Managerial Accounting for Undergraduates
2nd Edition
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PRACTICE QUIZ

Chapter 5: Activity-Based Costing

1. Which of the following could be considered a cost driver?

a. A service provided by an architecture firm
b. A product produced by a manufacturer
c. A tax return prepared by a local CPA firm
d. All of the above

2. Jon and Marshall is a CPA firm. Which of the following would be an appropriate driver for a client audit?

a. Number of hours billed
b. Number of tax returns filed
c. Number of the new CPAs hired during the year
d. All of the above

3. Jasmine Inc. manufactures plant-based meat products. They have always used a predetermined overhead rate based on labor hours. The production manager is switching to Activity-Based Costing and is assigning costs based on Processing and Packaging cost pools.

This switch would be expected to result in all of the following except:

a. More accurate pricing
b. Overcosting of high volume, low complexity products
c. Increased profitability from elimination of unprofitable products
d. Identification of activities that could be eliminated to improve profitability

4. What is the relationship between indirect costs and cost objects in activity-based costing?

a. Indirect costs are directly assigned to cost objects
b. Indirect costs decrease the price of cost objects
c. Indirect costs are expensed as period costs and have no relationship to cost objects
d. Indirect costs are assigned to products via activity cost pools

5. Which of the following is true of cost drivers?

a. If the cost per unit is the same for Traditional Costing and Activity-Based Costing, the company is using the same cost driver
b. If cost distortion exists between Traditional Costing and Activity-Based Costing, the company has no need to analyze costs based on cost pools
c. Since direct labor hours is a direct cost, it is not considered a cost driver
d. None of the above is true

Reference the following information for Questions 6 and 7.

Burrow Co. uses activity-based costing in their manufacturing process. The company produces two products, Tiger25 and Tiger50. Burrow has provided the costing department the following information from this year's budget relating to the production of these two products:

	Tiger25	Tiger50
Units to be produced	100,000	175,000
Machine-hours expected	8,000	9,000
Direct labor-hours expected	18,000	22,000
Materials handling (number of moves)	500	200
Machine setups (number of setups)	200	100

The following costs are expected to be incurred throughout the year, and are related to the cost drivers being measured:

Materials handling costs	$90,000
Machine setup costs	$45,000

6. If overhead was applied solely based on the number of setups, what would the overhead rate be?

a. $150
b. $225
c. $450
d. None of the above

7. What are the rates that will be used to apply overhead costs using activity-based costing?

a. $121.44/move, $135/setup
b. $122.33/move, $145.54/setup
c. $128.57/move, $150/setup
d. $131/move, $225/setup

Reference the following information for Questions 6 and 7.

Temple Lighting uses Activity-Based Costing as follows.

Activity	Cost Driver	Cost per unit	Quantity of Activity	Cost of Activity
Assembly	Direct Labor Hours	$10.00	15,000	$150,000
Design	# of options	$12.50	2,000	$25,000
Packaging	Units Produced	$2.50	10,000	$25,000

Product X requires direct material of $25.00 per unit, direct labor of $30.00 per unit, 1.5 direct labor hours, and 2 options.

8. Using activity-based costing, what is Temple Lighting's overhead cost per unit of product?

a. $25.00
b. $42.50
c. $40.00
d. $55.00

9. If Temple Lighting used a predetermined rate of $25.00 per direct labor hours instead of activity-based costing, they would be:

a. Undercosting their product by $5 per unit
b. Overcosting their product by $17.50 per unit
c. Undercosting their product by $15 per unit
d. Can't tell from the information given

10. Gaming For Fun LLC manufactures two types of gaming consoles. Prices for the consoles are set to achieve a 15% gross margin. The assigned overhead cost are as follows:

Type of Consoles	Company-Wide Overhead Rate	ABC
Q100	$80	$75.20
K20	$78	$85.20

The manager has determined that cost distortion exists. Why does cost distortion exist?

a. Q100 consumes less costs per unit under ABC and is underpriced using the company-wide overhead rate
b. Q100 consumes less costs per unit under ABC and is overpriced using the company- wide overhead rate
c. K20 and Q100 consume less costs per unit under ABC and both are overpriced using the company-wide overhead rate
d. K20 is consuming more costs per unit under ABC and is overpriced using the company-wide overhead rate

SOLUTIONS

Chapter 5: Activity-Based Costing

1. d

2. a

3. b

4. d

5. a

6. c

7. c

8. b

9. a

10. b