Lesson 2-1 Practice Quiz

®γσ, Eng Lian Hu

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# Lesson 2.1 Practice Quiz

*5/5 points earned (100%)*

**Excellent!**

*Correct 1/1 points*

1. As discussed in the lecture, product costs are first categorized on which financial statement?

* **Balance sheet statement**
* Correct Response   
  That is correct! Product costs are inventoriable, and this are initially included on the balance sheet as inventory. Once product is sold, product costs are categorized as cost of goods sold (i.e., an expense) on the income statement.
* Retained earnings statement
* Income statement
* Cash flow statement
* Correct 1/1 points\*

1. As discussed in the lecture, period costs are broken into direct and indirect components.

* True
* **False**
* Correct Response   
  That is correct! Period costs do not relate to the product itself. Thus, all period costs are indirect costs.

*Correct 1/1 points*

1. When producing highly specific products based on the needs of individual customers a company would use a product costing system.

* True
* **False**
* Correct Response   
  That is correct! Organizations that produce highly specific or customized products would benefit from a job costing system, as opposed to a process costing system.

*Correct 1/1 points*

1. In managerial accounting, the term cost driver refers to the activity that corresponds to the spending of:

* Allocation
* Distribution
* **Overhead**
* Correct Response   
  That is correct! Managers use a cost driver to estimate the spending of overhead.
* Depreciation

*Correct 1/1 points*

1. ABC Company calculates its predetermined overhead rate. The company budgets overhead costs for the year at $500,000 and determines that direct labor hours (expected to be 50,000 in total) is a reasonable cost driver. What is ABC Company's predetermined overhead rate?

* $5
* **$10**
* Correct Response   
  That is correct! ABC's predetermined overhead rate is computed as $500,000/50,000 direct labor hours, or $10 per direct labor hour.
* $0.10
* $25

*Correct 1/1 points*

1. The predetermined overhead rate formula has \_\_\_\_\_\_\_\_\_\_\_ in the numerator and \_\_\_\_\_\_\_\_\_\_\_\_\_\_ in the denominator.

* Actual total overhead, actual volume of driver
* Budgeted total overhead, actual volume of driver
* **Budgeted total overhead, budgeted volume of driver**
* Correct Response   
  That is correct! The predetermined overhead rate relies on all budgeted information, as it is computed at the beginning of the accounting period (i.e., before actual spending and volume is known).
* Actual total overhead, budgeted volume of driver

*Correct 1/1 points*

1. Direct materials, direct labor and manufacturing overhead initially flow into which of the following categories?

* Cost of goods sold
* Finished goods inventory
* **Work in process inventory**
* Correct Response   
  That is correct! Once production has started, the cost of direct materials, direct labor, and manufacturing overhead are classified as work-in-process. Once products are completed, costs are categorized as finished goods inventory. Upon sale, these costs flow into cost of goods sold (i.e., an expense on the income statement).
* Indirect costs

*Incorrect 0/1 points*

1. What kind of process do managers use when determining how to account for overhead costs?

* Pass overhead
* Apply overhead
* **Divide overhead**
* Incorrect Response   
  Unfortunately, that is incorrect. The correct term is "apply" overhead. Managers apply - or estimate - overhead for cost objects. The reason why accounting for overhead involves an estimate is that actual overhead costs are not usually known until the end of an accounting period. The estimated/applied overhead allows managers to consider the full cost of products when decisions are made during an accounting period.
* Decision overhead