

Section 4– cost accounting – Third Grade [15 March 2020]

1. Which of the following is a disadvantage of single-rate method?

- A) It is very costly to implement.
- B) It may lead operating department managers to make sub-optimal decisions that are in their own best interest.
- C) It does not signal to department managers how variable costs and fixed costs behave differently.
- D) It requires managers to distinguish variable costs from fixed costs, which is often a challenging task.

2. Which of the following is an advantage of a dual-rate method?

- A) It is the most widely used method in practice.
- B) It is less costly to implement.
- C) It avoids the expensive analysis for categorizing costs as either fixed or variable.
- D) It allocates fixed cost as per the budgeted usage that helps in short and long-run planning.

3. Which of the following is a disadvantage of a dual-rate method?

- A) It allocates fixed costs on the basis of budgeted long-run usage, which may tempt some managers to underestimate their planned usage.
- B) It may lead operating department managers to make sub-optimal decisions that are in their own best interest.
- C) It allocates fixed and variable-cost pool using the same cost-allocation base, which will mislead managers in making decisions.
- D) It does not guide department managers to make decisions that benefit both the organization as a whole and each department.

4. Which of the following is an advantage of using practical capacity to allocate costs?

- A) is that it allows a downward supply spiral to develop
- B) is that it focuses management's attention on managing unused capacity
- C) is that budgets are much easier to develop
- D) is that it results in departments bearing a lower percentage of fixed costs

5. Which of the following would be considered the biggest advantage of using practical capacity to allocate costs?

- A) focuses the user's division with the costs of overused capacity
- B) never causes over or under-allocated overhead
- C) burdens the user divisions with the costs of unused capacity
- D) focuses management's attention on unused capacity