

### **True& False:**

1) A cost object is anything for which a cost measurement is desired.

Answer: TRUE

2) An actual cost is the cost incurred—a historical or past cost.

Answer: TRUE

3) Accountants define a cost as a resource to be sacrificed to achieve a specific objective.

Answer: TRUE

4) A cost is a resource sacrificed or forgone to achieve a specific objective.

Answer: TRUE

5) Managers use cost accumulation data to make decisions and implement them.

Answer: TRUE

6) A cost may be direct for one cost object and indirect for another cost object.

Answer: TRUE

7) Assigning indirect costs is easier than assigning direct costs.

Answer: FALSE

8) A direct cost of one cost object can be an indirect cost of another cost object.

Answer: TRUE

9) The cost of electricity used in the production of multiple products would be classified as a indirect cost.

Answer: TRUE

10) The broader the cost object definition, higher the proportion of direct costs are of total costs.

Answer: TRUE

11) A fixed cost is fixed only in relation to a given wide range of total activity or volume and only for a given time span, usually a particular budget period.

Answer: TRUE

12) Variable cost per unit reduces with an increase in production volume.

Answer: TRUE

13) Variable costs per unit vary with the level of production or sales volume.

Answer: FALSE

14) Wood used to manufacture chairs is considered a direct variable cost.

Answer: TRUE

15) A fixed cost remains unchanged in total for a given time period, despite wide changes in the related level of total activity or volume of output produced.

Answer: TRUE

16) A unit cost is computed by dividing total cost by the number of units.

Answer: TRUE

17) A unit cost is also called an average cost.

Answer: TRUE

18) Work-in-process inventory are goods partially worked on but not yet completed.

Answer: TRUE

19) All manufacturing costs are period costs.

Answer: FALSE

### **MCQ:**

1) An actual cost is \_\_\_\_\_.

- A) is the cost incurred
- B) is a predicted or forecasted cost
- C) is anything for which a cost measurement is desired
- D) is the collection of cost data in some organized way by means of an accounting system

Answer: A

2) Comparing budgeted costs to actual costs helps managers to improve \_\_\_\_\_.

- A) coordination
- B) control
- C) implementation
- D) planning

Answer: B

- 3) Budgeted costs are \_\_\_\_\_.
- A) the costs incurred this year
  - B) the costs incurred last year
  - C) planned or forecasted costs
  - D) competitor's costs

Answer: C

- 4) Cost assignment \_\_\_\_\_.
- A) includes future and arbitrary costs
  - B) encompasses allocating indirect costs to a cost object
  - C) is the same as cost accumulation
  - D) is the difference between budgeted and actual costs

Answer: B

- 5) A cost system determines the cost of a cost object by \_\_\_\_\_.
- A) accumulating and then assigning costs
  - B) accumulating costs
  - C) assigning and then accumulating costs
  - D) assigning costs

Answer: A

- 6) Which of the following factors affect the direct/indirect classification of a cost?
- A) the level of budgeted profit for the next year
  - B) the estimation of time required to complete the order
  - C) the ability to execute an order in the most cost-efficient manner
  - D) the design of the operation

Answer: D

- 7) The general term used to identify both the tracing and the allocation of accumulated costs to a cost object is \_\_\_\_\_.
- A) cost accumulation
  - B) cost assignment
  - C) cost tracing

D) conversion costing

Answer: B

8) Cost accumulation is \_\_\_\_\_.

A) the collection of cost data in some organized way by means of an accounting system

B) anything for which a cost measurement is desired

C) anything for which a profit measurement is desired

D) the collection of profit data in some organized way by means of an accounting system

Answer: A

9) Which of the following statements about the direct/indirect cost classification is true?

A) Indirect costs are always traced.

B) Indirect costs are always allocated.

C) The design of sales target affects the direct/indirect classification.

D) The direct/indirect classification depends on the cost control measures.

Answer: B

10) Cost allocation is \_\_\_\_\_.

A) the process of tracking both direct and indirect costs associated with a cost object

B) the process of determining the opportunity cost of a cost object chosen

C) the assignment of indirect costs to the chosen cost object

D) made based on material acquisition document

Answer: C

11) Classifying a cost as either direct or indirect depends upon \_\_\_\_\_.

A) the behavior of the cost in response to volume changes

B) whether the cost is expensed in the period in which it is incurred

C) whether the cost can be easily traced with the cost object

D) whether a cost is fixed or variable

Answer: C

12) Which of the following is true of indirect costs?

- A) Indirect costs are always considered sunk costs.
- B) All indirect costs are included in cost of goods sold.
- C) Indirect costs always vary in direct proportion to the level of production.
- D) Indirect costs cannot be traced to a particular cost object in an economically feasible way.

Answer: D

13) Which of the following statements is true of direct costs?

- A) A direct cost of one cost object is a true sense of the budgeted costs.
- B) All variable costs are direct costs.
- C) A direct cost of one cost object can be an indirect cost of another cost object.
- D) All fixed costs are direct costs.

Answer: C

14) Which of the following is a fixed cost?

- A) monthly rent payment
- B) electricity expenses
- C) travel expenses
- D) direct material costs

Answer: A

15) Cost behavior refers to \_\_\_\_\_.

- A) how costs react to a change in the level of activity
- B) whether a cost is incurred in a manufacturing, merchandising, or service company
- C) classifying costs as either perpetual or period costs
- D) whether a particular expense is expensed in the same or the following period

Answer: A

16) Variable costs \_\_\_\_\_.

- A) are always indirect costs
- B) increase in total when the actual level of activity increases
- C) include most personnel costs and depreciation on machinery
- D) are never considered a part of prime cost

Answer: B

17) Which of the following is a fixed cost for an automobile manufacturing plant?

- A) administrative salaries
- B) electricity used by assembly-line machines
- C) sales commissions
- D) tires

Answer: A

18) Within the relevant range, if there is a change in the level of the cost driver, then \_\_\_\_\_.

- A) total fixed costs and total variable costs will change
- B) total fixed costs and total variable costs will remain the same
- C) total fixed costs will remain the same and total variable costs will change
- D) total fixed costs will change and total variable costs will remain the same

Answer: C

❖ **Answer the following questions using the information below:**

AL-Zahran Apparels is a clothing retailer. Unit costs associated with one of its products, Product DCT121, are as follows:

|                                 |              |
|---------------------------------|--------------|
| Direct materials                | \$ 70        |
| Direct manufacturing labor      | 20           |
| Variable manufacturing overhead | 15           |
| Fixed manufacturing overhead    | 32           |
| Sales commissions (2% of sales) | 5            |
| Administrative salaries         | <u>16</u>    |
| Total                           | <u>\$158</u> |

19) What are the variable manufacturing costs per unit associated with Product DCT121?

- A) \$142
- B) \$90
- C) \$105
- D) \$110

Answer: C

**Answer the following questions using the information below:**

- The East Company manufactures several different products. Unit costs associated with Product ORD210 are as follows:

|                                 |              |
|---------------------------------|--------------|
| Direct materials                | \$54         |
| Direct manufacturing labor      | 8            |
| Variable manufacturing overhead | 11           |
| Fixed manufacturing overhead    | 25           |
| Sales commissions (2% of sales) | 5            |
| Administrative salaries         | <u>12</u>    |
| Total                           | <u>\$115</u> |

20) What is the percentage of the total variable costs per unit associated with Product ORD105 with respect to total cost?

- A) 72%
- B) 68%
- C) 75%
- D) 70%

Answer: B

Explanation: B)  $\$54 + \$8 + \$11 + \$5 = \$78 / 115 = 68\%$

21) What is the percentage of the total fixed costs per unit associated with Product ORD105 with respect to total cost?

- A) 32%
- B) 28%
- C) 26%

D) 20%

Answer: A

Explanation: A)  $\$25 + \$12 = \$37 / 115 = 32\%$

22) A unit cost is computed by \_\_\_\_\_.

A) multiplying total cost by the number of units produced

B) dividing total cost by the number of units produced

C) dividing variable cost by the number of units produced

D) dividing fixed cost by the number of units produced

Answer: B

23) When 20,000 units are produced, fixed costs are \$16 per unit. Therefore, when 16,000 units are produced, fixed costs will \_\_\_\_\_.

A) increase to \$20 per unit

B) remain at \$16 per unit

C) decrease to \$10 per unit

D) total \$160,000

Answer: A

24) When 20,000 units are produced, variable costs are \$8 per unit. Therefore, when 10,000 units are produced \_\_\_\_\_.

A) variable costs will remain at \$8 per unit

B) variable costs will total \$60,000

C) variable unit costs will increase to \$12 per unit

D) variable unit costs will decrease to \$3 per unit

Answer: A

25) Genosis Metals provided the following information for last month:

|                  |                |
|------------------|----------------|
| Sales            | \$20,000       |
| Variable costs   | 8,000          |
| Fixed costs      | <u>4,000</u>   |
| Operating income | <u>\$8,000</u> |

If sales reduce to half the amount in the next month, what is the projected operating income?

A) \$0

- B) \$4,000
- C) \$(2,000)
- D) \$6,000

Answer: C

26) Grip Manufacturing currently produces 1,000 tires per month. The following per unit data for 1,000 tires apply for sales to regular customers:

|                                 |             |
|---------------------------------|-------------|
| Direct materials                | \$30        |
| Direct manufacturing labor      | 5           |
| Variable manufacturing overhead | 8           |
| Fixed manufacturing overhead    | <u>12</u>   |
| Total manufacturing costs       | <u>\$55</u> |

The plant has capacity for 3,000 tires and is considering expanding production to 2,000 tires. What is the total cost of producing 2,000 tires?

- A) \$110,000
- B) \$98,000
- C) \$68,000
- D) \$88,000

Answer: B

Explanation: B) Total cost of producing 2,000 tires =  $[(\$30 + \$5 + \$8) \times 2,000 \text{ units}] + (\$12 \times 1,000 \text{ units}) = \$98,000$

27) The following information pertains to Alleigh's Mannequins:

|                     |                                     |
|---------------------|-------------------------------------|
| Manufacturing costs | \$1,500,000                         |
| Units manufactured  | 30,000                              |
| Units sold          | 29,500 units sold for \$85 per unit |
| Beginning inventory | 0 units                             |

What is the amount of gross margin?

- A) \$1,475,000
- B) \$1,500,000
- C) \$2,507,500
- D) \$1,032,500

Answer: D

Explanation:  $D) 29,500 \times (\$85 - (\$1,500,000 / \$30,000)) = \$1,032,500$

28) Which of the following formulas determine cost of goods sold in a merchandising entity?

- A) Beginning inventory + Purchases + Ending inventory = Cost of goods sold
- B) Beginning inventory + Purchases - Ending inventory = Costs of goods sold
- C) Beginning inventory - Purchases + Ending inventory = Cost of goods sold
- D) Beginning inventory - Ending inventory - Purchases = Cost of goods sold

Answer: B

29) A company reported revenues of \$375,000, cost of goods sold of \$118,000, selling expenses of \$11,000, and total operating costs of \$70,000. Gross margin for the year is \_\_\_\_\_.

- A) \$257,000
- B) \$246,000
- C) \$176,000
- D) \$252,000

Answer: A

Explanation:  $A) \$375,000 - \$118,000 = \$257,000$

30. Net income is \$132,000, accounts payable increased \$10,000 during the year, inventory decreased \$6,000 during the year, and accounts receivable increased \$12,000 during the year. Under the indirect method, what is net cash provided

by operating activities?

- a. \$102,000.
- c. \$124,000.
- b. \$112,000.
- d. \$136,000.

**31. The following data are available for Allam Corporation.**

|                      |           |
|----------------------|-----------|
| Net income           | \$200,000 |
| Depreciation expense | 40,000    |
| Dividends paid       | 60,000    |

|                                 |        |
|---------------------------------|--------|
| Gain on sale of land            | 10,000 |
| Decrease in accounts receivable | 20,000 |
| Decrease in accounts payable    | 30,000 |

Net cash provided by operating activities is:

- a. \$160,000.
- b. \$220,000.
- c. \$240,000.
- d. \$280,000.

**32. The following data are available for Something Strange!**

|                              |          |
|------------------------------|----------|
| Increase in accounts payable | \$40,000 |
| Increase in bonds payable    | 100,000  |
| Sale of investment           | 50,000   |
| Issuance of common stock     | 60,000   |
| Payment of cash dividends    | 30,000   |

Net cash provided by financing activities is:

- a. \$90,000.
- b. \$130,000.
- c. \$160,000.
- d. \$170,000.

**33. Free cash flow provides an indication of a company's ability to:**

- a. generate net income.
- b. generate cash to pay dividends.
- c. generate cash to invest in new capital expenditures.
- d. both (b) and (c).

34. The financial statement which summarizes operating, investing, and financing activities of

an entity for a period of time is the

- a. retained earnings statement.
- b. income statement.
- c. statement of cash flows.

- d. statement of financial position.
35. The statement of cash flows provides answers to all of the following questions *except*
- where did the cash come from during the period?
  - what was the cash used for during the period?
  - what is the impact of inflation on the cash balance at the end of the year?
  - what was the change in the cash balance during the period?
36. Comparisons of data within a company are an example of the following comparative basis:
- Industry averages.
  - Intracompany.
  - Intercompany.
  - Both (b) and (c).
37. In horizontal analysis, each item is expressed as a percentage of the:
- net income amount.
  - stockholders' equity amount.
  - total assets amount.
  - base year amount.
38. In vertical analysis, the base amount for depreciation expense is generally:
- net sales.
  - depreciation expense in a previous year.
  - gross profit.
  - fixed assets.
39. The following schedule is a display of what type of analysis?

|                                   | <b>Amount</b> | <b>Percent</b> |
|-----------------------------------|---------------|----------------|
| Current asset                     | \$200,000     | 25%            |
| Property, plant,<br>and equipment | 600,000       | 75%            |
| Total assets                      | \$800,000     | 100%           |

|  |  |  |
|--|--|--|
|  |  |  |
|--|--|--|

- a. Horizontal analysis.
  - b. Differential analysis.
  - c. Vertical analysis.
  - d. Ratio analysis.
- 40.** Which of the following measures is an evaluation of a firm's ability to pay current liabilities?
- a. Acid-test ratio.
  - b. Current ratio.
  - c. Both (a) and (b).
  - d. None of the above.
- 41.** A measure useful in evaluating the efficiency in managing inventories is:
- a. inventory turnover.
  - b. average days to sell inventory.
  - c. Both (a) and (b).
  - d. None of the above.