

1. Which of the following statements are correct regarding operating leverage? Select ALL that apply. (CB)
 - a) The less the degree of operating leverage, the more that changes in sales activity will affect profits
 - b) Automated organizations will have more fixed costs than variable costs
 - c) The greater the degree of operating leverage, the more that changes in sales activity will affect profits
 - d) Manual systems will have more fixed costs than variable costs
 - e) OL is higher for Automation system than a manual system
 - f) Operating leverage reflects the proportion of fixed and variable expenses in their cost Structures.

2. When comparing the profits reported using marginal costing and absorption costing during a period when the level of inventory is increasing,
 - a) Marginal costing profits will be lower and closing stock valuations higher than those using absorption costing.
 - b) Absorption costing profits will be higher and closing stock valuations higher than those using marginal costing.
 - c) Absorption costing profits will be higher and closing stock valuations lower than those using marginal costing.
 - d) Marginal costing profits will be higher and closing stock valuations lower than those using absorption costing.

3. Why do we produce budgets? (CB)
 - a) To motivate managers to achieve budget goals
 - b) Control activities - comparison of actual results with budget and there? corrective actions
 - c) To co-ordinate the activities of the organization
 - d) To communicate plans to various responsibility center managers
 - e) To evaluate the performance of managers
 - f) To be included in financial statements and sent for tax authority

4. What are the shortcomings of Payback rule? Select all that apply. (CB)
 - a) Determining a cut-off period would be difficult
 - b) Ignoring cash flows beyond the cutoff period
 - c) Ensures the liquidity
 - d) Fails to consider any risk differences
 - e) Time value of money is completely ignored

5. The following information is made available

Budgeted labor hours	48,500
Actual labor hours	49,775
Budgeted overheads	Rs. 691,125
Actual overheads	Rs. 746,625

Calculate the overhead absorption rate based on labor hours.

- a) Rs. 13.88
- b) Rs. 15
- c) Rs. 14.25**
- d) Rs. 15.39

6. Which of the following is not a criticism of budgeting?

- a) encouraging rigid planning and incremental thinking
- b) Budgetary slack is created
- c) Being flexible and adaptive in the increasingly unpredictable environment of contemporary organizations**
- d) time consuming
- e) being disconnected from overall company strategy

7. An adverse labor efficiency variance together with a favorable labor rate variance may mean that,

- a) High skilled staff are being used in production
- b) Less skilled labor staff are being used in production**
- c) Less labor hours are needed to make the same amount of output
- d) More products are being made per hour
- e) The business is paying a higher hourly rate than the standard

8. The following information is relevant for special order received by IT Ltd.

IT Ltd has an existing capacity of 10000 units

The expected monthly production and sales for next month is 7000 units and sales price is Rs. 30 per unit. The variable cost per unit is Rs.15. The total fixed cost is Rs. 84,000.

What is your decision if the company received a special order for extra 1500 units at a price of Rs.20 per unit? Extra cost to be incurred to fulfill order is Rs. 4 per unit.

Select the most appropriate answer from below.

- a) Accept the order as the organization has extra capacity to provide the special order.
- b) Accept the order as the company is capable of generating Rs.7,500 additional profit if the order is undertaken
- c) Reject the order as the company's incremental profit will be negative Rs. 1000.
- d) Reject the order as the company does not have the capacity to accept the order
- e) **Accept the order as the company is capable of generating Rs.1,500 additional profit if the order is undertaken**

9. An organization produces one product. The cost per unit of that product

	RS
Selling price	130
Direct materials	22
Direct labor	15
Direct expenses	3
Variable overheads	10
Total variable cost	50

Total fixed cost for the period is Rs. 1,600,000. How many units (to the nearest whole unit) will the organization need to produce and sell to generated a profit of Rs. 250,000?

- a) **23,125**
- b) 20,555
- c) 26,428
- d) 20,000

10. If you have to judge a project from its NPV, you will select the one with the

- a) Information is not enough
- b) NPV cannot judge the project
- c) **Highest NPV**
- d) Lowest NPV

11. Which of the following statements are correct regarding operating leverage? Select ALL that apply. (CB)

- a) Manual systems will have more fixed costs than variable costs
- b) The less the degree of operating leverage, the more that changes in sales activity will affect profits
- c) **The greater the degree of operating leverage, the more that changes in sales activity will affect profits**
- d) **Operating leverage reflects the proportion of fixed and variable expenses in their cost structures**
- e) **Automated organizations will have more fixed costs than variable costs**
- f) **OL is higher for Automation system than a manual system.**

12. Which of the following bases of would be most appropriate for apportioning heating cost in system?

- a) Floor space occupied (square meters)
- b) **Volume of space occupied**
- c) Labor hours worked
- d) Number of employees

13. A company produces a single product for which the per unit cost information are as follows,

	Rs per Unit
Direct material (Rs 2 per unit)	8
Direct labor (Rs. 6 per hour)	18
Production overhead	9
Total production cost	35

No stocks are held.

Demand for next period is 6,000 units but the company has only 19,000 hours of labor and 22,000 kg of materials. What is the limiting factor of this company for the next period?

- a) Both labor and material
- b) **Labor only**
- c) Material only
- d) Sales demand

14. IT ltd sells one product for which data is given below,

Selling price per unit Rs. 10

Variable cost per unit Rs. 6

Fixed cost per annum Rs10,000

Relevant range is 1,500 units to 8,000 units

Answer the questions below,

Calculate the Break even in sales/revenue value? **Rs. 25,000**

Calculate the profit from the sale of 3,000 units? **Rs.2000**

How many units to be sold to earn a profit of Rs. 6,000 – **4000 Units**

Calculate the Break even point in Units? **2500 Units**

15. Which of the following statements are correct about CVP analysis?

- a) The cost and revenue behavior is valid only within the relevant range of output**
- b) CVP analysis is based on the relationship between volume and sales revenue, costs and profit in the long run.
- c) A constant variable cost per unit and selling price per unit is assumed.**
- d) CVP analysis thus highlights the effects of changes in sales volume on the level of profits in the long run.
- e) CVP analysis is dependent on the ability to estimate costs at different activity levels and to do this requires that costs are analyzed into their fixed and variable elements**
- f) CVP analysis examines the relationship between changes in activity (i.e. output) and changes in total sales revenue, costs and net profit.**

16. Prime cost is,

- a) All the costs incurred in manufacturing a product- **Only Direct Manufacturing Cost.**
- b) the cost of operating a department – **Not relevant**
- c) the total of direct costs**
- d) the material cost of a product- **Direct Material + Direct Labor**

17. Which one of the following costs would not be classified as a production overhead cost in a food processing company?

- a) The depreciation of equipment located in the materials store
- b) The cost of ingredients**
- c) The salary of the factory manager
- d) The rent cost of the factory building

18. The following information is made available,

Budgeted labor hours	48,500
Actual labor hours	49,775
Budgeted overheads	Rs. 691,125
Actual overheads	Rs. 746,625

What is the amount (to the nearest whole number) of overhead is over/under absorbed?

- a) NIL
- b) Rs. 37,331 under absorbed**
- c) Rs. 55,500 under absorbed
- d) Rs. 19,412 over absorbed

19. Which of the following statements is incorrect?

- a) There is a strong argument for accept absorption costing for internal reporting**
- b) Manipulation can be done in at sorption costing by managers by deffering costs to further periods
- c) Variable costing (also known as direct or marginal costing) traces all variable costs to products and treats fixed manufacturing overheads and non-manufacturing overheads as a period cost.
- d) Absorption costing (also known as full costing) traces all manufacturing costs to products and treats non- manufacturing overheads as a period cost.
- e) Variable and absorption costing differ in the treatment of fixed manufacturing costs

20. Which of the following bases of would be most appropriate for apportioning heating cost in a ABC system?

- a) Labor hours worked
- b) Volume of space occupied**
- c) Floor space occupied (square meters)

d) Number of employees

21. Which of the following can be considered as indirect costs for a furniture manufacturer?(CB)

- a) **lubricants used to repair machinery**
- b) cost of wood materials used to manufacture furniture – Direct Material Cost
- c) salaries of carpenters – Direct Labor Cost
- d) **Lighting and heating expenses**
- e) **Wages of maintenance staff**

22. Which one of the following costs would not be classified as a production overhead cost in processing company?

- a) The depreciation of equipment located in the materials store
- b) **The cost of ingredients**
- c) The salary of the factory manager
- d) The rent cost of the factory building

23. A company absorbs overheads on machine hours which were budgeted at 11,250 with overheads of Rs. 258,750. Actual results were 10,980 hours and overheads of Rs. 254,692, So the overheads were,

- a) **under absorbed by Rs. 2,152**
- b) under absorbed by Rs. 4,058
- c) over absorbed by Rs. 4,058
- d) over absorbed by Rs. 2,152

24. Which of the following statements are true about types of cost systems, (CB)

- a) **In the second stage ABC systems rely on a small number of volume-based cost drivers (typically direct labour or machine hours) whereas traditional systems use many second stage cost drivers**
- b) **Traditional costing systems use unsophisticated methods to allocate indirect costs to cost objects**
- c) **Both systems use the two-stage allocation process. In the first stage traditional systems tend to allocate costs to departments whereas ABC systems allocate costs to activities**
- d) **ABC systems seek to use only cause-and-effect cost drivers whereas traditional systems often rely on arbitrary allocation bases**
- e) Direct costing systems are appropriate where the majority of costs are direct.
- f) Traditional systems use sophisticated methods to allocate indirect costs to cost objects.

25. Which of the following statements are correct about CVP analysis? (CB)

- a) CVP analysis is based on the relationship between volume and sales revenue, costs and profit in the long run.
- b) CVP analysis is dependent on the ability to estimate costs at different activity levels and to do this requires that costs are analyzed into their fixed and variable elements**
- c) CVP analysis thus highlights the effects of changes in sales volume on the level of profits in the long run.
- d) A constant variable cost per unit and selling price per unit is assumed.**
- e) CVP analysis examines the relationship between changes in activity (.e. output) and changes in total sales revenue, costs and net profit.**
- f) The cost and revenue behavior is valid only within the relevant range of output**

26. The following information is relevant for special order received by IT Ltd.

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Select the most appropriate answer from below.

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- b) Accept the order as the company is capable of generating Rs.7,500 additional profit if the order is undertaken**
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- d) Reject the order as the company does not have the capacity to accept the order
- e) Accept the order as the company is capable of generating Rs.1,500 additional profit if the order is undertaken

27. Over absorbed overhead occurs when,

- a) actual overheads exceed budgeted overheads
- b) absorbed overheads exceed budgeted overheads
- c) absorbed overheads exceed actual overheads**
- d) budgeted overheads exceed absorbed overheads

28. For accurate cost assignment, allocation bases should be significant determinants of the costs (i.e. cause-and-effect allocations).

Which of the following statements are correct cost assignment? (CB)

- a) Highly sophisticated system for costing result in extensive use of arbitrary cost allocations
- b) ABC systems rely mainly on cause-and-effect allocations**
- c) Traditional costing systems use arbitrary allocations**
- d) Indirect costs cannot be directly traced to a cost object therefore assigned to cost objects using cost allocation bases/ cost drivers**
- e) Allocation bases that are not significant determinants of the costs are called arbitrary allocations (result in inaccurate cost assignment).**
- f) Simplistic system for costing result in extensive use of cause and effect allocations

29. Which of the following statements is incorrect?

- a) Indirect costs are assigned to cost objects on the basis of cost allocations
- b) Indirect costs can be directly traced to cost objects.**
- c) Direct costs can be specifically and exclusively identified with a given cost object
- d) Indirect costs include material costs, labor costs and factory overheads
- e) Indirect costs cannot be specifically and exclusively identified with a given cost object.

30. For accurate cost assignment, allocation bases should be significant determinants of the costs (i.e. cause-and-effect allocations).

Which of the following statements are correct cost assignment? (CB)

- a) Traditional costing systems use arbitrary allocations**
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- c) Indirect costs cannot be directly traced to a cost object therefore assigned to cost objects using cost allocation bases/ cost drivers**
- d) ABC systems rely mainly on cause-and-effect allocations**
- e) Simplistic system for costing result in extensive use of cause and effect allocations
- f) Allocation bases that are not significant determinants of the costs are called arbitrary allocations (result in inaccurate cost assignment).**

31. Which of the following statements is incorrect?

- a) Manipulation can be done in absorption costing by managers by deferring costs to further periods
- b) Variable costing (also known as direct or marginal costing) traces all variable costs to products and treats fixed manufacturing overheads and non-manufacturing overheads as a period cost.
- c) Variable and absorption costing differ in the treatment of fixed manufacturing costs
- d) There is a strong argument for accepting absorption costing for internal reporting**

- e) Absorption costing (also known as full costing) traces all manufacturing costs to products and treats non-manufacturing overheads as a period cost.

32. Which of the following statements are true about types of cost systems, (CB)

- a) **Both systems use the two-stage allocation process. In the first stage traditional systems tend to allocate costs to departments whereas ABC systems allocate costs to activities**
- b) In the second stage ABC systems rely on a small number of volume-based cost drivers (typically direct labor or machine hours) whereas traditional systems use many second stage cost drivers
- c) **Traditional costing systems use unsophisticated methods to allocate indirect costs to cost objects**
- d) **ABC systems seek to use only cause-and-effect cost drivers whereas traditional systems often rely on arbitrary allocation bases**
- e) Traditional systems use sophisticated methods to allocate indirect costs to cost objects
- f) **Direct costing systems are appropriate where the majority of costs are direct.**

33. What are the arguments in favor of using ABC in a modern organization? Select ALL that apply.

- a) Less amount of overheads in their cost structure
- b) **The machinery and resources are shared by all products and the same product is followed through different departments**
- c) **Complexity of the production process**
- d) **A typical organization produces more than one product**
- e) **High amount of overhead costs**

34. Which of the following costs are part of the prime cost of a manufacturing company?

- a) Cost of indirect production materials – Should be direct material
- b) Depreciation of lorries used for deliveries to customers – Depreciation doesn't come under Prime cost
- c) **Wages of factory workers engaged in machine maintenance**
- d) Cost of transporting raw materials from the suppliers premises - Transportation doesn't come under Prime cost

35. IT ltd has a existing capacity of 10000 units

The expected monthly production and sales for next month is 7000 units and sales profit is 30 per unit. The variable cost per unit is Rs.15. The total fixed cost is Rs. 84,000.

What is your decision if the company received a special order for extra 1500 units at a profit of Rs.20 per unit. Extra cost to be incurred to fulfil order is Rs. 4 per unit.

Select the most appropriate answer from below.

- a) Accept the order as the company is capable of generating Rs.7,500 additional profit if the order is undertaken
- b) Reject the order as the company's incremental profit will be negative Rs. 1000.
- c) Reject the order as the company does not have the capacity to accept the order
- d) Accept the order as the company is capable of generating Rs. 1,500 additional profit if the order is undertaken**
- e) Accept the order as the organization has extra capacity to provide the special order.

36. Which of the following are relevant for decision making?

- a) Avoidable costs**
- b) Opportunity costs**
- c) Sunk costs – Not relevant
- d) Incremental costs**
- e) Incremental revenue**

37. Which of the following can be considered as indirect costs for a furniture manufacturer?

- a) salaries of carpenters
- b) lubricants used to repair machinery**
- c) cost of wood materials used to manufacture furniture
- d) Lighting and heating expenses**
- e) Wages of maintenance staff**

38. Prime cost is

- a) the total of direct costs**
- b) the material cost of a product
- c) the cost of operating a department
- d) all the costs incurred in manufacturing a product

39. Which of the following are characteristics associated with relevant costs? **(CB)**

- a) differential costs**
- b) incremental costs**
- c) avoidable costs**
- d) sunk costs

40. Variables costs,

- a) be constant per unit of output for specific output level- **totally wrong concept**
- b) vary per unit of output as production volume increases**
- c) be constant in total when production volume changes – **Variable cost will increase if the volume increases**
- d) decrease per unit as output increases – **variable cost and production volume are proportional**

41. Which of the following statements is incorrect?

- a) There is a strong argument for accept absorption costing for internal reporting**
- b) Manipulation can be done in absorption costing by managers by deferring costs to further periods
- c) Variable costing (also known as direct or marginal costing) traces all variable costs to products and treats fixed manufacturing overheads and non-manufacturing overheads as a period cost.
- d) Absorption costing (also known as full costing) traces all manufacturing costs to products and treats non-manufacturing overheads as a period cost.
- e) Variable and absorption costing differ in the treatment of fixed manufacturing costs

42. Absorption costing differs from marginal costing, Because,

- a) Absorption costing includes fixed manufacturing overhead in inventory**
- b) Absorption costing excludes administrative costs in inventory
- c) Absorption costing excludes finance costs in inventory
- d) Absorption costing includes variable manufacturing overhead in inventory
- e) Absorption costing excludes selling costs in inventory

43. Investment options should be evaluated because, (select all that apply) **(CB)**

- a) they are long-lived**
- b) some are irreversible once they are made**
- c) different options are available (opportunity cost involved)**
- d) cash is limited**
- e) they involve lot of money**

44. A cost object is,

- a) any activity (a unit of product or service) for which a separate measurement of cost is required**
- b) a measure of work output in a standard hour

- c) the cost per hour of operating a machine
- d) the cost per unit of electricity consumed

45. What are the arguments in favor of using ABC in a modern organization? Select ALL that apply. (CB)

- a) **The machinery and resources are shared by all products and the same product is followed through different departments**
- b) **A typical organization produces more than one product**
- c) **Complexity of the production process**
- d) Less amount of overheads in their cost structure
- e) **High amount of overhead costs**