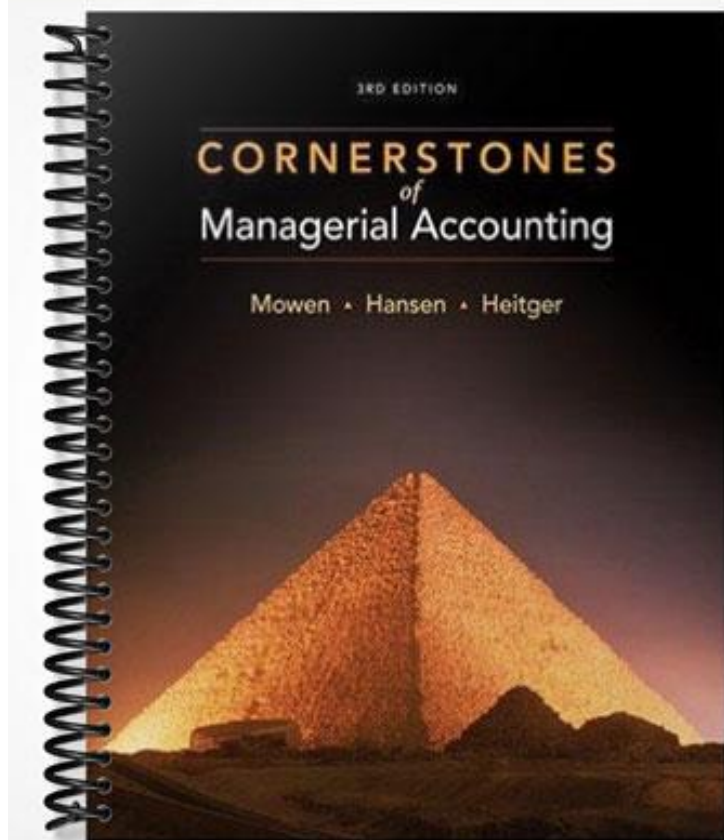


TEST BANK



Chapter 2—Basic Managerial Accounting Concepts

TRUE/FALSE

1. Cost is a dollar measure of the resources used to achieve a given benefit.

ANS: T DIF: Medium OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

2. Expired costs are called assets.

ANS: F DIF: Easy OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

3. A cost object is something for which a company wants to know the cost.

ANS: T DIF: Easy OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

4. Costs can be assigned to cost objects in a number of ways.

ANS: T DIF: Easy OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

5. It is **not** necessary to assign indirect costs to cost objects.

ANS: F DIF: Medium OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

6. Property taxes on a factory building would normally be classified as a variable cost.

ANS: F DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

7. Glue used in the manufacture of cabinets would be an example of a variable cost.

ANS: T DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

8. Industries that provide intangible services do **not** normally have direct contact with their customers.

ANS: F DIF: Challenging OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

9. Period costs are those costs associated with the manufacture of goods or the providing of services.

ANS: F DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

10. Research and development costs would be classified as non-production costs.

ANS: T DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

11. Production costs include direct materials, direct labor, and selling costs.

ANS: F DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

12. Employees who convert direct materials into a product or who provide a service to customers are classified as direct labor.

ANS: T DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

13. All product costs other than direct materials and indirect labor are called overhead.

ANS: F DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

14. All manufacturing costs are classified as direct materials, direct labor, or overhead.

ANS: T DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

15. Any costs associated with storing, selling, and delivering the product are classified as period costs.

ANS: T DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

16. Prime cost is the sum of indirect materials and indirect labor.

ANS: F DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

17. Product costs are carried in inventory until the goods are finished.

ANS: F DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

18. Marketing costs would be classified as period costs.

ANS: T DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

19. Cost of goods manufactured represents the cost of direct materials, direct labor, and overhead incurred during the current accounting period.

ANS: F DIF: Challenging OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

20. Cost of goods sold is the total product cost of the units sold during a period.

ANS: T DIF: Medium OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

21. Sales revenue equals the product cost per unit times the number of units sold.

ANS: F DIF: Medium OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

22. For external reporting purposes, product costs must be classified into only three categories.

ANS: T DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

23. Gross margin equals operating income.

ANS: F DIF: Medium OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

24. Direct materials can be directly traced to the goods or services being produced.

ANS: T DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

25. The cost of janitorial services for a factory building would be classified as direct labor.

ANS: F DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

26. Reducing the cost required to achieve a given benefit means that a company is becoming less efficient.

ANS: F DIF: Easy OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

27. Costs are incurred to produce future benefits.

ANS: T DIF: Easy OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

28. As costs are used up in the production of revenues, they are said to expire. Expired costs are called assets.

ANS: F DIF: Easy OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

29. The revenue per unit is called price.

ANS: T DIF: Easy OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

30. Price must be greater than cost in order for the firm to generate revenue.

ANS: F DIF: Easy OBJ: 2.1

NAT: AACSB Analytic | IMA-Business Economics

31. Accumulating costs is the way that costs are measured and recorded.

ANS: T DIF: Easy OBJ: 2.1

NAT: AACSB Analytic | IMA-Business Economics

32. Assigning costs involves the way that a cost is linked to some cost object.

ANS: T DIF: Easy OBJ: 2.1

NAT: AACSB Analytic | IMA-Business Economics

33. Assigning costs tells the accountant who spent the money.

ANS: F DIF: Easy OBJ: 2.1

NAT: AACSB Analytic | IMA-Business Economics

34. A cost object is any item such as products, customers, departments, regions, and so on, for which costs are measured and assigned.

ANS: T DIF: Easy OBJ: 2.1

NAT: AACSB Analytic | IMA-Business Economics

35. Costs are directly, **not** indirectly, associated with cost objects.

ANS: F DIF: Easy OBJ: 2.1

NAT: AACSB Analytic | IMA-Business Economics

36. Direct costs are those costs that can be easily and accurately traced to a cost object.

ANS: T DIF: Easy OBJ: 2.1

NAT: AACSB Analytic | IMA-Business Economics

37. Indirect costs are costs that are **not** easily and accurately traced to a cost object.

ANS: T DIF: Easy OBJ: 2.1

NAT: AACSB Analytic | IMA-Cost Management

38. Allocation means that an indirect cost is assigned to a cost object using a reasonable and convenient method.

ANS: T DIF: Easy OBJ: 2.1

NAT: AACSB Analytic | IMA-Business Economics

39. A variable cost is one that increases in total as output increases and decreases in total as output decreases.

ANS: T DIF: Easy OBJ: 2.1

NAT: AACSB Analytic | IMA-Business Economics

40. A fixed cost is a cost that does **not** increase in total as output increases and does **not** decrease in total as output decreases.

ANS: T DIF: Easy OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

41. An opportunity cost is the benefit given up or sacrificed when one alternative is chosen over another.

ANS: T DIF: Easy OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

MULTIPLE CHOICE

1. Expired costs are called
- assets
 - expenses
 - revenues
 - profit

ANS: B DIF: Easy OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

2. Non-manufacturing costs include
- marketing and administration
 - direct materials
 - indirect materials
 - overhead

ANS: A DIF: Easy OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

3. Assigning costs to cost objects
- provides information for decision making.
 - can be accomplished in a number of ways.
 - can be a simple or complex process.
 - do all of these.

ANS: D DIF: Medium OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

4. An indirect cost
- can be easily and accurately traced to a cost object.
 - is hard to trace.
 - should never be assigned to a cost object.
 - do none of these.

ANS: B DIF: Medium OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

5. A variable cost in total
- increases as output increases
 - remains constant at all levels of output
 - is the benefit given up when one alternative is chosen over another
 - decreases as output increases

ANS: A DIF: Medium OBJ: 2.1
NAT: AACSB Analytic | IMA-Business Economics

6. Which of the following is an example of an intangible product?
- hamburgers
 - computers
 - automobiles
 - dental care

ANS: D DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

7. Which of the following is an example of a tangible product?
- funeral care
 - legal services
 - furniture
 - video rental

ANS: C DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

8. Costs are subdivided into what two major functional categories?
- production and non-production
 - selling and administrative
 - prime and conversion
 - opportunity and direct

ANS: A DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

9. Product costs
- are inventoriable costs.
 - are manufacturing costs.
 - include direct materials, direct labor, and overhead.
 - are all of these.

ANS: D DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

10. Which of the following would **not** be a period cost?
- salary of chief executive officer
 - indirect labor
 - advertising costs
 - depreciation on office building

ANS: B DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

11. Which of the following would be an example of a direct materials cost?
- windshield on a new automobile
 - nails used to construct a new house
 - glue used to build cabinets
 - solder used to manufacture televisions

ANS: A DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

12. Production costs consist of
- period costs
 - indirect materials, indirect labor, and administrative costs
 - direct materials, direct labor, and selling costs
 - direct materials, direct labor, and overhead

ANS: D DIF: Challenging OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

13. Which of the following is **not** an example of a direct materials cost?
- wood in a dining room table
 - engine in an airplane
 - glue used to manufacture furniture
 - CD player in a new car

ANS: C DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

14. Materials in the raw materials account do **not** become direct materials
- until they are withdrawn from inventory for use in production.
 - until the finished product is sold.
 - until they are purchased from a vendor.
 - none of these are correct.

ANS: A DIF: Challenging OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

15. Which of the following is an example of direct labor?
- chef in a restaurant
 - janitor in a production plant
 - security guard for the factory
 - management accountant

ANS: A DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

16. Direct labor is a
- non-production cost.
 - period cost.
 - nonmanufacturing cost.
 - product cost.

ANS: D DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

17. Overhead includes
- indirect labor.
 - indirect materials.
 - supplies.
 - all of these.

ANS: D DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

18. Which of the following would **not** be included in overhead?
- marketing costs
 - property taxes on the factory
 - factory utility costs
 - depreciation on factory machinery

ANS: A DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

19. Indirect labor would include
- salary of the vice-president of marketing
 - salary of CEO
 - salary of factory supervisor
 - none of these

ANS: C DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

20. The unit cost
- is the total product costs divided by the number of units produced
 - includes period costs
 - is the total prime costs divided by the number of units produced
 - is the total conversion costs divided by the number of units produced

ANS: A DIF: Challenging OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

21. Prime cost is
- indirect materials cost and indirect labor cost
 - direct materials cost and direct labor cost
 - direct labor cost and overhead cost
 - selling cost and administrative cost

ANS: B DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

22. Conversion cost is the sum of
- direct materials cost and direct labor cost
 - indirect labor cost and overhead cost
 - product costs and period costs
 - direct labor cost and overhead cost

ANS: D DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

23. Period costs
- are selling costs and administrative costs
 - are used to compute product cost
 - can be included in overhead costs
 - are carried in inventory until the goods are sold

ANS: A DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

24. Which of the following is an example of a period cost?
- research and development
 - selling and marketing
 - general accounting
 - all of these

ANS: D DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

25. Cost of goods manufactured equals
- the cost of direct materials used in production
 - the product cost of goods completed during the current period
 - the product cost of goods sold during the current period
 - the cost remaining in ending work in process inventory

ANS: B DIF: Challenging OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

26. Cost of goods manufactured equals
- total product costs incurred during the current period + beginning work in process – ending work in process
 - direct materials cost + direct labor cost + overhead cost
 - sales – cost of goods sold
 - none of these

ANS: A DIF: Challenging OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

27. The cost of the partially completed goods at the end of the period would be
- beginning work in process inventory
 - cost of goods manufactured
 - ending work in process inventory
 - ending finished goods inventory

ANS: C DIF: Medium OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

28. Product costs are expensed
- when the product is finished
 - when the product unit cost is calculated
 - when the product is sold
 - all of these

ANS: C DIF: Challenging OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

29. Cost of goods sold
- is the total product cost for the units sold during a period
 - is found on the Income Statement
 - can be a lesser amount than cost of goods manufactured

d. all of these

ANS: D DIF: Challenging OBJ: 2.3 NAT: AACSB Analytic

30. Which of the following would **not** be found on the Income Statement of a manufacturer?
- cost of goods sold
 - work in process
 - cost of goods manufactured
 - selling and administrative costs

ANS: B

Assume a separate schedule of Cost of Goods Manufactured.

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

31. Which of the following would **not** be found on the Balance Sheet of a manufacturer?
- cost of goods manufactured
 - work in process
 - finished goods
 - raw materials

ANS: A DIF: Medium OBJ: 2.3

NAT: AACSB Analytic | IMA-Reporting

32. Which of the following would be found on the Balance Sheet of a manufacturer?
- cost of goods sold
 - cost of goods manufactured
 - factory building
 - all of these

ANS: C DIF: Medium OBJ: 2.3

NAT: AACSB Analytic | IMA-Reporting

33. Gross margin equals
- sales revenue – selling and administrative expenses
 - sales revenue – cost of goods sold
 - cost of goods manufactured + beginning finished goods inventory – ending finished goods inventory
 - total product costs + beginning work in process – ending work in process

ANS: B DIF: Medium OBJ: 2.3

NAT: AACSB Analytic | IMA-Reporting

34. Operating income equals
- sales revenue – cost of goods sold – selling and administrative expenses
 - gross margin – selling expenses
 - sales revenue – cost of goods sold
 - sales revenue – selling and administrative expenses

ANS: A DIF: Medium OBJ: 2.3

NAT: AACSB Analytic | IMA-Reporting

35. Gross margin percent equals

- a. gross margin/cost of goods sold
- b. operating income/sales revenue
- c. gross margin/sales revenue
- d. sales revenue/gross margin

ANS: C DIF: Medium OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

36. Which of the following would **not** be found on an Income Statement of a service organization?
- a. selling expenses
 - b. gross margin
 - c. operating income
 - d. All of these can be found on the Income Statement of a service organization.

ANS: D DIF: Medium OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

37. Which of the following can be found on the Income Statements of both a manufacturing and service organization?
- a. gross margin
 - b. operating income
 - c. administrative expenses
 - d. all of these can be found on both.

ANS: D DIF: Medium OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

38. A manufacturer normally has
- a. three inventory accounts
 - b. two inventory accounts
 - c. four inventory accounts
 - d. none of these

ANS: A DIF: Medium OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

39. An Income Statement of a manufacturer
- a. will show the ending balance of work in process
 - b. contains only manufacturing costs
 - c. will show the ending balance of materials inventory
 - d. covers a certain period of time

ANS: D DIF: Challenging OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

40. On a manufacturer's Income Statement expenses are separated into the following three categories:
- a. production, period, and indirect
 - b. materials, work in process, and finished goods
 - c. production, selling, and administrative
 - d. variable, fixed, and direct

ANS: C DIF: Medium OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

Figure 2-1.

Concam Inc. manufactures television sets. Last month direct materials (electronic components, etc.) costing \$500,000 were put into production. Direct labor of \$800,000 was incurred, overhead equaled \$450,000, and selling and administrative costs totaled \$360,000. The company manufactured 8,000 television sets during the month. Assume that there were no beginning or ending work in process balances.

41. Refer to Figure 2-1. The per-unit conversion cost was:
- \$218.75
 - \$156.25
 - \$162.50
 - \$100.00

ANS: B

SUPPORTING CALCULATIONS:

 $(\$800,000 + \$450,000)/8,000$

DIF: Easy OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

42. Refer to Figure 2-1. The total product costs for last month were:
- \$1,750,000
 - \$2,110,000
 - \$1,300,000
 - \$1,250,000

ANS: A

SUPPORTING CALCULATIONS:

 $\$500,000 + \$800,000 + \$450,000$

DIF: Easy OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

43. Refer to Figure 2-1. The total per unit prime cost was:
- \$263.75
 - \$62.50
 - \$162.50
 - \$156.25

ANS: C

SUPPORTING CALCULATIONS:

 $(\$500,000 + \$800,000)/8,000$

DIF: Easy OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

44. Refer to Figure 2-1. What was the amount of cost of goods manufactured last month?
- \$1,750,000
 - \$1,250,000
 - \$1,300,000
 - \$2,110,000

ANS: A

SUPPORTING CALCULATIONS:

 $\$500,000 + \$800,000 + \$450,000$

DIF: Medium OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

Figure 2-2.

Lonborg Co. had the following beginning and ending inventory balances for the year ended December 31, 20x8:

	<u>January 1, 20x8</u>	<u>December 31, 20x8</u>
Materials	\$10,000	\$ 8,000
Work in Process	\$18,000	\$17,000
Finished Goods	\$21,000	\$16,500

In addition, direct labor costs of \$30,000 were incurred, overhead equaled \$42,000, materials purchased were \$27,000 and selling and administrative costs were \$22,000. Lonborg Co. sold 25,000 units of product during the year at a sales price of \$5.00 per unit.

45. Refer to Figure 2-2. What was the amount of Cost of Goods Manufactured for the year?
- \$101,000
 - \$124,000
 - \$100,000
 - \$102,000

ANS: D

SUPPORTING CALCULATIONS:

Materials 1/1	\$10,000	
Purchases	<u>27,000</u>	
	37,000	
Materials 12/31	<u><8,000></u>	
Materials used		29,000
Direct Labor		30,000
Overhead		<u>42,000</u>
Total manufacturing costs		101,000
Work in Process 1/1		18,000
Work in Process 12/31		<u><17,000></u>
Cost of Goods Manufactured		\$102,000

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

46. Refer to Figure 2-2. What was the amount of Cost of Goods Sold for the year?
- \$102,000
 - \$97,500
 - \$106,500
 - \$128,500

ANS: C

SUPPORTING CALCULATIONS:

Cost of Goods Manufactured	\$102,000
Finished Goods Inventory 1/1	21,000
Finished Goods Inventory 12/31	<u><16,500></u>
Cost of Goods Sold	\$106,500

DIF: Challenging OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

47. Refer to Figure 2-2. What were the total manufacturing costs for the year?

- a. \$101,000
- b. \$102,000
- c. \$123,000
- d. \$106,500

ANS: A

SUPPORTING CALCULATIONS:

Materials used in production	\$ 29,000
Direct Labor	30,000
Overhead	<u>42,000</u>
Total manufacturing costs	\$101,000

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

48. Refer to Figure 2-2. What was Lonborg's operating income <loss> for the year?
- a. \$18,500
 - b. \$125,000
 - c. \$<3,500>
 - d. \$5,500

ANS: C

SUPPORTING CALCULATIONS:

Sales	\$125,000
Cost of Goods Sold	<u>106,500</u>
Gross Margin	18,500
Sell. & Admin.	<u>22,000</u>
Operating Income	<3,500>

DIF: Challenging OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

49. During the month of June, Telecom Inc. had cost of goods manufactured of \$112,000, direct materials cost of \$52,000, direct labor cost of \$37,000 and overhead cost of \$26,000. The Work in Process balance at June 30 equaled \$10,000. What was the Work in Process balance on June 1?
- a. \$7,000
 - b. \$13,000
 - c. \$10,000
 - d. \$115,000

ANS: A

SUPPORTING CALCULATIONS:

Direct materials	\$ 52,000
Direct labor	37,000
Overhead	<u>26,000</u>
Total Manufacturing costs	115,000
Work in process 6/1	7,000
Work in process 6/30	<u><10,000></u>
Cost of goods manufactured	\$112,000

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

50. Rancor, Inc. had a per-unit conversion cost of \$2.50 during April and incurred direct materials cost of \$100,000, direct labor costs of \$75,000, and overhead costs of \$45,000 during the month. How many units did they manufacture during the month?
- 70,000
 - 18,000
 - 48,000
 - 30,000

ANS: C

SUPPORTING CALCULATIONS:

$$(\$75,000 + \$45,000)/\$2.50 = \$48,000$$

DIF: Challenging OBJ: 2.2

NAT: AACSB Analytic | IMA-Business Economics

51. Lakeland, Inc. manufactured 5,000 units during the month of March. They incurred direct materials cost of \$100,000 and overhead cost of \$40,000. If their per-unit prime cost was \$26.00 per unit how much direct labor cost did they incur during March?
- \$20,000
 - \$35,000
 - \$90,000
 - \$30,000

ANS: D

SUPPORTING CALCULATIONS:

$$(\$100,000 + \$30,000)/5,000 = \$26.00$$

DIF: Medium OBJ: 2.2

NAT: AACSB Analytic | IMA-Business Economics

52. During the month of January, Enterprise, Inc. had total manufacturing costs of \$110,000. They incurred \$40,000 of direct labor cost and \$30,000 of overhead cost during the month. If the materials inventory on January 1 was \$3,000 less than the materials inventory on January 31, what was the cost of materials purchased during the month?
- \$37,000
 - \$43,000
 - \$40,000
 - none of these

ANS: B

SUPPORTING CALCULATIONS:

Direct materials used	\$ 40,000
Direct labor	\$ 40,000
Overhead	<u>\$ 30,000</u>
Total manufacturing costs	\$110,000

Direct materials purchased	\$ 43,000
Difference in inventory balances	<u><3,000></u>
Direct materials used	\$ 40,000

DIF: Challenging OBJ: 2.2

NAT: AACSB Analytic | IMA-Business Economics

53. Talcum, Inc. had materials inventory at July 1 of \$12,000. The materials inventory at July 31 was \$15,000 and the cost of direct materials used in production was \$20,000. What was the cost of materials purchased during the month?

- a. \$23,000
- b. \$17,000
- c. \$35,000
- d. \$20,000

ANS: A

SUPPORTING CALCULATIONS:

Materials inventory 7/1	\$12,000
Purchases	<u>23,000</u>
Available	35,000
Materials inventory 7/31	<u>15,000</u>
Materials used in production	20,000

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

54. Kutlow, Inc. had cost of goods sold of \$112,000 for the year ended December 31, 20x8. The Finished Goods Inventory on January 1, 20x8 was \$28,000 and the Finished Goods Inventory on December 31, 20x8 was \$17,000. What was the amount of Cost of Goods Manufactured for the year?
- a. \$129,000
 - b. \$101,000
 - c. \$67,000
 - d. \$113,000

ANS: B

SUPPORTING CALCULATIONS:

Finished Goods 1/1	\$ 28,000
Cost of Goods Manufactured	<u>101,000</u>
Goods available	129,000
Finished Goods 12/31	<u><17,000></u>
Cost of Goods Sold	\$112,000

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

55. Andover, Inc. had a gross margin for the month of February totaling \$42,000. They sold 5,000 units during the month at a sales price of \$20 per unit. What was the amount of Cost of Goods Sold for the month?
- a. \$100,000
 - b. \$42,000
 - c. \$58,000
 - d. none of these

ANS: C

SUPPORTING CALCULATIONS:

Sales (5,000 × \$20)	\$100,000
Cost of Goods Sold	<u>58,000</u>
Gross Margin	42,000

DIF: Easy OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

Figure 2-3.

Bartlow, Inc. had the following Income Statement for the month of May.

Sales Revenue	\$428,000
Cost of Goods Sold	<u>205,440</u>
Gross Margin	222,560
Less:	
Selling Expenses	81,320
Administrative Expenses	<u>72,760</u>
Operating Income	\$ 68,480

56. Refer to Figure 2-3. What was the sales revenue percent?
- 100%
 - 48%
 - 52%
 - 16%

ANS: A

SUPPORTING CALCULATIONS:

$$\$428,000/\$428,000 = 100\%$$

DIF: Easy

OBJ: 2.3

NAT: AACSB Analytic | IMA-Reporting

57. Refer to Figure 2-3. What was the cost of goods sold percent?
- 100%
 - 19%
 - 52%
 - 48%

ANS: D

SUPPORTING CALCULATIONS:

$$\$205,440/\$428,000 = 48\%$$

DIF: Easy

OBJ: 2.3

NAT: AACSB Analytic | IMA-Reporting

58. Refer to Figure 2-3. What was the gross margin percent?
- 52%
 - 48%
 - 17%
 - 19%

ANS: A

SUPPORTING CALCULATIONS:

$$\$222,560/\$428,000 = 52\%$$

DIF: Easy

OBJ: 2.3

NAT: AACSB Analytic | IMA-Reporting

59. Refer to Figure 2-3. What was the selling expense percent?
- 17%
 - 19%
 - 16%
 - no correct answer

ANS: B

SUPPORTING CALCULATIONS:

$$\$81,320/\$428,000 = 19\%$$

DIF: Easy OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

60. Refer to Figure 2-3. What was the administrative expense percent?
- 17%
 - 19%
 - 16%
 - 15%

ANS: A

SUPPORTING CALCULATIONS:

$$\$72,760/\$428,000 = 17\%$$

DIF: Easy OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

61. Refer to Figure 2-3. What was the operating income percent?
- 15%
 - 19%
 - 17%
 - 16%

ANS: D

SUPPORTING CALCULATIONS:

$$\$68,480/\$428,000 = 16\%$$

DIF: Easy OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

Figure 2-4.

Junko Company makes financial calculators. During the year Junko manufactured 97,000 financial calculators. Finished Goods Inventory had the following units on hand:

January 1	1,260
December 31	1,040

62. Refer to Figure 2-4. How many financial calculators did Junko sell during the year?
- 96,780
 - 97,220
 - 97,000
 - 98,260

ANS: B

SUPPORTING CALCULATIONS:

Units manufactured	97,000
Decrease in inventory balances	<u>220</u>
Units sold	97,220

DIF: Challenging OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

63. Refer to Figure 2-4. If each financial calculator had a per-unit product cost of \$112, what was the cost of Finished Goods Inventory on December 31?
- \$116,480
 - \$141,120
 - \$24,640
 - none of these are correct

ANS: A

SUPPORTING CALCULATIONS:

$$1,040 \times \$112 = \$116,480$$

DIF: Easy

OBJ: 2.3

NAT: AACSB Analytic | IMA-Reporting

64. Refer to Figure 2-4. If each financial calculator has a per-unit product cost of \$112, what was the Cost of Goods Sold last year?
- \$10,864,000
 - \$10,839,360
 - \$11,005,120
 - \$10,888,640

ANS: D

SUPPORTING CALCULATIONS:

$$97,220 \times \$112 = \$10,888,640$$

DIF: Medium

OBJ: 2.3

NAT: AACSB Analytic | IMA-Reporting

Figure 2-5.

In July, Econo Company purchased materials costing \$21,000 and incurred direct labor cost of \$18,000. Overhead totaled \$32,000 for the month. Information on inventories was as follows:

	<u>July 1</u>	<u>July 31</u>
Materials	\$6,200	\$7,100
Work in Process	\$ 700	\$1,200
Finished Goods	\$3,300	\$2,700

65. Refer to Figure 2-5. What was the cost of direct materials used in July?
- \$21,000
 - \$20,100
 - \$21,900
 - \$20,500

ANS: B

SUPPORTING CALCULATIONS:

Materials 7/1	\$ 6,200
Purchases	21,000
Materials 7/31	<u><7,100></u>
Materials used	\$20,100

DIF: Medium

OBJ: 2.2

NAT: AACSB Analytic | IMA-Business Economics

66. Refer to Figure 2-5. What were the total manufacturing costs in July?
- \$71,000
 - \$50,000
 - \$69,600
 - \$70,100

ANS: D

SUPPORTING CALCULATIONS:

Materials used	\$20,100
----------------	----------

Direct Labor	18,000
Overhead	<u>32,000</u>
Total manufacturing costs	\$70,100

DIF: Medium OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

67. Refer to Figure 2-5. What was the Cost of Goods Manufactured for July?
- \$70,500
 - \$70,700
 - \$69,600
 - \$69,100

ANS: C

SUPPORTING CALCULATIONS:

Total manufacturing costs	\$70,100
Work in Process 7/1	700
Work in Process 7/31	<u><1,200></u>
Cost of Goods Manufactured	\$69,600

DIF: Medium OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

68. Refer to Figure 2-5. What was the Cost of Goods Sold for July?
- \$70,200
 - \$69,600
 - \$71,300
 - \$71,100

ANS: A

SUPPORTING CALCULATIONS:

Cost of Goods Manufactured	\$69,600
Finished Goods 7/1	3,300
Finished Goods 7/31	<u><2,700></u>
Cost of Goods Sold	\$70,200

DIF: Medium OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

69. Refer to Figure 2-5. If Econo Company sold 10,000 units during July and gross margin totaled \$29,800, what was the sales price per unit?
- \$9.94
 - \$10.00
 - \$10.09
 - \$10.11

ANS: B

SUPPORTING CALCULATIONS:

Gross margin	\$ 29,800
Cost of Goods Sold	<u>70,200</u>
Sales (10,000 × \$?)	100,000
Sales Price per unit	\$ 10

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Business Economics

Figure 2-6.

Seaview Company took the following data from their Income Statement at the end of the current year.

Per-unit product cost:	\$30
Gross margin percentage:	40%
Selling and administrative expenses	\$30,000
Operating Income	\$10,000

70. Refer to Figure 2-6. What was Gross Margin for the year?
- \$60,000
 - \$100,000
 - \$40,000
 - none of these

ANS: C

SUPPORTING CALCULATIONS:

Operating Income	\$10,000
Selling and Admin.	<u>\$30,000</u>
Gross margin	\$40,000

DIF: Challenging OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

71. Refer to Figure 2-6. What was Cost of Goods Sold for the year?
- \$60,000
 - \$40,000
 - \$100,000
 - none of these

ANS: A

SUPPORTING CALCULATIONS:

Sales (\$40,000/.40)	\$100,000
Gross Margin	<u><40,000></u>
Cost of Goods Sold	60,000

Also $\$40,000 / .40 \times .60$

DIF: Challenging OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

72. Refer to Figure 2-6. How many units were sold during the year?
- 3,333
 - 1,000
 - 1,500
 - 2,000

ANS: D

SUPPORTING CALCULATIONS:

Cost of goods Sold $\$60,000 / \$30 = 2,000$ units

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

73. Refer to Figure 2-6. What was the sales price per unit?
- \$50

- b. \$30
- c. \$20
- d. \$10

ANS: A

SUPPORTING CALCULATIONS:

Sales $\$100,000 / 2,000$ units = \$50

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

Figure 2-7.

Gateway Company produces a product with the following per-unit costs:

Direct Materials	\$11
Direct Labor	8
Overhead	15

Last year, Gateway produced and sold 750 units at a sales price of \$68 each. Total selling and administrative expense was \$22,000.

74. Refer to Figure 2-7. Prime cost per-unit was?
- a. \$19
 - b. \$23
 - c. \$34
 - d. \$11

ANS: A

SUPPORTING CALCULATIONS:

$\$11 + \$8 = \$19$

DIF: Easy OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

75. Refer to Figure 2-7. Cost of Goods Sold last year was?
- a. \$47,500
 - b. \$25,500
 - c. \$14,250
 - d. \$51,000

ANS: B

SUPPORTING CALCULATIONS:

$750 \times \$34$

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

76. Refer to Figure 2-7. Total operating income last year was?
- a. \$29,000
 - b. \$51,000
 - c. \$25,500
 - d. \$3,500

ANS: D

SUPPORTING CALCULATIONS:

Sales \$51,000

Cost of Goods Sold	<25,500>
Sell. and Admin.	<22,000>
Operating Income	<u>3,500</u>

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

Figure 2-8.

Last year Quest Company incurred the following costs:

Direct Materials:	\$40,000
Direct Labor:	60,000
Overhead	90,000
Selling Expenses	24,000
Administrative Expenses	22,000

Quest produced and sold 2,000 units at a sales price of \$125 each. Assume that beginning and ending inventories of materials, work in process, and finished goods were zero.

77. Refer to Figure 2-8. Total period expense was?
- \$24,000
 - \$190,000
 - \$46,000
 - \$250,000

ANS: C

SUPPORTING CALCULATIONS:

$$\$24,000 + \$22,000 = \$46,000$$

DIF: Easy OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

78. Refer to Figure 2-8. Gross margin per-unit was?
- \$125
 - \$7
 - \$95
 - \$30

ANS: D

SUPPORTING CALCULATIONS:

Sales (2000 × \$125)	\$250,000
Cost of Goods Sold	<u>190,000</u>
Gross Margin	\$ 60,000/2,000 units = \$30

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

79. Refer to Figure 2-8. Total product costs were?
- \$190,000
 - \$100,000
 - \$150,000
 - \$236,000

ANS: A

SUPPORTING CALCULATIONS:

$$\$40,000 + \$60,000 + \$90,000 = \$190,000$$

DIF: Medium OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

80. Refer to Figure 2-8. Conversion cost per unit was?
- \$50
 - \$75
 - \$95
 - \$125

ANS: B

SUPPORTING CALCULATIONS:

$(\$60,000 + \$90,000)/2,000 = \$75$

DIF: Medium OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

81. Cost is:
- the amount of cash or cash equivalent sacrificed for goods and/or services that are expected to bring a current or future benefit to the organization.
 - a dollar measure of the resources used to achieve a given benefit.
 - incurred to produce future benefits.
 - all of these.

ANS: D DIF: Easy OBJ: 2.1

NAT: AACSB Analytic | IMA-Business Economics

82. Price is **not**:
- the revenue per unit.
 - greater than cost in order for the firm to earn income.
 - the same as cost.
 - the same as cost per unit plus the income per unit.

ANS: C DIF: Easy OBJ: 2.1

NAT: AACSB Analytic | IMA-Business Economics

83. Assigning costs
- involves the way that a cost is linked to some cost object.
 - tells the company why the money was spent.
 - to a cost object using a reasonable and convenient method is allocation.
 - all of these.

ANS: D DIF: Easy OBJ: 2.1

NAT: AACSB Analytic | IMA-Business Economics

84. An opportunity cost is:
- one that increases as output increases and decreases as output decreases.
 - a cost that does not increase as output increases and does not decrease as output decreases.
 - the benefit given up or sacrificed when one alternative is chosen over another.
 - a cost that cannot be easily and accurately traced to a cost object.

ANS: C DIF: Easy OBJ: 2.1

NAT: AACSB Analytic | IMA-Business Economics

85. Production costs that are NOT attached to units that are sold are reported as:
- selling expenses

- b. cost of goods sold
- c. administrative costs
- d. inventory

ANS: D DIF: Medium OBJ: 2.1

NAT: AACSB Analytic | IMA-Reporting

86. If beginning work-in-process inventory is \$120,000, ending work-in-process inventory is \$160,000, cost of goods manufactured is \$400,000 and direct materials used are \$100,000, what are the conversion costs?
- a. \$140,000
 - b. \$280,000
 - c. \$300,000
 - d. \$340,000

ANS: D

SUPPORTING CALCULATIONS:

$$\$400,000 + \$160,000 - \$120,000 - \$100,000 = \$340,000$$

DIF: Challenging OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

87. Information from the records of Place, Inc., for December 20X9 is as follows:

Sales	\$820,000
Selling and administrative expenses	140,000
Direct materials purchases	176,000
Direct labor	200,000
Factory overhead	270,000
Direct materials, December 1	24,000
Work in process, December 1	50,000
Finished goods, December 1	46,000
Direct materials, December 31	28,000
Work in process, December 31	56,000
Finished goods, December 31	38,000

Net income for the month of December is:

- a. \$644,000.
- b. \$36,000.
- c. \$636,000.
- d. \$180,000.

ANS: B

SUPPORTING CALCULATIONS:

$$\text{COGM} = (\$24,000 + \$176,000 - \$28,000) + \$200,000 + \$270,000 + \$50,000 - \$56,000 = \$636,000$$

$$\text{COGS} = \$636,000 + \$46,000 - \$38,000 = \$644,000$$

$$\text{NI} = \$820,000 - \$140,000 - \$644,000 = \$36,000$$

DIF: Challenging OBJ: 2.3 NAT: AACSB Analytic | IMA-Business Economics

88. Information from the records of Cain Corporation for December 20X9 are as follows:

Sales	\$1,230,000
Selling and administrative expenses	210,000
Direct materials used	264,000
Direct labor	300,000

Factory overhead 405,000

	<u>Inventories</u>	
	<u>Dec. 1, 20X9</u>	<u>Dec. 31, 20X9</u>
Direct materials	\$36,000	\$42,000
Work in process	75,000	84,000
Finished goods	69,000	57,000

The conversion costs are:

- a. \$960,000.
- b. \$1,179,000.
- c. \$705,000.
- d. \$564,000.

ANS: C

SUPPORTING CALCULATIONS:

$$\$300,000 + \$405,000 = \$705,000$$

DIF: Medium OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

89. Information from the records of Cain Corporation for December 20X9 are as follows:

Sales	\$1,230,000
Selling and administrative expenses	210,000
Direct materials used	264,000
Direct labor	300,000
Factory overhead	405,000

	<u>Inventories</u>	
	<u>Dec. 1, 20X9</u>	<u>Dec. 31, 20X9</u>
Direct materials	\$36,000	\$42,000
Work in process	75,000	84,000
Finished goods	69,000	57,000

The prime costs are:

- a. \$960,000.
- b. \$564,000.
- c. \$705,000.
- d. \$969,000.

ANS: B

SUPPORTING CALCULATIONS:

$$\$264,000 + \$300,000 = \$564,000$$

DIF: Medium OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

90. Selected data concerning the past year's operations of the Burner Corporation are as follows:

Selling and administrative expenses	\$225,000
Direct materials used	397,500
Direct labor	450,000

	<u>Inventories</u>	
	<u>Dec. 1, 20X9</u>	<u>Dec. 31, 20X9</u>
Direct materials	\$36,000	\$42,000
Work in process	75,000	84,000

Finished goods 69,000 57,000

The cost of direct materials purchased is:

- a. \$397,500.
- b. \$403,500.
- c. \$367,500.
- d. \$405,000.

ANS: B

SUPPORTING CALCULATIONS:

$$\$397,500 + \$42,000 - \$36,000 = \$403,500$$

DIF: Medium

OBJ: 2.2

NAT: AACSB Analytic | IMA-Business Economics

MATCHING

Select the appropriate classification for each of the following costs.

- a. Period
 - b. Product
1. Advertising costs
 2. Cost Accountant's salary
 3. Factory Supervisor's salary
 4. Research and Development costs
 5. Marketing costs
 6. Cost of shipping products to customers
 7. Supplies for factory washroom
 8. Assembly line worker's wages
1. ANS: A DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
 2. ANS: A DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
 3. ANS: B DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
 4. ANS: A DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
 5. ANS: A DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
 6. ANS: A DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
 7. ANS: B DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
 8. ANS: B DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

Select the appropriate classification for each of the costs incurred by a manufacturer of automobiles.

- a. direct materials
 - b. direct labor
 - c. overhead
 - d. selling expense
 - e. administrative expense
9. cost of tires
 10. factory supplies
 11. general accounting costs
 12. factory security costs
 13. factory janitorial costs
 14. salary of chief executive officer
 15. depreciation of vehicles used by sales personnel
 16. cost of windshields used in the production process

9. ANS: A DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
10. ANS: C DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
11. ANS: E DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
12. ANS: C DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
13. ANS: C DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
14. ANS: E DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
15. ANS: D DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
16. ANS: A DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

Select the appropriate item for each of the definitions listed below.

- a. gross margin
 - b. selling expenses
 - c. sales revenue
 - d. cost of goods sold
 - e. operating income
17. gross margin – period costs
 18. marketing and distributing costs
 19. number of units sold multiplied by sales price per unit
 20. sales – cost of goods sold
 21. number of units sold multiplied by product cost per unit

17. ANS: E DIF: Easy OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting
18. ANS: B DIF: Easy OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

19. ANS: C DIF: Easy OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting
20. ANS: A DIF: Easy OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting
21. ANS: D DIF: Easy OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

Select the appropriate classification for each of the items listed below.

- a. Product cost
 - b. Period cost
22. Cost of nails used by a home builder
23. Fees paid to an advertising firm
24. Sugar used in soft drink production
25. Rental cost of executive Lear jet
26. Cost of conference for sales team
27. Factory supervisor's salary
28. Fees paid to outside auditing firm
29. Factory security costs

22. ANS: A DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
23. ANS: B DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
24. ANS: A DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
25. ANS: B DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
26. ANS: B DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
27. ANS: A DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
28. ANS: B DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
29. ANS: A DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

Select the appropriate definition for each of the items listed below.

- a. per-unit prime cost
 - b. per-unit conversion cost
 - c. per-unit cost of goods manufactured
30. $(\text{direct labor} + \text{overhead})/\text{units produced}$
31. $(\text{total manufacturing costs} + \text{work in process beginning} - \text{work in process ending})/\text{units produced}$
32. $(\text{direct materials} + \text{direct labor})/\text{units produced}$
30. ANS: B DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
31. ANS: C DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

32. ANS: A DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

Select the appropriate definition for each of the items listed below.

- a. period cost
 - b. direct cost
 - c. opportunity cost
 - d. variable cost
 - e. indirect cost
 - f. fixed cost
 - g. product cost
33. A benefit given up when one alternative is chosen over another
34. A cost that stays the same in total regardless of changes in output
35. A cost that is difficult to trace to a cost object
36. A manufacturing cost
37. A cost that is not inventoried
38. A cost that can be easily traced to a cost object
39. A cost that increases in total as output increases

33. ANS: C DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
34. ANS: F DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
35. ANS: E DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
36. ANS: G DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
37. ANS: A DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
38. ANS: B DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
39. ANS: D DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

Select the appropriate definition for each of the items listed below.

- a. Work in process inventory
 - b. Finished goods inventory
 - c. Cost of goods sold
 - d. Cost of goods manufactured
 - e. Total manufacturing costs
40. The cost of units finished but not sold at the end of the current period
41. Direct materials + direct labor + overhead
42. The cost of units unfinished at the end of the current period
43. Product cost per-unit × units sold
44. (direct materials + direct labor + overhead) +/- the change in work in process inventory from the beginning to the end of the current period

40. ANS: B DIF: Easy OBJ: 2.2 | 2.3
NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting

41. ANS: E DIF: Easy OBJ: 2.2 | 2.3
NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting
42. ANS: A DIF: Easy OBJ: 2.2 | 2.3
NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting
43. ANS: C DIF: Easy OBJ: 2.2 | 2.3
NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting
44. ANS: D DIF: Easy OBJ: 2.2 | 2.3
NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting

Select the appropriate classification of the items listed below.

- a. selling expense
 - b. administrative expense
 - c. direct materials
 - d. direct labor
 - e. overhead
45. Chief of surgery's salary at a hospital
46. Wages of assembly line workers in an automobile plant
47. Cost of lubricating factory machinery
48. Cost of shipping goods to customers
49. Glue used in the manufacture of furniture
50. Cost of engines in the manufacture of airplanes
51. Salary of chief executive officer
52. A professor's salary at a university

45. ANS: D DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
46. ANS: D DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
47. ANS: E DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
48. ANS: A DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
49. ANS: E DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
50. ANS: C DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
51. ANS: B DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics
52. ANS: D DIF: Easy OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

Select the appropriate classification of the output generated by each of the following industries.

- a. Tangible
 - b. Intangible
53. CPA firm
54. Car manufacturer
55. Law firm
56. Medical clinic
57. Bowling alley

58. Fast food restaurant
 59. Video rental
 60. Professional sports franchise
53. ANS: B DIF: Easy OBJ: 2.2
 NAT: AACSB Analytic | IMA-Business Economics
54. ANS: A DIF: Easy OBJ: 2.2
 NAT: AACSB Analytic | IMA-Business Economics
55. ANS: B DIF: Easy OBJ: 2.2
 NAT: AACSB Analytic | IMA-Business Economics
56. ANS: B DIF: Easy OBJ: 2.2
 NAT: AACSB Analytic | IMA-Business Economics
57. ANS: B DIF: Easy OBJ: 2.2
 NAT: AACSB Analytic | IMA-Business Economics
58. ANS: A DIF: Easy OBJ: 2.2
 NAT: AACSB Analytic | IMA-Business Economics
59. ANS: B DIF: Easy OBJ: 2.2
 NAT: AACSB Analytic | IMA-Business Economics
60. ANS: B DIF: Easy OBJ: 2.2
 NAT: AACSB Analytic | IMA-Business Economics

Select the appropriate definition of each of the items listed below.

- a. Income Statement
 - b. Cost of goods manufactured
 - c. Work in process
 - d. Gross margin
 - e. Operating income
61. Gross margin – selling and administrative expenses
 62. The difference between sales revenue and cost of goods sold
 63. The total cost of goods completed during the current period
 64. Covers a particular period of time
 65. Cost of partially completed goods
61. ANS: E DIF: Easy OBJ: 2.3
 NAT: AACSB Analytic | IMA-Reporting
62. ANS: D DIF: Easy OBJ: 2.3
 NAT: AACSB Analytic | IMA-Reporting
63. ANS: B DIF: Easy OBJ: 2.3
 NAT: AACSB Analytic | IMA-Reporting
64. ANS: A DIF: Easy OBJ: 2.3
 NAT: AACSB Analytic | IMA-Reporting
65. ANS: C DIF: Easy OBJ: 2.3
 NAT: AACSB Analytic | IMA-Reporting

PROBLEM

1. Ashland Company, maker of kitchen cabinets, incurred the following costs during the current year:

Required: Classify each cost as either a product or period cost.

	<u>Product</u>	<u>Period</u>
1. Depreciation on automobiles used by the sales staff.		
2. Salary of Ashland's Chief Executive Officer		
3. Glue used in the production process		
4. Supplies for factory washroom		
5. Research and development costs		
6. Property taxes on factory building		
7. Salary of company controller		
8. Depreciation on furniture in factory lunchroom		
9. Cost of lubricating machinery		
10. Wood used in production process		

ANS:

	<u>Product</u>	<u>Period</u>
1. Depreciation on automobiles used by the sales staff.		X
2. Salary of Ashland's Chief Executive Officer		X
3. Glue used in the production process	X	
4. Supplies for factory washroom	X	
5. Research and development costs		X
6. Property taxes on factory building	X	
7. Salary of company controller		X
8. Depreciation on furniture in factory lunchroom	X	
9. Cost of lubricating machinery	X	
10. Wood used in production process	X	

DIF: Medium OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

2. Arcadia Company, who manufactures recreational vehicles, incurred the following costs during the current year.

Required: Classify each cost using the table format given below:

	<u>Product Cost</u>			<u>Period Cost</u>	
	<u>Direct Materials</u>	<u>Direct Labor</u>	<u>Overhead</u>	<u>Selling Expense</u>	<u>Administrative Expense</u>
1. Wages of general office personnel					
2. Cost of tires					
3. Factory supervisor's salary					
4. Conference for marketing personnel					
5. Factory security guards					
6. Research and development					
7. Assembly line workers					
8. Company receptionist					
9. Advertising cost					
10. Cost of shipping vehicles to customers					

ANS:

	<u>Product Cost</u>			<u>Period Cost</u>	
	<u>Direct Materials</u>	<u>Direct Labor</u>	<u>Overhead</u>	<u>Selling Expense</u>	<u>Administrative Expense</u>
1. Wages of general office personnel					X
2. Cost of tires	X				
3. Factory supervisor's salary			X		
4. Conference for marketing personnel				X	
5. Factory security guards			X		
6. Research and development					X
7. Assembly line workers		X			
8. Company receptionist					X
9. Advertising cost				X	

10. Cost of shipping vehicles to customers

X

DIF: Medium OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

3. The Bayou company makes crab pots. During the current month, direct materials costing \$126,000 were put into production. Direct labor of \$78,000 was incurred and overhead equaled \$84,000. Selling and administrative expenses totaled \$66,000 for the month and the company manufactured 3,000 crab pots. Assume there was no beginning inventory and that 2,800 crab pots were sold.

Required:

- A. Compute the per-unit product cost
- B. Compute the per-unit prime cost
- C. Compute the per-unit conversion cost
- D. What is cost of goods sold for the month?
- E. What is the cost of ending finished goods for the month?

ANS:

- A. $(\$126,000 + \$78,000 + \$84,000)/3,000 = \96
- B. $(\$126,000 + \$78,000)/3,000 = \$68$
- C. $(\$78,000 + \$84,000)/3,000 = \$54$
- D. $(\$96 \times 2,800) = \$268,800$
- E. $(\$96 \times 200) = \$19,200$

DIF: Medium OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

4. The Blanchett Company manufactures fishing rods. Last year, direct materials costing \$516,000 were put into production. Direct labor of \$430,000 was incurred and overhead equaled \$645,000. The company had operating income for the year of \$58,000 and manufactured and sold 86,000 fishing rods at a sales price of \$21 per unit. Assume that there were no beginning or ending inventory balances in the Work in Process and Finished Goods Inventory accounts.

Required:

- A. Compute the per-unit product cost
- B. Compute the per-unit prime cost
- C. Compute the per-unit conversion cost
- D. Compute the gross margin for the year
- E. Compute the selling and administrative expenses for the year
- F. Assume production amounted to 86,000 fishing rods and 80,000 were sold. Compute cost of goods sold.
- G. Assume production amounted to 86,000 fishing rods and 80,000 were sold. Compute the balance in ending Finished Goods inventory.

ANS:

- A. $(\$516,000 + \$430,000 + \$645,000)/86,000 = \18.50
- B. $(\$516,000 + \$430,000)/86,000 = \$11.00$
- C. $(\$430,000 + \$645,000)/86,000 = \$12.50$
- D.
- | | |
|-------------------------|------------------|
| Sales (86,000 × \$21) | \$1,806,000 |
| COGS (86,000 × \$18.50) | <u>1,591,000</u> |
| Gross Margin | 215,000 |
- E.
- | | |
|------------------------|----------------|
| Gross Margin | \$ 215,000 |
| Less: Sell. and admin. | <u>157,000</u> |
| Operating Income | 58,000 |
- F. $(80,000 × \$18.50) = \$1,480,000$
- G. $(6,000 × \$18.50) = \$111,000$

DIF: Medium OBJ: 2.2 | 2.3

NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting

5. The Butchart Company manufactures microwave ovens. Last year, the per-unit product cost was \$56, the per-unit prime cost was \$34, and the per-unit conversion cost was \$42. Cost of Goods Sold for the year was \$560,000 and the sale price per unit was \$100. In addition, direct labor costs of \$200,000 and selling and administrative expenses of \$240,000 were incurred.

Required:

- A. Calculate how many units were sold last year
- B. Compute the cost of direct materials used
- C. Compute the cost of overhead
- D. Compute the Gross margin for the year
- E. Calculate Operating income

ANS:

- A. Cost of Goods Sold $\$560,000/\$56 = 10,000$ units
- B. $10,000 × \$34 - (\$200,000 \text{ of direct labor cost}) = \$140,000$
- C. $10,000 × \$42 - (\$200,000 \text{ of direct labor cost}) = \$220,000$
- D.
- | | |
|--------------------------------|----------------|
| Sales Revenue (10,000 × \$100) | \$1,000,000 |
| Cost of Goods Sold | <u>560,000</u> |
| Gross Margin | 440,000 |
- E.
- | | |
|------------------------|----------------|
| Gross Margin | \$ 440,000 |
| Less: Sell. and Admin. | <u>240,000</u> |
| Operating Income | 200,000 |

DIF: Challenging OBJ: 2.2 | 2.3

NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting

6. Tucker Company, a manufacturing firm, has supplied the following information from its accounting records for the month of April.

Direct labor cost	\$12,000
Purchases of raw materials	17,000
Factory insurance	4,000
Research and development	7,500
Factory property taxes	3,000
Sales commissions paid	4,500
Work in process, April 1	2,000
Work in process, April 30	2,800
Materials inventory, April 1	1,475
Materials Inventory, April 30	1,200
Finished Goods Inventory, April 1	2,250
Finished Goods Inventory, April 30	750

Required: Prepare a Statement of Cost of Goods Manufactured

ANS:

Tucker Company Statement of Cost of Goods Manufactured For the month ended April 30		
Materials Inventory, April 1	\$ 1,475	
Materials purchased	17,000	
Materials Available for Use	18,475	
Materials Inventory, April 30	1,200	
Materials used		\$17,275
Direct Labor		12,000
Overhead		7,000
Total Manufacturing costs		36,275
Work in Process, April 1		2,000
Work in Process, April 30		<2,800>
Cost of Goods Manufactured		\$35,475

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

7. In June, Olympic Company purchased materials costing \$38,000, and incurred direct labor cost of \$42,000. Overhead totaled \$27,000 for the month. Information on inventories was as follows.

	June 1	June 30
Materials	\$3,000	\$2,700
Work in Process	1,000	1,275
Finished Goods	2,500	1,775

Required:

- A. Calculate the cost of direct materials used during June.
- B. Calculate the total manufacturing cost for June.
- C. Calculate the Cost of Goods Manufactured for June.
- D. Calculate Cost of Goods Sold for June.

ANS:

A.	Materials, 6/1	\$ 3,000
	Purchases	38,000
	Materials, 6/30	<u><2,700></u>
	Materials used	\$ 38,300
B.	(\$38,300 + \$42,000 + \$27,000) = \$107,300	
C.	Total Manufacturing costs	\$107,300
	Work in process, 6/1	1,000
	Work in process, 6/30	<u><1,275></u>
	Cost of Goods Manufactured	\$107,025
D.	Cost of Goods Manufactured	\$107,025
	Finished Goods, 6/1	2,500
	Finished Goods, 6/30	<u><1,775></u>
	Cost of Goods Sold	\$107,750

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

8. Templar Company, a manufacturing firm, has supplied the following information from its accounting records for the month of November:

Factory supplies used	\$18,000
Depreciation on factory building	17,000
Salary of company controller	6,000
Factory janitorial costs	5,000
Marketing and promotion	4,500
Direct labor cost	22,000
Purchases of raw materials	10,000
Finished Goods Inventory, Nov. 1	2,250
Finished Goods Inventory, Nov. 30	3,750
Work in Process Inventory, Nov. 1	4,200
Work in Process Inventory, Nov. 30	2,750
Materials Inventory, Nov. 1	3,500
Materials Inventory, Nov. 30	5,100

Required:

- A. Prepare a Statement of Cost of Goods Manufactured
 B. Prepare a Statement of Cost of Goods Sold

ANS:

Templar Company
 Statement of Cost of Goods Manufactured
 For the month of November

Materials Inventory, Nov. 1	\$ 3,500
Purchases of materials	10,000
Materials Inventory, Nov. 30	<u><5,100></u>
Materials used	\$ 8,400
Direct Labor	22,000
Overhead	<u>40,000</u>
Total manufacturing costs	70,400
Work in Process Inventory, Nov. 1	4,200
Work in Process Inventory, Nov. 30	<u><2,750></u>

Cost of Goods Manufactured \$71,850

Templar Company
 Statement of Cost of Goods Sold
 For the month of November

Cost of Goods Manufactured	\$71,850
Finished Goods Inventory, Nov. 1	2,250
Finished Goods Inventory, Nov. 30	<u><3,750></u>
Cost of Goods Sold	\$70,350

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

9. Fidalgo Company makes stereos. During the year, Fidalgo manufactured and sold 75,000 stereos at a sales price of \$575 per unit. Fidalgo's per-unit product cost was \$540 and selling and administrative expenses totaled \$2,000,000.

Required:

- A. Compute the total sales revenue
- B. Compute the gross margin
- C. Compute the operating income
- D. Compute the operating income if 75,000 stereos were produced and 69,000 were sold.

ANS:

A. $75,000 \times \$575 = \$43,125,000$

B. Sales Revenue	\$43,125,000
Cost of Goods Sold (75,000 × \$540)	<u>40,500,000</u>
Gross Margin	2,625,000

C. Gross Margin	\$ 2,625,000
Selling and Adm. Expenses	<u>2,000,000</u>
Operating Income	625,000

D. Sales Revenue	\$39,675,000
Cost of Goods Sold (69,000 × \$540)	<u>37,260,000</u>
Gross Margin	2,415,000
Selling and Adm. Expenses	<u>2,000,000</u>
Operating Income	415,000

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

10. Baleen Company supplied the following data at the end of the current year:

Sales commissions	\$ 12,000
Sales revenue	120,000
Research and development	17,000
Finished Goods Inventory, Jan. 1	7,500
Work in Process Inventory, Jan 1	9,000
Finished Goods Inventory, Dec. 31	6,000
Work in Process Inventory, Dec. 31	11,000

Cost of Goods Manufactured 52,000

Required: Prepare an Income Statement for Baleen Company.

ANS:

Baleen Company Income Statement For the year ended December 31, 20xx	
Sales Revenue	\$120,000
Cost of Goods Sold*	<u>53,500</u>
Gross Margin	66,500
Less:	
Selling Expense	12,000
Administrative Expense	<u>17,000</u>
Operating Income	\$ 37,500
*Cost of Goods Manufactured	\$ 52,000
Finished Goods Inventory, Jan. 1	7,500
Finished Goods Inventory, Dec. 31	<6,000>

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

11. Macon Company supplied the following data and information on inventories at the end of the current year.

	<u>January 1</u>	<u>December 31</u>
Materials	\$21,000	\$23,500
Work in Process	17,500	8,500
Finished Goods	26,000	27,000
Direct Labor		\$ 40,000
Selling Expenses		31,000
Sales Revenue		400,000
Administrative Expenses		14,500
Purchases of raw materials		62,000
Factory Supervision		50,000
Factory supplies used		25,000

Required: Prepare an Income Statement of Macon Company for the current year

ANS:

Macon Company Income Statement For the year ended December 31, 20xx	
Sales Revenue	\$ 400,000
Cost of Goods Sold*	<u>182,500</u>
Gross Margin	217,500
Less:	
Selling Expenses	31,000
Administrative Expenses	<u>14,500</u>

Operating Income	\$172,000
*Cost of Goods Manufactured**	\$183,500
Finished Goods Inventory, Jan. 1	26,000
Finished Goods Inventory, Dec. 31	<u><27,000></u>
Cost of Goods Sold	182,500
**Purchases of raw materials	\$ 62,000
Materials Inventory, 1/1	21,000
Materials Inventory, 12/31	<u><23,500></u>
Materials used	59,500
Direct Labor	40,000
Overhead (\$50,000 + \$25,000)	<u>75,000</u>
Total manufacturing costs	174,500
Work in Process Inventory, Jan. 1	17,500
Work in Process Inventory, Dec. 31	<u><8,500></u>
Cost of Goods Manufactured	\$183,500

DIF: Challenging OBJ: 2.3

NAT: AACSB Analytic | IMA-Reporting

12. Bartlow Company has supplied the following information from its accounting records for the month of May.

Direct labor cost	\$11,500
Purchases of raw materials	20,000
Factory depreciation	7,500
Advertising	10,000
Factory property taxes	6,500
Materials Inventory, 5/1	1,250
Materials Inventory, 5/31	2,500
Work in Process Inventory, 5/1	?
Work in Process Inventory, 5/31	1,500
Cost of Goods Manufactured	45,850
Sales Revenue	?
Executive salary cost	25,000
Finished Goods Inventory, 5/1	5,500
Finished Goods Inventory, 5/31	4,250
Operating Income	67,900
Gross Margin	?

Required: Solve for the missing amounts (?)

ANS:

Bartlow Company
Schedule of Cost of Goods Manufactured
For the month of May

Materials Inventory, 5/1	\$ 1,250
Purchases of materials	20,000
Materials Inventory, 5/31	<u><2,500></u>
Materials used	\$18,750
Direct labor	11,500
Overhead (7,500 + 6,500)	<u>14,000</u>
Total Manufacturing costs	44,250

Work in Process, 5/1	3,100
Work in Process, 5/31	<u><1,500></u>
Cost of Goods Manufactured	\$45,850

Bartlow Company
Income Statement
For the month of May

Sales Revenue	\$150,000
Cost of Goods Sold*	<u>47,100</u>
Gross Margin	102,900
Less:	
Selling Expense	10,000
Administrative Expense	<u>25,000</u>
Operating Income	\$ 67,900
*Cost of Goods Manufactured	\$ 45,850
Finished Goods Inventory, 5/1	5,500
Finished Goods Inventory, 5/31	<u><4,250></u>
Cost of Goods Sold	\$ 47,100

DIF: Challenging OBJ: 2.3

NAT: AACSB Analytic | IMA-Reporting

13. See the following separate cases.

	<u>Case #1</u>	<u>Case #2</u>
Sales	\$1,000	\$1,300
Cost of Goods Manufactured	A	500
Finished Goods Inventory (beginning balance)	100	D
Finished Goods Inventory (ending balance)	150	200
Cost of Goods Sold	B	600
Gross Margin	300	E
Selling Expenses	C	75
Administrative Expenses	50	40
Operating Income	200	F

Required: Solve for the missing amounts (A,B,C,D,E,F)

ANS:

	<u>Case #1</u>	<u>Case #2</u>
Sales	<u>\$1,000</u>	<u>\$1,300</u>
Cost of Goods Manufactured	750	500
Finished Goods Inventory (beginning balance)	<u>100</u>	<u>300</u>
Finished Goods Inventory (ending balance)	<u><150></u>	<u><200></u>
Cost of Goods Sold	<u>700</u>	<u>600</u>
Gross Margin	300	700
Selling Expenses	50	75
Administrative Expenses	<u>50</u>	<u>40</u>
Operating Income	200	585

DIF: Medium OBJ: 2.3

NAT: AACSB Analytic | IMA-Reporting

14. See the following separate cases.

	<u>Case #1</u>	<u>Case #2</u>
Purchase of materials	\$ 5,000	C
Materials Inventory (beginning balance)	A	220
Materials Inventory (ending balance)	1,000	350
Direct Labor	7,000	4,250
Factory supervision	1,500	1,100
Factory supplies	1,250	900
Total Manufacturing costs	14,500	D
Work in Process Inventory (beginning balance)	1,200	1,230
Work in Process Inventory (ending balance)	B	650
Cost of Goods Manufactured	14,600	10,200

Required: Solve for the missing amounts (A,B,C,D)

ANS:

	<u>Case #1</u>	<u>Case #2</u>
Purchases of materials	\$ 5,000	\$ 3,500
Materials Inventory (beginning balance)	750	220
Materials Inventory (ending balance)	<u><1,000></u>	<u><350></u>
Materials used	4,750	3,370
Direct Labor	7,000	4,250
Overhead	<u>2,750</u>	<u>2,000</u>
Total Manufacturing Costs	14,500	9,620
Work in Process Inventory, (beginning balance)	1,200	1,230
Work in Process Inventory, (ending balance)	<u><1,100></u>	<u><650></u>
Cost of Goods Manufactured	\$14,600	\$10,200

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

15. Rancor Company's accountant prepared the following Income Statement for the month of August.

Rancor Company Income Statement For the month of August	
Sales Revenue	\$912,200
Cost of Goods Sold	<u>601,920</u>
Gross Margin	310,080
Less:	
Selling Expense	164,160
Administrative Expense	<u>63,840</u>
Operating Income	\$ 82,080

Required:

- A. Calculate the Sales revenue percent
- B. Calculate the Cost of Goods Sold percent
- C. Calculate the Gross Margin percent
- D. Calculate the Selling Expense percent
- E. Calculate the Administrative Expense percent
- F. Calculate the Operating Income percent

ANS:

- A. $912,000/912,000 = 100\%$
- B. $601,920/912,000 = 66\%$
- C. $310,080/912,000 = 34\%$
- D. $164,160/912,000 = 18\%$
- E. $63,840/912,000 = 7\%$
- F. $82,080/912,000 = 9\%$

DIF: Easy OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

16. Extrema Company supplied the following data at the end of the current year.

Finished Goods Inventory, Jan 1.	\$ 12,000
Finished Goods Inventory, Dec. 31	7,500
Cost of Goods Manufactured	152,380
Sales Revenue	212,000
Sales commissions	19,080
Research and development costs	15,900

Required:

- A. Calculate the Cost of Goods Sold percent
- B. Calculate the Gross Margin percent
- C. Calculate the Selling Expense percent
- D. Calculate the Administrative Expense percent
- E. Calculate the Operating Income percent

ANS:

A. Cost of Goods Manufactured	\$152,380
Finished Goods Inventory, 1/1	12,000
Finished Goods Inventory, 12/31	<u><7,500></u>
Cost of Goods Sold	156,880
Sales Revenue	\$212,000
Cost of Goods Sold	<u>156,880</u>
Gross Margin	55,120
Less:	
Selling Expense	19,080
Administrative Expense	<u>15,900</u>
Operating Income	\$ 20,140

- A. $156,880/212,000 = 74\%$
- B. $55,120/212,000 = 26\%$
- C. $19,080/212,000 = 9\%$
- D. $15,900/212,000 = 7.5\%$
- E. $20,140/212,000 = 9.5\%$

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

17. Rizzuto Company supplied the following information for the month of January.

Cost of Goods Sold percent	62%
Selling Expense percent	6%
Administrative expense	13%

Required: Reconstruct Rizzuto's Income Statement for January assuming that their total sales revenue for the month equaled \$500,000.

ANS:

Rizzuto Company
Income Statement
For the month of January

Sales Revenue	\$500,000
Cost of Goods Sold (500,000 × 62%)	<u>310,000</u>
Gross Margin (500,000 × 38%)	190,000
Less:	
Selling Expense (500,000 × 6%)	30,000
Administrative Expense (500,000 × 13%)	<u>65,000</u>
Operating Income	95,000

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

18. Cashman Company supplied the following information for the month of December.

Operating Income percent	10.5%
Gross Margin percent	30%

Required: Solve for the following amounts assuming that Cashman Company's Operating Income in December was \$44,100.

- A. Sales Revenue
- B. Cost of Good Sold
- C. Total Selling and Administrative expenses

ANS:

A. Sales Revenue = $\$44,100 / .105 = 420,000$	
B. Cost of Goods sold = $420,000 \times .70 = \$294,000$	
C. Gross Margin (420,000 × .30)	126,000
Less: Selling and Administrative Exp.	<u>81,900</u>
Operating Income	44,100

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

19. Wapato Company produces a product with the following per unit costs.

Direct materials	\$17
Direct labor	11
Overhead	12

Last year, Wapato produced and sold 3,000 units at a sales price of \$80 each. Total selling and administrative expenses were \$25,000.

Required: Solve for the following

- A. Total Cost of Goods Sold for last year
- B. Operating Income for last year
- C. Total Gross Margin for last year
- D. Prime cost per unit

ANS:

A. $(17 + 11 + 12) \times 3,000 = \$120,000$

B. & C.	Sales Revenue (3,000 × 80)	\$240,000
	Cost of Goods Sold	<u>120,000</u>
	Gross Margin	120,000
	Less:	
	Selling and Administrative expenses	<u>25,000</u>
	Operating Income	\$ 95,000

D. $17 + 11 = \$28$

DIF: Easy OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

20. Tesco Company showed the following costs for last month.

Direct Materials	\$40,000
Direct Labor	35,000
Overhead	52,000
Selling Expense	17,000
Administrative Expense	12,000

Last month, Tesco produced and sold 20,000 units at a sales price per unit of \$18. Assume no beginning or ending inventory balances for Work in Process and Finished Goods Inventory.

Required: Solve for the following amounts.

- A. Total product cost for last month
- B. Unit product cost for last month
- C. Total period costs
- D. Gross Margin for last month
- E. Operating Income for last month

ANS:

A. $40,000 + 35,000 + 52,000 = \$127,000$

B. $127,000/20,000 = \$6.35$

C. $17,000 + 12,000 = \$29,000$

D & E.	Sales Revenue (20,000 × \$18)	360,000
	Cost of Goods Sold	<u>127,000</u>
	Gross Margin	233,000
	Less:	
	Selling Expense	17,000
	Administrative Expense	<u>12,000</u>

Operating Income

\$204,000

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

ESSAY

1. What is the difference between a period cost and a product cost?

ANS:

A period cost is a non-manufacturing cost that is expensed during the current period rather than inventoried. Examples of period costs would be selling and administrative costs. A product cost is a manufacturing cost that is inventoried and expensed as Cost of Goods Sold only when the goods have been sold. Product costs are classified as direct materials, direct labor, or overhead.

DIF: Medium OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

2. Describe the purpose of the three inventory accounts used by a manufacturer.

ANS:

The Materials Inventory is used to keep track of materials that have not yet been used in production. The Work in Process Inventory is used to account for the costs of goods that were partially completed at the end of the accounting period. The Finished Goods Inventory is used to account for the cost of goods that were finished at the end of the current period but have not yet been sold.

DIF: Medium OBJ: 2.2 | 2.3
NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting

3. What is the difference between total manufacturing costs and cost of goods manufactured?

ANS:

Total manufacturing costs would consist of the cost of materials used, the direct labor costs incurred and the overhead costs incurred during the current period. Cost of goods manufactured would be computed by adding the beginning balance of Work in process to and subtracting the ending balance of Work in process from the total manufacturing costs.

DIF: Medium OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

4. List and describe the three categories of manufacturing costs.

ANS:

Direct materials consists of the cost of materials requisitioned and used in production during the current period. Direct materials are materials that can be accurately and conveniently traced to the product. Direct labor consists of labor costs of workers directly involved in the manufacture of the product. Overhead consists of all the manufacturing costs that do not fall into the direct material or direct labor category. Examples of overhead costs include; insurance on the factory, machinery depreciation, indirect labor, indirect materials, factory supplies, etc..

DIF: Medium OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

5. Explain the difference between an inventoriable cost and a non-inventoriable cost.

ANS:

An inventoriable cost is a cost of manufacturing the product. Inventoriable costs are also referred to as product costs and manufacturing costs. They include direct materials, direct labor, and overhead. Inventoriable costs are not expensed until the goods are sold. A non-inventoriable cost is a selling or administrative cost that is expensed immediately in the accounting period that it is incurred. Non-inventoriable costs are also referred to as period costs or non-manufacturing costs.

DIF: Medium OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics