What activity measure would be best for a cost pool consisting of equipment depreciation and power to run machines?

> Machine hours

Activity-based costing treats organization-sustaining costs as **period** costs.

Which of the following has its own unique measure of activity?

Cost pool

Match each color-coded cost with its description.

> Red costs: Are the most difficult to adjust to changes in activity and require management action
> Yellow costs: Require management action in order to make adjustments to changes in activity
> Green costs: Automatically adjust to changes in activities

A cost pool consisting of the costs of design work on new products would be considered what level of activity? **Product-level**

Match the ease of adjustment code with the correct cost.

> Red cost: Building lease
> Yellow cost: Selling expense
> Green cost: Shipping cost

Place the steps for implementing ABC in order.

1. Define activities, activity cost pools, and activity measures.
2. Assign overhead costs to activity cost pools.
3. Calculate activity rates.
4. Assign overhead costs to cost objects.
5. Prepare management reports.

A(n) **action** analysis report shows which costs are assigned to cost objects and how difficult it would be to adjust the cost if there were a change in activity.

In activity-based costing, **first-stage** allocation is the process of assigning overhead costs to activity cost pools.

Which stage in activity-based costing uses activity rates to apply overhead costs to products?

> Second-stage allocation.

Activity based costing only charges products for the cost of the capacity used because (select all that apply):

> Products are only assigned the costs of resources they actually use
> It results in a more stable unit product cost

Only costs that can be traced are relevant when deciding to eliminate a product line.

Which of the following are organization-sustaining activities? (Check all that apply.)

> Preparing annual reports
> Heating a factory
> Setting up a computer network

If the activity rate for the Customer Orders activity pool is $20 per order and there are 400 customer orders, the total overhead cost assigned to this cost pool is **$8000**. (Do not include a comma in your answer.)

In the ease of adjustment coding scheme, shipping and direct materials are what kind of costs?

> Green

Match the following activity levels in activity-based costing with the correct activity.

> Unit-level: Power to run production equipment
> Batch-level: Machine set-up
> Product level: Product design
> Customer level: Sales calls
> Organization-sustaining: Factory cooling system
When using a traditional cost system, standard, **high**-volume products are generally overcosted and custom, **low**-volume products are often undercosted. Unit-level activities are:

- proportional to the number of units produced

Under activity-based costing, nonmanufacturing costs:

- may be assigned to products that they have been reasonably caused by

In activity-based costing, nonmanufacturing and manufacturing costs are assigned to products on a(n) **cause-and-effect** basis.

In the ease of adjustment coding scheme, which of the following are usually considered Yellow costs?

- Factory utilities
- Direct labor

A(n) **activity** is any event that causes consumption of overhead resources. (Enter only one word per blank.)

Which of the following would be a customer-level activity? (Check all that apply.)

- Mailing catalogs
- Sales calls

A company's total expected overhead for the year is $500,000. Two activity cost pools have been identified: Customer Service with a total cost of $200,000 and a total activity of 25,000 customer services calls; and Product Development with a total cost of $300,000 and total activity of 20,000 development hours. Using activity-based costing, calculate the appropriate activity rate(s).

- $8 per customer call and $15 per development hour

For what reasons in an ABC system more costly to maintain than traditional costing systems? (Check all that apply.)

- Numerous activity measures must be entered into system.
- Numerous activity measures must be collected and checked.

The first major step in implementing ABC is to identify the **activities** that will form the foundation for the system.

All **manufacturing** costs are assigned to products in the traditional costing system. (Enter only one word per blank.)

Compared to traditional systems, activity-based costing uses **more** cost pools and unique measures of activity.

Why is top management support needed when ABC is implemented?

- Leadership is instrumental in motivating employees to embrace ABC.

True or false: Activity-based costing is required for preparing external financial reports.

- False

What causes traditional and activity-based costing systems to report different product margins? (Check all that apply.)

- Traditional cost systems allocate all manufacturing overhead costs to products.
- Traditional cost systems allocate all of the manufacturing overhead costs to products using a volume-related allocation base.
- The ABC system assigns nonmanufacturing overhead costs to products on a cause-and-effect basis as appropriate.

External reports are **less** detailed than internal reports.

Sales minus the ABC costs of the product is called:

- **product margin**

What are some of the limitations of activity-based costing systems? (Check all that apply.)

- ABC requires substantial resources.
- ABC procedures produce numbers that do not match traditional costing.
Which reports are the most common management reports using ABC data? (Check all that apply.)

- **Product profitability**
- **Customer profitability**

Customer sales minus direct material, direct labor, and overhead cost pools used for each customer equal customer margin.

In a(n) **traditional** costing system, only direct materials, direct labor, and manufacturing overhead are assigned to products.

**Benchmarking** is a systematic approach to identifying the activities that need the most improvement.

Total estimated manufacturing overhead is $900,000 and total estimated activity is 30,000 machine-hours for a company that uses a plantwide overhead rate. What is the plantwide overhead rate?

- **$30 per machine-hour**

Costs at the batch level depend on which of the following?

- **Number of batches processed**

Unlike activity-based costing, traditional costing ignores **period** costs when calculating product margins.

What pieces of information are provided in product and customer profitability reports? (Check all that apply.)

- **Unprofitable product lines**
- **Unprofitable customers**
- **Profitable product lines**

The term **cost driver** is also used when referring to an allocation base or activity measure in activity-based costing. (Enter only one word per blank.)

What cost system uses a volume-related allocation base for all of the manufacturing costs?

- **Traditional**

What manufacturing overhead costs are not assigned to products in activity-based costing? (Check all that apply.)

- **The costs of organization-sustaining activities**
- **The costs of idle capacity**

The action analysis report: (Check all that apply.)

- **Shows how difficult it would be to adjust costs given changes in activities.**
- **Identifies costs that have been assigned to a product.**
- **Provides better information for decision making than a traditional cost system.**

Which characteristics are essential for successful implementation of ABC? (Check all that apply.)

- **ABC data should be linked to how people are rewarded.**
- **Top managers must support ABC.**
- **A cross-functional team should be created.**

The greater number of activities in an ABC system, the (more/less) **more** costly it is for the company to develop.

Shifting cost is only beneficial to a company when the resource is shifted to the **constraint** in the process.

ABC systems assign nonmanufacturing overhead on a(n) **cause-and-effect** basis.

If ABC is not implemented correctly and organization-sustaining costs are included in product costs, then product costs will be **overstated** and margins will be **understated**.

An activity cost pool accumulates costs for:

- **exactly one activity measure.**

In activity-based costing, the first-stage allocations are often based on results of interviews with **employees.**
In activity-based costing an activity measure is:

- an allocation base

The differences between ABC costing for internal reporting and ABC costing for external reporting are that: (Check all that apply.)

- external ABC costing includes organization-sustaining costs in the computation
- external ABC costing includes all manufacturing overhead costs in the computation.

Activity-based management is focused on which of the following activities? (Check all that apply.)

- Eliminating waste
- Reducing defects

Computing overhead costs to be assigned to products for an action analysis report:

- includes a color-coding scheme to help with adjustments.
- results in a cost matrix.

An ABC action analysis report involves more overhead cost detail than the conventional ABC analysis.

Activity-based costing can identify activities that would benefit from process improvements. (Enter only one word per blank.)

To reconcile ABC product margin to net income:

- subtract overhead costs not assigned to products

True or false: In an automated environment, using traditional allocation bases based on volume may distort unit product costs.

- True

Select which activities could be combined into one batch-level activity. (Check all that apply.)

- The number of customer orders
- The number of shipped orders

Product and customer profitability reports help companies channel their resources into the most profitable growth opportunities.

A company has four cost pools - customer relations, order size, product design and customer orders. If indirect labor uses 15% for customer relations, 30% for order size, and 35% for product design, then what percentage is used for customer orders?

- 20%