

[1] Gleim #: 1.5.108 -- Source: CMA 678 4-10

Committed costs are

- A. Costs that management decides to incur in the current period to enable the company to achieve objectives other than the filling of orders placed by customers.
  - B. Costs that are likely to respond to the amount of attention devoted to them by a specified manager.
  - C. Costs that are governed mainly by past decisions that established the present levels of operating and organizational capacity and that only change slowly in response to small changes in capacity.
  - D. Amortization of costs that were capitalized in previous periods.
- Answer (A) is **incorrect**. Costs incurred in a current period to achieve objectives other than the filling of orders by customers are known as discretionary costs.
  - Answer (B) is **incorrect**. Costs that are likely to respond to the amount of attention devoted to them by a specified manager are controllable costs.
  - Answer (C) is **correct**. Committed costs are those that are required as a result of past decisions.
  - Answer (D) is **incorrect**. Amortization of costs capitalized in previous periods is depreciation.

[2] Gleim #: 1.5.109 -- Source: CMA 678 4-11

Discretionary costs are costs that

- A. Management decides to incur in the current period to enable the company to achieve objectives other than the filling of orders placed by customers.
  - B. Are likely to respond to the amount of attention devoted to them by a specified manager.
  - C. Are governed mainly by past decisions that established the present levels of operating and organizational capacity and that only change slowly in response to small changes in capacity.
  - D. Will be unaffected by current managerial decisions.
- Answer (A) is **correct**. Discretionary costs are those that are incurred in the current period at the “discretion” of management and are not required to fill orders by customers.

- Answer (B) is **incorrect**. Costs that are likely to respond to the amount of attention devoted to them by a specified manager are controllable costs.
- Answer (C) is **incorrect**. Costs required as a result of past decisions are committed costs.
- Answer (D) is **incorrect**. Costs unaffected by managerial decisions are costs such as committed costs and depreciation that were determined by decisions of previous periods.

**[3] Gleim #: 1.5.110 -- Source: CMA 678 4-12**

Controllable costs are costs that

- A. Management decides to incur in the current period to enable the company to achieve objectives other than the filling of orders placed by customers.
  - B. Are likely to respond to the amount of attention devoted to them by a specified manager.
  - C. Fluctuate in total in response to small changes in the rate of utilization of capacity.
  - D. Will be unaffected by current managerial decisions.
- Answer (A) is **incorrect**. Costs incurred in a current period to achieve objectives other than the filling of orders by customers are known as discretionary costs.
  - Answer (B) is **correct**. Controllable costs can be affected by the efforts of a manager.
  - Answer (C) is **incorrect**. Costs that fluctuate with small changes in volume are variable costs.
  - Answer (D) is **incorrect**. Costs that are unaffected by managerial decisions are costs such as committed costs and depreciation that was determined by decisions of previous periods.

**[4] Gleim #: 1.5.111 -- Source: CMA 1292 3-4**

In joint-product costing and analysis, which one of the following costs is relevant when deciding the point at which a product should be sold to maximize profits?

- A. Separable costs after the split-off point.
- B. Joint costs to the split-off point.
- C. Sales salaries for the period when the units were produced.
- D. Purchase costs of the materials required for the joint products.

- Answer (A) is **correct**. Joint products are created from processing a common input. Joint costs are incurred prior to the split-off point and cannot be identified with a particular joint product. As a result, joint costs are irrelevant to the timing of sale. However, separable costs incurred after the split-off point are relevant because, if incremental revenues exceed the separable costs, products should be processed further, not sold at the split-off point.
- Answer (B) is **incorrect**. Joint costs have no effect on the decision as to when to sell a product.
- Answer (C) is **incorrect**. Sales salaries for the production period do not affect the decision.
- Answer (D) is **incorrect**. Purchase costs are joint costs.

**[7] Gleim #: 1.5.114 -- Source: CMA Sample Q3-6**

When compared with normal spoilage, abnormal spoilage

- A. Arises more frequently from factors that are inherent in the manufacturing process.
  - B. Is given the same accounting treatment as normal spoilage.
  - C. Is generally thought to be more controllable by production management than normal spoilage.
  - D. Is not typically influenced by the “tightness” of production standards.
- Answer (A) is **incorrect**. Normal spoilage arises more frequently from factors that are inherent in the manufacturing process.
  - Answer (B) is **incorrect**. Abnormal spoilage costs are treated as a loss, and normal spoilage costs are inventoried.
  - Answer (C) is **correct**. Spoiled goods are defective items that cannot be feasibly reworked. Traditional cost accounting systems distinguish between normal and abnormal spoilage because, in some operations, a degree of spoilage is viewed as inevitable. Normal spoilage occurs under normal, efficient operating conditions. It is spoilage that is uncontrollable in the short run and therefore should be expressed as a function of good output (treated as a product cost). Accordingly, normal spoilage is assigned to all good units in process costing systems, that is, all units that have passed the inspection point at which the spoilage was detected. If normal spoilage is attributable to a specific job, only the disposal value of the normally spoiled goods is removed from work-in-process, thereby assigning the cost of normal spoilage to the good units remaining in the specific job. Abnormal spoilage is not expected to occur under normal, efficient operating conditions. The cost of abnormal spoilage should be separately identified and reported. Abnormal spoilage is typically treated as a period cost (a loss) because it is unusual.

- Answer (D) is **incorrect**. The tighter the standards, the more likely that any spoilage will be deemed to be abnormal.

**[8] Gleim #: 1.5.115 -- Source: CMA 696 3-17**

The upper limit of a company's productive output capacity given its existing resources is called

- A. Excess capacity.
- B. Cycle-time capacity.
- C. Practical capacity.
- D. Theoretical capacity.

- Answer (A) is **incorrect**. Excess capacity is unused capacity.
- Answer (B) is **incorrect**. Manufacturing lead (cycle) time is the sum of setup time and manufacturing time for a customer order. It is a component of customer response time.
- Answer (C) is **correct**. Practical capacity is the maximum level at which output is produced efficiently, with an allowance for unavoidable interruptions, for example, for holidays and scheduled maintenance. Because this level will be higher than expected capacity, its use will ordinarily result in underapplied fixed factory overhead.
- Answer (D) is **incorrect**. Theoretical capacity makes no allowance for unavoidable interruptions.

**[9] Gleim #: 1.5.116 -- Source: CMA 1290 3-1**

Practical capacity as a plant capacity concept

- A. Assumes all personnel and equipment will operate at peak efficiency and total plant capacity will be used.
  - B. Does not consider idle time caused by inadequate sales demand.
  - C. Includes consideration of idle time caused by both limited sales orders and human and equipment inefficiencies.
  - D. Is the production volume that is necessary to meet sales demand for the next year.
- Answer (A) is **incorrect**. Theoretical capacity assumes all personnel and equipment will operate at peak efficiency and total plant capacity will be used.

- Answer (B) is **correct**. Practical capacity is the maximum level at which output is produced efficiently. It includes consideration of idle time caused by human and equipment inefficiencies but not by inadequate sales demand. Practical capacity exceeds the other commonly used denominator levels included in the calculation of the fixed factory overhead rate. Because practical capacity will almost always exceed the actual use of capacity, it will result in an unfavorable production volume variance. Moreover, this variance (the difference between budgeted fixed overhead and the fixed overhead applied based on standard input allowed for the actual output) will be greatest given a practical capacity measure. The unfavorable production volume variance is charged to income summary, so the effect of using a larger denominator volume is the more rapid write-off of fixed overhead (practical capacity may be used for federal income tax purposes).
- Answer (C) is **incorrect**. Practical capacity ignores demand.
- Answer (D) is **incorrect**. The production volume to meet a given production level may be more or less than practical capacity. Horngren, Foster, and Datar call this volume the master-budget volume.

**[10] Gleim #: 1.5.117 -- Source: CMA 691 3-27**

A controllable expense

- A. Is an expected future expense that will be different under various alternatives.
  - B. Is an expense whose actual amount will not normally differ from the standard (budget) amount.
  - C. Is one that is directly influenced at a given level of managerial authority within a given time period.
  - D. Is an expense that will remain semivariable in total over the relevant range in a given time period.
- Answer (A) is **incorrect**. An expected future expense that will be different under various alternatives is a differential (incremental) cost.
  - Answer (B) is **incorrect**. An expense whose actual amount will not normally differ from the standard (budget) amount is a controlled expense, not a controllable expense.
  - Answer (C) is **correct**. Controllable expenses are directly regulated by a manager of a responsibility center at a given level of production within a given time span.
  - Answer (D) is **incorrect**. Whether a cost is controllable or not is not determined by its behavior.

**[11] Gleim #: 1.5.118 -- Source: CMA 1295 3-27**

A cost that bears an observable and known relationship to a quantifiable activity base is a(n)

- A. Engineered cost.
- B. Indirect cost.
- C. Sunk cost.
- D. Target cost.

- Answer (A) is **correct**. A cost that bears an observable and known relationship to a quantifiable activity base is known as an engineered cost. Engineered costs have a clear relationship to output. Direct materials would be an example of an engineered cost.
- Answer (B) is **incorrect**. An indirect cost does not have a clear relationship to output.
- Answer (C) is **incorrect**. A sunk cost is the result of a past irrevocable action; it is not important to future decisions.
- Answer (D) is **incorrect**. A target cost is the maximum allowable cost of a product and is calculated before the product is designed or produced.

**[12] Gleim #: 1.5.119 -- Source: CMA 680 4-5**

The cost associated with abnormal spoilage ordinarily is charged to

- A. Inventory.
- B. A material variance account.
- C. Manufacturing overhead.
- D. A special loss account.

- Answer (A) is **incorrect**. Normal spoilage, not abnormal spoilage, costs are charged to inventory.
- Answer (B) is **incorrect**. Material variance accounts are only charged for the variances in material usage or material price, not the spoilage of product.
- Answer (C) is **incorrect**. While charging abnormal spoilage to manufacturing overhead is an occasional practice, it is not the ordinary practice.
- Answer (D) is **correct**. Abnormal spoilage is usually charged to a special loss account because it is not expected to occur under normal, efficient operating conditions. Because it is unusual, it should be separately reported as a period cost.

**[13] Gleim #: 1.5.120 -- Source: CMA 1277 5-5**

An imputed cost is

- A. The difference in total costs that results from selecting one alternative instead of another.
- B. A cost that cannot be avoided because it has already been incurred.
- C. A cost that does not entail any dollar outlay but is relevant to the decision-making process.
- D. A cost that continues to be incurred even though there is no activity.

- Answer (A) is **incorrect**. The difference in total costs that results from selecting one alternative instead of another is an incremental cost.
- Answer (B) is **incorrect**. A cost that cannot be avoided because it has already been incurred is a sunk cost.
- Answer (C) is **correct**. An imputed cost does not entail any dollar outlay but is relevant to the decision-making process.
- Answer (D) is **incorrect**. A cost that continues to be incurred even though there is no activity is a fixed cost.

**[14] Gleim #: 1.5.121 -- Source: CMA 694 3-8**

Committed costs are costs that

- A. Were capitalized and amortized in prior periods.
- B. Management decides to incur in the current period that do not have a clear cause and effect relationship between inputs and outputs.
- C. Result from a clear measurable relationship between inputs and outputs.
- D. Establish the current level of operating capacity and cannot be altered in the short run.

- Answer (A) is **incorrect**. Committed costs have not been amortized.
- Answer (B) is **incorrect**. Discretionary costs are those that do not have a clear cause and effect relationship between inputs and outputs.
- Answer (C) is **incorrect**. Engineered costs are those that have a measurable relationship between inputs and outputs.

- Answer (D) is **correct**. Committed costs result when a going concern holds fixed assets such as property, plant, and equipment. The related committed costs include depreciation, long-term lease payments, and insurance. Such costs establish the present level of operating capacity and cannot be altered in the short run.

**[15] Gleim #: 1.5.122 -- Source: CMA 690 5-27**

Costs that arise from periodic budgeting decisions that have no strong input-output relationship are commonly called

- A. Committed costs.
- B. Discretionary costs.
- C. Opportunity costs.
- D. Differential costs.

- Answer (A) is **incorrect**. Committed costs are fixed costs arising from the possession of plant and equipment and a basic organization. These costs are affected primarily by long-run decisions as to a company's desired capacity.
- Answer (B) is **correct**. Discretionary costs are characterized by uncertainty about the relationship between input (the costs) and the value of the related output. Advertising and research are examples. They should be contrasted with engineered costs, that is, costs having a clear input-output relationship (e.g., the cost of direct materials).
- Answer (C) is **incorrect**. Opportunity cost is the return available from the next best use of a resource.
- Answer (D) is **incorrect**. Differential (incremental) costs are those that vary among decision options.



**[Fact Pattern #1]**

Huron Industries has recently developed two new products, a cleaning unit for video discs and a disc duplicator for reproducing movies taken with a video camera. However, Huron has only enough plant capacity to introduce one of these products during the current year. The company controller has gathered the following data to assist management in deciding which product should be selected for production.

Huron's fixed overhead includes rent and utilities, equipment depreciation, and supervisory salaries. Selling and administrative expenses are not allocated to products.

	Disc Duplicator	Cleaning Unit
Raw materials	\$ 44.00	\$ 36.00
Machining at \$12 per hr.	18.00	15.00
Assembly at \$10 per hr.	30.00	10.00
Variable overhead at \$8 per hr.	36.00	18.00
Fixed overhead at \$4 per hr.	18.00	9.00
Total cost	<u>\$ 146.00</u>	<u>\$ 88.00</u>
Suggested selling price	\$ 169.95	\$ 99.98
Actual research and development costs	\$240,000	\$175,000
Proposed advertising and promotion costs	\$500,000	\$350,000

**[16] Gleim #: 1.5.123 -- Source: CMA 1294 3-1**

(Refers to Fact Pattern #1)

For Huron's disc duplicator, the unit costs for raw materials, machining, and assembly represent

- A. Conversion costs.
- B. Separable costs.
- C. Committed costs.
- D. Prime costs.

- Answer (A) is **incorrect**. Conversion costs consist of direct labor and overhead.
- Answer (B) is **incorrect**. Separable costs are incurred beyond the point at which jointly produced items become separately identifiable.
- Answer (C) is **incorrect**. Committed costs result when an entity holds fixed assets; examples include long-term lease payments and depreciation.
- Answer (D) is **correct**. Raw materials and direct labor (such as machining and assembly) are a manufacturer's prime costs.

**[17] Gleim #: 1.5.124 -- Source: CMA 1294 3-3**

(Refers to Fact Pattern #1)

The total overhead cost of \$27.00 for Huron's video disc cleaning unit is a

- A. Carrying cost.
- B. Discretionary cost.
- C. Sunk cost.
- D. Mixed cost.

- Answer (A) is **incorrect**. A carrying cost is the cost of carrying inventory; examples are insurance and rent on warehouse facilities.
- Answer (B) is **incorrect**. A discretionary cost (a managed or program cost) results from a periodic decision about the total amount to be spent. It is also characterized by uncertainty about the relationship between input and the value of the related output. Examples are advertising and R&D costs.
- Answer (C) is **incorrect**. A sunk cost is a past cost or a cost that the entity has irrevocably committed to incur. Because it is unavoidable, it is not relevant to future decisions.
- Answer (D) is **correct**. A mixed cost is a combination of fixed and variable elements. Consequently, the \$27 of total overhead cost is mixed because it contains both fixed overhead and variable overhead.

**[18] Gleim #: 1.5.125 -- Source: CMA 1294 3-4**

(Refers to Fact Pattern #1)

Research and development costs for Huron's two new products are

- A. Conversion costs.
- B. Sunk costs.
- C. Relevant costs.
- D. Avoidable costs.

- Answer (A) is **incorrect**. Conversion costs are composed of direct labor and factory overhead, that is, costs incurred to convert materials into a finished product.
- Answer (B) is **correct**. Before they are incurred, R&D costs are often considered to be discretionary. However, Huron's R&D costs have already been incurred. Thus, they are sunk costs. A sunk cost is a past cost or a cost that the entity has irrevocably committed to incur. Because it is unavoidable, it is not relevant to future decisions.

- Answer (C) is **incorrect**. Relevant costs are expected future costs that vary with the action taken. A cost that has already been incurred is not relevant to future decisions.
- Answer (D) is **incorrect**. Avoidable costs may be eliminated by not engaging in an activity or by performing it more efficiently.

**[19] Gleim #: 1.5.126 -- Source: CMA 1294 3-5**

(Refers to Fact Pattern #1)

The advertising and promotion costs for the product selected by Huron will be

- A. Discretionary costs.
- B. Opportunity costs.
- C. Committed costs.
- D. Incremental costs.

- Answer (A) is **correct**. A discretionary cost (a managed or program cost) results from a periodic decision about the total amount to be spent. It is also characterized by uncertainty about the relationship between input and the value of the related output. Examples are advertising and R&D costs.
- Answer (B) is **incorrect**. An opportunity cost is the maximum benefit forgone by using a scarce resource for a given purpose. It is the benefit provided by the next best use of a particular resource.
- Answer (C) is **incorrect**. Committed costs are those for which management has made a long-term commitment. They typically result when a firm holds fixed assets. Examples include long-term lease payments and depreciation.
- Answer (D) is **incorrect**. Incremental costs are the differences in costs between two decision choices.

**[20] Gleim #: 1.5.127 -- Source: CMA 1294 3-6**

(Refers to Fact Pattern #1)

The costs included in Huron's fixed overhead are

- A. Joint costs.
- B. Committed costs.
- C. Opportunity costs.
- D. Prime costs.

- Answer (A) is **incorrect**. Joint (common) costs are incurred in the production of two or more inseparable products up to the point at which the products become separable.
- Answer (B) is **correct**. Committed costs are those for which management has made a long-term commitment. They typically result when a firm holds fixed assets. Examples include long-term lease payments and depreciation. Committed costs are typically fixed costs.
- Answer (C) is **incorrect**. An opportunity cost is the maximum benefit forgone by using a scarce resource for a given purpose; it is the benefit provided by the next best use of a particular resource.
- Answer (D) is **incorrect**. Prime costs are composed of raw material and direct labor costs.

**[28] Gleim #: 1.5.135 -- Source: CMA 0408 2-082**

Johnson waits two hours in line to buy a ticket to an NCAA Final Four Tournament. The opportunity cost of buying the \$200 ticket is

- A. Johnson's best alternative use of the \$200.
  - B. Johnson's best alternative use of the 2 hours it took to wait in line.
  - C. The value of the \$200 to the ticket agent.
  - D. Johnson's best alternative use of both the \$200 and the 2 hours spent in line.
- Answer (A) is **incorrect**. The best alternative use of the time it took to wait in line was also an opportunity cost.
  - Answer (B) is **incorrect**. The best alternative use of the cash outlay was also an opportunity cost.
  - Answer (C) is **incorrect**. The value perceived by the ticket agent is not relevant to Johnson's opportunity cost.
  - Answer (D) is **correct**. Opportunity cost, also called implicit cost, is the maximum benefit forgone by using a scarce resource for a given purpose and not for the next-best alternative. An example is the wages forgone by attending college instead of working full-time. Opportunity costs are contrasted with outlay costs, which require actual cash disbursements.

**[Fact Pattern #2]**

Gleason Co. has two products, a frozen dessert and ready-to-bake breakfast rolls, ready for introduction. However, plant capacity is limited, and only one product can be introduced at present. Therefore, Gleason has conducted a market study, at a cost of \$26,000, to determine which product will be more profitable. The results of the study follow.

<u>Sales of Desserts at \$1.80/unit</u>		<u>Sales of Rolls at \$1.20/unit</u>	
<u>Volume</u>	<u>Probability</u>	<u>Volume</u>	<u>Probability</u>
250,000	.30	200,000	.20
300,000	.40	250,000	.50
350,000	.20	300,000	.20
400,000	.10	350,000	.10

The costs associated with the two products have been estimated by Gleason's cost accounting department and are as follows:

	<u>Dessert</u>	<u>Rolls</u>
Ingredients per unit	\$ .40	\$ .25
Direct labor per unit	.35	.30
Variable overhead per unit	.40	.20
Production tooling*	48,000	25,000
Advertising	30,000	20,000

\*Gleason treats production tooling as a current operating expense rather than capitalizing it as a fixed asset.

**[29] Gleim #: 1.5.136 -- Source: CMA 687 5-26**

(Refers to Fact Pattern #2)

The advertising expense estimated by Gleason for the introduction of the new products is an example of a(n)

- A. Conversion cost.
- B. Discretionary cost.
- C. Committed cost.
- D. Opportunity cost.

- Answer (A) is **incorrect**. Conversion costs are incurred for labor and overhead.

- Answer (B) is **correct**. Discretionary costs refer to fixed costs that are not absolutely necessary to operate in the current period. The level of these costs is subject to a decision made by management each period. A key characteristic of discretionary costs is that there is no clearly measurable relationship between input (the costs) and output. Advertising is a good example of a discretionary fixed cost.
- Answer (C) is **incorrect**. Committed costs are those fixed costs arising from the possession of plant and equipment and a basic organization. These costs are affected primarily by long-run decisions as to a company's desired capacity.
- Answer (D) is **incorrect**. An opportunity cost represents the maximum revenue that could have been earned on the next best alternative use of a resource.