

# Fundamentals of Product and Service Costing: Practice Quiz Questions

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## Multiple Choice

1. Which of the following statements is correct?

- a) A cost flow diagram is helpful by providing a graphical representation of the product costing process.
- b) Manufacturing overhead can be directly traced to products.
- c) The cost system should be tailored to the needs of accountants.
- d) The benefits of accurate cost information always outweigh the costs of the information system.

2. Which of the following statements regarding the design of the cost systems is correct?

- a) Cost systems should have a decision focus.
- b) Different cost information is used for different purposes.
- c) Cost information for managerial purposes must meet the cost-benefit test.
- d) All of the above.

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3. In June, 30,000 bushels of corn are 70% completed in the ending work-in-process inventory. What are the equivalent units of production?

- a) 18,000 bushels.
- b) 19,500 bushels.
- c) **21,000 bushels.**
- d) 24,000 bushels.

**$30,000 \text{ bushels} \times 70\% = 21,000 \text{ equivalent bushels.}$**

3

The following information is for questions 4 – 7.

Company B produces two products, P1 and P2, at its two departments: Machining and Assembly. The accountant tries to allocate overhead costs to the two products.

|           | Overhead  | P1                  | P2                | Total               |
|-----------|-----------|---------------------|-------------------|---------------------|
| Machining | \$300,000 | 1,200 machine hours | 800 machine hours | 2,000 machine hours |
| Assembly  | 150,000   | 600 labor hours     | 900 labor hours   | 1,500 labor hours   |
| Total     | \$450,000 |                     |                   |                     |

4. If the accountant decides to allocate overhead based on machine hours, what is P2's share of the total overhead costs?

- a) **\$180,000.**
- b) \$200,000.
- c) \$220,000.
- d) \$240,000

**$\$450,000 \div 2,000 \text{ machine hours} = \$225 \text{ per machine hour.}$**

**$\$225 \text{ per machine hour} \times 800 \text{ machine hours} = \$180,000.$**

4

The following information is for questions 4 – 7.

Company B produces two products, P1 and P2, at its two departments: Machining and Assembly. The accountant tries to allocate overhead costs to the two products.

|           | Overhead  | P1                  | P2                | Total               |
|-----------|-----------|---------------------|-------------------|---------------------|
| Machining | \$300,000 | 1,200 machine hours | 800 machine hours | 2,000 machine hours |
| Assembly  | 150,000   | 600 labor hours     | 900 labor hours   | 1,500 labor hours   |
| Total     | \$450,000 |                     |                   |                     |

**5. If the accountant decides to allocate overhead based on labor hours, what is P1's share of the total overhead costs?**

- a) **\$180,000.**
- b) \$200,000.
- c) \$220,000.
- d) \$240,000.

**\$450,000 ÷ 1,500 labor hours = \$300 per labor hour.**

**\$300 per labor hour × 600 labor hours = \$180,000.**

5

The following information is for questions 4 – 7.

Company B produces two products, P1 and P2, at its two departments: Machining and Assembly. The accountant tries to allocate overhead costs to the two products.

|           | Overhead  | P1                  | P2                | Total               |
|-----------|-----------|---------------------|-------------------|---------------------|
| Machining | \$300,000 | 1,200 machine hours | 800 machine hours | 2,000 machine hours |
| Assembly  | 150,000   | 600 labor hours     | 900 labor hours   | 1,500 labor hours   |
| Total     | \$450,000 |                     |                   |                     |

**6. If the accountant chooses machine hours for Machining and labor hours for Assembly as allocation bases, what is the overhead rate at Machining?**

- a) \$100 per labor hour.
- b) \$140 per labor hour.
- c) \$120 per machine hour.
- d) **\$150 per machine hour.**

**\$300,000 ÷ 2,000 machine hours = \$150 per machine hour.**

6

The following information is for questions 4 – 7.

Company B produces two products, P1 and P2, at its two departments: Machining and Assembly. The accountant tries to allocate overhead costs to the two products.

|           | Overhead  | P1                  | P2                | Total               |
|-----------|-----------|---------------------|-------------------|---------------------|
| Machining | \$300,000 | 1,200 machine hours | 800 machine hours | 2,000 machine hours |
| Assembly  | 150,000   | 600 labor hours     | 900 labor hours   | 1,500 labor hours   |
| Total     | \$450,000 |                     |                   |                     |

7. If the accountant chooses machine hours for Machining and labor hours for Assembly as allocation bases, what is P1's share of the total overhead costs?

- a) \$180,000.
- b) \$240,000.**
- c) \$270,000.
- d) \$300,000.

**$\$150,000 \div 1,500 \text{ labor hours} = \$100 \text{ per labor hour.}$**

**$\$150 \text{ per machine hour} \times 1,200 \text{ machine hours} + \$100 \text{ per labor hour} \times 600 \text{ labor hours} = \$240,000.$**

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8. For a two-stage allocation system,

- a) The first stage is the most difficult to accomplish.
- b) Cost pools ideally consist of homogeneous cost items.**
- c) ~~Exactly two~~ overhead rates are required.
- d) The allocation bases bear ~~no~~ relationship with the overhead costs.

9. Which of the following statements is false?

- a) Jobs are indistinguishable from each other.**
- b) Companies that produce customized products use job costing methods.
- c) Companies that generally mass-produce a single, homogeneous output in a continuing process adopt the continuous flow processing.
- d) Operation is a standardized method of making a product.

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**10. Operations costing**

- a) Is a hybrid costing system.
- b) Is suitable when different products use the same production process and different materials for input.
- c) Combines features from both job and process costing.
- d) **All of the above.**

**11. Job order system and process system are similar in the sense that**

- a) Both use the same inventory costing method.
- b) Both keep track of prime costs, but not overhead items.
- c) Both use the same manufacturing technique.
- d) **Both require inputs of direct materials, direct labor, and overhead.**

**12. The basic inventory equation can be represented by**

- a)  **$BB + TI = TO + EB$ .**
- b)  $BB - TI = TO + EB$ .
- c)  $BB + EB = TI + TO$ .
- d)  $BB + TO - TI = EB$ .