1. Activity-based costing (ABC):
   - A. can be used only in a process cost system.
   - B. focuses on units of production.
   - C. focuses on activities performed to produce a product.
   - D. uses only a single basis of allocation.

2. Activity-based costing:
   - A. is the initial phase of converting to a just-in-time operating environment.
   - B. can be used only in a job order costing system.
   - C. is a two-stage overhead cost allocation system that identifies activity cost pools and cost drivers.
   - D. uses direct labor as its primary cost driver.

3. Any activity that causes resources to be consumed is called a:
   - B. facility-level activity.
   - C. cost driver
   - D. non-value-added activity.

4. The overhead rate for Machine Setups is $100 per setup. Products A and B have 80 and 60 setups, respectively. The overhead assigned to each product is:
   - A. Product A $8,000, Product B $8,000.
   - B. Product A $8,000, Product B $6,000.
   - C. Product A $6,000, Product B $6,000.
   - D. Product A $6,000, Product B $8,000.

5. Donna Crawford Co. has identified an activity cost pool to which it has allocated estimated
overhead of $1,920,000. It has determined the expected use of cost drivers for that activity to be 160,000 inspections. Widgets require 40,000 inspections, Gadgets 30,000 inspections, and Targets 90,000 inspections. The overhead assigned to each product is:

- **A.** Widgets $40,000, Gadgets $30,000, Targets $90,000.
- **B.** Widgets $480,000, Gadgets $360,000, Targets $108,000.
- **C.** Widgets $360,000, Gadgets $480,000, Targets $1,080,000.
- **D.** Widgets $480,000, Gadgets $360,000, Targets $1,080,000.

6. An activity that adds costs to the product but does **not** increase its market value is a:

- **A.** value-added activity.
- **B.** cost driver.
- **C.** cost-benefit activity.
- **D.** non-value-added activity.

7. The following activity is value added:

- **A.** Storage of raw materials.
- **B.** Moving parts from machine to machine.
- **C.** Shaping a piece of metal on a lathe.
- **D.** All of the above.

8. A relevant facility-level cost driver for heating costs is:

- **A.** machine hours.
- **B.** direct material.
- **C.** floor space.
- **D.** direct labor cost.
9. Under just-in-time processing:
   □ A. raw materials are received just in time for use in production.
   □ B. subassembly parts are completed just in time for use in assembling finished goods.
   □ C. finished goods are completed just in time to be sold.
   □ D. all of the above.

10. The primary objective of just-in-time processing is to:
    □ A. accumulate overhead in activity cost pools.
    □ B. eliminate or reduce all manufacturing inventories.
    □ C. identify relevant activity cost drivers.
    □ D. identify value-added activities.

STOP This is the end of the test. When you have completed all the questions and reviewed your answers, press the button below to grade the test.

Grade the Test

0% (0 out of 10 correct)

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    - A. accumulate overhead in activity cost pools.
    - B. eliminate or reduce all manufacturing inventories.
    - C. identify relevant activity cost drivers.
    - D. identify value-added activities.

Retake Test

1. The most difficult part of computing accurate unit costs is determining the proper amount of direct material cost to assign to each product.
   - A. True
2. Activity-based costing systems rely on multiple bases for overhead cost allocation.  
   - A. True  
   - B. False

3. Traditional costing systems group costs according to activity cost pools.  
   - A. True  
   - B. False

4. A cost driver is a factor or activity that has a direct cause-effect relationship with the resources consumed.  
   - A. True  
   - B. False

5. Two benefits of ABC are that it leads to better management decisions and arbitrary allocations are completely eliminated.  
   - A. True  
   - B. False

6. An advantage of ABC is that it is inexpensive to implement.  
   - A. True  
   - B. False

7. ABM (Activity Based Management) leads to the identification of value-added and non-value-added activities.
8. Product design is a unit level activity.
   - A. True
   - B. False

9. Activity Based Costing is used in service industries as well as manufacturing.
   - A. True
   - B. False

10. JIT is based on a pull-approach.
    - A. True
    - B. False

11. To reduce product cost distortions, many companies now use ___________ as the basis on which to allocate overhead in an automated manufacturing process.
    - A. direct labor
    - B. direct materials
    - C. machine hours
    - D. units produced

12. Which of the following would be the best cost driver for the activity of purchasing?
    - A. The number of employees in the purchasing department.
    - B. Total number of items ordered.
13. As the complexity of a product's manufacturing operation increases, the number of activities and cost drivers used in an activity-based cost system will likely:
   - A. increase.
   - B. stay about same.
   - C. decrease.
   - D. vary randomly.

14. Which of the following is not one of the four steps involved in calculating unit costs under activity-based costing?
   - A. Assign manufacturing overhead costs for each cost pool to products, using the overhead rates.
   - B. Identify the cost driver that has a minor correlation to the costs accumulated in the activity cost pool.
   - C. Identify and classify the major activities involved in the manufacture of specific products, and allocate manufacturing overhead costs to the appropriate cost pools.
   - D. Compute the overhead rate per cost driver.

15. Which of the following should not be included as part of the cost pool of machine setups?
   - A. Depreciation on machines and parts used for different setups.
   - B. Salaries of those supervising machine operators.
   - C. Supplies needed in changing machines from one production setting to another.
   - D. Cost of accounts payable supervisor's salary.

16. In order to achieve the most accurate costing, the cost driver chosen for a given activity must show a __________ between the cost driver and the actual consumption of overhead costs.
17. The activity-based overhead rate is computed by dividing:
   - A. Estimated overhead per activity by expected use of cost drivers per activity.
   - B. Actual overhead per activity by expected use of cost drivers per activity.
   - C. Estimated overhead per activity by actual use of cost drivers per activity.
   - D. Actual overhead per activity by actual use of cost drivers per activity.

18. To assign overhead costs to an individual product, the activity-based overhead rate is multiplied by:
   - A. the number of products produced during the period.
   - B. the number of cost drivers expected to be used per product.
   - C. the number of direct labor hours used during the period.
   - D. the number of employees who participate in manufacturing the product.

19. If a traditional costing system allocates too much overhead to one product, the firm is likely to experience which of the following problems?
   - A. An increase in the number of defective products produced.
   - B. The firm may lose market share to competitors.
   - C. The firm may be underpricing the product.
   - D. The product is in danger of becoming obsolete.

20. Which of the following is not a reason for the more accurate product costing that results from using activity-based costing?
☐ A. Activity-based costing leads to more cost pools.
☐ B. Activity-based costing leads to enhanced control over overhead costs.
☐ C. Employee turnover will decrease as a result of using activity-based costing.
☐ D. Activity-based costing leads to better management decisions.

21. Which of the following is a limitation of activity-based costing?
   ☐ A. Activity-based costing can be expensive to use.
   ☐ B. Activity-based costing systems can only be used by firms with a state-of-the-art computer system.
   ☐ C. Activity-based costing can be used only if approved by the Institute of Management Accountants.
   ☐ D. Activity-based costing can only be used by firms involved in manufacturing.

22. Overhead applied to Alpha using direct labor hours and traditional costing is:
   ☐ A. $105,000.
   ☐ B. $134,400.
   ☐ C. $145,600.
   ☐ D. $168,000.

23. Overhead applied to Omega using activity-based costing is:
   ☐ A. $112,000.
   ☐ B. $133,333.
   ☐ C. $145,600.
   ☐ D. $175,000.

24. Which of the following is NOT one of the classification levels of activity-based costing activities?
A. Facility-level activities.
B. Macro-level activities.
C. Product-level activities.
D. Batch-level activities.

25. Which of the following is not an important element in successfully operating a just-in-time approach to production?
A. A multiskilled workforce.
B. A total quality control system.
C. Dependable suppliers.
D. All of the above are important elements.

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16. In order to achieve the most accurate costing, the cost driver chosen for a given activity must show a __________ between the cost driver and the actual consumption of overhead costs.
- A. reasonable relationship.
- B. low degree of correlation.
- C. high degree of correlation.
- D. moderate connection.

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