Financial accounting provides an organization's past-oriented information such as the previous years' financial statements.
Answer: TRUE
Explanation: Financial accounting provides an organization's past-oriented information such as the previous years' financial statements.
Diff: 1
Objective: 1
AACSB: Analytical thinking

34) Cost management not only helps reduce costs but also improve customer satisfaction and the quality of a firm's products.
Answer: TRUE
Diff: 1
Objective: 1
AACSB: Analytical thinking

35) For each report listed below, identify whether the major purpose of the report is for (1) routine internal reporting, (2) nonroutine internal reporting, or for (3) external reporting to investors and other outside parties.

Item:
a. study detailing sale information of the top ten selling products
b. weekly report of total sales generated by each store in the metropolitan area
c. annual report sent to shareholders
d. monthly report comparing budgeted sales by store to actual sales
Answer:
a. (2) nonroutine internal reporting
b. (1) routine internal reporting
c. (3) external reporting to investors and other outside parties
d. (1) routine internal reporting
Diff: 3
Objective: 1
AACSB: Application of knowledge

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36) Describe management accounting and financial accounting.
Answer: Management accounting provides information to internal decision makers of the business such as top executives, managers, sales representatives, and production supervisors. Its purpose is to help managers predict and evaluate future results. Reports are generated often and usually broken down into smaller reporting divisions such as department or product line. There are no rules to be complied with since these reports are for internal use only. Management accounting embraces more extensively such topics as the development and implementation of strategies and policies, budgeting, special studies and forecasts, influence on employee behavior, and nonfinancial as well as financial information.

Financial accounting, by contrast, provides information to external decision makers such as investors and creditors. Its purpose is to present a fair picture of the financial condition of the company. Reports are generated quarterly or annually and report on the company as a whole. The financial statements must comply with GAAP (generally accepted accounting principles). A CPA audits, or verifies, that GAAP is being followed.
Diff: 3
Objective: 1
AACSB: Analytical thinking

37) Cost accounting provides information for both management accounting and financial accounting professionals. Explain.
Answer: Cost accounting is the process of measuring, analyzing, and reporting financial and nonfinancial information related to the costs of acquiring or using resources in an organization. For example, calculating the cost of a product is a cost accounting function that meets both the financial accountant's inventory-valuation needs and the management accountant's decision-making needs such as deciding how to price products and choosing which products to promote.
Diff: 3
Objective: 1
AACSB: Analytical thinking

38) There is an overlap or intersection between management accounting and financial accounting. Explain.
Answer: Management accounting develops the cost information that is necessary to value inventory for the balance sheet and cost of goods sold for the income statement. GAAP requires absorption costing.
Diff: 2
Objective: 1
AACSB: Analytical thinking

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39) Describe the major differences between management accounting and financial accounting for the following:

1. Primary users
2. Focus and emphasis
3. Rules of measurement and reporting
Answer:
1. The primary users of management accounting information are managers of the organization. The primary users of financial accounting are external users such as investors, banks, regulators, and suppliers.
2. Management accounting is future oriented. Financial accounting is past oriented.
3. Management accounting measurement and reporting does not have to follow GAAP but are based on cost-benefit analysis. Financial accounting measurement and reporting must be prepared in accordance with GAAP and be certified by external, independent auditors.
Diff: 3
Objective: 1
AACSB: Analytical thinking

Objective 1.2 Strategic Decisions and the Management Accountant

1) Which of the following statements concerning an organization's strategy is true?
A) Strategy specifies how an organization matches its own capabilities with the opportunities in the marketplace to accomplish its objectives.
B) Cost accountants formulate strategy in an organization since they have more inputs about costs.
C) A good strategy will always overcome poor implementation.
D) Businesses usually follow one of two broad strategies: offering a quality product at a high price, or offering a unique product or service priced lower than the competition.
Answer: A
Diff: 2
Objective: 2
AACSB: Analytical thinking

2) Strategy specifies:
A) how an organization matches its own capabilities with the opportunities in the marketplace
B) standard procedures to ensure quality products
C) incremental changes for improved performance
D) the demand created for products and services
Answer: A
Diff: 2
Objective: 2
AACSB: Analytical thinking

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3) Which of the following is NOT a concern for management accountants in formulating a strategy?
A) identifying the most important warehouse location for the distribution of goods
B) substituting products that exist in the marketplace
C) strategizing compliance with GAAP (Generally Accepted Accounting Principles)
D) maintaining adequate fixed assets available to implement the strategy
Answer: C
Explanation: This is more of a concern of financial accountants than of management accountants.
Diff: 2
Objective: 2
AACSB: Analytical thinking

4) Strategy is formulated:
A) by identifying the most important customers
B) by forecasting the composition of adequate fixed assets
C) based on the qualified opinion of external auditors
D) by eliminating sunk costs
Answer: A
Diff: 2
Objective: 2
AACSB: Analytical thinking

5) In designing strategy, a company must match its opportunities in the marketplace with:
A) environmentally friendly goals
B) its resources and capabilities
C) branding opportunities
D) the requirements of credit rating agencies
Answer: B
Diff: 2
Objective: 2
AACSB: Analytical thinking

6) How does a company pursuing a cost leadership strategy typically manage its costs?
A) by investing heavily in product features and customer service
B) by focusing on efficient production methods and cost reduction across the entire value chain
C) by offering customized products tailored to specific market segments
D) by increasing product prices to improve margins
Answer: B
Diff: 1
Objective: 2
AACSB: Analytical thinking

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7) Which of the following is a primary objective of strategic cost management in relation to business strategy?
A) to cut costs without considering the business strategy
B) to allocate costs based on departmental needs alone
C) to align cost decisions with strategies like cost leadership or differentiation
D) to focus only on reducing direct costs across operations
Answer: C
Diff: 1
Objective: 2
AACSB: Analytical thinking

8) Which of the following statements about customer value is true?
A) Customer value is shown in a corporation's balance sheet.
B) Creating value for customers is an important part of planning and implementing strategy.
C) Customer value is the only focus that helps managers to formulate strategies.
D) Customer value is lost with increase in costs of the product.
Answer: B
Diff: 2
Objective: 2
AACSB: Analytical thinking

9) A company's strategy specifies how an organization matches its capabilities with the opportunities in the marketplace.
Answer: TRUE
Diff: 2
Objective: 2
AACSB: Analytical thinking

10) The two broad strategies that companies follow are cost leadership strategy and product differentiation strategy.
Answer: TRUE
Diff: 1
Objective: 2
AACSB: Analytical thinking

11) The best-designed strategies are valuable, whether or not they are effectively implemented.
Answer: FALSE
Explanation: Implementation is essential or the strategy is useless.
Diff: 1
Objective: 2
AACSB: Analytical thinking

12) The key to a company's success is creating value for customers while differentiating itself from its competitors.
Answer: TRUE
Diff: 1
Objective: 2
AACSB: Analytical thinking

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13) The key to a company's success is always to be the low cost producer in a particular industry.
Answer: FALSE
Explanation: The low cost producer in a particular industry will not necessarily be successful.
Diff: 2
Objective: 2
AACSB: Analytical thinking

14) Management accountants work closely with managers in various departments to formulate strategies by providing information about the sources of competitive advantage.
Answer: TRUE
Diff: 2
Objective: 2
AACSB: Analytical thinking

15) Management accountants should have little or no role in deciding on a company's strategy.
Answer: FALSE
Explanation: Management accountants should play a significant role in deciding on a company's strategy.
Diff: 1
Objective: 2
AACSB: Analytical thinking

16) Companies can decide on an appropriate strategy based strictly on internally available information.
Answer: FALSE
Explanation: Companies must obtain external information as well as internal information to decide on an appropriate strategy.
Diff: 2
Objective: 2
AACSB: Analytical thinking

17) Strategic cost management describes cost management that specifically focuses on strategic issues.
Answer: FALSE
Explanation: Strategic cost management describes cost management that specifically focuses on strategic issues.
Diff: 2
Objective: 2
AACSB: Analytical thinking

18) Identifying a company's most important customers helps to formulate a strategy.
Answer: TRUE
Diff: 1
Objective: 2
AACSB: Analytical thinking

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19) The best-designed strategies and the best-developed capabilities are useless unless they are effectively executed.
Answer: TRUE
Diff: 1
Objective: 2
AACSB: Analytical thinking

20) In asking questions during the process of strategy formulation, management accounts focused on the bargaining power of both suppliers and customers.
Answer: TRUE
Diff: 1
Objective: 2
AACSB: Analytical thinking

21) What is strategy? Briefly describe the two broad types of strategies that companies may choose to pursue.
Answer: Strategy specifies how an organization matches its own capabilities with the opportunities in the marketplace to accomplish its objectives. In other words, strategy describes how a company will compete.

Companies follow one of two broad strategies. One is providing a quality product or service at low prices. The other is to compete on their ability to offer a unique product or service that is generally offered at a higher price.
Diff: 2
Objective: 2
AACSB: Analytical thinking

22) Briefly describe the list of items that managers undertake to formulate strategies.
Answer: ONE: Identifying the most important customers, and how the company can be competitive and deliver value to them.
TWO: Identifying the substitute products existing in the marketplace, and how do they differ from our product in terms of features, price, cost, and quality.
THREE: Identifying most critical capability-whether it is technology, production or marketing.
FOUR: Checking the adequacy of cash available to fund the strategy, or will additional funds need to be raised-through issue of debt or equity.
Diff: 3
Objective: 2
AACSB: Analytical thinking

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23) Generally, companies follow one of two broad strategies: offering a quality product at a low price, or offering a unique product or service priced higher than the competition. Assume you are opening a small food outlet across the street from your campus. How might that business be operated under each of the two broad strategies? Consider the following specific operational areas:

a. target customers
b. products offered
c. product pricing
d. location choice
e. advertising content
f. advertising media

Answer: The purpose of this question is to explore some of the differences in business operations as a result of a broad strategic choice. Answers will differ from student to student, but you should see some specific themes.

Operational Area	Low Price Strategy	Differential Strategy
Target customers	Target customers might be students on a tight budget.	Target customers might be more wealthy students, faculty, or perhaps neighbors who live nearby.
Products offered	Few products, heavy emphasis on tight cost control, probably set up as a high volume operation.	High quality products, probably a reasonable choice, restaurant might have a lot of ambience.
Product pricing	Priced at or lower than the competition in the area.	Higher priced products.
Location choice	Convenient to the target customers.	Not as convenient, perhaps in a higher-end shopping or entertainment area. Customers might seek out the high quality and be willing to travel a bit for it.
Advertising content	Advertising would emphasize the low price of the products offered.	Advertising would emphasize quality or ambience.
Advertising media	Media that would be looked at by the target customers, such as student newspapers.	Media that would be looked at by the target customer, local magazines and newspapers.

Diff: 3
Objective: 2
AACSB: Application of knowledge

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24) Generally, companies follow one of two broad strategies: offering a quality product at a low price, or offering a unique product or service priced higher than the competition. Is it possible to follow a strategy that is "in the middle"?
Answer: There is some dispute about the correct answer to this question. Some will argue that it is not good for companies to get "caught in the middle" because the customer might get confused as to whether or not the company is competing on price or is trying to make some other appeal. If the customer is confused about how the company is giving them value, they might perceive they are getting no value and abandon the product to a competitor with a clearer customer value proposition. The other side of the argument is that cost management is a necessary part of any strategy and even if the company chooses to pursue a differential strategy, management of the company should always be seeking ways to manage costs and increase customer value simultaneously regardless of their strategy. The student should be able to articulate one or the other arguments coherently.
Diff: 3
Objective: 2
AACSB: Application of knowledge

25) What competitive advantage could a company obtain from having a successful cost management program?
Answer: There are three broad outcomes from a successful cost management program: 1) costs are reduced with no loss in customer value. In this scenario, a company might gain a competitive advantage by lowering its price with no loss in profit, or maintain the same price and increase profit; 2) customer value is increased with no change in costs. This scenario might increase customer satisfaction resulting in increased customer loyalty and perhaps increase the overall demand for the product; 3) customer value might be increased while costs are reduced simultaneously. This scenario would result in the benefits described in both 1) and 2).
Diff: 3
Objective: 2
AACSB: Analytical thinking

Objective 1.3 Value-Chain and Supply-Chain Analysis and Key Success Factors

1) R&D, production, and customer service are business functions that are all included as part of:
A) the value chain
B) benchmarking
C) customer relationship management
D) the supply chain
Answer: A
Diff: 1
Objective: 3
AACSB: Analytical thinking

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2) The value chain is the sequence of business functions in which:
A) value is deducted from the products or services of an organization
B) producing and delivering the product or service is of prime importance
C) products and services are evaluated with respect to their value to the supply chain
D) usefulness is added to the products or services of an organization
Answer: D
Diff: 2
Objective: 3
AACSB: Analytical thinking

3) _____ is the generation of, and experimentation with, ideas related to new products, services, or processes.
A) Research and development
B) Design of products, services, or processes
C) Production
D) Marketing
Answer: A
Diff: 1
Objective: 3
AACSB: Analytical thinking

4) _____ is the detailed planning and engineering and testing of products, services, or processes.
A) Plan of implementation
B) Design
C) Production
D) Research and development
Answer: B
Diff: 1
Objective: 3
AACSB: Analytical thinking

5) Production is the:
A) generation of, and experimentation with, ideas related to new products, services, or processes
B) processing orders and shipping products or services to customers
C) acquisition, coordination, and assembly of resources to produce a product or deliver a service
D) detailed planning and engineering of products, services, or processes
Answer: C
Diff: 2
Objective: 3
AACSB: Analytical thinking

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6) That part of the value chain that includes ordering and shipping the product to retail outlets is:
A) customer service
B) production
C) marketing
D) distribution
Answer: D
Diff: 2
Objective: 3
AACSB: Analytical thinking

7) Which of the following differentiates marketing from customer service?
A) Marketing is the process of promoting and selling products or services to customers or prospective customers, whereas customer service is the process of providing after-sales service to customers.
B) Marketing is the process of processing orders and shipping products or services to customers, whereas customer service is the process of providing additional information to customers about the product.
C) Marketing is the process of detailed planning, engineering, and testing of products and processes, whereas customer service concentrates on existing customers.
D) Marketing is the process of processing orders and shipping products or services to customers, whereas customer service is concerned with choosing the right customer for the product.
Answer: A
Diff: 2
Objective: 3
AACSB: Analytical thinking

8) _____ is an after-sale support provided to customers.
A) Distribution
B) Customer service
C) Production
D) Marketing
Answer: B
Diff: 1
Objective: 3
AACSB: Analytical thinking

9) _____ is a strategy that integrates people and technology in all business functions to enhance relationships with customers, partners, and distributors.
A) Supply-chain analysis
B) Customer relationship management
C) Value-chain analysis
D) Continuous quality improvement
Answer: B
Diff: 1
Objective: 3
AACSB: Analytical thinking

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10) Customer relationship management initiatives use technology to coordinate all:
A) advertising and marketing techniques to attract customers
B) research activities
C) customer-facing activities
D) quality control management activities
Answer: C
Diff: 1
Objective: 3
AACSB: Analytical thinking

11) _____ describes the flow of goods, services, and information from the purchase of materials to the delivery of products to consumers, regardless of whether those activities occur in the same organization or with other organizations.
A) Supply chain
B) Production process
C) Quality control
D) Customer relationship management
Answer: A
Diff: 1
Objective: 3
AACSB: Analytical thinking

12) Processing orders and shipping products or providing services to customers is known as:
A) after-sales services
B) distribution
C) marketing
D) supply chain
Answer: B
Diff: 1
Objective: 3
AACSB: Analytical thinking

13) _____ is a philosophy in which management improves operations throughout the value chain to deliver products and services that exceed customer expectations.
A) Cost-benefit approach
B) Customer focus
C) Customer relationship management
D) Total quality management
Answer: D
Diff: 1
Objective: 3
AACSB: Analytical thinking

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14) Which of the following is an area that customers want to see improved levels of performance?
A) higher sales margin
B) quality of the product
C) lower marginal costs
D) profit margins
Answer: B
Diff: 2
Objective: 3
AACSB: Analytical thinking

15) Which of the following statements about a company's supply chain is true?
A) A company's supply chain is always internal to a firm.
B) A company's supply chain is always external to a firm.
C) A company's supply chain is the same thing as a company's value chain.
D) Management accountants provide information to enhance a company's supply chain.
Answer: D
Diff: 2
Objective: 3
AACSB: Analytical thinking

16) When managers determine whether it is less expensive to buy products from a vendor or make them in house they are performing:
A) cost-benefit analysis
B) supply-chain analysis
C) value-chain analysis
D) research and development
Answer: A
Diff: 2
Objective: 3
AACSB: Analytical thinking

17) The _____ function supports the six functions of value-chain analysis.
A) controlling
B) administration
C) planning
D) direction
Answer: B
Diff: 1
Objective: 3
AACSB: Analytical thinking

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18) _____ aims to improve operations throughout the value chain and to deliver products and services that exceed customer expectations.
A) Total Quality Management
B) Innovation
C) Customer response time
D) Cost and efficiency
Answer: A
Diff: 1
Objective: 3
AACSB: Analytical thinking

19) New-product development time is the time taken to:
A) test the prototype and start the large scale production of a product
B) design and develop the prototype product
C) create new products and bring them to market
D) improvise existing products and re-launch them to market
Answer: C
Diff: 2
Objective: 3
AACSB: Analytical thinking

20) Customer response time involves:
A) the speed it takes a customer to respond to an advertisement and place an order
B) the speed at which an organization responds to customer requests
C) the speed it takes to develop a new product
D) the speed it takes an organization to develop a Total Quality Management (TQM) program
Answer: B
Diff: 2
Objective: 3
AACSB: Analytical thinking

21) Sustainability is a strategy to achieve long term:
A) cost reductions and efficiency objectives
B) financial and quality goals
C) financial, social, and environmental goals
D) innovation and technology goals
Answer: C
Diff: 2
Objective: 3
AACSB: Analytical thinking

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22) What is the role of management accountants in incorporating sustainability into cost management?
A) to ignore environmental costs in favor of financial performance
B) to measure the environmental and social impact of business decisions
C) to reduce customer satisfaction for cost savings
D) to maximize short-term profits over long-term sustainability
Answer: B
Diff: 2
Objective: 3
AACSB: Analytical thinking

23) The supply chain refers to the sequence of business functions in which customer usefulness is added to products or services.
Answer: FALSE
Explanation: The value chain refers to the sequence of business functions in which customer usefulness is added to products or services.
Diff: 2
Objective: 3
AACSB: Analytical thinking

24) An effective way to cut costs is to eliminate activities that do NOT improve the product attributes that customers value.
Answer: TRUE
Diff: 1
Objective: 3
AACSB: Analytical thinking

25) For optimal planning success it is best if each business function within the value chain is performed one at a time in sequence.
Answer: FALSE
Explanation: Optimally, success is achieved when two or more of the individual business functions work concurrently as a team.
Diff: 2
Objective: 3
AACSB: Analytical thinking

26) For best results, cost management emphasizes independently coordinating supply chain activities within your company and with other companies that act as suppliers and customers.
Answer: TRUE
Diff: 2
Objective: 3
AACSB: Analytical thinking

27) Technological innovation has led to shorter product-life cycles and increased the need to bring new products to market more rapidly.
Answer: TRUE
Diff: 1
Objective: 3
AACSB: Analytical thinking

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28) Management accounting information helps managers calculate a target cost for a product by subtracting from the target price the net income per unit of product that the company wants to earn.
Answer: FALSE
Explanation: Management accounting information helps managers calculate a target cost for a product by subtracting from the target price the operating income per unit of product that the company wants to earn.
Diff: 2
Objective: 3
AACSB: Analytical thinking

29) Customer relationship management initiatives use technology to coordinate all customer-facing activities (such as marketing, sales calls, distribution, and after-sales support) and the design and production activities necessary to get products to customers.
Answer: TRUE
Diff: 2
Objective: 3
AACSB: Analytical thinking

30) The supply chain describes the flow of goods, services, and information from the initial sources of materials and services to the delivery of products to consumers.
Answer: TRUE
Diff: 2
Objective: 3
AACSB: Analytical thinking

31) The supply chain always occurs within a single organization.
Answer: FALSE
Explanation: The supply chain can include organizations external to a single organization.
Diff: 1
Objective: 3
AACSB: Analytical thinking

32) Distribution refers to promoting and selling products or services to customers or prospective customers.
Answer: FALSE
Explanation: Marketing refers to promoting and selling products or services to customers or prospective customers.
Diff: 1
Objective: 3
AACSB: Analytical thinking

33) The design of products, services, and processes component of the supply chain refers to the detailed planning, engineering, and testing of products and processes.
Answer: TRUE
Diff: 2
Objective: 3
AACSB: Analytical thinking

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34) Management accountants might provide information on decisions on whether to buy a product from outside or manufacture it in-house.
Answer: TRUE
Diff: 1
Objective: 3
AACSB: Analytical thinking

35) The parts of the value chain associated with producing and delivering a product or service–production and distribution–are referred to as the supply chain.
Answer: TRUE
Diff: 2
Objective: 3
AACSB: Analytical thinking

36) Value chain refers to its value to the employee.
Answer: FALSE
Explanation: Value chain refers to its value to the *customer*.
Diff: 1
Objective: 3
AACSB: Analytical thinking

37) Managers track the costs incurred in each value-chain category is to reduce costs and to improve efficiency.
Answer: TRUE
Diff: 1
Objective: 3
AACSB: Analytical thinking

38) Competitive information serves as a benchmark that managers use to continuously improve their operations.
Answer: TRUE
Diff: 1
Objective: 3
AACSB: Analytical thinking

39) Increased global competition is placing pressure on companies to reduce costs.
Answer: TRUE
Diff: 1
Objective: 3
AACSB: Analytical thinking

40) The increasing pace of technological information has resulted in longer product life cycles.
Answer: FALSE
Explanation: The increasing pace of technological information has resulted in shorter product life cycles.
Diff: 2
Objective: 3
AACSB: Application of knowledge

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41) Managers rely on management accounting information to evaluate alternative investment and R&D decisions.
Answer: TRUE
Diff: 1
Objective: 3
AACSB: Analytical thinking

42) In analyzing the value chain of a large manufacturer, a management accountant would become familiar with the Research and Development function by examining the activities of planning, engineering and testing of products and processes.
Answer: FALSE
Diff: 1
Objective: 3
AACSB: Analytical thinking

43) What are the four business functions and in the order that they appear along the value chain?
Answer: Design
Production
Marketing
Customer service
Diff: 2
Objective: 3
AACSB: Analytical thinking

44) Classify each cost item into one of the business functions of the value chain, either (1) R&D, (2) design, (3) production, (4) marketing, (5) distribution, or (6) customer service.

Item:
a. cost of samples mailed to promote sales of a new product
b. labor cost of workers in the manufacturing plant
c. bonus paid to a person with a 90% satisfaction rating in handling customers with complaints
d. transportation costs for shipping products to retail outlets
Answer:
a. (4) marketing
b. (3) production
c. (6) customer service
d. (5) distribution
Diff: 3
Objective: 3
AACSB: Application of knowledge

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45) Classify each cost item of Ripon Printers given below into one of the business functions of the value chain, either (1) R&D, (2) design of products and processes, (3) production, (4) marketing (including sales), (5) distribution, or (6) customer service.

Item:

a. cost of customer order forms
b. cost of paper used in manufacture of books
c. cost of paper used in packing cartons to ship books
d. cost of paper used in display at national trade show
e. depreciation of trucks used to transport books to college bookstores
f. cost of the wood used to manufacture paper
g. salary of the scientists attempting to find another source of printing ink
h. cost of designing the book size so that a standard-sized box is filled to capacity

Answer:

a. (4) marketing (including sales)
b. (3) production
c. (5) distribution
d. (4) marketing (including sales)
e. (5) distribution
f. (3) production
g. (1) research and development
h. (2) design of products and processes

Diff: 3
Objective: 3
AACSB: Application of knowledge

46) Describe the value chain and how it can help organizations become more effective.
Answer: A value chain is a sequence of business functions whose objective is to provide a product to a customer or provide an intermediate good or service in a larger value chain. These business functions include R&D, design, production, marketing, distribution, and customer service.

An organization can become more effective by focusing on whether each link in the chain adds value from the customer's perspective by focusing on the organization's objectives.
Diff: 2
Objective: 3
AACSB: Application of knowledge

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47) **Value chain and classification of costs, car company.**
General Motors incurs the following costs:
a. Electricity costs for the plant assembling the Chevrolet Camaro
b. Transportation costs for shipping the Camaro to dealers
c. Payment to Shelby Designs for the design of the Camaro.
d. Salary of an engineer working on the next generation of Camaros
e. Cost of GM employees' visit to an auto show to demonstrate the Camaro
f. Testing the Camaro at the GM track
g. Payment to television network for running Camaro advertisements
h. Cost of brake pads purchased from outside supplier to be installed on the Camaro

Required:
Classify each of the cost items (**a-h**) into one of the business functions of the value chain.
1) Research and development
2) Design of products and processes
3) Production
4) Marketing and sales
5) Distribution
6) Customer service
Answer: a. 3) Production
b. 5) Distribution
c. 2) Design of products and processes
d. 1) Research and development
e. 4) Marketing and sales
f. 2) Design of products and processes
g. 4) Marketing and sales
h. 3) Production
Diff: 3
Objective: 3
AACSB: Application of knowledge

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Objective 1.4 Decision Making, Planning, and Control: The Five-Step Decision-Making Process

1) Place the five steps in the decision-making process in the correct order:

A = Obtain information
B = Make decisions by choosing among alternatives
C = Identify the problem and uncertainties
D = Implement the decision, evaluate performance, and learn
E = Make predictions about the future

A) C D B E A
B) E D A B C
C) C A E B D
D) A E B D C
Answer: C
Diff: 2
Objective: 4
AACSB: Analytical thinking

2) Which of the following is true of planning in decision making?
A) It helps an organization to select goals and strategies.
B) It improves the quality of products.
C) It helps in evaluating performance.
D) It helps in the analysis of actual performance.
Answer: A
Diff: 1
Objective: 4
AACSB: Analytical thinking

3) Which of the tools shown below would be the most effective planning tool?
A) performance evaluation report
B) fishbone diagram
C) control chart
D) budget
Answer: D
Diff: 2
Objective: 4
AACSB: Analytical thinking

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4) A report showing the actual financial results for a period compared to the budgeted financial results for that same period would most likely be called a:
A) strategic plan
B) management forecast
C) performance report
D) revised plan
Answer: C
Diff: 2
Objective: 4
AACSB: Analytical thinking

5) A budget:
A) is the qualitative expression of a proposed plan of action by management
B) is an aid for coordinating what needs to be done to execute a plan
C) helps in identifying problems and uncertainties
D) promotes production automation
Answer: B
Diff: 2
Objective: 4
AACSB: Analytical thinking

6) Management accountants serve as key business partners in the planning process because they understand the key _____ factors that create _____.
A) success; value
B) accounting; profits
C) financial; value.
D) success; income
Answer: A
Diff: 1
Objective: 4
AACSB: Analytical thinking

7) A budget serves as much as a control tool as a planning tool because:
A) it aids in the coordination and communication among various business functions
B) it helps to evaluate customer needs and feedback
C) it is a benchmark against which actual performance can be compared
D) it helps to make predictions about the future
Answer: C
Diff: 2
Objective: 4
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8) Which of the following is an example of an extrinsic reward?
A) receiving a high rating on customer service
B) appreciation mail from a customer
C) promotions based on performance
D) verbal appreciation from CEO
Answer: C
Diff: 1
Objective: 4
AACSB: Application of knowledge

9) Which of the following is an example of an intrinsic reward?
A) bonuses paid to employees
B) recognition of job well done
C) promotions based on performance
D) salaries paid to employees
Answer: B
Diff: 1
Objective: 4
AACSB: Application of knowledge

10) Linking rewards to performance:
A) helps to motivate managers
B) allows companies to charge premium prices
C) should only be based on financial information
D) enhances agency costs
Answer: A
Diff: 2
Objective: 4
AACSB: Analytical thinking

11) Control measures should:
A) be set and not changed until the next budget cycle so as to provide an effective benchmark
B) be set by excluding nonfinancial information
C) be kept confidential from employees so that competitors don't have an opportunity to gain a competitive advantage
D) be linked by feedback to help learning and future planning
Answer: D
Diff: 2
Objective: 4
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12) A well-conceived plan allows managers the ability to:
A) set static goals and still be flexible
B) control lower-level managers from implementing change
C) conservatively estimate costs so that actual operating results will be favorable when comparisons are made
D) take advantage of unforeseen opportunities
Answer: D
Diff: 2
Objective: 4
AACSB: Analytical thinking

13) In which of the following activities would evaluation and learning be most prevalent?
A) controlling operations
B) planning
C) organizing and directing resources
D) identification of uncertainties and risk
Answer: A
Diff: 2
Objective: 4
AACSB: Analytical thinking

14) Examining past performance and exploring alternative ways to make better informed decisions in the future is:
A) control
B) planning
C) learning
D) implementation
Answer: C
Diff: 2
Objective: 4
AACSB: Analytical thinking

15) The last step in the decision-making process is to make decisions by choosing among alternatives.
Answer: FALSE
Explanation: The last step in the decision-making process is to implement the decision, evaluate performance, and learn.
Diff: 1
Objective: 4
AACSB: Analytical thinking

16) One of the steps in planning is evaluating the performance and taking corrective measures.
Answer: FALSE
Explanation: Evaluating the performance and taking corrective measures is a benefit to installing a budgeting system. This is not one of the steps in planning, but a guideline for management..
Diff: 2
Objective: 4
AACSB: Analytical thinking

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17) A budget helps to control activities by adhering to the prescribed plan.
Answer: TRUE
Diff: 1
Objective: 4
AACSB: Analytical thinking

18) To take advantage of changing market opportunities, the annual budget should be strictly enforced.
Answer: FALSE
Explanation: To take advantage of changing market opportunities, the annual budget should be updated to reflect those changes.
Diff: 2
Objective: 4
AACSB: Analytical thinking

19) A budget is a qualitative expression of a plan.
Answer: FALSE
Explanation: Explanation: A budget is a quantitative expression of a plan.
Diff: 1
Objective: 4
AACSB: Analytical thinking

20) The process of preparing a budget encourages coordination and communication throughout the company.
Answer: TRUE
Diff: 1
Objective: 4
AACSB: Analytical thinking

21) Linking rewards to performance helps motivate managers and leads to good management performance.
Answer: TRUE
Diff: 1
Objective: 4
AACSB: Analytical thinking

22) Control comprises taking actions that implement the planning decisions, evaluating past performance, and providing feedback and learning to help future decision making.
Answer: TRUE
Diff: 1
Objective: 4
AACSB: Analytical thinking

23) A budget can only be used as a planning tool.
Answer: FALSE
Explanation: A budget may be used as a planning tool and also as a control tool.
Diff: 1
Objective: 4
AACSB: Analytical thinking

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24) Gathering information before making a decision is not efficient within the decision-making process.
Answer: FALSE
Explanation: Gathering information before making a decision helps managers gain a better understanding of uncertainties.
Diff: 1
Objective: 4
AACSB: Analytical thinking

25) Evaluating actual performance, receiving feedback and learning from that feedback helps in the future decision-making process.
Answer: TRUE
Diff: 1
Objective: 4
AACSB: Analytical thinking

26) Bonuses given to employees based on performance is an example of extrinsic reward.
Answer: TRUE
Diff: 2
Objective: 4
AACSB: Application of knowledge

27) A budget is a benchmark against which actual performance can be compared.
Answer: TRUE
Diff: 2
Objective: 4
AACSB: Analytical thinking

28) A performance report compares actual performance to the amount budgeted.
Answer: TRUE
Diff: 1
Objective: 4
AACSB: Analytical thinking

29) Management accounting is playing an increasingly important role by helping managers develop and implement strategy.
Answer: TRUE
Diff: 1
Objective: 4
AACSB: Analytical thinking

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30) In order, list the five steps in the decision-making process.
Answer:
1. Identify the problem and uncertainties
2. Obtain information
3. Make predictions about the future
4. Make decisions by choosing among alternatives
5. Implement the decision, evaluate performance, and learn
Diff: 2
Objective: 4
AACSB: Analytical thinking

31) For each type of report listed below, identify one planning decision and one controlling decision for which the information would be helpful. Assume you are a Walgreen Company store.

Item:
a. annual financial statements for the past three years
b. report detailing sales by department by each hour of the day for the past week
c. special study regarding increased road traffic due to the construction of a new shopping mall at a near-by intersection
Answer: Please note that answers will vary, but may include the following:

a. Planning: Decision by shareholder about whether to purchase more stock in the company.
Control: Decision by bank to determine if financial ratios maintained in the line-of-credit (LOC) agreement warrant increasing the LOC amount.

b. Planning: Decisions regarding future staffing needs.
Control: Decision regarding whether the recent sales promotion led to an increase in revenue.

c. Planning: Decision of the store manager about whether to change the types of retail items carried.
Control: Decision of the store manager regarding performance of the analyst that prepared the special study.
Diff: 3
Objective: 4
AACSB: Application of knowledge

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32) Briefly explain the planning and control activities in management accounting. How are these two activities linked to each other?
Answer: Planning business operations relates to designing, producing, and marketing a product or service. This includes preparing budgets and determining the prices and cost of products and services. A company must know the cost of each product and service to decide which products to offer and whether to expand or discontinue product lines.

Controlling business operations includes comparing actual results to the budgeted results and taking corrective action when needed.

Feedback links planning and control. The control function provides information to assist in better future planning.
Diff: 3
Objective: 4
AACSB: Analytical thinking

33) Explain how a budget can help management implement strategy.
Answer: A budget is a planning tool, a quantitative expression of a plan of action. First, actions are planned and then they are communicated to the entire organization.

The budget also helps with coordination.
Diff: 1
Objective: 4
AACSB: Analytical thinking

34) What is planning in decision making? Explain how a budget helps in planning.
Answer: Planning consists of selecting an organization's goals and strategies, predicting results under various alternative ways of achieving those goals, deciding how to attain the desired goals, and communicating the goals and how to achieve them to the entire organization. Management accountants serve as business partners in these planning activities because they understand the key success factors and what creates value.
The most important planning tool when implementing strategy is a budget. A budget is the quantitative expression of a proposed plan of action by management and is an aid to coordinating what needs to be done to execute that plan. It helps in the production, distribution, and customer-service costs to achieve the company's sales goals; the anticipated cash flows; and the potential financing needs.
Diff: 3
Objective: 4
AACSB: Analytical thinking

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35) Complete a performance report for the month of May, 2020, for First News Corp, a regional newspaper showing four columns: 1) Actual Result; 2) Budgeted Amount; 3) Difference: Actual Result minus Budgeted Amount; 4) Difference as a Percentage of Budgeted Amount, given the following data:

Actual pages sold	600
Budgeted advertising pages	510
Actual Advertising revenue	$4,200,000
Budgeted Advertising revenue	$4,000,000

Does the report indicate any cause for managerial investigation?
Answer: The performance report should look something like the following:

	Actual Result (1)	Budgeted Amount (2)	Difference (Actual Result - Budgeted Amount) (3) = (1) - (2)	Difference as a Percentage of Budgeted Amount (4) = (3) / (2)
Advertising pages sold	600 pages	510 pages	90 pages Favorable	17.6% Favorable
Average rate per page (Advertising Revenues) / (Advertising pages sold)	$7,000	$7,843.14	$843.14 Unfavorable	10.75% Unfavorable
Advertising revenues	$4,200,000	$4,000,000	$200,000 Favorable	5% Favorable

The overall 5% favorable difference in advertising revenue is caused by offsetting differences in advertising pages sold (favorable) and the average rate per page (unfavorable). The performance report highlights the favorable increase in the advertising pages sold. The percentage drop in advertising revenue per page is marginal in comparison with the favorable increase of the pages sold.
Diff: 3
Objective: 4
AACSB: Application of knowledge

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Objective 1.5 Key Management Accounting Guidelines

1) Which of the following is a guideline used by management accountants to assist in strategic and operational decision making?
A) employing a cost-benefit approach
B) employing a supply chain approach
C) employing a six sigma approach
D) employing a regression approach
Answer: A
Diff: 1
Objective: 5
AACSB: Analytical thinking

2) The scenario that says resources should be spent if the expected benefits to the company exceed the expected costs describes:
A) cost-benefit approach
B) behavioral and technical considerations
C) balanced scorecard
D) different costs for different purposes
Answer: A
Diff: 1
Objective: 5
AACSB: Analytical thinking

3) Which of the following is true of a budgeting system?
A) It compels managers to plan ahead.
B) It increases agency costs.
C) It is easy to measure the exact benefits of a budgeting system.
D) It leads to operational inefficiency.
Answer: A
Diff: 2
Objective: 5
AACSB: Analytical thinking

4) In a cost-benefit approach, managers should spend resources if the:
A) marginal costs to the company exceed the marginal benefits
B) expected benefits to the company exceed the expected costs
C) marginal costs to the company equal the marginal benefits
D) expected benefits to the company equal the expected costs
Answer: B
Diff: 3
Objective: 5
AACSB: Analytical thinking

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5) Which of the following statements about the cost-benefit approach is true?
A) Resources should be spent if the expected costs exceed the expected benefits of the company.
B) In a cost-benefit analysis, both costs and benefits are not easy to measure.
C) Resources should be spent if the costs of a decision outweigh the benefits of the decision.
D) A cost-benefit approach would not be appropriate for a decision to install a budgeting system.
Answer: B
Diff: 2
Objective: 5
AACSB: Analytical thinking

6) You are reviewing a company's internal reports for the first quarter, which are used to make operational decisions. Which of the following is true regarding the accounting methods used for these reports?
A) They must align with the GAAP standards used in the company's external financial statements.
B) The accounting methods should reflect the company's internal goals and may differ from those used in external reporting.
C) The reports must use a uniform approach for both internal and external reporting to avoid confusion.
D) External financial reports should be adjusted to match the internal accounting methods used by the company.
Answer: B
Diff: 2
Objective: 5
AACSB: Analytical thinking

7) Exact quantification of costs and benefits is not always possible when making a decision.
Answer: TRUE
Diff: 1
Objective: 5
AACSB: Analytical thinking

8) The technical considerations of budgeting encourage managers and other employees to strive for achieving the goals of the organization.
Answer: FALSE
Explanation: The behavioral considerations of budgeting encourage managers and other employees to strive for achieving the goals of the organization.
Diff: 2
Objective: 5
AACSB: Analytical thinking

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9) A cost concept used for the purposes of external reporting will always be appropriate for internal reporting.
Answer: FALSE
Explanation: A cost concept used for the purposes of external reporting may not be appropriate for internal, routine reporting. For external reporting, GAAP requires costs to be fully expenses in the year they are incurred. However, those costs could be capitalized and then amortized or written off as expenses over several years.
Diff: 2
Objective: 5
AACSB: Analytical thinking

10) An experienced cost accountant's advice of: "different costs for different purposes" most likely means that that when providing cost information to managers for decision making, you should explore using alternative ways to compute costs because a cost for financial accounting purposes may not be appropriate for internal decision making purposes.
Answer: TRUE
Diff: 2
Objective: 5
AACSB: Analytical thinking

11) Accounting methods for internal reporting purposes are specified by Generally Accepted Accounting Principles (GAAP).
Answer: FALSE
Explanation: Accounting methods for internal reporting are not specified by Generally Accepted Accounting principles (GAAP).
Diff: 2
Objective: 5
AACSB: Analytical thinking

12) Discuss the cost-benefit approach guideline management accountants use to provide value in strategic decision making.
Answer: Management accountants continually face resource allocation decisions. The cost-benefit approach should be used in making these decisions. Resources should be spent if the expected benefits to the company exceed the expected costs. The expected benefits and costs may not be easy to quantify, but it is a useful approach for making resource allocation decisions. Companies now use budgeting system that compels managers to plan ahead, compare actual to budgeted information, learn, and take corrective action.
Diff: 3
Objective: 5
AACSB: Analytical thinking

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13) Discuss the behavioral considerations that provide value to strategic decision making.
Answer: Management is primarily a human activity that should focus on encouraging individuals to do their jobs better. Budgets have a behavioral effect by motivating and rewarding employees for achieving an organization's goals. So, when workers underperform, for example, behavioral considerations suggest that managers need to discuss ways to improve their performance with them rather than just sending them a report highlighting their underperformance.
Diff: 3
Objective: 5
AACSB: Analytical thinking

Objective 1.6 Organization Structure and the Management Accountant

1) Which of the following is true of line management?
A) It is directly responsible for achieving the goals of the organization.
B) It is responsible of management accounting functions.
C) It provides advice, support, and assistance to staff management.
D) It only includes the top level management.
Answer: A
Diff: 2
Objective: 6
AACSB: Analytical thinking

2) Which of the following is true of staff management?
A) It plans income taxes, sales taxes, and international taxes.
B) It is directly responsible for achieving the goals of the organization.
C) It provides advice, support, and assistance to line management.
D) It controls the main business functions such as production and marketing.
Answer: C
Diff: 2
Objective: 6
AACSB: Analytical thinking

3) _____ includes providing financial information for reports to managers and shareholders, and overseeing the overall operations of the accounting system.
A) Risk management
B) Treasury management
C) Controllership
D) Strategic planning
Answer: C
Diff: 1
Objective: 6
AACSB: Analytical thinking

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4) _____ includes banking and short- and long-term financing, investments, and cash management.
A) Risk management
B) Strategic planning
C) Controllership
D) Treasury management
Answer: D
Diff: 1
Objective: 6
AACSB: Analytical thinking

5) Line management includes:
A) distribution managers
B) human-resource managers
C) information-technology managers
D) management-accounting managers
Answer: A
Diff: 1
Objective: 6
AACSB: Analytical thinking

6) Staff management includes:
A) manufacturing managers
B) management accountants
C) purchasing managers
D) distribution managers
Answer: B
Diff: 1
Objective: 6
AACSB: Application of knowledge

7) Which of the following is a responsibility of the CFO?
A) budget funds for a plant upgrade
B) managing short-term and long-term financing
C) investing in new equipment
D) conducting internal audit
Answer: B
Diff: 2
Objective: 6
AACSB: Analytical thinking

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8) Which of the following functions would typically NOT come under the responsibility of the CFO?
A) tax
B) treasury
C) operations
D) investor relations
Answer: C
Diff: 2
Objective: 6
AACSB: Analytical thinking

9) Which of the following reports to the CFO?
A) external auditor
B) distribution manager
C) production manager
D) treasurer
Answer: D
Diff: 2
Objective: 6
AACSB: Application of knowledge

10) Which of the following is a function of a controller?
A) operations administration
B) controlling the stock price
C) communication with the shareholders
D) interest-rate risk management
Answer: A
Explanation: Found in exhibit 1-6
Diff: 2
Objective: 6
AACSB: Analytical thinking

11) Arrangement of long-term financing is an integral part of the _____ function in an organization.
A) CFO's
B) controller's
C) auditor's
D) president's
Answer: A
Diff: 1
Objective: 6
AACSB: Analytical thinking

12) Line management is directly responsible for attaining the goals of the organization.
Answer: TRUE
Diff: 1
Objective: 6
AACSB: Analytical thinking

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13) Staff management, such as management accountants and information technology and human-resources management, provides advice, support, and assistance to line management.
Answer: TRUE
Diff: 1
Objective: 6
AACSB: Analytical thinking

14) Treasury includes banking and short- and long-term financing, investments, and cash management.
Answer: TRUE
Diff: 1
Objective: 6
AACSB: Analytical thinking

15) The controller is usually responsible for budgeting.
Answer: TRUE
Diff: 1
Objective: 6
AACSB: Analytical thinking

16) The treasurer (also called the chief accounting officer) is the financial executive primarily responsible for both management accounting and financial accounting.
Answer: FALSE
Explanation: The controller is also called the chief accounting officer. The controller is the financial executive primarily responsible for both management accounting and financial accounting.
Diff: 2
Objective: 6
AACSB: Analytical thinking

17) Management accountants must work well in cross-functional teams and as a business partner.
Answer: TRUE
Diff: 1
Objective: 6
AACSB: Analytical thinking

18) A company's CFO oversees banking and short- and long-term financing, investments, and cash management.
Answer: TRUE
Diff: 2
Objective: 6
AACSB: Analytical thinking

19) Management accountants must promote fact-based analysis and make tough-minded, critical judgments without being adversarial.
Answer: TRUE
Diff: 1
Objective: 6
AACSB: Analytical thinking

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20) What areas of responsibility does a chief financial officer have in a typical organization?
Answer: The responsibilities vary among organizations, but generally include the following areas: controllership, treasury, risk management, taxation, investor relations, and internal audit.
Diff: 2
Objective: 6
AACSB: Analytical thinking

21) The successful management accountant possesses several skills and characteristics that reach well beyond basic analytical abilities. Discuss.
Answer: The skills required are as follows:
Management accountants must work well in cross-functional teams and as a business partner.
They must promote fact-based analysis and make tough-minded, critical judgments without being adversarial.
They must lead and motivate people to change and be innovative.
They must communicate clearly, openly, and candidly.
They must have a strong sense of integrity.
Diff: 3
Objective: 6
AACSB: Analytical thinking

Objective 1.7 Professional Ethics

1) Which of the following issues is addressed by the Sarbanes-Oxley legislation?
A) safety aspects of products
B) environmental damages caused by industries
C) disclosure practices of public corporations
D) disclosure practices of private companies
Answer: C
Diff: 2
Objective: 7
AACSB: Analytical thinking

2) The IMA's Statement of Ethical Professional Practice for management accountants include concepts related to:
A) competence, performance, diligence, and reporting
B) competence, confidentiality, integrity, and credibility
C) experience, diligence, reporting, and objectivity
D) diligence, objectivity, conflicts of interest, and credibility
Answer: B
Diff: 2
Objective: 7
AACSB: Ethical understanding and reasoning

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3) Which item is an indication of competence under the IMA's Statement of Ethical Professional Practice?
A) Maintain an appropriate level of professional expertise by continually developing knowledge and skills.
B) Keep information confidential except when disclosure is authorized or legally required.
C) Abstain from engaging in or supporting any activity that might discredit the profession.
D) Refrain from engaging in any conduct that would prejudice carrying out duties ethically.
Answer: A
Diff: 2
Objective: 7
AACSB: Ethical understanding and reasoning

4) Which of the following differentiates confidentiality and credibility under the IMA's Statement of Ethical Professional Practice?
A) Credibility deals with refraining from activities that would prejudice carrying duties ethically, while confidentiality deals with communicating information fairly and objectively.
B) Confidentiality deals with refraining from the usage of critical information for unethical or illegal advantage, while credibility ensures disclosing the relevant information that would help the intended user's understanding.
C) Credibility deals with refraining from the usage of critical information for unethical or illegal advantage, while confidentiality ensures disclosing the relevant information that would help the user's understanding.
D) Credibility ensures appropriate level of professional expertise by continually developing knowledge and skills, while confidentiality encourages mitigation of actual conflicts of interest.
Answer: B
Diff: 3
Objective: 7
AACSB: Ethical understanding and reasoning

5) Which item is an indication of integrity under the IMA's Statement of Ethical Professional Practice?
A) Refrain from engaging in any conduct that would prejudice carrying out duties ethically.
B) Communicate information fairly and objectively.
C) Keep information confidential except when disclosure is authorized or legally required.
D) Recognize and communicate professional limitations or other constraints that would preclude responsible judgment or successful performance of an activity.
Answer: A
Diff: 2
Objective: 7
AACSB: Ethical understanding and reasoning

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6) Which item is an indication of credibility under the IMA's Statement of Ethical Professional Practice?
A) Maintain an appropriate level of professional expertise by continually developing knowledge and skills.
B) Refrain from using confidential information for unethical or illegal advantage.
C) Abstain from engaging in or supporting any activity that might discredit the profession.
D) Disclose delays or deficiencies in information, timeliness, processing, or internal controls in conformance with organization policy and/or applicable law.
Answer: D
Diff: 2
Objective: 7
AACSB: Ethical understanding and reasoning

7) Ethical challenges for management accountants include:
A) whether to accept gifts from suppliers, knowing it is an effort to indirectly influence decisions
B) adhering to the principles of accounting
C) whether to file a tax return this year
D) whether to accept gifts higher incentives from the company for their performance
Answer: A
Diff: 2
Objective: 7
AACSB: Ethical understanding and reasoning

8) Which of the following actions should a management accountant take first in confronting a potential ethical conflict concerning your direct supervisor?
A) Inform the Board of Directors of the existence of a potential conflict.
B) Clarify relevant ethical issues by initiating a confidential discussion with an IMA Ethics Counselor.
C) Consult the attorney as to legal obligations and rights concerning the ethical conflict.
D) Follow the organization's procedures concerning resolution of such a conflict.
Answer: D
Diff: 2
Objective: 7
AACSB: Ethical understanding and reasoning

9) If there is an ethical conflict concerning your direct supervisor, you should first contact:
A) the local media
B) an IMA Ethics Counselor
C) an attorney
D) the board of directors
Answer: D
Diff: 2
Objective: 7
AACSB: Ethical understanding and reasoning

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10) If there is an ethical conflict concerning your direct supervisor, when is it appropriate to contact authorities or individuals not employed by the organization?
A) when there is a personal conflict
B) when your supervisor is about to be promoted
C) when there is a clear violation of the law
D) when you face injustice from your supervisor
Answer: C
Diff: 2
Objective: 7
AACSB: Ethical understanding and reasoning

11) What is an ethical consideration when using AI tools in management accounting?
A) ensuring that AI tools make enable decisions without significant human oversight
B) ensuring that the AI tool is applied in a way that supports fairness and transparency in decision-making
C) using AI tools to replace manual financial analysis processes in an efficient way
D) limiting AI use to reducing operational costs without replacing the work of employees
Answer: B
Diff: 2
Objective: 7
AACSB: Ethical understanding and reasoning

12) Competence includes maintaining an appropriate level of professional expertise by continually developing knowledge and skills.
Answer: TRUE
Explanation: Competence includes maintaining an appropriate level of professional expertise by continually developing knowledge and skills.
Diff: 1
Objective: 7
AACSB: Ethical understanding and reasoning

13) As part of the Sarbanes-Oxley Act, internal auditors are solely responsible for the fair representation of the business operations in the financial statements.
Answer: FALSE
Explanation: As part of the Sarbanes-Oxley Act, CEOs and CFOs must certify that the financial statements of their firms fairly represent the results of their operations.
Diff: 2
Objective: 7
AACSB: Analytical thinking

14) A management accountant who is not capable of completing a project because her skills, knowledge, and abilities are lacking could be ethically in violation of the competence standard.
Answer: TRUE
Diff: 1
Objective: 7
AACSB: Ethical understanding and reasoning

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15) As per IMA's Statement of Ethical Professional Practice, integrity refers to disclosing all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, analyses, or recommendations is a responsibility.
Answer: FALSE
Explanation: As per IMA's Statement of Ethical Professional Practice, credibility refers to disclosing all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, analyses, or recommendations is a responsibility.
Diff: 2
Objective: 7
AACSB: Ethical understanding and reasoning

16) Performing professional duties in accordance with relevant laws, regulations, and technical standards is a competent responsibility.
Answer: TRUE
Diff: 1
Objective: 7
AACSB: Ethical understanding and reasoning

17) If a managerial accountant suspected his or her immediate superior of unethical behavior, who happens to be a chief executive officer or equivalent, the managerial accountant should request an immediate meeting with the executive committee or the audit committee.
Answer: TRUE
Explanation: If a managerial accountant suspected his or her immediate superior of wrongdoing, the managerial accountant should first present the situation to the next higher managerial level.
Diff: 2
Objective: 7
AACSB: Ethical understanding and reasoning

18) The Institute of Management Accountants provides a hotline to discuss ethical issues.
Answer: TRUE
Diff: 1
Objective: 7
AACSB: Analytical thinking

19) When faced with a potential ethical conflict, the managerial accountant should first consult IMA ethics counselor.
Answer: FALSE
Explanation: The managerial account should first discuss the issue with their immediate supervisor except when it appears that the supervisor is involved. In that case, present the issue to the next level.
Diff: 1
Objective: 7
AACSB: Ethical understanding and reasoning

20) IMA's overarching ethical principles include: Honesty, Fairness, Objectivity, and Responsibility.
Answer: TRUE
Diff: 2
Objective: 7
AACSB: Ethical understanding and reasoning

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21) Integrity is to abstain from engaging in or supporting any activity that might discredit the profession.
Answer: TRUE
Diff: 1
Objective: 7
AACSB: Ethical understanding and reasoning

22) List the four standards of ethical conduct for management accountants. For each standard, give an example that demonstrates compliance with that standard.
Answer: Please note that answers may vary, but may include the following:

1. Competence: Maintain an appropriate level of professional expertise by continually developing knowledge and skills

2. Confidentiality: Refrain from using confidential information for unethical or illegal advantage

3. Integrity: Abstain from engaging in or supporting any activity that might discredit the profession

4. Credibility: Communicate information fairly and objectively
Diff: 2
Objective: 7
AACSB: Ethical understanding and reasoning

23) You have been employed as an entry-level management accountant for a little under a year. You suspect that your immediate supervisor is involved in a significant fraud involving diverting of company assets to personal use. Briefly describe the steps you might take to resolve this dilemma.
Answer: The management accountant should first consult any internal company procedures concerning the resolution of ethical issues, and make sure these procedures are followed as closely as possible. If these policies do not resolve the situation, present the facts to the next higher managerial level. If your immediate superior is the chief executive officer or equivalent, the acceptable reviewing authority may be a group such as the audit committee, executive committee, board of directors, board of trustees, or owners. Clarify the relevant ethical issues with an objective advisor (e.g., Institute of Management Accountants hotline). Consult your own attorney to be aware of your own rights and responsibilities. If all internal review procedures have still not resolved the ethical situation, the managerial accountant might have to resign and write an informative letter to an appropriate representative of the organization, and perhaps notify other parties.
Diff: 3
Objective: 7
AACSB: Ethical understanding and reasoning

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24) A company controller, whose responsibilities include evaluating proposals for the acquisition and implementation of a new accounting information system, accepts an offer to attend an all-expense paid 4-day conference at a popular vacation destination. Discuss the ethical implications of attending the conference in light of the IMA's Statement of Professional Practice.
Answer: The value of the "gift" must be considered as acceptance of an all-expense paid trip paid for by a potential vendor could be viewed as a real or apparent conflict of interest. The integrity standard states that a management accountant has a responsibility to mitigate actual conflicts of interest. In addition, the same standard (integrity) also states that a management accountant should refrain from engaging in any conduct that would prejudice carrying out duties ethically. The personal benefit enjoyed by the controller by accepting a paid trip to a vacation spot might influence (prejudice) the purchase decision. An important factor would be how necessary is it to travel to evaluate the system and is this a practice (traveling to a conference) necessary to evaluate all alternatives under consideration.
Diff: 3
Objective: 7
AACSB: Ethical understanding and reasoning

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