

# LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034



**B.Com. DEGREE EXAMINATION – ACCOUNTING AND FINANCE**

**SECOND SEMESTER – APRIL 2022**

**UAF 2502 – FINANCIAL ANALYTICS & CONTROL**

Date: 20-06-2022

Dept. No.

Max. : 100 Marks

Time: 01:00 PM - 04:00 PM

## SECTION – A

**Answer all the Questions**

**(70 x 1 =70)**

1. Which one of the following items would **not** be considered a manufacturing cost?

- a. Cream for an ice cream maker.
- b. Sales commissions for a car manufacturer.
- c. Plant property taxes for an ice cream maker.
- d. Tires for an automobile manufacturer.

2. Fowler Co. provides the following summary of its total budgeted production costs at three production levels.

	Volume in Units		
	1,000	1,500	2,000
Cost A	\$1,420	\$2,130	\$2,840
Cost B	\$1,550	\$2,200	\$2,900
Cost C	\$1,000	\$1,000	\$1,000
Cost D	\$1,630	\$2,445	\$3,260

The cost behavior of each of the Costs A through D, respectively, is

- a. semi-variable, variable, fixed, and variable.
- b. variable, semi-variable, fixed, and semi-variable.
- c. variable, fixed, fixed, and variable.
- d. variable, semi-variable, fixed, and variable.

3. The marketing manager of Ames Company has learned the following about a new product that is being introduced by Ames. Sales of this product are planned at \$100,000 for the first year. Sales commission expense is budgeted at 8% of sales plus the marketing manager's incentive budgeted at an additional ½%. The preparation of a product brochure will require 20 hours of marketing salaried staff time at an average rate of \$100 per hour, and 10 hours, at \$150 per hour, for an outside illustrator's effort. The variable marketing cost for this new product will be

- a. \$8,000.
- b. \$8,500.
- c. \$10,000.
- d. \$10,500.

4. The relevant range refers to the activity levels over which

- a. cost relationships hold constant.
- b. costs fluctuate.
- c. production varies.
- d. relevant costs are incurred.

5. When identifying fixed and variable costs, which one of the following is a typical assumption concerning cost behavior?

- a. General and administrative costs are assumed to be variable costs.
- b. Cost behavior is assumed to be realistic for all levels of activity from zero to maximum capacity.
- c. Total costs are assumed to be linear when plotted on a graph.
- d. The relevant time period is assumed to be five years.

6. Lar Company has found that its total electricity cost has both a fixed component and a variable component within the relevant range. The variable component seems to vary directly with the number of units produced. Which one of the following statements concerning Lar's electricity cost is **incorrect**?

- a. The total electricity cost will increase as production volume increases.
- b. The total electricity cost per unit of production will increase as production volume increases.
- c. The variable electricity cost per unit of production will remain constant as production volume increases.
- d. The fixed electricity cost per unit of production will decline as production volume increases.

7. A review of Plunkett Corporation's accounting records for last year disclosed the following selected information.

Variable costs	
Direct materials used	\$ 56,000
Direct labor	179,100
Manufacturing overhead	154,000
Selling costs	108,400
Fixed costs	
Manufacturing overhead	267,000
Selling costs	121,000
Administrative costs	235,900

In addition, the company suffered a \$27,700 uninsured factory fire loss during the year. What were Plunkett's product costs and period costs for last year?

Product	Period
a. \$235,100	\$914,000
b. \$497,500	\$651,600
c. \$656,100	\$493,000
d. \$683,800	\$465,300

8. From the following budgeted data, calculate the budgeted indirect cost rate that would be used in a normal costing system.

Total direct labor hours 250,000  
 Direct costs \$10,000,000  
 Total indirect labor hours 50,000  
 Total indirect-labor-related costs \$ 5,000,000  
 Total indirect non-labor related costs \$ 7,000,000

- a. \$20.
- b. \$28.
- c. \$40.
- d. \$48.

9. Loyal Co. produces three types of men's undershirts: T-shirts, V-neck shirts, and athletic shirts. In the Folding and Packaging Department, operations costing is used to apply costs to individual units, based on the standard time allowed to fold and package each type of undershirt. The standard time to fold and package each type of undershirt is as follows.

T-shirt 40 seconds per shirt  
 V-neck shirt 40 seconds per shirt  
 Athletic shirt 20 seconds per shirt

During the month of April, Loyal produced and sold 50,000 T-shirts, 30,000 V-neck shirts, and 20,000 athletic shirts. If costs in the Folding and Packaging Department were \$78,200 during April, how much folding and packaging cost should be applied to each T-shirt?

- a. \$.52134.
- b. \$.6256.
- c. \$.7820.
- d. \$.8689.

10. Xylon Company uses direct (variable) costing for internal reporting and absorption costing for the external financial statements. A review of the firm's internal and external disclosures will likely find

- a. a difference in the treatment of fixed selling and administrative costs.
- b. a higher inventoriable unit cost reported to management than to the shareholders.
- c. a contribution margin rather than gross margin in the reports released to shareholders.
- d. internal income figures that vary closely with sales and external income figures that are influenced by both units sold and productive output.

11. Dawn Company has significant fixed overhead costs in the manufacturing of its sole product, auto mufflers. For internal reporting purposes, in which one of the following situations would ending finished goods inventory be higher under direct (variable) costing rather than under absorption costing?

- a. If more units were produced than were sold during a given year.
- b. If more units were sold than were produced during a given year.
- c. In all cases when ending finished goods inventory exists.
- d. None of these situations.

12. The distinction between joint products and by-products is largely dependent on

- a. historical costs.
- b. prime costs.
- c. market value.
- d. salvage value.

13. All of the following are methods of allocating joint costs to joint products **except**

- a. physical quantities method.
- b. net realizable value method.
- c. separable production cost method.
- d. gross market value method.

14. Fairchild Company processes raw material into two joint products, A and B. 8,000 gallons of A and 2,000 gallons of B were produced using \$20,000 raw material and \$30,000 processing costs were incurred. The per gallon selling price is \$90 for A and \$40 for B. If the sales value at split-off method is used to allocate joint costs to the final products, the per gallon cost (rounded to the nearest cent) of producing A is

- a. \$5.63 per gallon.
- b. \$5.00 per gallon.
- c. \$4.50 per gallon.
- d. \$3.38 per gallon

15. Baldwin Printing Company uses a job order costing system and applies overhead based on machine hours. A total of 150,000 machine hours have been budgeted for the year. During the year, an order for 1,000 units was completed and incurred the following.

Direct material costs	\$1,000
Direct labor costs	1,500
Actual overhead	1,980
Machine hours	450

The accountant calculated the inventory cost of this order to be \$4.30 per unit. The annual budgeted overhead in dollars was

- a. \$577,500.
- b. \$600,000.
- c. \$645,000.
- d. \$660,000.

16. When considering normal and abnormal spoilage, which one of the following is theoretically the **best** accounting method for spoilage in a process-costing system?

- a. Both normal and abnormal spoilage cost should be charged to a separate expense account.
- b. Normal spoilage cost should be charged to good units and abnormal spoilage cost should be charged to a separate expense account.
- c. Both normal and abnormal spoilage costs should be charged to good units.
- d. Normal spoilage costs should be charged to a separate expense account and abnormal spoilage cost should be charged to good units.

17. Waller Co. uses a weighted-average process-costing system. Material B is added at two different points in the production. 40% of Material B is added when the units are 20% completed, and the remaining 60% of Material B is added when the units are 80% completed. At the end of the quarter, there are 22,000 units in process, all of which are 50% completed. With respect to Material B, the ending units in process represent how many equivalent units?

- a. 4,400 units.
- b. 8,800 units.
- c. 11,000 units.
- d. 22,000 units

18. When using activity-based costing techniques, which one of the following departmental activities would be expected to use machine hours as a cost driver to allocate overhead costs to production?

- a. Plant cafeteria.
- b. Machine setups.
- c. Material handling.
- d. Robotics painting.

19. All of the following are likely to be used as a cost allocation base in activity-based costing **except** the

- a. number of different materials used to manufacture the product.
- b. units of materials used to manufacture the product.
- c. number of vendors supplying the materials used to manufacture the product.
- d. cost of materials used to manufacture the product.

20. In practice, items such as wood screws and glue used in the production of school desks and chairs would **most** likely be classified as

- a. direct labor.
- b. factory overhead.
- c. direct materials.
- d. period costs.

21. Patterson Corporation expects to incur \$70,000 of factory overhead and \$60,000 of general and administrative costs next year. Direct labor costs at \$5 per hour are expected to total \$50,000. If factory overhead is to be applied per direct labor hour, how much overhead will be applied to a job incurring 20 hours of direct labor?

- a. \$28.
- b. \$120.
- c. \$140.
- d. \$260.

22. When allocating costs from one department to another, a dual-rate cost-allocation method may be used. The dual-rate cost-allocation method is **most** useful when

- a. two or more cost pools are to be allocated.
- b. two or more departments' costs are to be allocated.
- c. two or more products are produced.
- d. costs are separated into variable-cost and fixed-cost subpools.

23. The management of ROX Company wishes to encourage all other departments to use the legal department, as circumstances warrant. To accomplish this, legal department costs should be

- a. allocated to users on the basis of the actual cost of hours used.
- b. allocated to users on the basis of the budgeted cost of actual hours used.
- c. allocated to users on the basis of standard cost for the type of service provided.
- d. absorbed as a corporate expense.

24. Wilcox Industrial has two support departments, the Information Systems Department and the Personnel Department, and two manufacturing departments, the Machining Department and the Assembly Department. The support departments service each other as well as the two production departments. Company studies have shown that the Personnel Department provides support to a greater number of departments than the Information Systems Department. Which one of the following departmental allocations is present in the reciprocal method of departmental allocation? The costs of the

- a. Assembly Department are allocated to the Information Systems Department and the Personnel Department.
- b. Information Systems Department are allocated to the Machining Department and the costs of the Machining Department are allocated to the Assembly Department.
- c. Personnel Department are allocated solely to the Information Systems Department.
- d. Information Systems Department are allocated to the Personnel Department, Machining Department, and Assembly Department.

25. Render Inc. has four support departments (maintenance, power, human resources, and legal) and three operating departments. The support departments provide services to the operating departments as well as to the other support departments. The method of allocating the costs of the support departments that **best** recognizes the mutual services rendered by support departments to other support departments is the

- a. direct allocation method.
- b. dual-rate allocation method.

- c. step-down allocation method.
- d. reciprocal allocation method.

**26.** Presario Inc. recently installed just-in-time production and purchasing systems. If Presario's experience is similar to that of other companies, Presario will likely

- a. reduce the number of suppliers with which it does business.
- b. increase the size of individual orders of raw materials.
- c. increase the dollar investment in finished goods inventory.
- d. be less reliant on sales orders as a "trigger" mechanism for production runs

**27.** The theory of constraints focuses on removing bottlenecks, which generally has the effect of reducing

- a. operating costs and increasing inventory levels.
- b. operating costs and keeping inventory levels unchanged.
- c. neither operating costs nor inventory levels.
- d. both operating costs and inventory levels.

**28.** When demand for a product or products exceeds production capacity, which one of the following is the first step that managers should take?

- a. Spend money to eliminate the bottleneck.
- b. Focus their efforts on constraint identification.
- c. Change the throughput of operations.
- d. Apply activity-based management to solve the problem.

**29.** Consider the following manufacturing-related activities.

- I. Conducting the final assembly of wooden furniture.
- II. Moving completed production to the finished goods warehouse.
- III. Painting newly-manufactured automobiles.
- IV. Setting up a machine related to a new production run.
- V. Reworking defective goods to bring them up to quality standards.

The activities that would be classified as value-added activities are

- a. II, III, IV, and V only.
- b. I, IV, and V only.
- c. I, III, and V only.
- d. I and III only.

**30.** Retail Partners Inc., which operates eight discount store chains, is seeking to reduce the costs of its purchasing activities through reengineering and a heavier use of electronic data interchange (EDI). Which of the following benchmarking techniques would be appropriate in this situation?

- I. A comparison of the purchasing costs and practices of each of Retail Partners' store chains to identify their internal "best in class."
  - II. A comparison of the practices of Retail Partners to those of Discount City, another retailer, whose practices are often considered "best in class."
  - III. A comparison of the practices of Retail Partners to those of Capital Airways, an international airline, whose practices are often considered "best in class."
  - IV. An in-depth review of a retail trade association publication on successful electronic data interchange applications.
- a. II and IV only.
  - b. I and II only.
  - c. I and IV only.
  - d. I, II, III, and IV.

**31.** When measuring the cost of quality, the cost of inspecting incoming raw materials is a(n)

- a. prevention cost.
- b. appraisal cost.
- c. internal failure cost.
- d. external failure cost.

**32.** External failure costs include all of the following costs **except** those related to

- a. lost sales and lost customers.
- b. warranty obligations.
- c. product liability suits.
- d. product field testing.

33. A manufacturing company incurred the following costs during the last quarter, related to product development and production.

Materials storage	\$ 50,000
Product design	180,000
Materials handling and moving	41,000
Direct materials	400,000
Quality inspections	62,000

What amount of costs should be classified as value-added?

- a. \$491,000.
- b. \$553,000.
- c. \$580,000.
- d. \$642,000.

34. Which one of the following auditor findings would **most** likely raise a red flag about a company's internal control environment?

- a. The company has an established independent audit committee.
- b. Only select committees of the board have access to outside attorneys.
- c. The role of the company's CEO and board chairman are separate.
- d. The board nominations committee selects only independent directors.

35. Which one of the following functions performed in an organization is a violation of internal control?

- a. A mail clerk opening the mail compares the check received with the source document accompanying the payment, noting the amount paid, then forwards the checks daily (along with a listing of the cash receipts) to the Cashier for deposit.
- b. A mail clerk opening the mail compares the check received with the source document accompanying the payment, noting the amount paid, then forwards the source documents that accompany the payments (along with a listing of the cash receipts) to Accounts Receivable, on a daily basis, for posting to the subsidiary ledger.
- c. At the end of the week the Cashier prepares a deposit slip for all of the cash receipts received during the week.
- d. The General Ledger clerk compares the summary journal entry, received from the Cashier for cash receipts applicable to outstanding accounts, with the batch total for posting to the Subsidiary Ledger by the Accounts Receivable clerk.

36. The U.S. Public Company Accounting Oversight Board (PCAOB) seeks to protect investors by requiring public companies to

- a. integrate an internal control audit with the financial statement audit.
- b. disclose the identity of owners with more than 5% ownership interest.
- c. disclose executive compensation and bonuses.
- d. have an independent audit committee within the board of directors.

37. A company is headquartered in the U.S. and has international subsidiaries in several countries. One of the company's international subsidiaries created several off-the-book accounts to pay bribes to foreign officials, and these payments were not properly reflected in the subsidiary's books and records. The subsidiary has certain internal controls in place, but does not utilize the COSO internal controls framework and does not have a compliance program in place. Based on the information presented, all of the following are violations by the subsidiary under the internal control provisions of U.S. Foreign Corrupt Practices act **except** the

- a. use of bribery payments.
- b. failure to use the COSO framework for internal controls.
- c. failure to have internal controls to ensure that transactions were appropriately recorded.
- d. lack of a compliance program as part of its system of internal controls.

38. A computer virus is different from a "Trojan Horse" because the virus can

- a. corrupt data.
- b. alter programming instructions.
- c. replicate itself.
- d. erase executable files.

39. The data entry staff of National Manufacturing Inc. has responsibility for converting all of the plant's shipping information to computerized records. The information flow begins when the shipping department sends

a copy of a shipping order to the data entry staff. A data entry operator scans the shipping order information onto a hand-held data storage device. Verification clerks then check the computerized record with the original shipping orders. When a given batch of files has been reviewed and corrected, as necessary, the information is uploaded to the company's mainframe system at the home office.

The **most** effective way to visualize and understand this set of activities would be through the use of a

- a. program flowchart.
- b. decision table.
- c. document flowchart.
- d. Gantt chart.

**40.** The **most** appropriate control to verify that a user is authorized to execute a particular on-line transaction is a

- a. password.
- b. challenge/response system.
- c. compatibility check.
- d. closed-loop verification.

**41.** In securing the client/server environment of an information system, a principal disadvantage of using a single level sign-on password is the danger of creating a(n)

- a. trap door entry point.
- b. single point of failure.
- c. administrative bottleneck.
- d. lock-out of valid users.

**42.** Confidential data can be securely transmitted over the internet by using

- a. single-use passwords.
- b. firewalls.
- c. encryption.
- d. digital signatures

**43.** The chief information technology officer introduced a technology to prevent unauthorized external access to its client's network. The technology described by the chief information officer is **most** likely

- a. data encryption.
- b. a firewall.
- c. a public key.
- d. a private key.

**44.** When attempting to restore computing facilities at an alternate site following a disaster, which one of the following should be restored first?

- a. Online system.
- b. Batch system.
- c. Operating system.
- d. Decision support system.

**45.** A company's accounting information system needs to capture the information of the financing cycle, which encompasses all transactions involving

- a. sales to customers and the collection of cash receipts for those sales.
- b. the purchase and payment of supplies and services it consumes.
- c. the hiring, training, and payment of employees.
- d. the investment of capital, borrowing money, payment of interest, and loan repayments.

**46.** An ERP system

- a. integrates multiple aspects of an organization's activities into one system.
- b. is part of the accounting information system.
- c. is focused on supply chain optimization.
- d. covers financial information only.

**47.** A hotel chain allows its customers to sign up for their loyalty program online. Management discovered that many customers misspelled their mailing addresses when inputting their personal information. The company revised the online form so that the customer can only select from a list of cities and streets instead of typing on their own when inputting addresses. This measure is an example of managing the data's

- a. availability.
- B. integrity.

- c. usability.
- d. security.

48. After a systems programmer was terminated and passwords were disabled, the company's server crashed and it erased all of its files and software. The terminated employee had installed a virus in the operating system and executed it via a back door. Which one of the following measures would **most** likely have prevented this occurrence?

- a. A policy to encrypt all data and files maintained on its server.
- b. Daily backup of all data on the server.
- c. An intrusion detection system used to create logs of network traffic.
- d. An advanced firewall used to detect intrusions.

49. An analyst prepared a forecast using newly developed system features. The analyst recently left the company and her replacement was unable to understand how to use these system functionalities. In accordance with system development life-cycle best practices, which one of the following controls would have prevented this situation from occurring?

- a. End-user computing efforts are outlined.
- b. Documentation standards and procedures are developed.
- c. Backup activities and requirements are put into place.
- d. Changes made to the system are monitored and evaluated.

50. To improve efficiency, a company is considering utilizing a tool developed by a third party that reviews sales contracts and identifies elements and clauses relevant to revenue recognition. The company is **most** likely using a tool that is employing

- a. business intelligence.
- b. artificial intelligence.
- c. blockchain.
- d. control monitoring.

51. Analyzing text data taken from online customer reviews in order to identify significant patterns is an example of data mining with

- a. structured data.
- b. unstructured data.
- c. semi-structured data.
- d. predictive data.

52. Which one of the following **best** describes data mining?

- a. Searching through large amounts of computerized data to find useful patterns and trends.
- b. Examining raw data in order to draw conclusions from that data.
- c. Integrating data, technology, and analytics to optimize business decisions.
- d. Inspecting, cleansing, revising, and modeling raw data in order to find valuable data.

53. An analysis of historical hotel occupancy data concluded that the decline in food and beverage revenue was due mostly to the low hotel occupancy. This is an example of

- a. descriptive analytics.
- b. diagnostic analytics.
- c. predictive analytics.
- d. prescriptive analytics.

54. Taylor Corporation is determining the cost behavior of several items in order to budget for the upcoming year. Past trends have indicated the following dollars were spent at three different levels of output.

	Unit Levels		
	10,000	12,000	15,000
Cost A	\$25,000	\$29,000	\$35,000
Cost B	10,000	15,000	15,000
Cost C	15,000	18,000	22,500

In establishing a budget for 14,000 units, Taylor should treat Costs A, B, and C, respectively, as

- a. semi-variable, fixed, and variable.
- b. variable, fixed, and variable.
- c. semi-variable, semi-variable, and semi-variable.
- d. variable, semi-variable, and semi-variable.



55. Roberta Johnson is the manager of SleepWell Inn, one of a chain of motels located throughout the United States. An example of an operating cost at SleepWell that is semivariable is
- the security guard's salary.
  - electricity.
  - postage for reservation confirmations.
  - local yellow pages advertising.
56. Which one of the following lists of functions is in proper value chain order?
- Research and development, marketing, and customer services.
  - Production, marketing, and production design.
  - Production design, distribution, and marketing.
  - Research and development, customer service, and distribution.
57. Normal costing systems are said to offer a user several distinct benefits when compared with actual costing systems. Which one of the following is **not** a benefit associated with normal costing systems?
- More timely costing of jobs and products.
  - A smoothing of product costs throughout the period.
  - Improved accuracy of job and product costing.
  - A more economical way of attaching overhead to a job or product.
58. All of the following are examples of benchmarking standards **except**
- the performance of the unit during the previous year.
  - the best performance of the unit in comparable past periods.
  - a comparison with a similar unit within the same company.
  - the best performance of a competitor with a similar operation.
59. The risk associated with auditors failing to identify material misstatements in a financial statement is referred to as
- control risk.
  - inherent risk.
  - unsystematic risk.
  - detection risk.
60. Which one of the following **best** defines COBIT?
- A framework for the governance and management of enterprise information and technology, aimed at the whole enterprise.
  - A control framework published by the Committee of Sponsoring Organizations.
  - A set of guidelines intended to help shareholders understand the IT systems utilized by management.
  - A set of risks and responses to technology challenges.
61. An organization wants to utilize business intelligence (BI) to assist in the evaluation of key metrics. The IT manager has suggested incorporating a dashboard feature in its BI tool. Which one of the following is the main reason that management should implement the dashboard feature?
- It allows management to have as many different charts as possible.
  - It shows patterns and trends in data across the organization.
  - It is designed to focus on metrics that have not been met.
  - It can automatically generate reorders of important materials for production.
62. A company's operations include a high level of fixed costs and produce a variety of products. What type of costing system should be recommended?
- Job-order costing.
  - Process costing.
  - Process value analysis.
  - Activity-based costing.
63. An owner of a company has entered into a contract with a hardware vendor ensuring that in the event of a disaster, the vendor would provide the company with computer equipment. The owner has also entered

into a lease contract with a building owner ensuring that in the event of a disaster, the company will be provided with an empty floor in the building to allow for the continuation of its business. Which one of the following **best** describes this disaster recovery plan?

- a. Mirrored data center.
- b. Hot site.
- c. Recovery operations center.
- d. Cold site.

64. Departmental overhead rates are considered to be preferable to plant-wide overhead rates when the

- a. plant-wide rate is related to several identified cost drivers.
- b. individual cost drivers cannot accurately be determined with respect to cause-and-effect relationships.
- c. cost drivers, such as direct labor, are the same over all processes.
- d. products manufactured do not pass through the same departments and do not use the same manufacturing techniques.

65. Which one of the following is a characteristic of enterprise resource planning?

- a. It enables companies to respond quickly to changes in the marketplace.
- b. It enables supply chain management to integrate with the financial accounting subsystem.
- c. It creates a decentralized database that collects and feeds data into software applications.
- d. It provides customers with superior products and services.

66. Indirect and common costs often make up a significant portion of the cost of a product. All of the following are reasons for indirect cost allocation to cost objects **except** to

- a. reduce total costs identified with products.
- b. measure income and assets for external reporting purposes.
- c. justify costs for reimbursement purposes.
- d. provide information for economic decision making.

67. A production system in which a unit is produced only when needed in the next step in the production line is called a

- a. just-in-time system.
- b. back-flush system.
- c. Pareto system.
- d. material requirements planning system.

68. When assessing a company's internal control structure policies and procedures, the primary consideration is whether they

- a. prevent management override.
- b. relate to the control environment.
- c. reflect management's philosophy and operating style.
- d. affect the financial statement assertions.

69. The **most** important criterion in accurate cost allocations is

- a. using a simple allocation method.
- b. allocating fixed and variable costs by using the same allocation base.
- c. using homogeneous cost pools.
- d. using multiple drivers for each cost pool.

70. A company sells specialty advertising items that are designed and produced to meet each customer's specific needs. Prominently displaying the customer's company name, these items are used by the customer to give to its clients as a form of promotion. The **most** appropriate cost accumulation system for the company to use is

- a. actual costing.
- b. job order costing.
- c. life-cycle costing.
- d. process costing

**Answer all the Questions**

71. TruJeans a new startup company plans to produce blue jeans pants, customized with the buyer's first name stitched across the back pocket. The product will be marketed exclusively via an internet Website. For the coming year sales have been projected at three different levels: optimistic, neutral and pessimistic. TruJeans does keep inventory on hand but prefers to minimize this investment.

The controller is preparing to assemble the budget for the coming year and is unsure about a number of issues, including:

- The level of sales to enter into the budget
- How to allocate the significant fixed costs to individual units.
- Whether to use job order costing or process costing

In addition the controller has heard of kaizen budgeting and is wondering if such an approach could be used by TruJeans

Questions:

- 1) How could the use of variable (direct) costing mitigate the problem of how to allocate the fixed costs to individual units.
- 2) Which cost system seems to make more sense for TruJeans, job order costing or process costing?

Explain your answer.

72. Ace Contractors is a large region general contractor. As the company grew Eddie Li was hired as a controller and tasked with analyzing the monthly income statements and reconciling all of the accounts formerly handled by Susan Zhao, the sole accounting associate. Li noticed a large amount of demolition expense for February even though no new projects had started over the past few months. Since Li did not expect such a large amount of demolition expense nor was any of this type of expense budgeted, Li dug a little deeper. He found that all of those expenses were bank transfers into another bank account. After additional research it became evident that Zhao had been transferring funds out of the company bank account and into her own and recording fake expenses to make the bank account reconciliation work. While the president kept the prenumbered checks locked up until check run time and signed all of the outgoing checks he was unaware of the ability to initiate transfers via internet Li had also reviewed the bank reconciliations which were completed by the office manager and this fraud was not evident since the ending balance was reasonable.

Questions:

1. Identify and explain the four types of functional responsibilities that should be segregated properly.
2. Identify and explain two incompatible duties that Zhao had that allowed her to take company funds.
3. Identify and explain two ways that the company had attempted to safeguard its assets and suggest two ways to strengthen controls in this area.

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