

# Chapter 02 Testbank

Student: \_\_\_\_\_

1. Which of the following statements is false?

- i. Qualitative information is not relevant for planning purposes.
- ii. Production costs are important for planning purposes, but selling and administration costs are not.
- iii. Information on revenues is not important for planning purposes.

- A. i
- B. iii
- C. i and iii
- D. i, ii and iii

2. Which of the following statements is true?

- A. The word cost has the same meaning in all situations in which it is used.
- B. Cost data, once classified and recorded, can be used for any purpose.
- C. Different cost concepts and classifications are used for different purposes.
- D. None of the given answers

3. Which of the following statements is true? A cost is:

- A. always an expense.
- B. always an asset.
- C. can be either an expense or an asset.
- D. always a liability.

4. Variable costs:

- A. vary indirectly with changes in activity level.
- B. vary directly with changes in activity level.
- C. vary on a per unit basis.
- D. vary indirectly with changes in activity level AND vary on a per unit basis.

5. If production increases, variable cost will:

- A. remain constant on a per unit basis.
- B. increase by a variable amount.
- C. vary on a per unit basis.
- D. remain unchanged.

6. As activity level decreases, unit variable cost:

- A. increases proportionately with activity.
- B. decreases proportionately with activity.
- C. remains constant.
- D. decreases by a fixed amount.

7. As activity level increases, total variable costs:

- A. increase proportionately with activity.
- B. decrease proportionately with activity.
- C. increase by a fixed amount.
- D. decrease by a fixed amount.

8. Fixed costs:

- A. vary directly with changes in activity level.
- B. in total remain unchanged as activity levels change.
- C. vary on a per unit basis.
- D. B and C

9. Which of the following is not an example of a variable cost?

- A. Straight-line depreciation on a machine expected to last 5 years.
- B. Wages paid to assembly line workers at a local manufacturing plant.
- C. Timber used to make outdoor furniture.
- D. Commissions paid to sales personnel.

10. Which of the following statements is false?

- A. Costing is common to both traditional and modern management accounting.
- B. Activity-based costing is common to both traditional and modern management accounting.
- C. Performance measurement is common to both traditional and modern management accounting.
- D. Modern performance measurement covers a range of critical success factors.

11. Which is the correct order of cost incurrence in the value chain?

- A. R&D, Product design, Manufacturing, Marketing, Distribution, Customer support
- B. R&D, Product design, Customer support, Marketing, Distribution, Manufacturing
- C. R&D, Product design, Manufacturing, Distribution, Customer support, Selling
- D. R&D, Product design, Manufacturing, Distribution, Marketing, Customer support

12. Costs that can be traced to a particular cost object are called:

- A. direct costs.
- B. indirect costs.
- C. product costs.
- D. manufacturing costs.

13. Indirect costs:

- A. cannot be traced to a particular cost object.
- B. cannot be economically traced to a particular cost object.
- C. are always variable costs.
- D. are always fixed costs.

14. Whether a cost is classified as direct or indirect will depend on:

- A. the nature of the cost object.
- B. whether the cost can be economically traced to the cost object.
- C. whether the organisation is in a manufacturing or service industry
- D. the nature of the cost object AND whether the cost can be economically traced to the cost object.

15. Costs that can be significantly influenced by a particular manager are:

- A. product costs.
- B. period costs.
- C. controllable costs.
- D. administrative costs.

16. Which of the following is not an example of a manufacturing overhead?

- A. Assembly line workers' wages
- B. Factory rent
- C. Depreciation of factory machinery
- D. Factory lighting

17. Product costs are:

- A. expended as they are incurred.
- B. inventoriable costs.
- C. period costs.
- D. expended as they are incurred AND inventoriable costs.

18. Costs that are expended during the period in which the costs are incurred are called:

- A. product costs.
- B. inventoriable costs.
- C. period costs.
- D. indirect costs.

19. Which of the following costs of a manufactured product is a period cost?

- A. Direct material
- B. Manufacturing overhead
- C. Indirect material
- D. Sales commission

20. Which of the following is not a period cost?

- A. Marketing costs
- B. Administrative costs
- C. Research and development
- D. Factory overheads

21. Cost of goods purchased includes the:
- A. purchase cost.
  - B. transportation inward cost.
  - C. storage cost.
  - D. purchase cost AND transportation inward cost.

22. Product costs comprise:
- A. direct materials, direct labour and manufacturing overhead.
  - B. direct materials and manufacturing overhead.
  - C. direct labour and manufacturing overhead.
  - D. direct materials and direct labour.

23.

Refer to the following data.

Direct material used	\$150 000
Selling costs	\$5000
Indirect labour	\$7000
Administrative costs	\$10 000
Depreciation on factory equipment	\$70 000
Direct labour	\$40 000
Overtime premiums paid	\$20 000
Indirect materials	\$45 000

The prime costs are:

- A. \$190 000.
- B. \$40 000.
- C. \$150 000.
- D. \$142 000.

24.

Refer to the following data.

Direct material used	\$150 000
Selling costs	\$5000
Indirect labour	\$7000
Administrative costs	\$10 000
Depreciation on factory equipment	\$70 000
Direct labour	\$40 000
Overtime premiums paid	\$20 000
Indirect materials	\$45 000

The conversion costs are:

- A. \$150 000.
- B. \$142 000.
- C. \$182 000.
- D. \$190 000.

25.

Refer to the following data.

Direct material used	\$150 000
Selling costs	\$5000
Indirect labour	\$7000
Administrative costs	\$10 000
Depreciation on factory equipment	\$70 000
Direct labour	\$40 000
Overtime premiums paid	\$20 000
Indirect materials	\$45 000

The product costs are:

- A. \$15 000
- B. \$182 000
- C. \$190 000
- D. \$332 000

26.

Refer to the following data.

Direct material used	\$150 000
Selling costs	\$5000
Indirect labour	\$7000
Administrative costs	\$10 000
Depreciation on factory equipment	\$70 000
Direct labour	\$40 000
Overtime premiums paid	\$20 000
Indirect materials	\$45 000

The period costs are:

- A. \$15 000
- B. \$20 000
- C. \$190 000
- D. \$372 000

27.

Refer to the following data.

Direct material used	\$150 000
Selling costs	\$5000
Indirect labour	\$7000
Administrative costs	\$10 000
Depreciation on factory equipment	\$70 000
Direct labour	\$40 000
Overtime premiums paid	\$20 000
Indirect materials	\$45 000

The non-manufacturing costs are:

- A. \$15 000
- B. \$70 000
- C. \$182 000
- D. \$372 000

28. Indirect material, indirect labour and other manufacturing costs that are neither direct labour nor direct material costs are classified as:

- A. manufacturing overhead.
- B. product costs.
- C. prime costs.
- D. manufacturing overhead AND product costs.

29. Indirect materials include:

- A. materials that are incorporated into the finished product.
- B. materials required for the production process, which do not become an integral part of the finished product.
- C. direct materials that are so insignificant in cost that it becomes unimportant to trace their costs to specific products.
- D. materials required for the production process, which do not become an integral part of the finished product AND direct materials that are so insignificant in cost that it becomes unimportant to trace their costs to specific products.

30. On-costs on direct labour are classified as:

- A. direct labour.
- B. indirect labour.
- C. manufacturing overhead.
- D. either direct labour or indirect labour depending on the decision made by the firm.

31. Depreciation of factory equipment would be classified as:

- A. indirect material.
- B. indirect labour.
- C. manufacturing overhead.
- D. a sundry expense.

32. Idle time is:

- A. frequently an avoidable cost.
- B. classified as overhead.
- C. caused by events such as equipment breakdown and new set-ups of production runs.
- D. All of the given answers.

33. Unless overtime and idle time are caused by a particular job, they are treated as:

- A. a part of direct labour expense.
- B. a part of manufacturing overhead.
- C. associated with a particular product.
- D. a part of manufacturing overhead AND associated with a particular product.

34. The flow of manufacturing costs through the system is:

- A. raw materials inventory; work in process inventory; finished goods inventory; cost of goods sold.
- B. raw materials inventory; work in process inventory; cost of goods sold; finished goods inventory.
- C. work in process inventory; raw materials inventory; finished goods inventory; cost of goods sold.
- D. raw materials inventory; finished goods inventory; work in process inventory; cost of goods sold.

35.

The Casual Furniture Company manufactures outdoor furniture and incurred the following costs during the month of January:

Timber	\$25 000
Paint	\$5000
Glue	\$500
Wages—assembly personnel	\$20 000
Wages—factory supervisor	\$3500
Factory cleaner's wages	\$2000
Sales commissions	\$10 000
Administrative staff salaries	\$4000
Depreciation—factory equipment	\$3000
Depreciation—sales office equipment	\$1000
Utilities, insurance—factory	\$6000
Utilities, insurance—sales office	\$2000
Advertising	<u>\$8000</u>
Total costs	\$90 000

The product costs are:

- A. \$90 000.
- B. \$83 000.
- C. \$65 000.
- D. \$63 000.

36.

The Casual Furniture Company manufactures outdoor furniture and incurred the following costs during the month of January:

Timber	\$25 000
Paint	\$5000
Glue	\$500
Wages—assembly personnel	\$20 000
Wages—factory supervisor	\$3500
Factory cleaner's wages	\$2000
Sales commissions	\$10 000
Administrative staff salaries	\$4000
Depreciation—factory equipment	\$3000
Depreciation—sales office equipment	\$1000
Utilities, insurance—factory	\$6000
Utilities, insurance—sales office	\$2000
Advertising	<u>\$8000</u>
Total costs	\$90 000

The period costs are:

- A. \$0.
- B. \$7000.
- C. \$25 000.
- D. \$30 500.

37.

The Casual Furniture Company manufactures outdoor furniture and incurred the following costs during the month of January:

Timber	\$25 000
Paint	\$5000
Glue	\$500
Wages—assembly personnel	\$20 000
Wages—factory supervisor	\$3500
Factory cleaner's wages	\$2000
Sales commissions	\$10 000
Administrative staff salaries	\$4000
Depreciation—factory equipment	\$3000
Depreciation—sales office equipment	\$1000
Utilities, insurance—factory	\$6000
Utilities, insurance—sales office	\$2000
Advertising	<u>\$8000</u>
Total costs	\$90 000

The prime costs are:

- A. \$30 000.
- B. \$50 000.
- C. \$65 000.
- D. \$50 500.

38.

The Casual Furniture Company manufactures outdoor furniture and incurred the following costs during the month of January:

Timber	\$25 000
Paint	\$5000
Glue	\$500
Wages—assembly personnel	\$20 000
Wages—factory supervisor	\$3500
Factory cleaner's wages	\$2000
Sales commissions	\$10 000
Administrative staff salaries	\$4000
Depreciation—factory equipment	\$3000
Depreciation—sales office equipment	\$1000
Utilities, insurance—factory	\$6000
Utilities, insurance—sales office	\$2000
Advertising	<u>\$8000</u>
Total costs	\$90 000

The conversion costs are:

- A. \$34 500.
- B. \$29 500.
- C. \$20 000.
- D. \$35 000.

39.

The Casual Furniture Company manufactures outdoor furniture and incurred the following costs during the month of January:

Timber	\$25 000
Paint	\$5000
Glue	\$500
Wages—assembly personnel	\$20 000
Wages—factory supervisor	\$3500
Factory cleaner's wages	\$2000
Sales commissions	\$10 000
Administrative staff salaries	\$4000
Depreciation—factory equipment	\$3000
Depreciation—sales office equipment	\$1000
Utilities, insurance—factory	\$6000
Utilities, insurance—sales office	\$2000
Advertising	<u>\$8000</u>
Total costs	\$90 000

The manufacturing overhead is:

- A. \$14 500.
- B. \$15 000.
- C. \$9500.
- D. \$9000.

40. In the manufacturing firm, inventories consist of:

- A. raw materials, cost of goods manufactured during the period and finished goods.
- B. raw materials, work in process and finished goods.
- C. raw materials, finished goods and cost of goods sold.
- D. cost of goods manufactured and cost of goods sold.

41. To calculate the cost of goods sold during the period, you would use which of the following equations?

- A. Beginning finished goods + cost of goods manufactured + ending finished goods
- B. Ending finished goods + cost of goods manufactured – beginning finished goods
- C. Beginning finished goods + cost of goods manufactured – ending finished goods
- D. Beginning finished goods + ending finished goods – cost of goods manufactured

42. Work in process inventories are composed of:

- A. direct materials.
- B. direct labour.
- C. manufacturing overhead.
- D. All of the given answers

43. Barrett Industries began the month of June with a finished goods inventory of \$15 000. The finished goods inventory at the end of June was \$10 000 and the cost of goods sold during the month was \$20 000.

The cost of goods manufactured during the month of June was:

- A. \$15 000
- B. \$25 000
- C. \$20 000
- D. \$5000

44. Fairchild Pty Ltd began April with a finished goods inventory of \$25 000. The cost of goods manufactured during the month was \$40 000 and the cost of goods sold during April was \$50 000.

The inventory remaining in finished goods at the end of April was:

- A. \$35 000.
- B. \$25 000.
- C. \$20 000.
- D. \$15 000.

45. Barrister and Company began July with a finished goods inventory of \$10 000. The cost of goods manufactured during the month was \$85 000 and the ending finished goods inventory was \$20 000.

The cost of goods sold during July was:

- A. \$55 000.
- B. \$75 000.
- C. \$95 000.
- D. \$105 000.

46. Lenco Industries has cost of goods manufactured of \$65 000 in May. The finished goods inventory at the end of May was \$20 000 and the cost of goods sold during May was \$75 000.

The inventory in finished goods at the beginning of May was:

- A. \$5000.
- B. \$30 000.
- C. \$10 000.
- D. \$20 000.

47. As manufacturing companies become more automated, their cost structure will change so that:

- A. variable costs increase, fixed costs decrease.
- B. variable costs decrease, fixed costs decrease.
- C. variable costs decrease, fixed costs increase.
- D. there is no change in the ratio of variable to fixed costs.

48. Traditional cost management systems use production volume as the measure of activity. Modern systems might use which of the following as activity measures?

- A. Number of batches
- B. Number of customers
- C. Number of product lines
- D. All of the given answers

49. Which of the following terms accurately describes all three manufacturing costs (i.e. direct materials, direct labour and manufacturing overhead)?

- A. Product costs
- B. Variable costs
- C. Direct costs
- D. Both direct costs and product costs

50. The monthly cost of renting manufacturing equipment is:

- A. part of conversion cost and a period cost.
- B. part of prime cost and an inventoriable cost.
- C. part of prime cost and a period cost.
- D. part of conversion cost and an inventoriable cost.

51. With respect to the flow of manufacturing costs through the accounts, what does the ending balance of work in process account show?

- A. The total costs for completed jobs.
- B. The total costs for incomplete jobs.
- C. The amount of costs incurred for the period.
- D. The amount of cost to be transferred to cost of goods sold.

52. Which of the following statements correctly completes this sentence? 'For a firm that manufactures floor tiles, when the tiles are completed and ready for sale ...'

- A. there is no change in the value of the firm's assets.
- B. the firm's total assets are decreased.
- C. the firm's total cost of the goods sold is increased.
- D. the firm's work in process inventory is increased.

53. Which of the following statements is correct in relation to determining whether a cost is direct or indirect?

- A. The wider the definition of the cost object, the more costs that will be indirect costs.
- B. The number of cost items that can be classified as direct costs does not depend on the definition of cost objects.
- C. The narrower the definition of the cost object, the more costs that will be direct costs.
- D. The wider the definition of the cost object, the more costs that will be direct costs.

54. Choose the statement that best completes this sentence: 'Traditional management accounting focuses on ...'

- A. budgeting systems, financial performance measures and cost control.
- B. financial performance measures, external reporting and cost elimination.
- C. non-financial performance measures, external reporting and cost control.
- D. external reporting, labour-related activity measures and cost elimination.

55. Eldervale Winery is a producer of premium wine. Which of the following is an example of an upstream cost?

- A. The costs associated with storing wine barrels.
- B. The costs associated with designing the labels on a wine bottle.
- C. The costs associated with delivering products to customers.
- D. The costs associated with quality inspection.

56. Eldervale Winery is a producer of premium wine. Which of the following is NOT an example of an upstream cost?

- A. The costs associated with marketing a new range of wine in an international trade fair
- B. The costs associated with researching a new variety of grapes
- C. The costs associated with testing a new wine barrel
- D. The costs associated with negotiating with and managing the farmers who supply the grapes

57. Eldervale Winery is a producer of premium wine. Which of the following is an example of a downstream cost?

- A. The costs associated with storing wine for customers
- B. The costs associated with designing the labels on a wine bottle
- C. The costs associated with researching a new variety of grapes
- D. The costs associated with quality testing

58. Eldervale Winery is a producer of premium wine. Which of the following is NOT an example of a downstream cost?

- A. The costs associated with random quality check during the wine production process
- B. The costs associated with the sales team travelling to a wine show to promote Eldervale wine
- C. The costs associated with delivering wine to customers
- D. The costs associated with answering customer inquiries on the differences between wine varieties

59. Mydas Ltd operates a large factory which manufactures three types of motor vehicles, including family cars, sports cars and motorcycles. If the cost object is a motorcycle, which of the following is a direct cost?

- A. The costs of wheels on the motorcycle
- B. The salary of the factory general manager
- C. The salary of the factory quality inspector
- D. The windscreen wipers on a family car

60. Mydas Ltd operates a large factory which manufactures three types of motor vehicles, including family sedans, sports cars and motorcycles. If the cost object is a family car, which of the following is an indirect cost?

- A. The costs of wheels on the motorcycle
- B. The salary of the factory general manager
- C. The wages of the quality inspector whose job is to inspect each family car
- D. The windscreen wipers on a family car

61. A responsibility centre:

- A. refers to a unit of business where all the associated costs are considered as 'direct costs'.
- B. refers to a unit of a business where the manager is held accountable for activities and performance.
- C. is another term for 'business division'.
- D. is a term applicable only to manufacturing companies.

62. Sally Strong is the production manager of Eldervale Winery. Her role includes overseeing the production and bottling processes of Eldervale Winery's three product lines: sparkling wine, red wine and white wine. Which of the following is most likely an example of an uncontrollable cost for Sally?

- A. The costs associated with bottling wine
- B. The costs associated with advertising Eldervale wine on national TV
- C. The costs associated with moving wine from the barrels to the bottling area
- D. The costs associated with quality testing

63. Sally Strong is the production manager of Eldervale Winery. Her role includes overseeing the production and bottling processes of Eldervale Winery's three product lines: sparkling wine, red wine and white wine. Which of the following is most likely to be an example of a controllable cost for Sally?

- A. The costs associated with bottling wine
- B. The costs associated with advertising Eldervale wine on national TV
- C. The costs associated with liaising with distributors to export wine to China
- D. The costs associated with obtaining finance from banks

64. Production costs assist management to determine:

- A. sales revenue.
- B. cost of goods sold.
- C. gross profit.
- D. net profit.

65. When raw materials are purchased by a manufacturer, those costs will be recorded in the general ledger as:

- A. cost of goods sold.
- B. manufacturing costs.
- C. inventory.
- D. conversion costs.

66.

In the short term, which of the following costs would be classified as uncontrollable?

- A. Raw materials
- B. Stationery expenses
- C. Loan interest
- D. Entertainment expenses

67. Classifying responsibility centre costs as controllable or uncontrollable can enhance:

- A. performance evaluation.
- B. cost accounting.
- C. budget reporting.
- D. financial reporting.

68. Resources that are surrendered to achieve a particular objective in business are known as:

- A. resources.
- B. expenses.
- C. assets.
- D. costs.

69. Costs that are incurred to obtain future benefits beyond 12 months are known as:

- A. assets.
- B. liabilities.
- C. revenue.
- D. expenses.

70.

Behaviour of fixed and variable costs.

Compare and contrast the behaviour of fixed and variable costs in total and per unit.

71. Describe how the value chain can help a business analyse its cost structures. What is meant by upstream costs and downstream costs? Give examples.

72.

Kevin Smith is the production manager of Mydas Ltd, a company that manufactures a range of motor vehicles. His role includes overseeing the entire production process of Mydas Ltd's three product lines: family cars, sports cars, and motor cycles. Once completed, all the cars are shipped within Australia and to China and Korea by the company's shipping and transportation department.

Identify two examples of controllable costs and two examples of uncontrollable costs for Kevin. Explain your answer.

73.

Components of a management accounting system

Management accounting systems are made up of four interrelated systems. Identify those four systems, explain their function and describe how they collectively assist management in their decision making.

74.

Manufacturing costs

Manufacturing costs are costs that are incurred within the factory area. Describe the three components of manufacturing costs. Identify the costs that might be incurred in the manufacture of a Levi Strauss shirt.

75. Only long-term decisions require an understanding of costs.

True False

76. Direct and indirect cost classification is based on cost behaviour in relation to changes in the level of activity.

True False

77. 'Prime costs' is the term given to direct labour and direct materials, as they are the major costs directly associated with the manufacture of a product.

True False

78. Costs that managers cannot significantly influence are classified as uncontrollable costs.

True False

79. A courier company may view kilometres driven as a possible cost driver.

True False

80. In relation to the activities of the value chain of a manufacturing company, primary processes include accounting and legal activities.

True False

81. Manufacturing organisations have four inventory accounts—raw materials, work in process, cost of goods sold and finished goods.

True False

82. Inventoriable costs include direct materials, direct labour, manufacturing overheads and period costs for that accounting period.

True False

83. Fixed costs per unit decrease as activity levels increase.

True False

84. The equation to calculate total manufacturing costs = cost of goods manufactured – beginning work in process + ending work in process.

True False

85. Modern management accounting places a much greater emphasis on non-financial information.

True False

86. The value chain begins with providing products that will be valued by customers.

True False

87. During the year, any inventory that is sold is transferred to the finished goods account.

True False

# Chapter 02 Testbank Key

1. Which of the following statements is false?

- i. Qualitative information is not relevant for planning purposes.
  - ii. Production costs are important for planning purposes, but selling and administration costs are not.
  - iii. Information on revenues is not important for planning purposes.
- A. i  
B. iii  
C. i and iii  
**D. i, ii and iii**

AACSB: Reflective

Difficulty: Easy

Learning Objective: 2.01 Describe the components of traditional and modern management accounting systems

2. Which of the following statements is true?

- A. The word cost has the same meaning in all situations in which it is used.  
B. Cost data, once classified and recorded, can be used for any purpose.  
**C. Different cost concepts and classifications are used for different purposes.**  
D. None of the given answers

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.03 Explain what is meant by different costs for different purposes

3. Which of the following statements is true? A cost is:

- A. always an expense.  
B. always an asset.  
**C. can be either an expense or an asset.**  
D. always a liability.

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.10 Describe the cost flows in a manufacturing business and prepare a schedule of cost of goods manufactured, a schedule of cost of goods sold and an income statement for a manufacturer

4. Variable costs:

- A. vary indirectly with changes in activity level.  
**B. vary directly with changes in activity level.**  
C. vary on a per unit basis.  
D. vary indirectly with changes in activity level AND vary on a per unit basis.

AACSB: Reflective

Difficulty: Easy

Learning Objective: 2.04 Classify costs according to their behaviour—that is, as variable or fixed

5. If production increases, variable cost will:

- A.** remain constant on a per unit basis.
- B. increase by a variable amount.
- C. vary on a per unit basis.
- D. remain unchanged.

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.04 Classify costs according to their behaviour—that is, as variable or fixed

6. As activity level decreases, unit variable cost:

- A. increases proportionately with activity.
- B. decreases proportionately with activity.
- C.** remains constant.
- D. decreases by a fixed amount.

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.04 Classify costs according to their behaviour—that is, as variable or fixed

7. As activity level increases, total variable costs:

- A.** increase proportionately with activity.
- B. decrease proportionately with activity.
- C. increase by a fixed amount.
- D. decrease by a fixed amount.

AACSB: Reflective

Difficulty: Easy

Learning Objective: 2.04 Classify costs according to their behaviour—that is, as variable or fixed

8. Fixed costs:

- A. vary directly with changes in activity level.
- B. in total remain unchanged as activity levels change.
- C. vary on a per unit basis.
- D.** B and C

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.04 Classify costs according to their behaviour—that is, as variable or fixed

9. Which of the following is not an example of a variable cost?

- A.** Straight-line depreciation on a machine expected to last 5 years.
- B. Wages paid to assembly line workers at a local manufacturing plant.
- C. Timber used to make outdoor furniture.
- D. Commissions paid to sales personnel.

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.04 Classify costs according to their behaviour—that is, as variable or fixed

10. Which of the following statements is false?

- A. Costing is common to both traditional and modern management accounting.
- B.** Activity-based costing is common to both traditional and modern management accounting.
- C. Performance measurement is common to both traditional and modern management accounting.
- D. Modern performance measurement covers a range of critical success factors.

AACSB: Reflective

Difficulty: Easy

Learning Objective: 2.01 Describe the components of traditional and modern management accounting systems

11. Which is the correct order of cost incurrence in the value chain?

- A.** R&D, Product design, Manufacturing, Marketing, Distribution, Customer support
- B. R&D, Product design, Customer support, Marketing, Distribution, Manufacturing
- C. R&D, Product design, Manufacturing, Distribution, Customer support, Selling
- D. R&D, Product design, Manufacturing, Distribution, Marketing, Customer support

AACSB: Reflective

Difficulty: Easy

Learning Objective: 2.07 Classify costs according to the segments of the value chain

12. Costs that can be traced to a particular cost object are called:

- A.** direct costs.
- B. indirect costs.
- C. product costs.
- D. manufacturing costs.

AACSB: Reflective

Difficulty: Easy

Learning Objective: 2.05 Classify costs as direct or indirect

13. Indirect costs:

- A. cannot be traced to a particular cost object.
- B.** cannot be economically traced to a particular cost object.
- C. are always variable costs.
- D. are always fixed costs.

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.05 Classify costs as direct or indirect

14. Whether a cost is classified as direct or indirect will depend on:

- A. the nature of the cost object.
- B. whether the cost can be economically traced to the cost object.
- C. whether the organisation is in a manufacturing or service industry
- D.** the nature of the cost object AND whether the cost can be economically traced to the cost object.

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.05 Classify costs as direct or indirect

15. Costs that can be significantly influenced by a particular manager are:

- A. product costs.
- B. period costs.
- C.** controllable costs.
- D. administrative costs.

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.06 Classify costs as controllable or uncontrollable*

16. Which of the following is not an example of a manufacturing overhead?

- A.** Assembly line workers' wages
- B. Factory rent
- C. Depreciation of factory machinery
- D. Factory lighting

*AACSB: Reflective*

*Difficulty: Medium*

*Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses*

17. Product costs are:

- A. expended as they are incurred.
- B.** inventoriable costs.
- C. period costs.
- D. expended as they are incurred AND inventoriable costs.

*AACSB: Reflective*

*Difficulty: Medium*

*Learning Objective: 2.10 Describe the cost flows in a manufacturing business and prepare a schedule of cost of goods manufactured, a schedule of cost of goods sold and an income statement for a manufacturer*

18. Costs that are expended during the period in which the costs are incurred are called:

- A. product costs.
- B. inventoriable costs.
- C.** period costs.
- D. indirect costs.

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.09 Explain the different definitions of product cost used in external accounting reports and for decision making*

19. Which of the following costs of a manufactured product is a period cost?

- A. Direct material
- B. Manufacturing overhead
- C. Indirect material
- D.** Sales commission

*AACSB: Reflective*

*Difficulty: Medium*

*Learning Objective: 2.09 Explain the different definitions of product cost used in external accounting reports and for decision making*

20. Which of the following is not a period cost?

- A. Marketing costs
- B. Administrative costs
- C. Research and development
- D. Factory overheads**

*AACSB: Reflective*

*Difficulty: Medium*

*Learning Objective: 2.09 Explain the different definitions of product cost used in external accounting reports and for decision making*

21. Cost of goods purchased includes the:

- A. purchase cost.
- B. transportation inward cost.
- C. storage cost.
- D. purchase cost AND transportation inward cost.**

*AACSB: Reflective*

*Difficulty: Medium*

*Learning Objective: 2.10 Describe the cost flows in a manufacturing business and prepare a schedule of cost of goods manufactured, a schedule of cost of goods sold and an income statement for a manufacturer*

22. Product costs comprise:

- A. direct materials, direct labour and manufacturing overhead.**
- B. direct materials and manufacturing overhead.
- C. direct labour and manufacturing overhead.
- D. direct materials and direct labour.

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses*

23.

Refer to the following data.

Direct material used	\$150 000
Selling costs	\$5000
Indirect labour	\$7000
Administrative costs	\$10 000
Depreciation on factory equipment	\$70 000
Direct labour	\$40 000
Overtime premiums paid	\$20 000
Indirect materials	\$45 000

The prime costs are:

- A.** \$190 000.
- B. \$40 000.
- C. \$150 000.
- D. \$142 000.

*AACSB: Analytical*

*Difficulty: Medium*

*Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses*

24.

Refer to the following data.

Direct material used	\$150 000
Selling costs	\$5000
Indirect labour	\$7000
Administrative costs	\$10 000
Depreciation on factory equipment	\$70 000
Direct labour	\$40 000
Overtime premiums paid	\$20 000
Indirect materials	\$45 000

The conversion costs are:

- A. \$150 000.
- B. \$142 000.
- C. \$182 000.**
- D. \$190 000.

*AACSB: Analytical*

*Difficulty: Medium*

*Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses*

25.

Refer to the following data.

Direct material used	\$150 000
Selling costs	\$5000
Indirect labour	\$7000
Administrative costs	\$10 000
Depreciation on factory equipment	\$70 000
Direct labour	\$40 000
Overtime premiums paid	\$20 000
Indirect materials	\$45 000

The product costs are:

- A. \$15 000
- B. \$182 000
- C. \$190 000
- D.** \$332 000

*AACSB: Analytical*

*Difficulty: Medium*

*Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses*

26.

Refer to the following data.

Direct material used	\$150 000
Selling costs	\$5000
Indirect labour	\$7000
Administrative costs	\$10 000
Depreciation on factory equipment	\$70 000
Direct labour	\$40 000
Overtime premiums paid	\$20 000
Indirect materials	\$45 000

The period costs are:

- A.** \$15 000
- B. \$20 000
- C. \$190 000
- D. \$372 000

*AACSB: Analytical*

*Difficulty: Medium*

*Learning Objective: 2.09 Explain the different definitions of product cost used in external accounting reports and for decision making*

27.

Refer to the following data.

Direct material used	\$150 000
Selling costs	\$5000
Indirect labour	\$7000
Administrative costs	\$10 000
Depreciation on factory equipment	\$70 000
Direct labour	\$40 000
Overtime premiums paid	\$20 000
Indirect materials	\$45 000

The non-manufacturing costs are:

- A.** \$15 000
- B. \$70 000
- C. \$182 000
- D. \$372 000

*AACSB: Analytical*

*Difficulty: Medium*

*Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses*

28. Indirect material, indirect labour and other manufacturing costs that are neither direct labour nor direct material costs are classified as:

- A. manufacturing overhead.
- B. product costs.
- C. prime costs.
- D.** manufacturing overhead AND product costs.

*AACSB: Reflective*

*Difficulty: Medium*

*Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses*

29. Indirect materials include:

- A. materials that are incorporated into the finished product.
- B. materials required for the production process, which do not become an integral part of the finished product.
- C. direct materials that are so insignificant in cost that it becomes unimportant to trace their costs to specific products.
- D.** materials required for the production process, which do not become an integral part of the finished product AND direct materials that are so insignificant in cost that it becomes unimportant to trace their costs to specific products.

*AACSB: Reflective*

*Difficulty: Medium*

*Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses*

30. On-costs on direct labour are classified as:

- A. direct labour.
- B. indirect labour.
- C. manufacturing overhead.
- D.** either direct labour or indirect labour depending on the decision made by the firm.

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses*

31. Depreciation of factory equipment would be classified as:

- A. indirect material.
- B. indirect labour.
- C.** manufacturing overhead.
- D. a sundry expense.

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses*

32. Idle time is:

- A. frequently an avoidable cost.
- B. classified as overhead.
- C. caused by events such as equipment breakdown and new set-ups of production runs.
- D.** All of the given answers.

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses*

33. Unless overtime and idle time are caused by a particular job, they are treated as:

- A. a part of direct labour expense.
- B.** a part of manufacturing overhead.
- C. associated with a particular product.
- D. a part of manufacturing overhead AND associated with a particular product.

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses*

34. The flow of manufacturing costs through the system is:

- A.** raw materials inventory; work in process inventory; finished goods inventory; cost of goods sold.
- B. raw materials inventory; work in process inventory; cost of goods sold; finished goods inventory.
- C. work in process inventory; raw materials inventory; finished goods inventory; cost of goods sold.
- D. raw materials inventory; finished goods inventory; work in process inventory; cost of goods sold.

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.09 Explain the different definitions of product cost used in external accounting reports and for decision making*

35.

The Casual Furniture Company manufactures outdoor furniture and incurred the following costs during the month of January:

Timber	\$25 000
Paint	\$5000
Glue	\$500
Wages—assembly personnel	\$20 000
Wages—factory supervisor	\$3500
Factory cleaner's wages	\$2000
Sales commissions	\$10 000
Administrative staff salaries	\$4000
Depreciation—factory equipment	\$3000
Depreciation—sales office equipment	\$1000
Utilities, insurance—factory	\$6000
Utilities, insurance—sales office	\$2000
Advertising	<u>\$8000</u>
Total costs	\$90 000

The product costs are:

- A. \$90 000.
- B. \$83 000.
- C. \$65 000.**
- D. \$63 000.

*AACSB: Analytical*

*Difficulty: Hard*

*Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses*

*Learning Objective: 2.09 Explain the different definitions of product cost used in external accounting reports and for decision making*

36.

The Casual Furniture Company manufactures outdoor furniture and incurred the following costs during the month of January:

Timber	\$25 000
Paint	\$5000
Glue	\$500
Wages—assembly personnel	\$20 000
Wages—factory supervisor	\$3500
Factory cleaner's wages	\$2000
Sales commissions	\$10 000
Administrative staff salaries	\$4000
Depreciation—factory equipment	\$3000
Depreciation—sales office equipment	\$1000
Utilities, insurance—factory	\$6000
Utilities, insurance—sales office	\$2000
Advertising	<u>\$8000</u>
Total costs	\$90 000

The period costs are:

- A. \$0.
- B. \$7000.
- C. \$25 000.**
- D. \$30 500.

AACSB: Analytical

Difficulty: Hard

Learning Objective: 2.09 Explain the different definitions of product cost used in external accounting reports and for decision making

37.

The Casual Furniture Company manufactures outdoor furniture and incurred the following costs during the month of January:

Timber	\$25 000
Paint	\$5000
Glue	\$500
Wages—assembly personnel	\$20 000
Wages—factory supervisor	\$3500
Factory cleaner's wages	\$2000
Sales commissions	\$10 000
Administrative staff salaries	\$4000
Depreciation—factory equipment	\$3000
Depreciation—sales office equipment	\$1000
Utilities, insurance—factory	\$6000
Utilities, insurance—sales office	\$2000
Advertising	<u>\$8000</u>
Total costs	\$90 000

The prime costs are:

- A. \$30 000.
- B. \$50 000.**
- C. \$65 000.
- D. \$50 500.

AACSB: Analytical

Difficulty: Hard

Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses

38.

The Casual Furniture Company manufactures outdoor furniture and incurred the following costs during the month of January:

Timber	\$25 000
Paint	\$5000
Glue	\$500
Wages—assembly personnel	\$20 000
Wages—factory supervisor	\$3500
Factory cleaner's wages	\$2000
Sales commissions	\$10 000
Administrative staff salaries	\$4000
Depreciation—factory equipment	\$3000
Depreciation—sales office equipment	\$1000
Utilities, insurance—factory	\$6000
Utilities, insurance—sales office	\$2000
Advertising	<u>\$8000</u>
Total costs	\$90 000

The conversion costs are:

- A. \$34 500.
- B. \$29 500.
- C. \$20 000.
- D.** \$35 000.

AACSB: Analytical

Difficulty: Hard

Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses

39.

The Casual Furniture Company manufactures outdoor furniture and incurred the following costs during the month of January:

Timber	\$25 000
Paint	\$5000
Glue	\$500
Wages—assembly personnel	\$20 000
Wages—factory supervisor	\$3500
Factory cleaner's wages	\$2000
Sales commissions	\$10 000
Administrative staff salaries	\$4000
Depreciation—factory equipment	\$3000
Depreciation—sales office equipment	\$1000
Utilities, insurance—factory	\$6000
Utilities, insurance—sales office	\$2000
Advertising	<u>\$8000</u>
Total costs	\$90 000

The manufacturing overhead is:

- A. \$14 500.
- B. \$15 000.**
- C. \$9500.
- D. \$9000.

AACSB: Analytical

Difficulty: Hard

Learning Objective: 2.08 Analyze costs using the classifications commonly used in manufacturing businesses

40. In the manufacturing firm, inventories consist of:

- A. raw materials, cost of goods manufactured during the period and finished goods.
- B. raw materials, work in process and finished goods.**
- C. raw materials, finished goods and cost of goods sold.
- D. cost of goods manufactured and cost of goods sold.

AACSB: Reflective

Difficulty: Easy

Learning Objective: 2.09 Explain the different definitions of product cost used in external accounting reports and for decision making

41. To calculate the cost of goods sold during the period, you would use which of the following equations?

- A. Beginning finished goods + cost of goods manufactured + ending finished goods
- B. Ending finished goods + cost of goods manufactured – beginning finished goods
- C.** Beginning finished goods + cost of goods manufactured – ending finished goods
- D. Beginning finished goods + ending finished goods – cost of goods manufactured

AACSB: Reflective

Difficulty: Easy

Learning Objective: 2.10 Describe the cost flows in a manufacturing business and prepare a schedule of cost of goods manufactured, a schedule of cost of goods sold and an income statement for a manufacturer

42. Work in process inventories are composed of:

- A. direct materials.
- B. direct labour.
- C. manufacturing overhead.
- D.** All of the given answers

AACSB: Reflective

Difficulty: Easy

Learning Objective: 2.10 Describe the cost flows in a manufacturing business and prepare a schedule of cost of goods manufactured, a schedule of cost of goods sold and an income statement for a manufacturer

43. Barrett Industries began the month of June with a finished goods inventory of \$15 000. The finished goods inventory at the end of June was \$10 000 and the cost of goods sold during the month was \$20 000.

The cost of goods manufactured during the month of June was:

- A.** \$15 000
- B. \$25 000
- C. \$20 000
- D. \$5000

AACSB: Analytical

Difficulty: Medium

Learning Objective: 2.10 Describe the cost flows in a manufacturing business and prepare a schedule of cost of goods manufactured, a schedule of cost of goods sold and an income statement for a manufacturer

44. Fairchild Pty Ltd began April with a finished goods inventory of \$25 000. The cost of goods manufactured during the month was \$40 000 and the cost of goods sold during April was \$50 000.

The inventory remaining in finished goods at the end of April was:

- A. \$35 000.
- B. \$25 000.
- C. \$20 000.
- D.** \$15 000.

AACSB: Analytical

Difficulty: Medium

Learning Objective: 2.10 Describe the cost flows in a manufacturing business and prepare a schedule of cost of goods manufactured, a schedule of cost of goods sold and an income statement for a manufacturer

45. Barrister and Company began July with a finished goods inventory of \$10 000. The cost of goods manufactured during the month was \$85 000 and the ending finished goods inventory was \$20 000.

The cost of goods sold during July was:

- A. \$55 000.
- B. \$75 000.**
- C. \$95 000.
- D. \$105 000.

*AACSB: Analytical*

*Difficulty: Medium*

*Learning Objective: 2.10 Describe the cost flows in a manufacturing business and prepare a schedule of cost of goods manufactured, a schedule of cost of goods sold and an income statement for a manufacturer*

46. Lenco Industries has cost of goods manufactured of \$65 000 in May. The finished goods inventory at the end of May was \$20 000 and the cost of goods sold during May was \$75 000.

The inventory in finished goods at the beginning of May was:

- A. \$5000.
- B. \$30 000.**
- C. \$10 000.
- D. \$20 000.

*AACSB: Analytical*

*Difficulty: Medium*

*Learning Objective: 2.10 Describe the cost flows in a manufacturing business and prepare a schedule of cost of goods manufactured, a schedule of cost of goods sold and an income statement for a manufacturer*

47. As manufacturing companies become more automated, their cost structure will change so that:

- A. variable costs increase, fixed costs decrease.
- B. variable costs decrease, fixed costs decrease.
- C. variable costs decrease, fixed costs increase.**
- D. there is no change in the ratio of variable to fixed costs.

*AACSB: Reflective*

*Difficulty: Medium*

*Learning Objective: 2.01 Describe the components of traditional and modern management accounting systems*

48. Traditional cost management systems use production volume as the measure of activity. Modern systems might use which of the following as activity measures?

- A. Number of batches
- B. Number of customers
- C. Number of product lines
- D. All of the given answers**

*AACSB: Reflective*

*Difficulty: Hard*

*Learning Objective: 2.01 Describe the components of traditional and modern management accounting systems*

49. Which of the following terms accurately describes all three manufacturing costs (i.e. direct materials, direct labour and manufacturing overhead)?

- A.** Product costs
- B. Variable costs
- C. Direct costs
- D. Both direct costs and product costs

*AACSB: Reflective*

*Difficulty: Hard*

*Learning Objective: 2.03 Explain what is meant by different costs for different purposes*

50. The monthly cost of renting manufacturing equipment is:

- A. part of conversion cost and a period cost.
- B. part of prime cost and an inventoriable cost.
- C. part of prime cost and a period cost.
- D.** part of conversion cost and an inventoriable cost.

*AACSB: Reflective*

*Difficulty: Hard*

*Learning Objective: 2.03 Explain what is meant by different costs for different purposes*

51. With respect to the flow of manufacturing costs through the accounts, what does the ending balance of work in process account show?

- A. The total costs for completed jobs.
- B.** The total costs for incomplete jobs.
- C. The amount of costs incurred for the period.
- D. The amount of cost to be transferred to cost of goods sold.

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.10 Describe the cost flows in a manufacturing business and prepare a schedule of cost of goods manufactured, a schedule of cost of goods sold and an income statement for a manufacturer*

52. Which of the following statements correctly completes this sentence? 'For a firm that manufactures floor tiles, when the tiles are completed and ready for sale ...'

- A.** there is no change in the value of the firm's assets.
- B. the firm's total assets are decreased.
- C. the firm's total cost of the goods sold is increased.
- D. the firm's work in process inventory is increased.

*AACSB: Reflective*

*Difficulty: Medium*

*Learning Objective: 2.10 Describe the cost flows in a manufacturing business and prepare a schedule of cost of goods manufactured, a schedule of cost of goods sold and an income statement for a manufacturer*

53. Which of the following statements is correct in relation to determining whether a cost is direct or indirect?
- A. The wider the definition of the cost object, the more costs that will be indirect costs.
  - B. The number of cost items that can be classified as direct costs does not depend on the definition of cost objects.
  - C. The narrower the definition of the cost object, the more costs that will be direct costs.
  - D.** The wider the definition of the cost object, the more costs that will be direct costs.

AACSB: Reflective

Difficulty: Hard

Learning Objective: 2.05 Classify costs as direct or indirect

54. Choose the statement that best completes this sentence: 'Traditional management accounting focuses on ...'
- A.** budgeting systems, financial performance measures and cost control.
  - B. financial performance measures, external reporting and cost elimination.
  - C. non-financial performance measures, external reporting and cost control.
  - D. external reporting, labour-related activity measures and cost elimination.

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.01 Describe the components of traditional and modern management accounting systems

55. Eldervale Winery is a producer of premium wine. Which of the following is an example of an upstream cost?
- A. The costs associated with storing wine barrels.
  - B.** The costs associated with designing the labels on a wine bottle.
  - C. The costs associated with delivering products to customers.
  - D. The costs associated with quality inspection.

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.07 Classify costs according to the segments of the value chain

56. Eldervale Winery is a producer of premium wine. Which of the following is NOT an example of an upstream cost?
- A.** The costs associated with marketing a new range of wine in an international trade fair
  - B. The costs associated with researching a new variety of grapes
  - C. The costs associated with testing a new wine barrel
  - D. The costs associated with negotiating with and managing the farmers who supply the grapes

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.07 Classify costs according to the segments of the value chain

57. Eldervale Winery is a producer of premium wine. Which of the following is an example of a downstream cost?
- A.** The costs associated with storing wine for customers
  - B. The costs associated with designing the labels on a wine bottle
  - C. The costs associated with researching a new variety of grapes
  - D. The costs associated with quality testing

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.07 Classify costs according to the segments of the value chain

58. Eldervale Winery is a producer of premium wine. Which of the following is NOT an example of a downstream cost?

- A.** The costs associated with random quality check during the wine production process
- B. The costs associated with the sales team travelling to a wine show to promote Eldervale wine
- C. The costs associated with delivering wine to customers
- D. The costs associated with answering customer inquiries on the differences between wine varieties

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.07 Classify costs according to the segments of the value chain

59. Mydas Ltd operates a large factory which manufactures three types of motor vehicles, including family cars, sports cars and motorcycles. If the cost object is a motorcycle, which of the following is a direct cost?

- A.** The costs of wheels on the motorcycle
- B. The salary of the factory general manager
- C. The salary of the factory quality inspector
- D. The windscreen wipers on a family car

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.05 Classify costs as direct or indirect

60. Mydas Ltd operates a large factory which manufactures three types of motor vehicles, including family sedans, sports cars and motorcycles. If the cost object is a family car, which of the following is an indirect cost?

- A. The costs of wheels on the motorcycle
- B.** The salary of the factory general manager
- C. The wages of the quality inspector whose job is to inspect each family car
- D. The windscreen wipers on a family car

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.05 Classify costs as direct or indirect

61. A responsibility centre:

- A. refers to a unit of business where all the associated costs are considered as 'direct costs'.
- B.** refers to a unit of a business where the manager is held accountable for activities and performance.
- C. is another term for 'business division'.
- D. is a term applicable only to manufacturing companies.

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.05 Classify costs as direct or indirect

62. Sally Strong is the production manager of Eldervale Winery. Her role includes overseeing the production and bottling processes of Eldervale Winery's three product lines: sparkling wine, red wine and white wine. Which of the following is most likely an example of an uncontrollable cost for Sally?

- A. The costs associated with bottling wine
- B.** The costs associated with advertising Eldervale wine on national TV
- C. The costs associated with moving wine from the barrels to the bottling area
- D. The costs associated with quality testing

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.05 Classify costs as direct or indirect

63. Sally Strong is the production manager of Eldervale Winery. Her role includes overseeing the production and bottling processes of Eldervale Winery's three product lines: sparkling wine, red wine and white wine. Which of the following is most likely to be an example of a controllable cost for Sally?

- A.** The costs associated with bottling wine
- B. The costs associated with advertising Eldervale wine on national TV
- C. The costs associated with liaising with distributors to export wine to China
- D. The costs associated with obtaining finance from banks

AACSB: Reflective

Difficulty: Medium

Learning Objective: 2.05 Classify costs as direct or indirect

64. Production costs assist management to determine:

- A. sales revenue.
- B.** cost of goods sold.
- C. gross profit.
- D. net profit.

AACSB: Reflective

Difficulty: Easy

Learning Objective: 2.02 Explain why management accountants focus particularly on costs

65. When raw materials are purchased by a manufacturer, those costs will be recorded in the general ledger as:

- A. cost of goods sold.
- B. manufacturing costs.
- C.** inventory.
- D. conversion costs.

AACSB: Reflective

Difficulty: Easy

Learning Objective: 2.02 Explain why management accountants focus particularly on costs

66.

In the short term, which of the following costs would be classified as uncontrollable?

- A. Raw materials
- B. Stationery expenses
- C. Loan interest**
- D. Entertainment expenses

*AACSB: Reflective*

*Difficulty: Medium*

*Learning Objective: 2.06 Classify costs as controllable or uncontrollable*

67. Classifying responsibility centre costs as controllable or uncontrollable can enhance:

- A. performance evaluation.**
- B. cost accounting.
- C. budget reporting.
- D. financial reporting.

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.06 Classify costs as controllable or uncontrollable*

68. Resources that are surrendered to achieve a particular objective in business are known as:

- A. resources.
- B. expenses.
- C. assets.
- D. costs.**

*AACSB: Reflective*

*Difficulty: Medium*

*Learning Objective: 2.03 Explain what is meant by different costs for different purposes*

69. Costs that are incurred to obtain future benefits beyond 12 months are known as:

- A. assets.**
- B. liabilities.
- C. revenue.
- D. expenses.

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.03 Explain what is meant by different costs for different purposes*

70.

Behaviour of fixed and variable costs.

Compare and contrast the behaviour of fixed and variable costs in total and per unit.

Total fixed costs remain unchanged with changes in the volume of activity. Total variable costs will change proportionately with changes in volume. On the other hand, while fixed costs per unit of volume will decline as volume increases, the variable cost per unit will remain constant as volume changes. All of these behaviour patterns are restricted to the relevant range of operating volume.

*AACSB: Communication*

*Difficulty: Easy*

*Learning Objective: 2.05 Classify costs as direct or indirect*

71. Describe how the value chain can help a business analyse its cost structures. What is meant by upstream costs and downstream costs? Give examples.

By analysing the business's value chain, the firm can focus on non-manufacturing as well as manufacturing costs; that is, all the costs that occur across the business. This will enable the business to identify where costs are being incurred and thus enable the elimination of unnecessary costs. The non-manufacturing costs could include selling and distribution costs, administrative costs, as well as other upstream and downstream costs.

Upstream costs are those costs that occur prior to production commencing and could include research and development costs such as the cost of running laboratories, building prototypes of new products and testing new products. Product design costs are also upstream costs and could include the costs of designing the processes that will be used to produce the new product.

Downstream costs are those costs that occur after production and include selling and distribution, administrative and customer service costs.

*AACSB: Communication*

*Difficulty: Medium*

*Learning Objective: 2.07 Classify costs according to the segments of the value chain*

72.

Kevin Smith is the production manager of Mydas Ltd, a company that manufactures a range of motor vehicles. His role includes overseeing the entire production process of Mydas Ltd's three product lines: family cars, sports cars, and motor cycles. Once completed, all the cars are shipped within Australia and to China and Korea by the company's shipping and transportation department.

Identify two examples of controllable costs and two examples of uncontrollable costs for Kevin. Explain your answer.

Controllable costs include: direct labour, some overhead costs, such as quality inspection and machine set ups. In answering this question, it is important to explain why these costs are controllable; for example, Kevin oversees the entire production process so he is likely to be involved in hiring workers. As such, he has control over wages of both factory workers (direct labour) and supervisors (indirect labour).

Uncontrollable costs include advertising (Kevin is only the production manager so he is not involved in advertising) and shipping costs (the question suggests that Kevin has to use the company's shipping and transportation department, so he does not have control over shipping costs).

*AACSB: Communication*

*AACSB: Reflective*

*Difficulty: Hard*

*Learning Objective: 2.05 Classify costs as direct or indirect*

73.

### Components of a management accounting system

Management accounting systems are made up of four interrelated systems. Identify those four systems, explain their function and describe how they collectively assist management in their decision making.

Management accounting systems are tailored to an organisation's needs but they often include the following:

costing system (or cost accounting system) that estimates the cost of goods or services, as well as the cost of organisational units, such as departments

budgeting system that is used to prepare a detailed plan, which shows the financial consequences of the organisation's operating activities, for a specific future time period. The system estimates planned revenues and costs

performance measurement system that measures performance by comparing actual results with a target

cost management system that focuses on improving the organisation's cost effectiveness through understanding and managing the real causes of costs.

Management accountants also provide information from a variety of other sources to help managers with non-routine planning and decision making.

An examination of the components of both traditional and modern management accounting systems reveals that costs are an important source of information for managers. The systems include information about product costs, the costs of departments and activities, as well as both budgeted costs and actual costs. Modern management accounting systems also provide information about the causes of costs.

With the availability of financial and non-financial information about costs, their causes and effects, managers are better able to achieve their targets.

*AACSB: Communication*

*AACSB: Reflective*

*Difficulty: Medium*

*Learning Objective: 2.01 Describe the components of traditional and modern management accounting systems*

74.

### Manufacturing costs

Manufacturing costs are costs that are incurred within the factory area. Describe the three components of manufacturing costs. Identify the costs that might be incurred in the manufacture of a Levi Strauss shirt.

Manufacturing costs are usually divided into three categories: direct material, direct labour and manufacturing overhead (or indirect manufacturing costs).

#### DIRECT MATERIAL

Raw material that is consumed in the manufacturing process, is physically incorporated into the finished product and can be traced to products in an economic manner is called direct material. Examples include the cost of shirt material, buttons, cotton thread, bindings and trimmings used in manufacturing the shirt.

#### DIRECT LABOUR

The cost of salaries and wages and labour on-costs for personnel who work directly on the manufactured product is usually classified as direct labour. Examples include the wages of personnel who cut the fabric, sew the shirt and sew buttons, bindings and trimmings.

Labour on-costs are the additional labour-related costs that businesses have to incur to employ personnel, such as payroll tax, workers' compensation insurance and the employer's superannuation contributions. Where labour on-costs relate to direct labour employees, they should be classified as part of direct labour costs, as they are as much a part of the cost of labour as are employees' wages.

Sometimes contractual arrangements and union agreements mean that labour is a committed cost that does not vary with the level of production. In this situation, it may not always be possible to trace labour costs directly to specific products, in which case these costs will be classified as indirect product costs.

#### MANUFACTURING OVERHEAD

All other costs of manufacturing are classified as manufacturing overhead, sometimes called indirect manufacturing costs or factory burden costs. Manufacturing overhead covers all manufacturing costs other than direct material and direct labour costs. It includes the cost of indirect materials and indirect labour, which covers any material and labour used in production that is not classified as direct. Manufacturing overhead also includes the costs of depreciation and insurance of the factory and manufacturing equipment, utilities such as electricity, as well as the costs of manufacturing support departments. Support departments (or service departments) are departments that do not work directly on producing products but are necessary for the manufacturing process to occur. Examples include cutting machine and sewing machine maintenance, depreciation on machines and/or equipment, electricity and production scheduling departments.

*AACSB: Communication*

*AACSB: Reflective*

*Difficulty: Medium*

*Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses*

75. Only long-term decisions require an understanding of costs.

**FALSE**

*AACSB: Analytical*

*Difficulty: Easy*

*Learning Objective: 2.01 Describe the components of traditional and modern management accounting systems*

76. Direct and indirect cost classification is based on cost behaviour in relation to changes in the level of activity.

**FALSE**

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.05 Classify costs as direct or indirect*

77. 'Prime costs' is the term given to direct labour and direct materials, as they are the major costs directly associated with the manufacture of a product.

**TRUE**

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.08 Analyse costs using the classifications commonly used in manufacturing businesses*

78. Costs that managers cannot significantly influence are classified as uncontrollable costs.

**TRUE**

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.06 Classify costs as controllable or uncontrollable*

79. A courier company may view kilometres driven as a possible cost driver.

**TRUE**

*AACSB: Reflective*

*Difficulty: Medium*

*Learning Objective: 2.05 Classify costs as direct or indirect*

80. In relation to the activities of the value chain of a manufacturing company, primary processes include accounting and legal activities.

**FALSE**

*AACSB: Reflective*

*Difficulty: Medium*

*Learning Objective: 2.05 Classify costs as direct or indirect*

81. Manufacturing organisations have four inventory accounts—raw materials, work in process, cost of goods sold and finished goods.

**FALSE**

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.10 Describe the cost flows in a manufacturing business and prepare a schedule of cost of goods manufactured, a schedule of cost of goods sold and an income statement for a manufacturer*

82. Inventoriable costs include direct materials, direct labour, manufacturing overheads and period costs for that accounting period.

**FALSE**

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.10 Describe the cost flows in a manufacturing business and prepare a schedule of cost of goods manufactured, a schedule of cost of goods sold and an income statement for a manufacturer*

83. Fixed costs per unit decrease as activity levels increase.

**TRUE**

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.04 Classify costs according to their behaviour—that is, as variable or fixed*

84. The equation to calculate total manufacturing costs = cost of goods manufactured – beginning work in process + ending work in process.

**TRUE**

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.10 Describe the cost flows in a manufacturing business and prepare a schedule of cost of goods manufactured, a schedule of cost of goods sold and an income statement for a manufacturer*

85. Modern management accounting places a much greater emphasis on non-financial information.

**TRUE**

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.02 Explain why management accountants focus particularly on costs*

86. The value chain begins with providing products that will be valued by customers.

**FALSE**

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.07 Classify costs according to the segments of the value chain*

87. During the year, any inventory that is sold is transferred to the finished goods account.

**FALSE**

*AACSB: Reflective*

*Difficulty: Easy*

*Learning Objective: 2.09 Explain the different definitions of product cost used in external accounting reports and for decision making*

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