

Section 8 - price and efficiency variance - G4

- 1) A purchasing manager's performance is best evaluated using information such as
- A) usage efficiency and direct materials price variance
 - B) direct materials flexible-budget variance
 - C) direct manufacturing labor flexible-budget variance
 - D) price and terms bargaining effectiveness, achievement of quality goals, and direct materials price variance

Answer: D

- 2) Which of the following could be a reason for a favorable material price variance?
- A) the purchasing manager bargaining effectively with suppliers
 - B) the purchasing manager giving orders for small quantity to reduce storage cost
 - C) the purchasing manager accepting a bid from the highest-priced supplier to ensure the quality of material
 - D) the personnel manager hiring underskilled workers

Answer: A

- 3) Efficiency is _____.
- A) the degree to which a predetermined objective or target is met
 - B) the difference between an actual input quantity and a budgeted input quantity
 - C) the continuous process of comparing a firm's performance levels against the best levels of performance in competing companies
 - D) the relative amount of inputs used to achieve a given output level

Answer: D

- 4) Which of the following is true of variance?
- A) Managers should interpret a favorable variance as "good news".
 - B) Managers should not simply interpret a favorable variance as good but should understand why the variance occurred.
 - C) A small variance or zero variance definitively reveals efficient performance.
 - D) Managers' performance must be evaluated solely on single variance.

Answer: B

- 5) The degree to which a predetermined objective or target is met is known as _____.
- A) efficiency
 - B) variance
 - C) effectiveness
 - D) marking

Answer: C

- 6) If management experiences an unfavorable direct materials efficiency variance, which of the following would not be the possible corrective action?
- A) Improve the design of the product
 - B) Provide additional training for the direct laborers
 - C) Purchase higher quality materials
 - D) Negotiate lower prices for material acquisition

Answer: D

7) Which of the following statements is true about analyzing a single variance?

- A) It should be overemphasized to take proper decision.
- B) It should be evaluated in isolation from other variances.
- C) It can lead to different other variances.
- D) It should be used for quality evaluation.

Answer: C

8) Variance analysis should be used _____.

- A) to understand why variances arise and to improve future performance
- B) as the sole source of information for performance evaluation
- C) to punish employees that do not meet standards
- D) to set the standards which are very easy to achieve to encourage employees to focus on meeting standards

Answer: A

9) Cost variances should be investigated _____.

- A) when they are considered within the "in-control" range as determined by management
- B) when the variance is more than a certain percentage of budgeted costs, as determined by management
- C) even though the cost of investigation exceeds the benefit as determined by management
- D) when the variance is less than a certain percentage of budgeted costs, as determined by management

Answer: B

10) The emphasis on variance analysis and its use in performance evaluation must be such that:

- A) managers focus on setting easy to attain targets
- B) larger unfavorable variances should result in negative consequences for personnel held accountable
- C) management should set targets that challenge but are reasonably achievable and require creativity and resourcefulness by personnel held accountable
- D) Management should stretch resources to meet goals even if continuous improvement and quality suffers

Answer: C

11) Nonfinancial performance measures _____.

- A) are usually used in combination with financial measures for control purposes
- B) are rarely used to evaluate overall efficiency
- C) allow managers to make informed tradeoffs
- D) are often the sole basis of a manager's performance evaluations

Answer: A

12) Which of the following is an example of nonfinancial performance measure?

- A) percentage of products started and completed without requiring any rework
- B) direct manufacturing labor efficiency variance
- C) direct materials price variance
- D) quantity discounts obtained on order of large quantity

Answer: A

13) A company has a policy "investigate all variances exceeding \$3,000 or 15% of the budgeted cost, whichever is lower." There is a variance of \$2,000 in repair and maintenance costs of \$12,000. What does the company do in the given situation?

- A) It should be ignored as it is less than \$3,000.
- B) It deserves more attention as it is more than 15% of total repair cost.
- C) It should be considered an in-control occurrence.
- D) It should be investigated as all variances are equally important.

Answer: B

14) The term for understanding why actual performance deviates from planned performance is.

- A) variance calculation
- B) organizational learning
- C) favorable variance
- D) continuous improvement

Answer: B

15) Effectiveness is _____.

- A) the relative amount of inputs used to achieve a given output level
- B) the continuous process of comparing a firm's performance levels against the best levels of performance in competing companies
- C) the degree to which a predetermined objective or target is met
- D) is a practice whereby managers focus more closely on areas that are not operating as expected and less closely on areas that are

Answer: C

16) A favorable variance can be automatically interpreted as "good news."

Answer: FALSE

Explanation: A favorable variance may not be good news at all because it adversely affects other variances that increase total costs.

17) Continuous improvement through the use of standard costs is the process of repeatedly identifying the causes of variances, taking corrective actions, and evaluating results.

Answer: TRUE

18) If variance analysis is used for performance evaluation, managers are encouraged to meet targets using creativity and resourcefulness.

Answer: FALSE

Explanation: The most common outcome when variance analysis is used for performance evaluation is that managers seek targets that are easily attainable and avoid targets that require creativity and resourcefulness.

19) When using variance analysis for performance evaluation, managers often focus on effectiveness and efficiency as two of the common attributes used in comparing expected results with actual results.

Answer: TRUE

20) For critical items such as product defects, a small variance may prompt investigation.

Answer: TRUE

21) A variance within an acceptable range is considered to be an "in-control occurrence" and calls for

no investigation or action by managers.

Answer: TRUE

22) In variance analysis, if any single performance measure is underemphasized, managers will tend to make decisions that will cause the particular performance measure to look good.

Answer: TRUE

Explanation: In variance analysis, if any single performance measure is overemphasized, managers will tend to make decisions that will cause the particular performance measure to look good.

23) Efficiency is the relative amount of inputs used to achieve a given output level.

Answer: TRUE

24) A percentage of products started and completed without requiring any rework is an example of nonfinancial performance measure.

Answer: TRUE

25) It is best to rely totally on financial performance measures rather than using a combination of financial and nonfinancial performance measures.

Answer: FALSE

Explanation: It is best to rely on a combination of financial and nonfinancial performance measures.

26) The goal of variance analysis is for managers to understand why variances arise, to learn, and to improve future performance.

Answer: TRUE

27) Possible operational causes of an unfavorable direct materials efficiency variance include poor design of products or processes.

Answer: TRUE

28) Effectiveness is the degree to which a predetermined objective or target is met.

Answer: TRUE

29) With disregard to all other factors, the use of high-quality raw materials is likely to result in a favorable efficiency variance and an unfavorable price variance.

Answer: TRUE

30) Direct material price variance is likely to be unfavorable if the purchasing manager switched to a lower-price supplier.

Answer: FALSE

Explanation: Direct material price variance is likely to be favorable if the purchasing manager switched to a lower-price supplier.

31) With disregard to other factors, direct manufacturing labor efficiency variance is likely to be unfavorable if underskilled workers are put on a job.

Answer: TRUE