MGT705 - Advanced Cost and Management Accounting
3rd quiz for FALL 2010

Solved by mb120400124

Mano Billi

Activity based cost-centres are also known as _________.
Select correct option:

Activity cost pools
Activity cost rivers
Activity cost seas
Activity cost oceans

(Lecture 10 - \PPT slide) With ABC systems, many activity based cost-centers (called activity cost pools) are established, whereas with traditional systems overheads are pooled by departments and described as cost centers.

Unit level contribution margin is calculated as follows:
Select correct option:

conversion costs + unit level activities costs
sales revenue - unit level activities costs
sales revenue + unit level activities costs
prime costs + unit level activities costs

(Lecture 13– PPT slide)
A unit level contribution margin is calculated for each individual product. This is derived by deducting the cost of unit level activities from sale revenue.

Selecting course of action is the _______ stage of planning process.
Select correct option:

first
second
forth
fifth

(Lecture **17** – PPT slide)
Stages in the Planning Process
Stage 1 – Establishing Objectives:

Stage 2 – Identify Potential Strategies

Stage 3 – Evaluation of strategic options

Stage 4 – Select course of action

Stage 5 – Implementation of long-term plans

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Stages 6 & 7 – Monitor actual outcomes & respond to divergences

Which of the following expenses can be measured through cost drivers?
Select correct option:

Salary of the marketing staff
Interest on bank overdraft
Depreciation of machinery
Rent of factory building

Cost drivers include number of production runs for production scheduling and number of purchase orders for purchasing activity
These cost drivers are appropriate for measuring consumption of expenses such as machine energy costs, depreciation related to machine usage and indirect labor employed in production centers

In ________ systems, the overheads are assigned according to the activities.
Select correct option:

Allocation based costing
Activity based costing
Area based costing
Action based costing
Lecture 10
An Activity based costing - ABC system assigns overheads to each major activity (rather than departments).

Activity based costing refers to measurement of indirect ________ for decision making.
Select correct option:

irrelavent costs
sunk costs
Opportunity costs
relevant costs

- Lecture 10
- The measurement of indirect relevant cost for decision making using Activity Based Costing techniques will be examined.

In which of the following pricing policies, low prices are charged from the customers?
Select correct option:

Price penetration

Price skimming
Price keeping
price negotiation

(Lecture 16 – PPT slide)

- A **penetration pricing policy** is based on the concept of charging low prices initially with the intention of gaining rapid acceptance of the product.
- Such a policy is appropriate when close substitutes are available or when markets are easy to enter.

In activity based costing profitability analysis, we categorize costs according to their __________ levels.
Select correct option:

mechanical
production
hierarchical
All of the given options

(Lecture **13 –** PPT slide)
The approach of activity based profitability analysis is to categorize costs according to their hierarchical levels

Decision making process refers to:
Select correct option:

Planning
Control
Both planning and control
None of the given options

________ is(are) the example of outsourcing.
Select correct option:

Cleaning
Machinery
photocopying
All of the given options

Outsourcing

- Outsourcing is the process of obtaining goods and services from outside suppliers instead of producing the same goods or providing the same services within the organization. Many organizations outsource some of their activities such as maintenance of certain machinery, cleaning, photocopying and packaging.

Lecture 7 PPT slide

________ is/are example(s) of Production Overheads.

Select correct option:

Supervisor's Salary
Heating Charges
Depreciation
All of the given options

Budget contains which of the following:

Select correct option:

Cash inflow
Cash outflow
Sales revenue
All of the given options

(Lecture 1 - PPT silde)

- The budget is the financial plan for implementing management decisions.
- Expressed in terms of cash inflows and outflows, sales revenues and expenses.
- The master budget consists of a budgeted profit and loss account, balance sheet and a cashflow statement.

Internal Users of accounting information refers to:

Select correct option:

Management of the organization
Creditors of the Organization
Shareholders of the organization
Banks/Financial institutions

(Lecture # 1 – PPT Slide)

Users …

- Users can be divided into 2 categories:
  - Internal users within the organization
  - External users i.e. shareholders, creditors
- Management accounting is for internal users
- Financial accounting information is for external users

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_________ is the third stage of product life cycle.
Select correct option:

Introduction
Growth
Decline
Maturity
(Lecture 16 – PPT slide)

Product life-cycle

- Many products have a product life cycle consisting of four stages:
  - Introductory – product is launched, minimal awareness and acceptance.
  - Growth – sales begin to expand because of introductory promotions
  - Maturity – sales taper off as new customers are exhausted.
  - Decline – sales diminish as the product is replaced with new and better versions.

Unit-level activities consume resources in proportion to the number of _________ manufactured.
Select correct option:

batches
units
goods
articles

Unit-level activities consume resources in proportion to the number of units produced.
(Lecture 12 – PPT slide)

Admin expenses are categorized as ____________.
Select correct option:

Prime cost
Period cost
Conversion cost
All of the given options

In target costing, marketing factors and customer research provide the basis for determining __________.
Select correct option:

cost price

manufacturing costs
overhead costs
selling price

Target Costing

- In target costing the starting point is the determination of the target selling price.

(Lecture 15 – PPT slide)

Variable cost includes:
Select correct option:

Direct Material cost
Direct Material cost and Direct Labour cost
Direct Material cost, Direct Labour cost and Energy Cost
All of the given Options

Which method(s) seperate(s) fixed and variable costs consists of examining past costs and related activity?
Select correct option:

Basic
Break-even analysis
High-low
All of the given options

- The high-low method to separate fixed and variable costs consists of examining past costs and related activity.

(Lecture 4 – PPT slide)

Quiz # 3

Deduction of profit from selling price is considered in _________.
Select correct option:

domestic transfer pricing
arm length principle
negotiated transfer pricing
All of the given options

Lecture # 25:

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Taxation authorities are aware that companies can use the transfer pricing system to manipulate the taxable profits.
The arms length principle is used:
- **Similar transactions involving unrelated parties**
- **Deduction of profit from selling price**
- **Cost- plus method.**

In which of the following pricing policies, high prices are charged from the customers?
Select correct option:

Price penetration
Price skimming
Price negotiation
Price keeping

- **Price skimming policy** is an attempt to exploit those sections of the market that are relatively insensitive to price changes.
- For example high initial prices may be charged to take advantage of the novelty appeal of a new product when demand is initially inelastic.
- A skimming policy offers a safeguard against unexpected future increases in costs, or large fall in demand after the novelty appeal has declined.
- Once the market becomes saturated, the price can be reduced to attract that part of the market that has not yet been exploited.
- A skimming pricing policy should not be adopted when a number of close substitutes are already being marketed.

Non-variable overheads are also called _________.
Select correct option:

Fixed variable overheads
Semi fixed variable overheads
Common fixed overheads
Semi variable overheads

When company's most of the profits are located in the low tax rate country, ________ method is used for transfer pricing.
Select correct option:

domestic transfer pricing
international transfer pricing
mutual transfer pricing
Tax pricing

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Lecture # 25:
International transfer pricing
• Supplying and receiving divisions may be located in different countries with different taxation rates, and the taxation rates in one country may be much lower than the other.

• It would be in the company's interest that most of the profits are located in the country with low tax rates.

The _______ costs are affected by the decisions.
Select correct option:

relevant
irrelevant
constant
fixed

In ________ systems, the overheads are assigned accrding to the activities.
Select correct option:

Allocation based costing
Activity based costing
Area based costing
Action based costing

________ is the first stage of product life cycle.
Select correct option:

Introduction
Growth
Maturity
Decline

Product life-cycle
- Many products have a product life cycle consisting of four stages:
  - Introductory – product is launched, minimal awareness and acceptance.
  - Growth – sales begin to expand because of introductory promotions
  - Maturity – sales taper off as new customers are exhausted.
  - Decline – sales diminish as the product is replaced with new and better versions.

Cost Volume Profit model is helpful for carrying out decision in setting_________.
Select correct option:

Selling price and input levels
Selling price and output levels
Purchasing price and input levels

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Purchasing price and output levels

Lecture # 3: **Cost Volume Profit model (CVP)**

- This is a systematic method of examining the relationship between changes in activity (output) and changes in sales revenue, expenses and profit.
- It is a useful tool for decision making in setting selling prices and output levels.
- This model also helps to identify the output level at which neither profit nor loss will occur i.e. break-even point.

Question # 10 of 20 (Start time: 01:16:33 PM) Total Marks: 1
When close subsitutes are available in the market, which one of the following pricing policy is more suitable?
Select correct option:

Price penetration
Price skimming
Price keeping
Price negotiation

Lecture # 16:

- A **penetration pricing policy** is based on the concept of charging low prices initially with the intention of gaining rapid acceptance of the product.
- Such a policy is appropriate when close substitutes are available or when markets are easy to enter.

The aim of cash budget refers to:
Select correct option:

Maximum availability of cash
Maximum availability of income
Maximum availability of sales
All of the given options

A quiz that cannot be saved was about direct labor costs and answer was irrelevant.

- Where the company has temporary spare capacity and labor force is to be maintained for the short-term, the direct labor cost incurred will remain the same for all alternative decisions. The direct labor cost will therefore be irrelevant for short-term decision making purposes.

Q: When activities are performed each time a unit of product is produced, __________ cost drivers are more appropriate
Select correct option:

non-volume based
volume based
average volume based
constant volume based

Lecture # 11:

Volume based and non-volume based cost drivers

- These cost drivers are appropriate for measuring consumption of expenses such as machine energy costs, depreciation related to machine usage and indirect labor employed in production centers.
- Volume based cost drivers are appropriate in the above circumstances, as activities are performed each time a unit of product is produced.

Q: If the companies have sufficient spare capacity to undertake a project. It refers to:

Select correct option:

Monetary factor
Non-monetary factor
Constant monetary factor
Negative monetary factor

Lecture # 9

- (c) non-monetary factors:
  - i) is there sufficient spare capacity to undertake the project.
  - ii) is the overseas customer credit-worthy.
  - iii) Does the workforce have the necessary skills to undertake the project.
  - iv) is the contract likely to result in repeat business with the customer.

Q: Which one of the evaluation of strategic options exploits company strength and environmental opportunities?

Select correct option:

Acceptability
Feasibility
Suitability
All of the given options

Lecture 17:

Planning Process:

Stage 3 – Evaluation of strategic options

- Suitability – exploits company strengths and environmental opportunities, avoid weakness
- Feasibility – can the strategy be funded? And necessary market position achieved? Can the company cope with competitive reactions,
- Acceptability - will it be sufficiently profitable, is the level of risk acceptable.

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Q: The organization used casual labor by hiring workers on daily basis. this labor cost will be a ___________ for decision making.

Select correct option:

relevant cost
sunk cost
fixed cost
opportunity cost
Lect # 8:

Determining relevant cost of direct labor

- Where the company has temporary spare capacity and labor force is to be maintained for the short-term, the direct labor cost incurred will remain the same for all alternative decisions. The direct labor cost will therefore be irrelevant for short-term decision making purposes.
- Where casual labor is used and where workers can be hired on a daily basis, a company may adjust the employment of labor to exactly the amount required. Labor cost will increase if company accepts additional work, and will decrease if production is reduced.

Q: Which of the following is(are) considered the expenses in unit-related activities?
Select correct option:

Direct materials costs
Direct labor costs
Energy costs
All of the given options

Q: Total fixed costs of an organization manufacturing two or more product is equal to:
Select correct option:

Direct fixed costs and variable costs
Common fixed costs and avoidable costs
Direct and common fixed costs
Variable costs and avoidable costs

Q: Which of the following is considered a type of transfer pricing methods?
Select correct option:

Cost-plus transfer prices

Cost-minus transfer prices
Cost-average transfer prices
All of the given options

Q: Which of the following is NOT a type of transfer pricing method?
Select correct option:

Marginal cost transfer prices
Full cost transfer prices
Cost-plus transfer prices
None of the given options