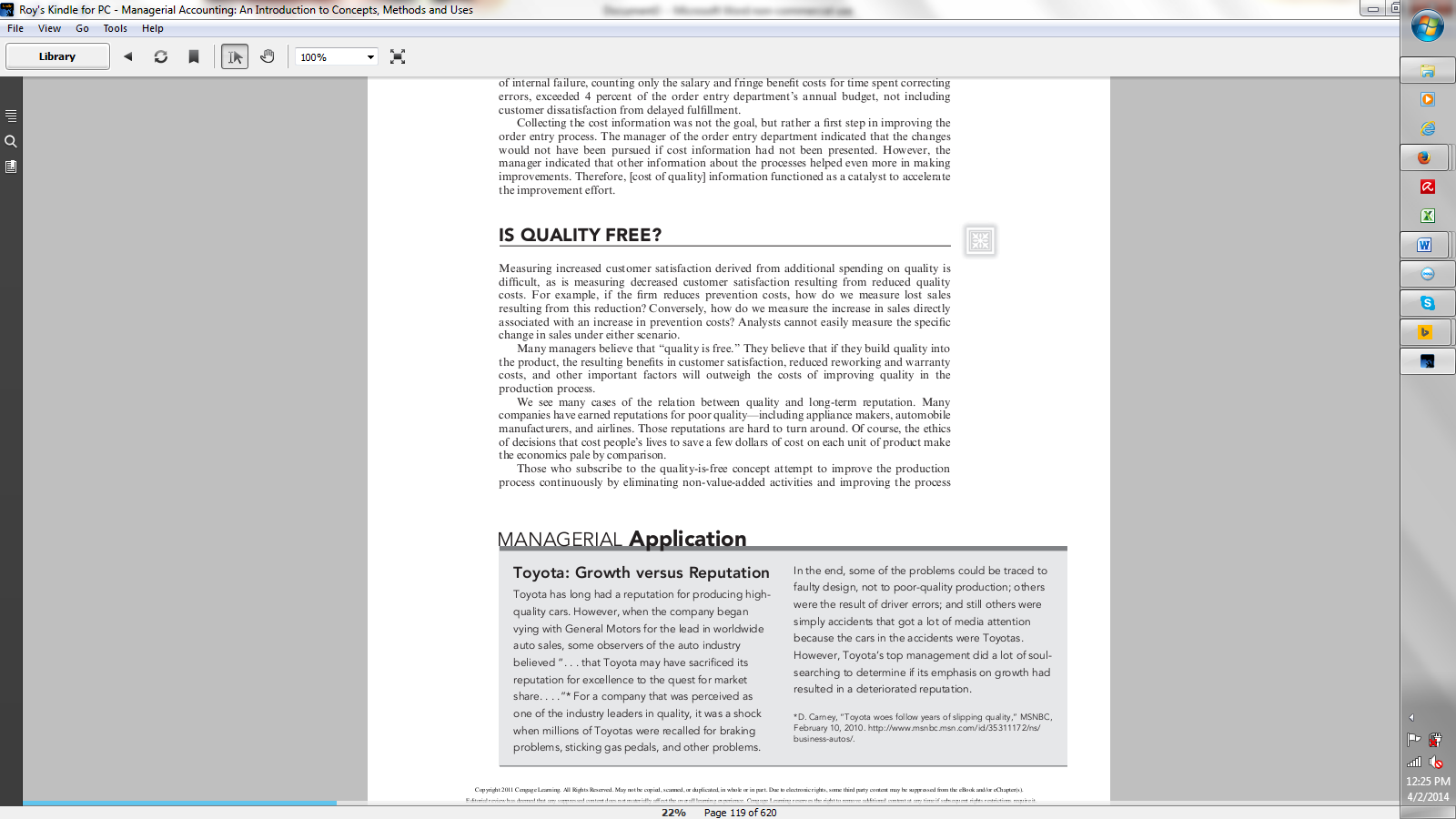
Accounting Questions

1. Review the Managerial Application “Toyota: Growth versus Reputation” (below).



a. Who benefitted from management’s decision to grow at the potential risk of lower quality?

b. Who suffered from that decision?

2. Why does just-in-time require total quality management?

3. Why might managers be more concerned about controlling costs than total quality management initiatives?

**4. Costs of Quality.**

Scan-It Company manufactures computer scanners. The following table presents financial information for two years.

|  |
| --- |
| Year 1 Year 2  Sales.......................................................................................2,000,000 $1,800,000  Quality Costs:  Scrap.......................................................................................15,000 16,000  Repair of returned goods........................................................35,000 40,000  Dealing with customer complaints.........................................23,000 28,000  Rework (goods spoiled during production) .......................... 150,000 150,000  Materials inspection............................................................... 55,000 40,000 |

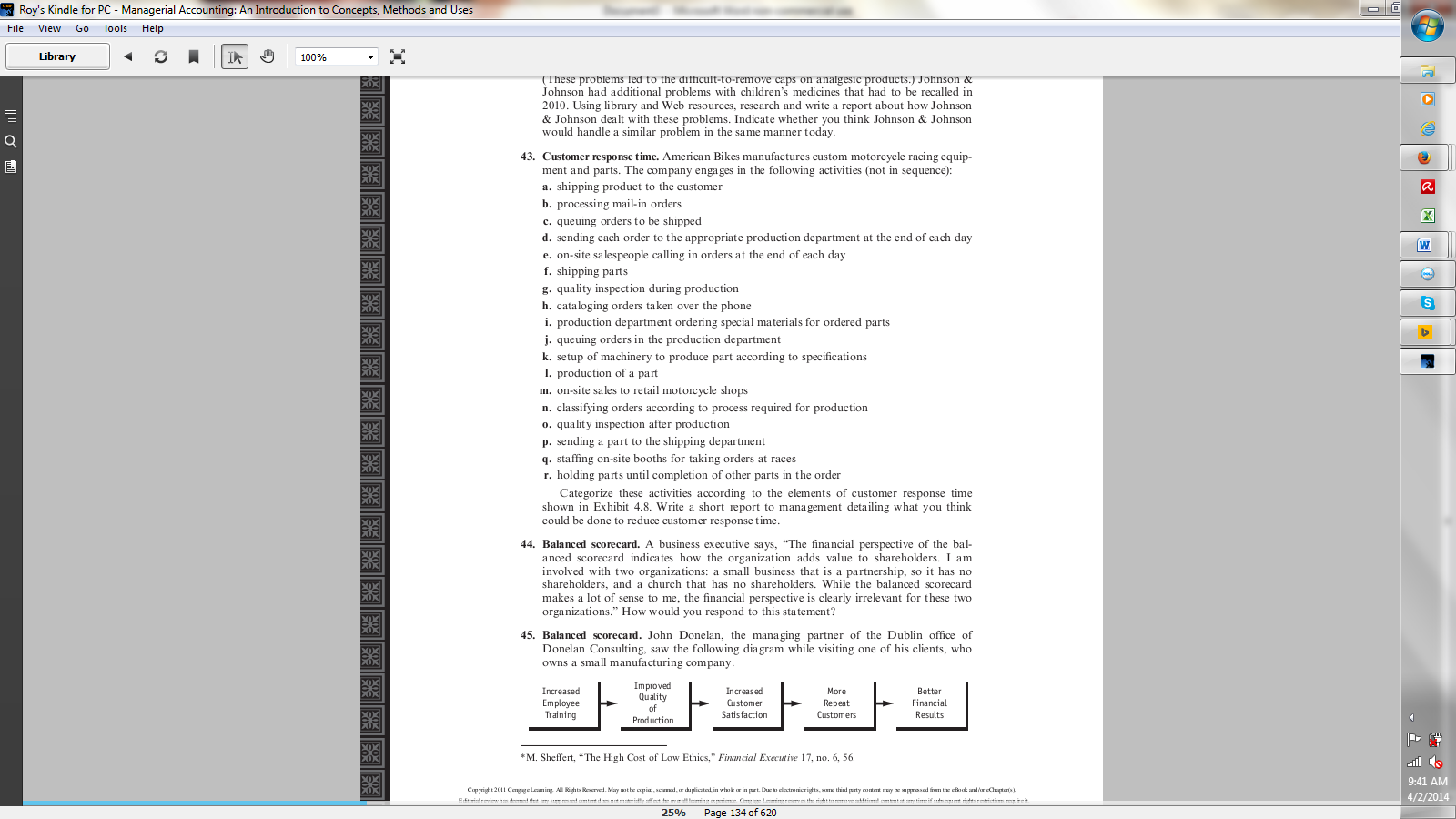
a. Classify the above items into prevention, appraisal, internal failure, or external failure costs.

b. Calculate the percentage of each prevention, appraisal, internal failure, and external

failure cost to sales for Year 1 and Year 2.

**5. Balanced Scorecard**

John Donelan, the managing partner of the Dublin office of Donelan Consulting, saw the following diagram while visiting one of his clients, who owns a small manufacturing company.



Mr. Donelan commented to his client that he could see how to link increased training to improved production quality and how that would result in better customer satisfaction with the products. “I wish I could apply this model to the consulting business, but I don’t think it works in consulting. It works for you because you produce a tangible good. What we produce is advice, which is not very tangible.” Mr. Donelan’s client responded, “You produce good advice, which helps us produce good products.” “Well, that’s good,” Mr. Donelan replied, “but it doesn’t help me to apply your model to my business so that we can provide even better advice.” (And be more profitable, he thought to himself.)

Using the balanced scorecard as a starting point, write a brief report to Mr. Donelan that explains how to implement the model shown in the diagram for Donelan Consulting. Be specific in stating how to measure the performance of each step in the sequence, from increased employee training to better financial results.

**6.** “The concepts of short-run costs and long-run costs are relative—short run could mean a

day, a month, a year, or even 10 years, depending on what you are looking at.” Comment briefly.

**7.** What methods of cost estimation rely primarily on historical data? Briefly discuss the problems an unwary user may encounter with the use of historical cost data.

**8.** (See Appendix 5.2.--attached) How is regression used to identify what cost drivers might be used in activity-based costing?