

**Quiz 1**  
**ADM3346XX Cost Accounting**

STUDENT NAME (Last name, first name) .....

STUDENT ID NUMBER .....

**35 Minutes (16 Marks)**

**INSTRUCTIONS**

1. This is a closed book examination and no collaboration is allowed.
2. **Non** programmable calculators are permitted.
3. It is highly recommended that you **use blue or black ink** for your answers. **If you do use pencil, you will not be able to submit your quiz for re-appraisal if you believe that the marking was not applied appropriately to your answers.**
4. Questions concerning possible errors in the quiz **only** will be answered.
5. If you leave early, please respect your fellow students by leaving quietly.
6. Cell phones must be turned off.

**Question 1. Multiple Choice (10 marks/1 mark for each)**

1. Management accounting

- A) measures, analyzes, and reports financial and nonfinancial information to internal managers.
- 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.
- E) must follow generally accepted accounting principles.

2. Which one of the following items is typically an example of an indirect cost of a cost object?

- A) courier charges for shipment delivery
- B) manufacturing plant electricity
- C) direct manufacturing labour
- D) wood used for furniture manufacture
- E) refundable sales tax on direct materials

3. Prime costs can include

- A) conversion costs.
- B) direct material costs.
- C) indirect manufacturing labour.
- D) machine set up costs.
- E) advertising costs.

4. For a manufacturing company, direct material costs may be included in

- A) direct materials inventory only.
- B) merchandise inventory only.
- C) both work-in-process inventory and finished goods inventory.
- D) direct materials inventory, work-in-process inventory, and finished goods inventory accounts.
- E) period costs.

5. Generally, costs which are initially recorded as an asset and subsequently become an expense are called

- A) inventoriable costs.
- B) non-manufacturing costs.
- C) manufacturing costs.
- D) non-capitalized costs.
- E) non-inventoriable costs.

**Using the following information for 6 and 7:**

The Singer Company manufactures several different products. Unit costs associated with Product ICT101 are as follows:

Direct materials	\$60
Direct manufacturing labour	10
Variable manufacturing overhead	18
Fixed manufacturing overhead	32
Sales commissions (2% of sales)	4
Administrative salaries	16
Total	<u>\$140</u>

6. What are the fixed costs per unit associated with Product ICT101?

- A) \$102
- B) \$48
- C) \$52
- D) \$32
- E) \$36

7. What are the inventoriable costs per unit associated with Product ICT101?

- A) \$120
- B) \$140
- C) \$50
- D) \$88
- E) \$70

8. All of the following are approaches to cost estimation EXCEPT

- A) the account analysis method.
- B) the conference method.
- C) the flexible cost analysis method.
- D) the industrial engineering method.
- E) quantitative analysis.

**Using the following information for 9 and 10**

The Skip Corporation has assembled the following data pertaining to certain costs which cannot be easily identified as either fixed or variable. Skip Corporation has heard about a method of measuring cost functions called the high-low method and has decided to use it in this situation.

<u>Cost</u>	<u>Hours</u>
\$20,000	7,000
12,200	4,000
17,000	5,200
15,640	4,900
18,200	6,000
22,080	7,800
21,200	7,480
18,600	6,760

9. The cost function would be stated as

- A)  $Y = \$13,386 + \$0.46X$ .
- B)  $Y = \$10,680 + \$0.38X$ .
- C)  $Y = \$5,056 + \$2.16X$ .
- D)  $Y = \$1,800 + \$2.16X$ .
- E)  $Y = \$1,800 + \$2.60X$ .

10. The total cost at an operating level of 2,850 hours would be
- A) \$19,210.
  - B) \$11,763.
  - C) \$14,697.
  - D) \$11,212.
  - E) \$9,210.

**Question 2. Short answer question (6 marks)**

Clinton Company sells two items, product A and product B. The company is considering dropping product B. After dropping product B, it is expected that sales of product A will increase by 40% as a result. Dropping product B will allow the company to cancel its monthly equipment rental costing \$100 per month. The other existing equipment will be used for additional production of product A. One employee earning \$200 per month can be terminated if product B production is dropped. Clinton's other fixed costs are allocated and will continue regardless of the decision made. A condensed, budgeted monthly income statement with both products follows:

	<u>Product A</u>	<u>Product B</u>	<u>Total</u>
Sales	\$10,000	\$8,000	\$18,000
Direct materials	2,500	2,000	4,500
Direct labour	2,000	1,200	3,200
Equipment rental	300	2,600	2,900
Other allocated overhead	<u>1,000</u>	<u>2,100</u>	<u>3,100</u>
Operating income	\$4,200	\$100	\$4,300

**Required: (Show your calculations)**

- a. Prepare an incremental analysis to determine the financial effect of dropping product B. **(4 marks)**
- b. List two qualitative factors that would affect the decision to drop product B? **(2 marks)**

Answers to Quiz 1 (Total 16 marks)

Question 1 (total 10 marks, 1 mark/each question)

1. A
2. B
3. B
4. D
5. A
6. B (Explanation:  $32+16=\$48$ )
7. A (Explanation:  $60+10+18+32=\$120$ )
8. C
9. E

Explanation:

$$b = (\$22,080 - \$12,200)/(7,800 - 4,000) = \$2.60$$

$$\$22,080 = a + \$2.60 (7,800)$$

$$\$1,800 = a$$

10. E

Explanation:

$$y = \$1,800 + \$2.60x$$

$$y = \$1,800 + \$2.60(2,850)$$

$$y = \$9,210$$

Question 2 (6 marks)

a. (4 marks) Incremental change in revenue:

Product A increase in sales $\$10,000 \times 40\%$	\$4,000
Product B decrease in sales	<u>(8,000)</u>
Incremental decrease in revenue	(\$4,000)

Incremental change in variable costs:

Direct materials: Product A increase $\$2,500 \times 40\%$	\$(1,000)
Product B decrease	2,000
Direct labour : Product A increase $\$2,000 \times 40\%$	(800)
Product B decrease	<u>200</u>
Incremental decrease in variable costs	\$400
Equipment rental deduction	<u>100</u>
Incremental decrease in profits if product B is dropped	(\$3,500)

b. Up to 2 marks

- Drop product B may affect the sales of product A
- Employee morale problem because of unemployment
- The price of direct materials may change for producing product A