# Testbank

to accompany

# **Management Accounting 2e**

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## Chapter 2: Cost concepts, behaviour and estimation

### **True/False**

1. Steel used in the production of automobiles would generally be classified as a direct cost.

\*a. True b. False

2. The method for determining the cost function that does **not** rely on past costs is regression analysis.

a. True \*b. False

3. If the organisation has only operated for a short time several methods of determining the cost function cannot be used.

\*a. True b. False

4. Cost functions are most useful for estimating costs over short periods such as one year.

\*a. True b. False

5. Financial statements usually distinguish between fixed and variable costs.

a. True \*b. False

6. It would be helpful for managers to have some training in engineering in calculating an engineered cost estimate.

\*a. True b. False

7. Reviewing the pattern of a cost over time is a critical step in determining an engineered cost estimate.

a. True \*b. False 8. A scatter plot provides helpful information about the relationship between a cost and a potential cost driver.

a. True \*b. False

9. Preparing a scatter plot is a requirement before applying the two-point method of cost estimation.

\*a. True b. False

10. The high-low method is a specific application of the two-point method of cost estimation.

\*a. True b. False

11. The high-low method frequently distorts a cost function because it uses too few data points to make an estimate.

\*a. True b. False

12. The first step in estimating a cost function for relevant costs is to select a cost estimation technique.

a. True \*b. False

13. Categorising costs by their behavior is one step in estimating relevant costs for a cost object.

\*a. True b. False

14. If fixed costs are graphed against output fixed costs are represented by a straight line.

\*a. True b. False

15. Regression analysis is classified as simple or multiple depending upon the number of dependent variables to be estimated.

a. True \*b. False 16. Simple regression analysis produces an equation of the form :  $Y = \alpha + \beta X + \epsilon$ 

\*a. True b. False

17. In regression analysis, the Adjusted R-square statistic is used to evaluate how well the cost driver explains the behavior in the cost.

\*a. True b. False

18. Estimates of future costs can be used in budgeting.

\*a. True b. False

19. Regression analysis usually provides a higher quality cost function than the high-low method.

\*a. True b. False

20. Changes in cost behavior over time are one source of uncertainty in estimating future costs.

\*a. True b. False

### **Multiple Choice**

21. When the cost object is a unit produced, lubricating oil for production machines would be a(n)

a. Direct cost\*b. Indirect costc. Sunk costd. Opportunity cost

22. When the cost object is a unit produced, straight-line depreciation on manufacturing equipment would be a

	<u>Variable Cost</u>	Fixed Cost	<u>Direct Cost</u>
į.	No	Yes	No
ii.	Yes	No	No
iii.	Yes	No	Yes
iv.	Yes	No	Yes

\*a. i b. ii c. iii d. iv

#### 23. Fixed costs per unit

- \*a. Vary inversely with changes in volume
- b. Change regardless of changes in volume
- c. Will not change over the relevant range
- d. Increase with an increase in volume

#### 24. Mixed costs

- \*a. Consist of fixed and variable costs
- b. Are constant in total
- c. Consist of the variable portion of all costs
- d. Have a constant per-unit value

#### 25. Mixed costs

- a. Vary with production in direct proportion to volume
- \*b. Vary with production but not in direct proportion to volume
- c. Do not vary with production
- d. Include only different types of fixed costs

26. The relevant range is defined as

- a. The period of time over which costs do not change
- \*b. The volume of production over which the cost assumptions hold
- c. The volume of production over which step-wise fixed costs increase
- d. The time period in which the level of production does not change

27. Which of the follow is **not** an assumption when estimating a cost function over the relevant range of activity?

- a. Mixed costs will change in total
- b. Mixed costs will change per unit
- \*c. Variable costs will be constant in total
- d. Fixed costs will be constant in total.

28. Janice's Kennel and Pet Spa is located in Sydney. The company employs three pet attendants, four pet groomers and two front office staff who book appointments and keep records. The spa provides a range of services for dogs and cats including boarding, grooming, and obedience training. The grooming area includes a small retail section that carries dog and cat food, pet supplies, and toys.

If the cost object is cost per day of boarding, which of the following is a direct cost?

- \*a. Pet food
- b. Front office staff salaries
- c. Grooming supplies
- d. Depreciation on shelving and equipment used in the grooming and retail area

29. Janice's Kennel and Pet Spa is located in Sydney. The company employs three pet attendants, four pet groomers and two front office staff who book appointments and keep records. The spa provides a range of services for dogs and cats including boarding, grooming, and obedience training. The grooming area includes a small retail section that carries dog and cat food, pet supplies, and toys.

If the cost object is the total cost of the grooming product line, which of the following is an indirect cost?

\*a. Front office staff salaries

- b. Labor cost of employees who groom pets
- c. Cost of grooming supplies
- d. Depreciation on grooming tables

30. Janice's Kennel and Pet Spa is located in Sydney. The company employs three pet attendants, four pet groomers and two front office staff who book appointments and keep records. The spa provides a range of services for dogs and cats including boarding, grooming, and obedience training. The grooming area includes a small retail section that carries dog and cat food, pet supplies, and toys.

Which of the following is a sunk cost for any cost object related to Janice's Kennel and Pet Spa?

- a. Cost of the car Janice is planning to buy for pet transportation
- \*b. Cost of existing computer equipment used to keep company records
- c. Cost of annual wages for full-time employees
- d. Cost of rent for the next period

31. Janice's Kennel and Pet Spa is located in Sydney. The company employs three pet attendants, four pet groomers and two front office staff who book appointments and keep records. The spa provides a range of services for dogs and cats including boarding, grooming, and obedience training. The grooming area includes a small retail section that carries dog and cat food, pet supplies, and toys.

Assume Janice's Kennel and Pet Spa is currently boarding ten pets. The cost of food to board one more pet is best described as a

a. Fixed cost\*b. Marginal costc. Sunk costd. Mixed cost

32. Janice's Kennel and Pet Spa is located in Sydney. The company employs three pet attendants, four pet groomers and two front office staff who book appointments and keep records. The spa provides a range of services for dogs and cats including boarding, grooming, and obedience training. The grooming area includes a small retail section that carries dog and cat food, pet supplies, and toys.

Which of the following is the best example of a discretionary cost for Janice's Kennel and Pet Spa?

a. Pet food

- b. Facility rent
- c. Wages of pet groomers
- \*d. Professional travel for Janice

33. Janice's Kennel and Pet Spa is located in Sydney. The company employs three pet attendants, four pet groomers and two front office staff who book appointments and keep records. The spa provides a range of services for dogs and cats including boarding, grooming, and obedience training. The grooming area includes a small retail section that carries dog and cat food, pet supplies, and toys.

Janice's relevant range of activity would best be measured in terms of:

- a. The number of staff she employs
- \*b. The number of pets she services
- c. The maximum amount of pet food she can buy each month based on the current budget
- d. The number of parking spaces available in the parking lot
- 34. A learning curve is the rate at which
  - a. Students learn material for an exam
  - b. Direct labor employees are provided training by their organisations
  - \*c. Labor hours decrease as production increases when a new product is manufactured
  - d. Profitability decreases because employees have become less efficient.

35. Discretionary costs reflect

a. The costs that managers incur to purchase new production machines when the old machines need replacing

\*b. Decisions about the maximum amount that will be spent next period for activities such as travel and marketing

- c. Decisions about the amount of variable costs that will be incurred next period
- d. The costs that managers incur to pay overtime when production levels are high
- 36. Which of the following statements is true?

a. Past costs are always relevant for decisions and are often useful in estimating future cost behavior

b. Past costs are always relevant for decisions, but are rarely useful in estimating future cost behavior

c. Past costs are never relevant for decisions, nor are they useful in estimating future cost behavior

\*d. Past costs are never relevant for decisions, but are often useful in estimating future cost behavior

#### 37. The best source for determining historical costs is usually

- a. The Internetb. Interviews with managers\*c. The company's accounting information system
- d. Financial statements

38. Which statement is false?

a. Information for some costs cannot easily be obtained from the accounting information system.

\*b. Useful cost information is rarely available from the accounting information system.

- c. The accounting system design affects the availability of useful cost information.
- d. The nature of cost information affects its usefulness for decision making.

39. In most accounting information systems, costs are often recorded and coded so they can be summarised based on different

a. Cost drivers\*b. Cost objectsc. Volumes of activityd. Independent variables

40. Past cost information, although accurate in predicting future costs, may be I Unavailable II Irrelevant III Outdated

a. I and II only b. II and III only c. II only \*d. I, II, and III

41. Managers go through a series of questions to decide whether to use past costs to estimate future costs. Which of the following questions is **least** likely to be one of them?

a. Is the cost relevant to the decision?b. Is the cost highly discretionary?\*c. Is the cost an engineered estimate?d. Is the cost expected to change?

42. Estimating a cost function using past cost data to help determine future costs is useful if

a. Past costs are irrelevant and highly discretionary

b. Past costs are irrelevant and not discretionary

c. Past costs are relevant and highly discretionary

\*d. Past costs are relevant and not discretionary

43. After estimating a past cost function, managersI May need to update it for future changes.II Have all of the information they need to predict future costsIII May or may not use it to estimate future costs.

a. I onlyb. II onlyc. II and III only\*d. I and III only

44. Liva Company wants to develop a cost function for its maintenance costs to estimate such costs for the coming year. The following data are available:

	Direct	Maintenance	
Month	Labor Hours	Costs Incurred	
January	4,000	\$ 900	
February	6,500	1,325	
March	7,000	1,500	
April	5,500	1,150	

Using the high-low method, what is the variable maintenance cost per direct labor hour?

a. \$1.00 b. \$0.10 \*c. \$0.20 d. \$1.50

45. Liva Company wants to develop a cost function for its maintenance costs to estimate such costs for the coming year. The following data are available:

a. \$500 b. \$300 c. \$200 \*d. \$100

46. Liva Company wants to develop a cost function for its maintenance costs to estimate such costs for the coming year. The following data are available:

a. \$500 + \$1.00 per direct labor hour b. \$300 + \$1.50 per direct labor hour \*c. \$100 + \$0.20 per direct labor hour d. \$200 + \$0.10 per direct labor hour

#### 47. The major disadvantage of the high-low method is that

\*a. It uses the two most extreme data points in determining a cost function

- b. It is difficult to calculate
- c. It is difficult to understand
- d. It involves more judgmental factors than do other methods
- 48. Cosby Company is attempting to develop the cost function for repair costs. The following Machine Hours Repair Costs

fachine nours	Repair Cost	
4,800	\$6,385	
3,400	4,585	
4,000	5,285	
5,900	7,085	

past data are available:

a. \$0.15 \*b. \$1.00 c. \$4.00 d. \$5.00

49. Cosby Company is attempting to develop the cost function for repair costs. The following past data are available:

\*a. \$1,185 b. \$850 c. \$475 d. \$565

50. Cosby Company is attempting to develop the cost function for repair costs. The following past data are available:

a. \$5,785
b. \$5,585
\*c. \$5,685
d. \$5,985

51. Milano Company has an average overhead cost per hour of \$10.50 at 3,500 machine hours, and at 3,000 hours it is \$11.25. The company managers wish to estimate the overhead cost function.

What is the variable overhead cost per machine hour?

a. \$1.00 b. \$2.00 \*c. \$6.00 d. \$8.00 52. Milano Company has an average overhead cost per hour of \$10.50 at 3,500 machine hours, and at 3,000 hours it is \$11.25. The company managers wish to estimate the overhead cost function.

What is the fixed overhead cost?

\*a. \$15,750 b. \$36,750 c. \$21,000 d. \$18,000

53. Assuming that a cost is mixed and linear, and that past cost behavior is expected to continue into the future, which of the following is mostly likely the best technique for estimating future costs?

a. Engineered estimate of costb. Two-point methodc. Scatter plot\*d. Regression analysis

54. Managers analyse production activities and assign costs based on the estimated amount of resources used when they use this method.

a. A scatter plotb. The high-low methodc. Regression analysis\*d. Engineered estimate of cost

55. Reviewing cost behavior patterns over time from the accounting records and using that review to predict future costs best describes

- a. Regression analysisb. Scatter plots\*c. Analysis at the account level
- d. Two-point methods

56. Which of the following techniques for cost estimation relies on visual analysis?

- \*a. Scatter plotsb. Analysis at the account levelc. High-low method
- d. Engineered estimate of cost

- 57. A scatter plot is especially useful when managers wish to
  - a. Compute a cost function
  - b. Update a past cost function for future changes
  - \*c. Study the relationship between a cost and a potential cost driver
  - d. Analyse cost behavior when only one period of data is available
- 58. The trend line from a scatter plot can be used to identify data points for
  - \*a. The two-point method
  - b. Analysis at the account level
  - c. Engineered estimate of cost
  - d. Regression analysis

59. The high-low method is a specific application of this method of cost estimation

- \*a. Two-point
- b. Scatter plot
- c. Engineered estimate of cost
- d. Analysis at the account level

60. Which of the following is the most valid criticism of the high-low method?

- a. It never produces accurate results
- b. It is mathematically too complex for most managers to comprehend
- c. It is a specialised case of the two-point method
- \*d. Data points might be outside the normal range of activity

61. A manager might use this method to create a graph of cost behavior without any statistical techniques

- a. Engineered estimate of cost
- b. High-low method
- \*c. Scatter plot
- d. Regression analysis

62. Which of the following cost estimation techniques makes assumptions about the data being analysed?

I Analysis at the account level II Two-point method III Regression analysis

a. I onlyb. I and II onlyc. II and III only\*d. I, II, and III

63. Which cost estimation technique is useful in all situations?

a. Analysis at the account level

b. Regression analysis

c. Two-point method

\*d. No one method is useful in all situations

64. An organisation's accountant is estimating next period's total overhead costs. She performed two regression analyses, one based on direct labor hours and the other based upon machine hours. The results were:

Total overhead = 150,000 + 4 x direct labor hours

Adjusted R-square = 0.65

Total overhead = \$130,000 + \$5 x machine hours

Adjusted R-square = 0.77

For the next period the accountant anticipates using 28,000 direct labor hours and 26,000 machine hours. Based upon this information, what is the best estimate for overhead for the next period?

a. \$262,000 \*b. \$260,000 c. \$254,000 d. \$270,000

65. Which of the following is **not** an assumption of linear regression analysis

a. The error terms have a constant variance

b. The error terms are independent

c. A linear relationship exists between the dependent and independent variables

\*d. There is a cause and effect relationship between the dependent and independent variables

66. Which of the following are forms of regression analysis?

a. Quantitative and qualitative

b. Fixed and variable

\*c. Simple and multiple

d. Financial and managerial

67. Simple regression analysis differs from multiple regression analysis based on the number of

\*a. Cost drivers used

b. Costs predicted

c. Data points incorporated

d. Personnel analysing the data

68. Simple regression minimises the distance from each data point to

\*a. A trend line b. The y-intercept c. The error term d. The x-axis

69. Which of the following is an alternative name for a cost driver in a regression analysis?

a. Dependent variable\*b. Independent variablec. Betad. Error term

70. Which of the following is an alternative name for the cost being predicted in a regression analysis?

- \*a. Dependent variable b. Independent variable c. Beta
- C. Deta
- d. Slope

71. Regression analysis works best when the relationship between costs and cost drivers is

\*a. Positive and linearb. Linear and directc. Positive and indirectd. Positive, linear, and indirect

72. In a regression equation, fixed costs are represented by the

a. Slope\*b. Interceptc. Error termd. Adjusted R-square coefficient

73. In a regression equation, variable costs per unit are represented by the

\*a. Slopeb. Interceptc. Adjusted R-square coefficientd. t-statistic



74. Which graph shows data that are more suitable for regression analysis?

\*a. Graph Ab. Graph Bc. Neither Graph A nor Graph Bd. Cannot be determined

75. Simple regression analysis output produces a variety of information and statistics. Which of the following statistics provides information for fixed costs?

- \*a. T-statistic and p-value for the alpha coefficient
- b. T-statistics for alpha and beta coefficients
- c. Adjusted R-square
- d. P-values for alpha and beta coefficients

76. Simple regression analysis output produces a variety of statistics. Which of the following statistics provides information for variable costs?

- a. Adjusted R-square
- b. P-values for alpha and beta coefficients
- \*c. T-statistic and p-value for the beta coefficient
- d. T-statistics for alpha and beta coefficients

77. Simple regression analysis output produces a variety of statistics. Which of the following statistics best summarises how well the cost driver explains the behavior of the cost?

- a. T-statistics for alpha and beta coefficients
- b. T-statistic and p-value for the alpha coefficient
- c. P-values for alpha and beta coefficients
- \*d. Adjusted R-square

78. When estimating future costs, information quality is higher when

- a. Costs must be allocated
- \*b. The accounting system can trace relevant costs to a cost object
- c. The regression Adjusted R-square is near zero
- d. Most costs are fixed, rather than variable

79. Past cost information might be too unreliable for future cost estimation because

- a. An organisation has been operating too long in a stable environment
- b. The costs are primarily mixed
- \*c. A company has added a new product line
- d. Managers expect no changes in the cost function

80. This method of estimating future costs can be used when only one period of data is available.

a. Scatter plotb. High-low method\*c. Analysis at the account leveld. Regression analysis

81. A disadvantage of regression analysis as a method of determining a cost function is

a. not suitable for determining strictly fixed cost functions

b. not suitable for determining strictly variable cost functions

c. mismeasures the cost function if data points come from more than one relevant range \*d. all of the above are disadvantages

82. Consider the following cost data for the cost object, number of machine setups. Each set of costs (A, B, and C) is from a different type of manufacturing operation and represents the cost behavior for the cost of that company's machine setups.

Number of <u>Machine Setups</u>	<u>Cost A</u>	Cost B	<u>Cost C</u>
0	\$ 0	\$80	\$ 5
10	20	79	37
20	40	82	66
30	60	78	91
40	80	81	123
50	100	79	154

Cost A is best described as

a. Fixed \*b. Variable c. Mixed d. Direct 83. Consider the following cost data for the cost object, number of machine setups. Each set of costs (A, B, and C) is from a different type of manufacturing operation and represents the cost behavior for the cost of that company's machine setups. Cost B is best described as

\*a. Fixedb. Variablec. Mixedd. Discretionary

84. Consider the following cost data for the cost object, number of machine setups. Each set of costs (A, B, and C) is from a different type of manufacturing operation and represents the cost behavior for the cost of that company's machine setups. Cost C is best described as

a. Fixed b. Variable \*c. Mixed d. Indirect

85. Three different divisions of a toy manufacturing company are estimating costs for their human resources departments. Each division has a cost structure that is different from the other divisions' and those structures are represented by the following cost behavior patterns. Which cost is best described as fixed?

Indumber of			a . a
<u>Employees</u>	<u>Cost A</u>	<u>Cost B</u>	<u>Cost C</u>
0	\$ 0	\$120	\$118
25	50	118	180
50	100	123	245
75	125	124	296
100	200	119	360
a. Cost A			
*b. Cost B			
c. Cost C			
d. Cost B and	d Cost C		

86. Three different divisions of a toy manufacturing company are estimating costs for their human resources departments. Each division has a cost structure that is different from the other divisions' and those structures are represented by the following cost behavior patterns. Which cost is best described as variable?

\*a. Cost A b. Cost B c. Cost C d. Cost A and Cost C

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87. Three different divisions of a toy manufacturing company are estimating costs for their human resources departments. Each division has a cost structure that is different from the other divisions' and those structures are represented by the following cost behavior patterns. Which cost is best described as mixed?

a. Cost A b. Cost B \*c. Cost C d. Cost B and Cost C

88. A firm has the capacity to produce 3,100 units per week. At 80% capacity, the average total cost per unit is \$12.50 and the average variable cost per unit is \$7.50. What is the total fixed cost per week, assuming the firm is still operating within its relevant range?

a. \$10,400 b. \$14,400 c. \$ 8,400 \*d. \$12,400