

Assignment of Direct and Indirect Costs

Management Accounting · Answer Key · 22 Questions

1. Costs assigned to a cost object can be divided into which two main categories?

- A) Direct and Manufacturing
- B) Indirect and Non-manufacturing
- C) Direct and Indirect**
- D) Manufacturing and Non-manufacturing

2. What are costs that cannot be assigned directly to a cost object because they are common to several cost objects called?

- A) Direct Costs
- B) Prime Costs
- C) Indirect Costs**
- D) Variable Costs

3. Which type of indirect cost is used in manufacture and for valuing inventory for external reporting purposes?

- A) Non-manufacturing overheads
- B) Manufacturing overheads**
- C) Selling expenses
- D) Administrative expenses

4. An example of non-manufacturing overheads given in the text is:

- A) Direct materials
- B) Direct labour
- C) Accountant's salary**
- D) Machine maintenance

5. What is a function or location for which costs are determined called?

- A) Cost object
- B) Cost driver
- C) Cost centre**
- D) Cost unit

6. Which of the following is an example of a production cost centre?

- A) IT department
- B) Assembly department**
- C) Canteen
- D) Stores

7. Which of the following is an example of a service cost centre?

- A) Processing department
- B) Finishing department
- C) Maintenance department**
- D) Mixing department

8. In the context of a plane flight, which cost is most likely a direct cost?

- A) Head office administrative costs
- B) Pilot and aircrew salary
- C) Petrol**
- D) Maintenance

9. In the context of a plane flight, which cost is most likely an indirect cost (overhead)?

- A) Meals on the flight
- B) Petrol
- C) Pilot and aircrew salary
- D) Administrative costs of head office**

10. The process of charging manufacturing overheads to cost units is called:

- A) Allocation
- B) Apportionment
- C) Absorption**
- D) Assignment

11. What does a cost card show?

- A) Total company profit
- B) The cost to make one unit**
- C) Sales revenue per unit
- D) Marketing expenses per unit

12. Which traditional costing model uses a single overhead rate calculated for the entire production plant?

- A) Departmental absorption rate
- B) Activity Based Costing
- C) Plant-wide (blanket) absorption rate**
- D) Cost centre allocation

13. Which costing system aims for more accurate cost assignment by identifying activities that drive overhead costs?

- A) Traditional costing
- B) Plant-wide costing
- C) Departmental costing
- D) Activity Based Costing (ABC)**

14. What is the formula for the Overhead Absorption Rate (OAR)?

- A) Activity level / Production overhead
- B) Production overhead / Activity level**
- C) Budgeted overhead / Actual activity level
- D) Actual overhead / Budgeted activity level

15. Businesses typically estimate or pre-determine their OAR at the start of which period?

- A) Month
- B) Quarter
- C) Year**
- D) Week

16. Normal costing includes predetermined overhead rates, whereas actual costing uses:

- A) Budgeted overheads
- B) Estimated activity levels
- C) Actual overheads**
- D) Standard costs

17. What is a benefit of using an estimated (pre-determined) OAR over the actual OAR?

- A) Product cost calculations are delayed
- B) Overhead rates may fluctuate significantly
- C) Allows for timeous price quotations**
- D) Costs are allocated less fairly if production varies

18. According to IAS 2 Inventories, for inventory valuation in external financial reports, what types of costs are assigned to products?

- A) All costs
- B) Non-manufacturing costs only
- C) Manufacturing costs only**
- D) Direct costs only

19. Manufacturing costs consist of direct material, direct labour, and what else?

- A) Selling expenses
- B) Administrative overheads
- C) Manufacturing overhead**
- D) Non-manufacturing overheads

20. In a departmental overhead rate system, how are overhead rates calculated?

- A) For the organization as a whole
- B) Per department**
- C) Based on total company resources
- D) Using a single activity basis

21. Which method of reapportioning service department costs ignores inter-service department work and only allocates to production departments?

- A) Repeated distribution method
- B) Simultaneous equation method
- C) Direct allocation method**
- D) Reciprocal method

22. Which method of reapportioning service department costs recognizes all inter-service department work?

- A) Direct allocation method
- B) Specified order of closing method
- C) Repeated distribution method
- D) Simultaneous equation method**