File: 16e\_GNB\_APP01A\_TB, Appendix 1A, Cost of Quality

**True/False**

[QUESTION]

1. (Appendix 1A) ISO 9000 standards were established to make sure that all consumer products incorporate specific safety features.

Answer: F

Difficulty: 3 Hard

Learning Objective: 01-07

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Global

AICPA: FN Reporting

Feedback:

[QUESTION]

2. (Appendix 1A) External failure costs are limited to the costs of repairing defective products that are under warranty.

Answer: F

Difficulty: 3 Hard

Learning Objective: 01-07

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

3. (Appendix 1A) To minimize its total quality costs, a company should usually try to redistribute its quality costs more toward prevention and appraisal.

Answer: T

Difficulty: 2 Medium

Learning Objective: 01-07

Topic Area:

Blooms: Understand

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Decision Making

Feedback:

[QUESTION]

4. (Appendix 1A) The most effective way to minimize quality costs while maintaining high quality is to avoid having quality problems in the first place. This is the reason for incurring appraisal costs.

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-07

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Decision Making

Feedback:

[QUESTION]

5. (Appendix 1A) Quality of conformance refers to the extent to which a product offered by one company is similar to products offered by other companies.

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-07

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

6. (Appendix 1A) The costs of lost sales arising from poor quality are always included in quality cost reports.

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Reporting

Feedback:

[QUESTION]

7. (Appendix 1A) A quality cost report is usually compiled by the purchasing department to show the added costs of purchasing higher quality components.

Answer: F

Difficulty: 2 Medium

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Reporting

Feedback:

**Multiple Choice**

[QUESTION]

8. (Appendix 1A) An increase in appraisal costs in a quality improvement program would usually have the following initial effects on internal and external failure costs:

|  |  |  |
| --- | --- | --- |
|  | Internal failure costs | External failure costs |
| A) | Increase | Increase |
| B) | Increase | Decrease |
| C) | Decrease | Increase |
| D) | Decrease | Decrease |

Answer: B

Difficulty: 3 Hard

Learning Objective: 01-07

Topic Area:

Blooms: Understand

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Decision Making

Feedback:

[QUESTION]

9. (Appendix 1A) Inspection of products would be classified as a(n):

A) prevention cost.

B) appraisal cost.

C) internal failure cost.

D) external failure cost.

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

10. (Appendix 1A) An increase in appraisal costs will usually result in an increase in:

A) prevention costs.

B) internal failure costs.

C) external failure costs.

D) opportunity costs.

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07

Topic Area:

Blooms: Understand

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Decision Making

Feedback:

[QUESTION]

11. (Appendix 1A) Quality is achieved when a product or service contains all of the features that a customer would expect, and when that product or

service performs in such a way that the customer is satisfied.

Answer: T

Difficulty: 1 Easy

Learning Objective: 01-07

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

12. (Appendix 1A) The cost of quality training would be classified as a(n):

A) prevention cost.

B) appraisal cost.

C) internal failure cost.

D) external failure cost.

Answer: A

Difficulty: 1 Easy

Learning Objective: 01-07

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

13. (Appendix 1A) The cost of testing incoming materials received from suppliers would be classified as a(n):

A) prevention cost.

B) appraisal cost.

C) internal failure cost.

D) external failure cost.

Answer: B

Difficulty: 1 Easy

Learning Objective: 01-07

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

14. (Appendix 1A) The four categories of quality costs in a quality cost report are:

A) external failure, product liability, prevention, and carrying.

B) external failure, internal failure, prevention, and appraisal.

C) warranty, product liability, prevention, and appraisal.

D) warranty, product liability, training, and appraisal.

Answer: B

Difficulty: 1 Easy

Learning Objective: 01-07

Topic Area:

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Source: CMA, adapted

Feedback:

[QUESTION]

15. (Appendix 1A) The cost of labor time required to rework defective units would be classified as a(n):

A) prevention cost.

B) appraisal cost.

C) internal failure cost.

D) external failure cost.

Answer: C

Difficulty: 1 Easy

Learning Objective: 01-07

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

16. (Appendix 1A) In classifying the costs of quality at a company that manufactures sonar equipment, which of the following is considered an external failure cost?

A) the net cost of scrap and spoilage incurred during production.

B) the cost of repairs and replacements made during the warranty period.

C) the cost of debugging software errors found in the sonar equipment during inspection at the plant.

D) both B and C above.

E) none of the above.

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

17. (Appendix 1A) Which of the following would be classified as an appraisal cost on a quality cost report?

A) Final product testing and inspection.

B) Net cost of spoilage.

C) Repairs and replacements beyond the warranty period.

D) Rework labor and overhead.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

18. (Appendix 1A) Which of the following would be classified as a prevention cost on a quality cost report?

A) Technical support provided to suppliers.

B) Net cost of spoilage.

C) Disposal of defective products.

D) Debugging software errors.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

19. (Appendix 1A) Which of the following would be classified as an internal failure cost on a quality cost report?

A) Audits of the effectiveness of the quality system.

B) Systems development.

C) Quality improvement projects.

D) Debugging software errors.

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

20. (Appendix 1A) Which of the following would be classified as an internal failure cost on a quality cost report?

A) Quality improvement projects.

B) Supervision of testing and inspection activities.

C) Debugging software errors.

D) Warranty repairs and replacements.

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

21. (Appendix 1A) Which of the following would be classified as an external failure cost on a quality cost report?

A) Returns and allowances arising from quality problems.

B) Quality improvement projects.

C) Quality engineering.

D) Net cost of spoilage.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

22. (Appendix 1A) Which of the following would be classified as an appraisal cost on a quality cost report?

A) Returns and allowances arising from quality problems.

B) Downtime caused by quality problems.

C) Test and inspection of in-process goods.

D) Cost of field servicing and handling complaints.

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

23. (Appendix 1A) Which of the following would be classified as an external failure cost on a quality cost report?

A) Repairs and replacements beyond the warranty period.

B) Technical support provided to suppliers.

C) Quality improvement projects.

D) Rework labor and overhead.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

24. (Appendix 1A) Which of the following would be classified as an external failure cost on a quality cost report?

A) Reentering data because of keying errors.

B) Customer returns arising from quality problems.

C) Test and inspection of in-process goods.

D) Rework labor and overhead.

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

25. (Appendix 1A) Which of the following would be classified as a prevention cost on a quality cost report?

A) Net cost of spoilage.

B) Supervision of testing and inspection activities.

C) Liability arising from defective products.

D) Technical support provided to suppliers.

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

26. (Appendix 1A) Which of the following would be classified as a prevention cost on a quality cost report?

A) Cost of field servicing and handling complaints.

B) Warranty repairs and replacements.

C) Systems development.

D) Rework labor and overhead.

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

27. (Appendix 1A) Which of the following would be classified as an external failure cost on a quality cost report?

A) Final product testing and inspection.

B) Disposal of defective products.

C) Supervision of testing and inspection activities.

D) Cost of field servicing and handling complaints.

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

28. (Appendix 1A) In preparing a quality cost report, the cost of employee’s time spent in quality circles is part of:

A) prevention costs.

B) appraisal costs.

C) internal failure costs.

D) external failure costs.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

29. (Appendix 1A) Which of the following would be classified as an appraisal cost on a quality cost report?

A) Test and inspection of in-process goods.

B) Technical support provided to suppliers.

C) Debugging software errors.

D) Audits of the effectiveness of the quality system.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

30. (Appendix 1A) Which of the following would be classified as a prevention cost on a quality cost report?

A) Debugging software errors.

B) Quality training.

C) Test and inspection of incoming materials.

D) Cost of field servicing and handling complaints.

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

31. (Appendix 1A) Which of the following would be classified as an appraisal cost on a quality cost report?

A) Quality improvement projects.

B) Supplies used in testing and inspection.

C) Audits of the effectiveness of the quality system.

D) Quality data gathering, analysis, and reporting.

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

32. (Appendix 1A) Which of the following would be classified as an internal failure cost on a quality cost report?

A) Final product testing and inspection.

B) Warranty repairs and replacements.

C) Depreciation of test equipment.

D) Debugging software errors.

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

33. (Appendix 1A) Which of the following would be classified as a prevention cost on a quality cost report?

A) Disposal of defective products.

B) Net cost of spoilage.

C) Depreciation of test equipment.

D) Technical support provided to suppliers.

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

34. (Appendix 1A) Which of the following would be classified as an external failure cost on a quality cost report?

A) Depreciation of test equipment.

B) Repairs and replacements beyond the warranty period.

C) Supplies used in testing and inspection.

D) Re-entering data because of keying errors.

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

35. (Appendix 1A) Which of the following would be classified as an internal failure cost on a quality cost report?

A) Rework labor and overhead.

B) Cost of field servicing and handling complaints.

C) Technical support provided to suppliers.

D) Lost sales arising from a reputation for poor quality.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

36. (Appendix 1A) Which of the following would be classified as an external failure cost on a quality cost report?

A) Re-entering data because of keying errors.

B) Repairs and replacements beyond the warranty period.

C) Disposal of defective products.

D) Technical support provided to suppliers.

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

37. (Appendix 1A) Which of the following would be classified as an internal failure cost on a quality cost report?

A) Rework labor and overhead.

B) Technical support provided to suppliers.

C) Quality improvement projects.

D) Systems development.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

38. (Appendix 1A) Which of the following would be classified as an external failure cost on a quality cost report?

A) Depreciation of test equipment.

B) Test and inspection of in-process goods.

C) Test and inspection of incoming materials.

D) Warranty repairs and replacements.

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

39. (Appendix 1A) Which of the following would be classified as an appraisal cost on a quality cost report?

A) Debugging software errors.

B) Supplies used in testing and inspection.

C) Re-entering data because of keying errors.

D) Warranty repairs and replacements.

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

40. (Appendix 1A) Which of the following would be classified as a prevention cost on a quality cost report?

A) Supplies used in testing and inspection.

B) Debugging software errors.

C) Quality improvement projects.

D) Lost sales arising from a reputation for poor quality.

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

41. (Appendix 1A) Which of the following would be classified as an appraisal cost on a quality cost report?

A) Maintenance of test equipment.

B) Re-entering data because of keying errors.

C) Debugging software errors.

D) Warranty repairs and replacements.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Feedback:

[QUESTION]

42. (Appendix 1A) Adolphson Corporation has provided the following summary of its quality cost report for the last two years:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Summary of Quality Cost Report  (in thousands) | | | |
|  |
|  |  | This Year | Last Year | % Change |
|  | Prevention costs | $  300 | $  200 | +50 |
|  | Appraisal costs | 315 | 210 | +50 |
|  | Internal failure costs | 114 | 190 | -40 |
|  | External failure costs | 621 | 1,200 | -48 |
|  | Total quality costs | $1,350 | $1,800 | -25 |

.

On the basis of this report, which one of the following statements is most likely correct?

A) An increase in prevention and appraisal costs resulted in fewer defects, and therefore, resulted in a decrease in internal and external failure costs.

B) A decrease in internal and external failure costs resulted in less need for prevention and appraisal costs.

C) Quality costs such as scrap and rework decreased by 48%.

D) Quality costs such as returns and repairs under warranty decreased by 40%.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-08

Topic Area:

Blooms: Understand

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Decision Making

Source: CMA, adapted

Feedback:

Reference: APP01A-Ref1

(Appendix 1A) Fackler Company's quality cost report is to be based on the following data:

|  |  |  |
| --- | --- | --- |
|  | Quality circles | $12,000 |
|  | Product recalls | $24,000 |
|  | Supplies used in testing and inspection | $87,000 |
|  | Net cost of scrap | $59,000 |
|  | Liability arising from defective products | $38,000 |
|  | Re-entering data because of keying errors | $65,000 |
|  | Debugging software errors | $19,000 |
|  | Test and inspection of incoming materials | $65,000 |
|  | Quality data gathering, analysis, and reporting | $55,000 |

[QUESTION]

43. What would be the total prevention cost appearing on the quality cost report?

A) $99,000

B) $67,000

C) $120,000

D) $79,000

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref1Feedback:

Total prevention cost = $12,000 + $55,000 = $67,000

[QUESTION]

44. What would be the total appraisal cost appearing on the quality cost report?

A) $130,000

B) $152,000

C) $146,000

D) $219,000

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref1Feedback:

Total appraisal cost = $87,000 + $65,000 = $152,000

[QUESTION]

45. What would be the total internal failure cost appearing on the quality cost report?

A) $143,000

B) $146,000

C) $97,000

D) $43,000

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref1Feedback:

Total internal failure cost = $59,000 + $65,000 + $19,000 = $143,000

[QUESTION]

46. What would be the total external failure cost appearing on the quality cost report?

A) $57,000

B) $62,000

C) $205,000

D) $424,000

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref1Feedback:

Total external failure cost = $24,000 + $38,000 = $62,000

Reference: APP01A-Ref2

(Appendix 1A) Circle K Toys, Inc. manufactures toys and children's clothing and sells these products to retail outlets. The following costs were incurred in performing quality activities at Circle K during the year:

|  |  |  |
| --- | --- | --- |
|  | Product recall activities | $370,000 |
|  | Quality training activities | $240,000 |
|  | Quality improvement activities | $154,000 |
|  | Warranty claim activities | $109,000 |
|  | Quality inspection and testing activities | $61,000 |
|  | Rework activities | $38,000 |
|  | Quality data collection and reporting activities | $15,000 |

[QUESTION]

47. What is the total of the prevention costs for Circle K?

A) $394,000

B) $409,000

C) $455,000

D) $470,000

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref2Feedback:

Prevention costs = Quality training activities + Quality improvement activities + Quality data collection and reporting activities = $240,000 + $154,000 + $15,000 = $409,000

[QUESTION]

48. What is the total of the internal failure costs for Circle K?

A) $ 53,000

B) $ 99,000

C) $517,000

D) $ 38,000

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref2Feedback:

Internal failure costs = Rework activities = $38,000

Reference: APP01A-Ref3

(Appendix 1A) Eaglin Company's quality cost report is to be based on the following data:

|  |  |  |
| --- | --- | --- |
|  | Disposal of defective products | $74,000 |
|  | Liability arising from defective products | $66,000 |
|  | Test and inspection of in-process goods | $82,000 |
|  | Systems development | $11,000 |
|  | Net cost of spoilage | $75,000 |
|  | Supervision of testing and inspection activities | $93,000 |
|  | Lost sales due to poor quality | $44,000 |
|  | Maintenance of test equipment | $19,000 |
|  | Quality data gathering, analysis, and reporting | $51,000 |

[QUESTION]

49. What would be the total prevention cost appearing on the quality cost report?

A) $55,000

B) $30,000

C) $62,000

D) $133,000

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref3Feedback:

Total prevention cost = $11,000 + $51,000 = $62,000

[QUESTION]

50. What would be the total appraisal cost appearing on the quality cost report?

A) $194,000

B) $175,000

C) $112,000

D) $167,000

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref3Feedback:

Total appraisal cost = $82,000 + $93,000 + $19,000 = $194,000

[QUESTION]

51. What would be the total internal failure cost appearing on the quality cost report?

A) $119,000

B) $149,000

C) $156,000

D) $140,000

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref3Feedback:

Total internal failure cost = $74,000 + $75,000 = $149,000

[QUESTION]

52. What would be the total external failure cost appearing on the quality cost report?

A) $259,000

B) $110,000

C) $119,000

D) $515,000

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref3Feedback:

Total external failure cost = $66,000 + $44,000 = $110,000

Reference: APP01A-Ref4

(Appendix 1A) Fabrick Company's quality cost report is to be based on the following data:

|  |  |  |
| --- | --- | --- |
|  | Lost sales due to poor quality | $78,000 |
|  | Quality data gathering, analysis, and reporting | $23,000 |
|  | Net cost of spoilage | $88,000 |
|  | Re-entering data because of keying errors | $98,000 |
|  | Test and inspection of in-process goods | $24,000 |
|  | Final product testing and inspection | $78,000 |
|  | Statistical process control activities | $49,000 |
|  | Returns arising from quality problems | $16,000 |
|  | Downtime caused by quality problems | $26,000 |

[QUESTION]

53. What would be the total prevention cost appearing on the quality cost report?

A) $101,000

B) $72,000

C) $73,000

D) $101,000

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref4Feedback:

Total prevention cost = $23,000 + $49,000 = $72,000

[QUESTION]

54. What would be the total appraisal cost appearing on the quality cost report?

A) $122,000

B) $174,000

C) $104,000

D) $102,000

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref4Feedback:

Total appraisal cost = $24,000 + $78,000 = $102,000

[QUESTION]

55. What would be the total internal failure cost appearing on the quality cost report?

A) $212,000

B) $166,000

C) $122,000

D) $114,000

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref4Feedback:

Total internal failure cost = $88,000 + $98,000 + $26,000 = $212,000

[QUESTION]

56. What would be the total external failure cost appearing on the quality cost report?

A) $94,000

B) $480,000

C) $104,000

D) $306,000

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref4Feedback:

Total external failure cost = $78,000 + $16,000 = $94,000

Reference: APP01A-Ref5

(Appendix 1A) Eagleson Company's quality cost report is to be based on the following data:

|  |  |  |
| --- | --- | --- |
|  | Net cost of scrap | $75,000 |
|  | Liability arising from defective products | $32,000 |
|  | Warranty repairs and replacements | $80,000 |
|  | Re-entering data because of keying errors | $75,000 |
|  | Supplies used in testing and inspection | $18,000 |
|  | Quality data gathering, analysis, and reporting | $62,000 |
|  | Final product testing and inspection | $21,000 |
|  | Test and inspection of in-process goods | $44,000 |
|  | Systems development | $45,000 |

[QUESTION]

57. What would be the total prevention cost appearing on the quality cost report?

A) $107,000

B) $125,000

C) $84,000

D) $89,000

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref5Feedback:

Total prevention cost = $62,000 + $45,000 = $107,000

[QUESTION]

58. What would be the total appraisal cost appearing on the quality cost report?

A) $93,000

B) $62,000

C) $39,000

D) $83,000

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref5Feedback:

Total appraisal cost = $18,000 + $21,000 + $44,000 = $83,000

[QUESTION]

59. What would be the total internal failure cost appearing on the quality cost report?

A) $155,000

B) $150,000

C) $96,000

D) $107,000

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref5Feedback:

Total internal failure cost = $75,000 + $75,000 = $150,000

[QUESTION]

60. What would be the total external failure cost appearing on the quality cost report?

A) $262,000

B) $155,000

C) $112,000

D) $451,000

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-07Learning Objective: 01-08Topic Area:Blooms: ApplyAACSB: Analytical ThinkingAICPA: BB Critical ThinkingAICPA: FN MeasurementRefer To: APP01A-Ref5Feedback:

Total external failure cost = $32,000 + $80,000 = $112,000

**Essay**

[QUESTION]

61. (Appendix 1A) Rigoletto Company's quality cost report is to be based on the following data:

|  |  |  |
| --- | --- | --- |
|  | Lost sales due to poor quality | $24,000 |
|  | Test and inspection of incoming materials | $94,000 |
|  | Rework labor and overhead | $55,000 |
|  | Test and inspection of in-process goods | $32,000 |
|  | Product recalls | $47,000 |
|  | Quality data gathering, analysis, and reporting | $15,000 |
|  | Disposal of defective products | $88,000 |
|  | Maintenance of test equipment | $58,000 |
|  | Quality engineering | $98,000 |

Required:

Prepare a Quality Cost Report in good form with separate sections for prevention costs, appraisal costs, internal failure costs, and external failure costs.

Answer:

|  |  |  |
| --- | --- | --- |
|  | Prevention costs |  |
|  | Quality engineering | $ 98,000 |
|  | Quality data gathering, analysis, and reporting | 15,000 |
|  | Total prevention cost | 113,000 |
|  | Appraisal costs |  |
|  | Test and inspection of in-process goods | 32,000 |
|  | Maintenance of test equipment | 58,000 |
|  | Test and inspection of incoming materials | 94,000 |
|  | Total appraisal cost | 184,000 |
|  | Internal failure costs |  |
|  | Disposal of defective products | 88,000 |
|  | Rework labor and overhead | 55,000 |
|  | Total internal failure cost | 143,000 |
|  | External failure costs |  |
|  | Product recalls | 47,000 |
|  | Lost sales due to poor quality | 24,000 |
|  | Total external failure cost | 71,000 |
|  | Total quality cost | $511,000 |

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

62. (Appendix 1A) Galaviz Company's quality cost report is to be based on the following data:

|  |  |  |
| --- | --- | --- |
|  | Net cost of spoilage | $32,000 |
|  | Test and inspection of in-process goods | $56,000 |
|  | Supplies used in testing and inspection | $88,000 |
|  | Quality engineering | $60,000 |
|  | Downtime caused by quality problems | $89,000 |
|  | Systems development | $63,000 |
|  | Supervision of testing and inspection activities | $31,000 |
|  | Cost of field servicing and handling complaints | $39,000 |
|  | Lost sales due to poor quality | $62,000 |

Required:

Prepare a Quality Cost Report in good form with separate sections for prevention costs, appraisal costs, internal failure costs, and external failure costs.

Answer:

|  |  |  |
| --- | --- | --- |
|  | Prevention costs |  |
|  | Systems development | $ 63,000 |
|  | Quality engineering | 60,000 |
|  | Total prevention cost | 123,000 |
|  | Appraisal costs |  |
|  | Supplies used in testing and inspection | 88,000 |
|  | Supervision of testing and inspection activities | 31,000 |
|  | Test and inspection of in-process goods | 56,000 |
|  | Total appraisal cost | 175,000 |
|  | Internal failure costs |  |
|  | Net cost of spoilage | 32,000 |
|  | Downtime caused by quality problems | 89,000 |
|  | Total internal failure cost | 121,000 |
|  | External failure costs |  |
|  | Cost of field servicing and handling complaints | 39,000 |
|  | Lost sales due to poor quality | 62,000 |
|  | Total external failure cost | 101,000 |
|  | Total quality cost | $520,000 |

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

63. (Appendix 1A) Gadsen Company’s quality cost report is to be based on the following data:

|  |  |  |
| --- | --- | --- |
|  | Maintenance of test equipment | $38,000 |
|  | Quality training | $40,000 |
|  | Product recalls | $89,000 |
|  | Quality circles | $29,000 |
|  | Rework labor and overhead | $34,000 |
|  | Liability arising from defective products | $16,000 |
|  | Supervision of testing and inspection activities | $50,000 |
|  | Re-entering data because of keying errors | $50,000 |
|  | Supplies used in testing and inspection | $36,000 |

Required:

Prepare a Quality Cost Report in good form with separate sections for prevention costs, appraisal costs, internal failure costs, and external failure costs.

Answer:

|  |  |  |
| --- | --- | --- |
|  | Prevention costs |  |
|  | Quality circles | $29,000 |
|  | Quality training | 40,000 |
|  | Total prevention cost | 69,000 |
|  | Appraisal costs |  |
|  | Maintenance of test equipment | 38,000 |
|  | Supervision of testing and inspection activities | 50,000 |
|  | Supplies used in testing and inspection | 36,000 |
|  | Total appraisal cost | 124,000 |
|  | Internal failure costs |  |
|  | Re-entering data because of keying errors | 50,000 |
|  | Rework labor and overhead | 34,000 |
|  | Total internal failure cost | 84,000 |
|  | External failure costs |  |
|  | Liability arising from defective products | 16,000 |
|  | Product recalls | 89,000 |
|  | Total external failure cost | 105,000 |
|  | Total quality cost | $382,000 |

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

64. (Appendix 1A) Hartnett Company's quality cost report is to be based on the following data:

|  |  |  |
| --- | --- | --- |
|  | Depreciation of test equipment | $80,000 |
|  | Quality data gathering, analysis, and reporting | $15,000 |
|  | Warranty repairs and replacements | $68,000 |
|  | Net cost of scrap | $93,000 |
|  | Disposal of defective products | $81,000 |
|  | Debugging software errors | $22,000 |
|  | Statistical process control activities | $21,000 |
|  | Test and inspection of in-process goods | $52,000 |
|  | Product recalls | $40,000 |

Required:

Prepare a Quality Cost Report in good form with separate sections for prevention costs, appraisal costs, internal failure costs, and external failure costs.

Answer:

|  |  |  |
| --- | --- | --- |
|  | Prevention costs |  |
|  | Statistical process control activities | $ 21,000 |
|  | Quality data gathering, analysis, and reporting | 15,000 |
|  | Total prevention cost | 36,000 |
|  | Appraisal costs |  |
|  | Test and inspection of in-process goods | 52,000 |
|  | Depreciation of test equipment | 80,000 |
|  | Total appraisal cost | 132,000 |
|  | Internal failure costs |  |
|  | Net cost of scrap | 93,000 |
|  | Debugging software errors | 22,000 |
|  | Disposal of defective products | 81,000 |
|  | Total internal failure cost | 196,000 |
|  | External failure costs |  |
|  | Warranty repairs and replacements | 68,000 |
|  | Product recalls | 40,000 |
|  | Total external failure cost | 108,000 |
|  | Total quality cost | $472,000 |

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

65. (Appendix 1A) Harwood Company's quality cost report is to be based on the following data:

|  |  |  |
| --- | --- | --- |
|  | Depreciation of test equipment | $94,000 |
|  | Quality circles | $54,000 |
|  | Product recalls | $20,000 |
|  | Test and inspection of incoming materials | $82,000 |
|  | Debugging software errors | $11,000 |
|  | Rework labor and overhead | $48,000 |
|  | Technical support provided to suppliers | $12,000 |
|  | Net cost of scrap | $29,000 |
|  | Lost sales due to poor quality | $74,000 |

Required:

Prepare a Quality Cost Report in good form with separate sections for prevention costs, appraisal costs, internal failure costs, and external failure costs.

Answer:

|  |  |  |
| --- | --- | --- |
|  | Prevention costs |  |
|  | Quality circles | $ 54,000 |
|  | Technical support provided to suppliers | 12,000 |
|  | Total prevention cost | 66,000 |
|  | Appraisal costs |  |
|  | Test and inspection of incoming materials | 82,000 |
|  | Depreciation of test equipment | 94,000 |
|  | Total appraisal cost | 176,000 |
|  | Internal failure costs |  |
|  | Debugging software errors | 11,000 |
|  | Net cost of scrap | 29,000 |
|  | Rework labor and overhead | 48,000 |
|  | Total internal failure cost | 88,000 |
|  | External failure costs |  |
|  | Product recalls | 20,000 |
|  | Lost sales due to poor quality | 74,000 |
|  | Total external failure cost | 94,000 |
|  | Total quality cost | $424,000 |

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]

66. (Appendix 1A) Galben Company's quality cost report is to be based on the following data:

|  |  |  |
| --- | --- | --- |
|  | Quality data gathering, analysis, and reporting | $38,000 |
|  | Supervision of testing and inspection activities | $45,000 |
|  | Liability arising from defective products | $30,000 |
|  | Technical support provided to suppliers | $39,000 |
|  | Disposal of defective products | $72,000 |
|  | Depreciation of test equipment | $55,000 |
|  | Downtime caused by quality problems | $96,000 |
|  | Test and inspection of in-process goods | $69,000 |
|  | Cost of field servicing and handling complaints | $52,000 |

Required:

Prepare a Quality Cost Report in good form with separate sections for prevention costs, appraisal costs, internal failure costs, and external failure costs.

Answer:

|  |  |  |
| --- | --- | --- |
|  | Prevention costs |  |
|  | Technical support provided to suppliers | $ 39,000 |
|  | Quality data gathering, analysis, and reporting | 38,000 |
|  | Total prevention cost | 77,000 |
|  | Appraisal costs |  |
|  | Test and inspection of in-process goods | 69,000 |
|  | Supervision of testing and inspection activities | 45,000 |
|  | Depreciation of test equipment | 55,000 |
|  | Total appraisal cost | 169,000 |
|  | Internal failure costs |  |
|  | Disposal of defective products | 72,000 |
|  | Downtime caused by quality problems | 96,000 |
|  | Total internal failure cost | 168,000 |
|  | External failure costs |  |
|  | Cost of field servicing and handling complaints | 52,000 |
|  | Liability arising from defective products | 30,000 |
|  | Total external failure cost | 82,000 |
|  | Total quality cost | $496,000 |

Difficulty: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area:

Blooms: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement