

Question 1

Correct

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Companies which use only one or two cost pools rather than several cost pools

Select one:

- a. may have seriously distorted product costs. ✓
- b. will be able to more accurately price products to cover the cost and generate a profit.
- c. will have higher record-keeping costs.
- d. are likely to be using ABC.

The correct answer is: may have seriously distorted product costs.

Question 2

Incorrect

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Which of the following statements about cost pools is true?

Select one:

- a. More cost pools usually provide more accurate information, but are more expensive.
- b. The costs in each of the cost pools should be homogeneous or similar.
- c. All the answers provided are true.
- d. Managers must make a cost-benefit decision when determining how many cost pools are appropriate. ✘

The correct answer is: All the answers provided are true.

Question 3

Incorrect

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Which of the following is **not** generally true when a company compares ABC and traditional costing?

Select one:

- a. ABC uses more cost allocation bases.
- b. ABC is less likely to undercost complex, low-volume products.
- c. ABC allocates cost based solely on production volume.
- d. ABC is more expensive. ✘

The correct answer is: ABC allocates cost based solely on production volume.

The correct answer is: ABC allocates cost based solely on production volume.

Question 4

Correct

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The undercosted product absorbs too much cost, making it seem less profitable than it really is.

Select one:

- True
- False ✓

The correct answer is 'False'.

Question 5

Incorrect

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Premium Company provides the following ABC costing information:

<u>Activities</u>	<u>Total Costs</u>	<u>Allocation Base</u>
Account inquiry	\$200,000	10,000 hours
Account billing	\$140,000	40,000 lines

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

	<u>Product A</u>	<u>Product B</u>
Account inquiry hours	6,000 hours	4,000 hours

Which of the following statements is true of a peanut-butter costing system?

Select one:

- a. In a peanut-butter costing system, costs of activities are used to assign costs to other cost objects such as products or services based on the activities the products or services consume.
- b. A peanut-butter costing system assumes that all costs are variable.
- c. A peanut-butter costing system broadly averages or spreads the cost of resources uniformly to cost objects. ✓
- d. A peanut-butter costing system typically has more-homogeneous indirect cost pools.

The correct answer is: A peanut-butter costing system broadly averages or spreads the cost of resources uniformly to cost objects.

Premium Company provides the following ABC costing information:

<u>Activities</u>	<u>Total</u> <u>Costs</u>	<u>Allocation</u> <u>Base</u>
Account inquiry	\$200,000	10,000 hours
Account billing	\$188,000	40,000 lines

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

	<u>Product A</u>	<u>Product B</u>
Account inquiry hours	6,000 hours	4,000 hours
Account billing lines	25,000 lines	15,000 lines

If the total indirect costs are allocated using plantwide method on the basis of account inquiry hours, How much will be assigned to Product B?

Answer: 155200



Luzent Corporation has two departments, A and B. Central costs could be allocated to the two departments in various ways.

	<u>Department A</u>	<u>Department B</u>
Square footage	6,750	17,250
Number of employees	1,120	480
Sales	\$350,000	\$1,750,000

If total payroll processing costs of \$64,000 are allocated on the basis of number of employees, the amount allocated to the Department B would be


Select one:

- a. \$18,400
- b. \$19,200
- c. \$17,800
- d. \$19,400



Which of the following statements is true of activity-based costing?

Select one:

- a. Activity based costing broadly averages or spreads the cost of resources uniformly to cost objects such as products or services.
- b. The main advantage of activity-based costing over peanut-butter costing is the accurate distribution of all direct costs to the products.
- c. ABC is generally perceived to produce superior costing figures due to the use of multiple drivers across multiple levels. 
- d. In activity-based costing, direct labor-hours is always the best allocation base to allocate all non-manufacturing indirect costs.


Offshore Company makes 2 different types of boats, sail and fishing boats. The company consists of two different departments, design and production. The company has decided to allocate overhead costs in each of the two cost pools. Data on estimated overhead follows:

Activity:	Allocation	Estimated	Sail	Fishing
	base	OH cost	Estimate	estimate
Design	# of designs	\$180,000	22 designs	23 designs
Production	Labor hours	\$994,000	4,500 hours	2,500 hours

Question 14

Incorrect

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Plantwide, department allocation and ABC methods are mathematically correct and total costs for the entire firm remain the same under these three methods.

Select one:

- True
- False **×**


The correct answer is 'True'.

The correct answer is: Design \$4,000 ; Production \$142.00

Question 12

Incorrect

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Total costs for the entire firm change depending on the allocation method used since they are allocated differently to the cost objects within the firm.

Select one:

True **×**

False


The correct answer is 'False'.

The correct answer is: \$19,200

Question 9

Correct

Mark 1.00 out of 1.00

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If one product is undercosted then at least one other product must be overcosted.

Select one:

True ✓

False