

Chapter 5 – Practice Questions

- 1) A product that consumes a relatively low level of resources but is reported to have a relatively high cost, may result in
 - A) product sub optimization
 - B) product over costing.
 - C) product under costing.
 - D) product-cost cross-subsidization.

2. Provided a single allocation base is used, jobs are typically overcosted if
 - A) jobs require more employees.
 - B) jobs consume relatively more of the resources than the revenue they bring in.
 - C) jobs cannot be overcosted; only products or service can be overcosted
 - D) jobs require more travel and communication between the two parties.

3. The term used to describe a situation when at least one miscosted product causes other products to be miscosted in the organization is known as
 - A) product over costing.
 - B) product marketing.
 - C) product-cost cross-subsidization.
 - D) product sub optimization.
 - E) product under costing.

4. In ABC costing, an *activity* includes all of the following EXCEPT
 - A) an event.
 - B) A unit of work.
 - C) A process.
 - D) A task.
 - E) An indirect cost.

5. A costing system which focuses on individual event or tasks as the fundamental cost objects is called
 - A) normal costing.
 - B) job costing.
 - C) activity-based costing.
 - D) direct costing.

6. A four-part cost hierarchy includes all of the following EXCEPT
 - A) market-sustaining costs.
 - B) product-sustaining costs.
 - C) batch-level costs.
 - D) output unit-level costs.
 - E) facility-sustaining costs.

Use the information below to answer the following two question(s).

Fran Ferry Company had the following activities, traceable costs, and physical

Activities	Traceable of Costs	Physical Flow Driver	Units
Account inquiry (hours)	\$ 200,000	5,000	hours
Account billing (lines)	140,000	2,000,000	lines
Account verification (accounts)	75,000	20,000	accounts
Correspondence (letters)	25,000	2,000	letters

The above activities are used by departments A and B as follows:

	A	B
Account inquiry (hours)	1,000	2,000
Account billing (lines)	200,000	100,000
Account verification (accounts)	5,000	4,000
Correspondence (letters)	500	800

7. How much of the account inquiry cost will be assigned to Department A?

- A) \$80,000
- B) \$200,000
- C) \$40,000
- D) \$100,000
- E) \$140,000

8. How much of the account billing cost will be assigned to Department B?

- A) \$7,000
- B) \$14000
- C) \$100,000
- D) \$140,000

9. Stanley Corp. manufactures two models of its roasting pans, a standard and a deluxe model. Three activities have been identified as cost drivers. The related costs pools and the cost driver usage are given below:

Product	Number of Setups	Number of Components	Number of Orders
Standard	12	8	440
Deluxe	16	14	750
Costs per pool	\$30,000	\$76,000	\$14,000

If activity-based costing is used, then the total amount of overhead allocated to the deluxe model would be:

- a. \$ 45,670.
- b. \$ 74,330.
- c. \$120,000.
- d. \$ 80,000.

Use the following information to answer the next two questions:

Scissors Inc. is a manufacturer of scissors. The company has always used a traditional plant-wide rate for allocating manufacturing overhead to its products. The plant manager believes it is time to change to a better method of cost allocation. The accounting department has been able to establish some new relationships between production activities and the manufacturing overhead. They are as follows:

<u>Activity</u>	<u>Cost Driver</u>	<u>Allocation Rate</u>
Material handling	Number of parts	\$ 4 per part
Assembly	Labour hours	\$40 per hour
Inspection	Time item is at Inspection station	\$ 6 per minute

The previous allocation method is based upon direct manufacturing labour hours, and if that method is used the rate is \$400 per labour hour. A batch of 1,000 scissors was produced. The batch requires 2,000 parts, 20 direct manufacturing labour hours, and 30 minutes of inspection time.

10. What are the indirect manufacturing costs per scissor assuming the traditional method is used?
- a. \$ 8.00
 - b. \$ 9.80
 - c. \$ 8,000,000
 - d. \$ 8,980,000
 - e. None of the above
11. What are the indirect manufacturing costs for a batch of scissors assuming the ABC method is used and a batch of 1,000 scissors were produced?
- a. \$ 8.00
 - b. \$ 9.80
 - c. \$ 8,000,000
 - d. \$ 8,980
 - e. None of the above

Use the following information to answer the next two questions:

Chris has a custom curtain and chair cover shop. The job-costing system was designed using an activity-based approach. There are two direct-cost categories (direct materials and direct labour) and three indirect cost pools. These three cost pools represent three activity areas of work at the shop.

<u>Activity Area</u>	<u>Cost Driver used for Allocation</u>	<u>Cost- Allocation Rate</u>
Materials handling	Number of pieces in the pattern	\$2.00 per piece
Stitching	Number of pieces in the pattern	\$25.00 per piece
Assembly/Installation	Direct labour hours	\$15.00 per hour

In October Chris made and installed five sets of curtains and chair covers for clients. A set includes curtains for two windows and coverings for three chairs. The direct labour rate is \$20.00 per hour. Cost data for curtains and covers follows:

	Units Produced	Direct Material Costs	Direct Number of pieces	Labour Hours
Curtains	10	\$2,000	1	20
Chair coverings	15	\$3,375	6	90

12. The cost for a set of curtains and chair coverings would be:
- a. \$1,253
 - b. \$2,085
 - c. \$2,385
 - d. \$5,375
 - e. None of the above

13. The indirect costs for the shop in October were:
- a. \$4,350
 - b. \$4,900
 - c. \$5,375
 - d. \$11,925
 - e. None of the above

14. The following information is available pertaining to Bonita Division, that uses a plant- wide overhead rate based on direct machine hours:

	<u>Mixing</u> <u>dept.</u>	<u>Finishing</u> <u>dept.</u>	<u>Total</u>
Overhead	\$30,000	\$60,000	\$90,000
Direct labor-hours	7,500	2,500	10,000
Machine-hours	2,500	7,500	10,000

Production information pertaining to Job 101:

	<u>Mixing</u> <u>Dept.</u>	<u>Finishing</u> <u>Dept.</u>	<u>Total</u>
Prime costs	\$5,000	\$0	\$5,000
Direct Labor-hours	250	0	250
Machine-hours	10	10	20
Units produced	500	0	500

What are the total overhead costs assigned to Job 101?

- a. \$120
 - b. \$200
 - c. \$90
 - d. \$180
 - e. None of the above
15. The use of a single indirect-cost rate is more likely to:
- a. undercost high-volume simple products
 - b. undercost low-volume complex products
 - c. undercost lower-priced products
 - d. Both B and C are correct
 - e. None of the above

16. Vex Corporation manufactures a variety of products. In the past, Vex had been using a traditional overhead allocation system based on machine-hours. For the current year, Vex decided to switch to an activity-based costing system using machine-hours and the number of inspections as measures of activity. Information on these measures of activity and related overhead rates for the current year are as follows:

	<i>Estimated Activity</i>	<i>Predetermined Overhead Rate</i>
Machine-hours	50,000	\$8 per machine-hour
Number of inspections ...	3,000	\$40 per inspection

Job #812 for the current year required 15 machine-hours and 2 inspections. Would this job have been overcosted or undercosted under the traditional system and by how much?

- a. undercosted by \$36
- b. undercosted by \$44
- c. overcosted by \$80
- d. undercosted by \$80
- e. None of the above

17. Anfuso Corporation uses activity-based costing to determine product costs for external financial reports. The company has provided the following data concerning its activity-based costing system:

<i>Activity Cost Pools (and Activity Measures)</i>	<i>Estimated Overhead Cost</i>
Machine related (machine-hours)	\$159,500
Batch setup (setups)	\$269,000
General factory (direct labor-hours)	\$166,500

<i>Activity Cost Pools</i>	<i>Total</i>	<i>Expected Activity</i>	
		<i>Product X</i>	<i>Product Y</i>
Machine related.....	11,000	8,000	3,000
Batch setup.....	10,000	6,000	4,000
General factory.....	9,000	5,000	4,000

Assuming that actual activity turns out to be the same as expected activity, the total amount of overhead cost allocated to Product X would be closest to:

- a. \$269,000
- b. \$297,500
- c. \$369,900
- d. \$357,000

18. In a job-order costing system, the incurrence of indirect labor costs would usually be recorded as a debit to:
- Manufacturing Overhead
 - Finished Goods
 - Work in Process
 - Cost of Goods Sold
 - None of the above
19. If overhead is underapplied, then:
- actual overhead cost is less than budgeted overhead cost
 - the amount of overhead cost applied to Work in Process is less than the actual overhead cost incurred
 - actual quantity used of the allocation base is greater than the budgeted base
 - All of the above are correct
 - None of the above

Use the following information to answer the next three questions:

Esmere Company is a wholesale distributor that uses activity-based costing for all of its overhead costs. The company has provided the following data concerning its annual overhead costs and its activity based costing system:

Overhead costs:

Wages and salaries	\$620,000
Other expenses	
\$240,000 Total	
.....	\$860,000

Distribution of resource consumption:

	<i>Activity Cost Pools</i>			<i>Total</i>
	<i>Filling Orders</i>	<i>Customer Support</i>	<i>Other</i>	
Wages and salaries	30%	60%	10%	100%
Other expenses	45%	35%	20%	100%

The “Other” activity cost pool consists of the costs of idle capacity and organization-sustaining costs.

The amount of activity for the year is as follows:

<i>Activity Cost Pool</i>	<i>Activity</i>
Filling orders	3,000 orders
Customer support	70 customers

20. What would be the total overhead cost per order according to the activity based costing system? In other words, what would be the overall activity rate for the filling orders activity cost pool? (Round to the nearest whole cent.)
- \$129.00
 - \$86.00
 - \$107.50
 - \$98.00
 - None of the above
21. What would be the total overhead cost per customer according to the activity based costing system? In other words, what would be the overall activity rate for the customer support activity cost pool? (Round to the nearest whole dollar.)
- \$6,514
 - \$5,836
 - \$4,300
 - \$7,371
 - None of the above
22. To the nearest whole dollar, how much wages and salaries cost would be allocated to a customer who made 8 orders in a year?
- \$4,920
 - \$4,030
 - \$8,059
 - \$5,810
 - None of the above

Answer Key

1	B	6	A	11	D	16	B	21	A
2	B	7	C	12	C	17	B	22	D
3	C	8	A	13	A	18	A		
4	E	9	B	14	D	19	B		
5	C	10	A	15	B	20	D		