

Absorption Costing - 2

- 1 A business uses absorption costing and applies an overhead absorption rate based on direct labour hours.

Why does the business distinguish between direct and indirect labour?

- 1 to aid the preparation of a quote
- 2 to assist when planning production
- 3 to help when purchasing materials

A 1 only **B** 1, 2 and 3 **C** 2 and 3 only **D** 3 only

- 2 A business absorbs overheads based on machine hours.

During last month it had the following results.

| | |
|------------------------|-----------|
| actual overheads | \$158 200 |
| actual machine hours | 7310 |
| budgeted overheads | \$168 200 |
| budgeted machine hours | 8410 |

Which statement is correct?

- A** Overheads were over-absorbed by \$10 000.
 - B** Overheads were over-absorbed by \$12 000.
 - C** Overheads were under-absorbed by \$10 000.
 - D** Overheads were under-absorbed by \$12 000.
- 3 To make a single unit of output a business requires material costing \$1000.

When 20 items are produced, the total cost of the material is \$20 000.

What best describes this cost?

- A** fixed cost
- B** semi variable cost
- C** stepped cost
- D** variable cost

- 4 A business has the following total overheads for two different output levels.

| total overheads \$ | output (units) |
|-----------------------|-------------------|
| 200 000 | 20 000 |
| 216 000 | 30 000 |

What is the total fixed overhead cost?

- A** \$16 000 **B** \$48 000 **C** \$168 000 **D** \$216 000

- 5 A company manufactures a single product with a selling price of \$75 per unit. The table shows the costs based on sales and production volume of 8000 units.

| | \$ |
|----------------------------------|---------|
| direct costs | 158 000 |
| variable manufacturing overheads | 74 000 |
| fixed manufacturing overheads | 80 000 |
| variable selling overheads | 20 000 |
| fixed administration overheads | 100 000 |

If absorption costing is applied, what is the gross profit on each unit sold?

- A** \$21.00 **B** \$36.00 **C** \$43.50 **D** \$46.00

- 6 A business provides the following information.

| | |
|-------------------------|-----------|
| budgeted overhead costs | \$280 000 |
| budgeted labour hours | 25 000 |
| budgeted machine hours | 20 000 |
| actual overhead cost | \$336 000 |
| actual labour hours | 35 000 |
| actual machine hours | 30 000 |

What is the over-absorption or under-absorption of overheads?

- A** \$56 000 over absorbed
B \$56 000 under absorbed
C \$84 000 over absorbed
D \$84 000 under absorbed

- 7 Which costs would be included in the manufacturing overheads for a computer assembly plant?

- 1 assembly line employees' wages
- 2 cost of components used to make computers
- 3 depreciation of factory machinery
- 4 production supervision costs

- A** 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 3 and 4

8 A company has the following budgeted information.

| | |
|---------------------------------|---------|
| | units |
| opening inventory | 60 900 |
| closing inventory | 67 500 |
| | \$ |
| profit using marginal costing | 271 350 |
| profit using absorption costing | 300 126 |

What is the value of overheads absorbed by each unit?

- A** \$4.02 **B** \$4.36 **C** \$4.45 **D** \$4.93

9 A manufacturer makes a single product. He sells this for \$240 per batch.

The variable cost is \$80 per batch.

Fixed costs have been absorbed based on a normal activity level of 1000 batches at \$60 per batch.

What is the profit if the company makes and sells 1250 batches?

- A** \$100 000 **B** \$125 000 **C** \$140 000 **D** \$200 000

10 A manufacturer has the following overheads for two different levels of production.

| total overheads \$ | production units |
|-----------------------|---------------------|
| 400 000 | 40 000 |
| 432 000 | 60 000 |

What is the total fixed overhead cost?

- A** \$32 000 **B** \$96 000 **C** \$336 000 **D** \$432 000

11 A restaurant has the following costs in a period.

- 1 wages of the kitchen staff
- 2 depreciation of kitchen equipment
- 3 costs of ingredients for meals
- 4 rent paid for the restaurant building

- 12 How is an overhead absorption rate per machine hour calculated?
- A by dividing actual overheads with actual machine hours
 - B by dividing actual overheads with budgeted machine hours
 - C by dividing budgeted overheads with actual machine hours
 - D by dividing budgeted overheads with budgeted machine hours

- 13 The following budgeted information is available for a hotel for the next financial year.

| | |
|--------------------|-----------|
| fixed overheads | \$192 000 |
| direct costs | \$240 000 |
| number of guests | 2400 |
| average guest stay | 4 nights |

What is the overhead absorption rate per guest night?

- A \$20
 - B \$45
 - C \$80
 - D \$180
- 14 A business hires machinery at a cost of \$700 per machine per month. Each machine can produce 1000 units a month. A maximum of 10 machines can fit into the factory. The factory rent is \$4900 per month. Other costs amount to \$2 per unit.

What is the unit cost if 8500 units are produced in a month?

- A \$3.19
- B \$3.23
- C \$3.28
- D \$3.32

- 15 The direct material cost of 20 000 units is \$8000. 400 direct labour hours are required at a cost of \$6000. Overheads are absorbed at 150% of the cost of direct labour.

What is the cost per unit?

- A \$0.40
- B \$0.70
- C \$0.85
- D \$1.15

- 16 A business apportioned some of its overhead expenses across its production departments.

Why might building maintenance costs **not** be included with the other overheads being apportioned?

- A Building maintenance costs are fixed.
- B Building maintenance is not necessary for production to take place.
- C No suitable basis for apportionment can be found.
- D They can be identified with specific cost centres.

17 The following information is provided by a hotel for a 30 day period.

| | rooms with two beds | single rooms |
|--|---------------------|--------------|
| number of letting bedrooms | 180 | 60 |
| average number of rooms occupied per day | 150 | 50 |
| number of guests in period | 5250 | |
| average length of stay | 2 days | |
| payroll and cleaning costs | \$300 000 | |

What is the average cost per occupied bed per day?

- A** \$23.80 **B** \$28.57 **C** \$50.00 **D** \$57.14

18 The following information is available for a manufacturing business.

What could cause an under-absorption of overheads?

| | | actual | budget |
|----------|---------------------------|--------|--------|
| A | machine hours | 2 000 | 1 000 |
| B | overhead expenditure (\$) | 8 000 | 10 000 |
| C | production units | 3 000 | 5 000 |
| D | sales units | 6 000 | 5 000 |

19 A business produces two products for the month of January. Overheads are absorbed using the direct labour hour rate. The production details are as follows.

| | product | |
|------------------------------|---------|------|
| | P | Q |
| units manufactured and sold | 5000 | 2000 |
| direct labour hours per unit | 1.5 | 1 |

Direct costs for the month were \$23 750.

The fixed overheads were \$6500.

What was the overhead absorption rate?

- A** \$0.68 per hour
B \$2.50 per hour
C \$3.18 per hour
D \$3.39 per hour

- 20 A company uses a direct labour rate of \$5.40 per hour to absorb production overhead. Each unit of product manufactured requires four direct labour hours.

The following information is available for a period.

| | \$ |
|------------------------------------|---------|
| actual production overhead | 518 400 |
| under absorbed production overhead | 32 400 |

What was the actual output for the period?

- A** 22 500 units
B 24 000 units
C 25 500 units
D 90 000 units
- 21 What is a direct cost?
- A** one that can be traced to a cost item
B one that is always fixed
C one that is always semi-variable
D one that is always variable
- 22 Which statements about absorption costing are correct?
- 1 It can be used as a basis for calculating the selling price of a product.
 - 2 It ensures that all the costs of the business are charged to the production.
 - 3 It ensures that only variable costs are charged to production.
 - 4 It is used to calculate the factory cost for a unit of production.
- A** 1 and 2 **B** 1 and 4 **C** 2 and 4 **D** 3 and 4
- 23 A business manufactures a single product.
- Which cost can be allocated to its production departments?
- A** administrative expenses
B direct materials
C factory light and heat
D factory rent

24 A business absorbs overheads based on machine hours.

During the last quarter it had the following budgeted and actual results.

| | |
|------------------------|-----------|
| actual overheads | \$127 346 |
| actual machine hours | 5 490 |
| budgeted overheads | \$129 375 |
| budgeted machine hours | 5 625 |

By how much were overheads under or over absorbed?

- A over absorbed by \$1076
- B over absorbed by \$2029
- C under absorbed by \$1076
- D under absorbed by \$2029

25 Which item is an indirect cost?

- A carriage inwards
- B production materials
- C wages of machine operators
- D wages of stores staff

26 The table contains information provided by a company.

| | |
|-----------------------------------|-----------|
| budgeted direct labour hours | 8000 |
| actual direct labour hours worked | 7500 |
| budgeted overhead expenditure | \$104 000 |
| actual overhead expenditure | \$112 500 |

What is the over or under recovery of overheads?

- A \$8500 over recovered
- B \$8500 under recovered
- C \$15 000 over recovered
- D \$15 000 under recovered

27 Which cost is fixed?

- A freight charges
- B insurance
- C piece rate labour cost
- D sales commission

28 A manufacturing business has the following data.

| | |
|----------------------------|-----------|
| budgeted factory overheads | \$144 000 |
| budgeted machine hours | 40 000 |
| actual factory overheads | \$147 600 |
| actual machine hours | 36 000 |

What is the overhead absorption rate per machine hour?

- A** \$3.60 **B** \$3.69 **C** \$4.00 **D** \$4.10

29 Which values can be calculated when absorption costing is used?

- 1 an inventory value which includes all production costs
- 2 the margin of safety at the current level of production
- 3 the selling price of the product

- A** 1 and 2 **B** 1 and 3 **C** 1 only **D** 2 and 3

30 Whose wages would be treated as an indirect cost?

- A** assemblers at a car manufacturer
- B** lorry drivers at an engineering company
- C** sewers at a dress-making business
- D** welders at a building construction company