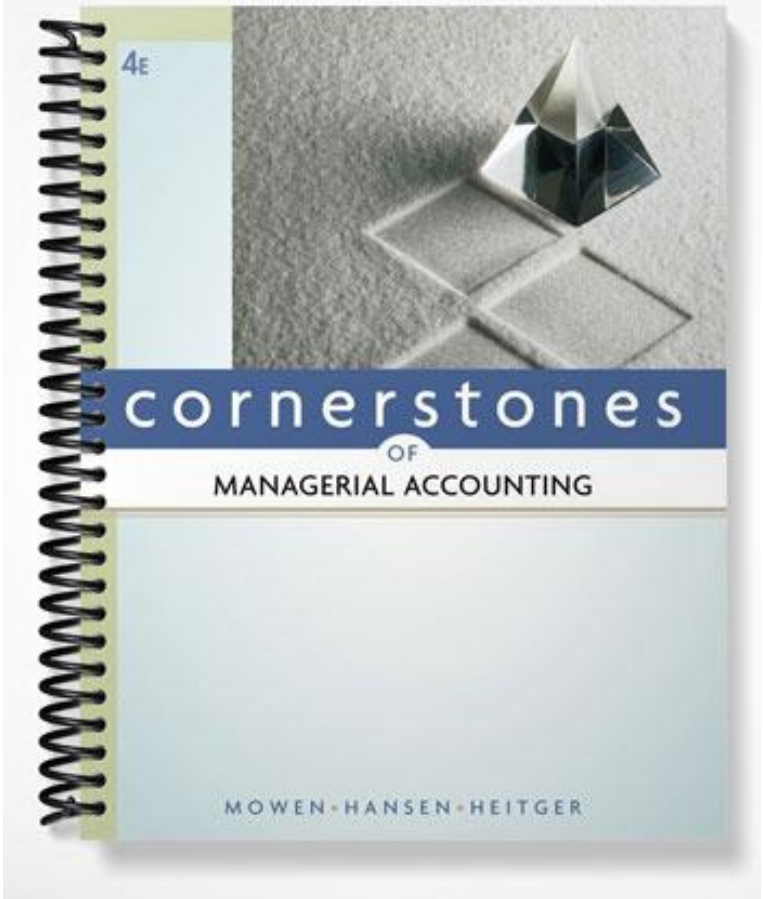
TEST BANK


4E
cornerstones
OF
MANAGERIAL ACCOUNTING
MOWEN • HANSEN • HEITGER

Chapter 2--Basic Managerial Accounting Concepts

Student: _____

1. It is beneficial to assign indirect costs to cost objects.
True False

2. Price must be greater than cost in order for the firm to generate revenue.
True False

3. Accumulating costs is the way that costs are measured and recorded.
True False

4. Assigning costs involves the way that a cost is linked to some cost object.
True False

5. Assigning costs tells the accountant who spent the money.
True False

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

7. Costs are directly, *not i*ndirectly, associated with cost objects.
True False

8. Direct costs are those costs that cannot be easily and accurately traced to a cost object.
True False

9. Indirect costs are costs that are *not* easily and accurately traced to a cost object.
True False

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

11. A variable cost is one that does *not* increase in total as output increase and does *not* decrease in total as output decreases.
True False

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

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

14. Cost is a dollar measure of the resources used to achieve a given benefit.
True False

15. A cost object is something for which a company wants to know the cost.
True False

16. The revenue per unit is called cost.
True False

17. As costs are used up in the production of revenues, they are said to expire. Expired costs are called expenses.
True False

18. Costs are incurred to produce future benefits.
True False

19. Expired costs are called assets.
True False

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

21. Costs can be assigned to cost objects in only one way.
True False

22. Property taxes on a factory building would normally be classified as a fixed cost.
True False

23. Glue used in the manufacture of cabinets would be an example of a fixed cost.
True False

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

25. Research and development costs would be classified as product cost.
True False

26. Product costs include direct materials, direct labor, and selling costs.
True False

27. All product costs other than direct materials and indirect labor are called overhead.
True False

28. Direct materials can be directly traced to the goods or services being produced.
True False

29. Any costs associated with storing, selling, and delivering the product are classified as product costs.
True False

30. Prime cost is the sum of direct materials cost and direct labor cost.
True False

31. Product costs are carried in inventory until the goods are finished.
True False

32. Marketing costs would be classified as period costs.
True False

33. The cost of janitorial services for a factory building would be classified as indirect labor.
True False

34. Period costs are all costs that are *not* product costs, such as office supplies.
True False

35. Employees who convert direct materials into a product or who provide a service to customers are classified as indirect labor.
True False

36. All manufacturing costs are classified as overhead.
True False

37. For external reporting purposes, costs must be classified into only three categories.
True False

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

39. Cost of goods sold is the total product cost of the units sold during a period.
True False

40. Sales revenue equals the product cost per unit times the number of units sold.
True False

41. Gross margin is the difference between sales revenue and cost of goods sold.
True False

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

1. (direct labor + overhead)/units produced	per-unit conversion cost	____
2. (direct materials + direct labor)/units produced	per-unit cost of goods manufactured	____
3. (total manufacturing costs + work in process beginning - work in process ending)/units produced	per-unit prime cost	____

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

1. A cost that is not inventoried	opportunity cost	____
2. A cost that can be easily traced to a cost object	fixed cost	____
3. A benefit given up when one alternative is chosen over another	indirect cost	____
4. A manufacturing cost	product cost	____
5. A cost that is difficult to trace to a cost object	period cost	____
6. A cost that increases in total as output increases	direct cost	____
7. A cost that stays the same in total regardless of changes in output	variable cost	____

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

1. (direct materials + direct labor + overhead) +/- the change in work in process inventory from the beginning to the end of the current period	Finished goods inventory	____
2. Direct materials + direct labor + overhead	Total manufacturing costs	____
3. Beginning finished goods inventory + Cost of goods manufactured - Ending finished goods inventory	Work in process inventory	____
4. The cost of units unfinished at the end of the current period	Cost of goods sold	____
5. The cost of units finished but not sold at the end of the current period	Cost of goods manufactured	____

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

1. sales revenue - cost of goods sold	operating income	____
2. Beginning finished goods inventory + Cost of goods manufactured - Ending finished goods inventory	selling expenses	____
3. marketing and distributing costs	sales revenue	____
4. gross margin - selling and administrative expenses	gross margin	____
5. price x units sold	cost of goods sold	____

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

1. The total cost of goods completed during the current period	Operating income	____
2. Cost of partially completed goods	Gross margin	____
3. Gross margin - selling and administrative expenses	Cost of goods manufactured	____
4. The difference between sales revenue and cost of goods sold	Income Statement	____
5. Covers a particular period of time	Work in process	____

47. Expired costs are called _____.

_____

48. _____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.

_____

49. _____ is the way that a cost is linked to some cost object.
_____

50. A _____ is any item such as a product, customer, department, project, geographic region, plan and so on, for which costs are measured and assigned.
_____

51. Costs that can be easily and accurately traced to a cost object are called _____.
_____

52. The process of assigning an indirect cost to a cost object by using a reasonable and convenient method is called _____.
_____

53. A(n)_____ is the benefit given up or sacrificed when one alternative is chosen over another.
_____

54. A(n) _____ is a cost that does not increase in total as output increase and does not decrease in total as output decreases.
_____

55. Organizations that produce products are called _____.
_____

56. _____ are those costs, both direct and indirect, of producing a product in a manufacturing firm or of acquiring a product in a merchandising firm and preparing it for sale.
_____

57. Materials that become part of a product usually are classified as _____.
_____

58. Insurance coverage, medical care, and accounting are examples of _____ performed for customers.
_____

59. _____ equals the sum of direct materials, direct labor, and manufacturing overhead.
_____

60. All product costs other than direct materials and direct labor are put into a category called _____.
_____

61. _____ is the sum of direct labor cost and manufacturing overhead cost.
_____

62. _____ and _____ costs are considered period costs.
_____

63. Employees who convert direct materials into a product are classified as _____.
_____

64. _____ is the cost of the partially completed goods that are still on the factory floor at the end of a time period.
_____

65. The difference between sales revenue and cost of goods sold is known as the _____.
_____

66. The _____ represents that total product cost of goods completed during the current period and transferred to finished goods inventory.
_____

67. Expired costs are called
A. fixed.
B. costs.
C. expenses.
D. profit.

68. Assigning costs to cost objects
A. provides information for decision making.
B. can be accomplished in a number of ways.
C. can be a simple or complex process.
D. do all of these.

69. An indirect cost
A. can be easily and accurately traced to a cost object.
B. is hard to trace.
C. should never be assigned to a cost object.
D. do none of these.

70. A variable cost in total
A. increases as output increases and decreases as output decreases.
B. increases as output increases and/or decreases.
C. remains constant no matter the level of output.
D. increases as output decreases and decreases as output increases.

71. Cost is:
A. the difference between sales revenue and cost of goods sold.
B. the benefit given up or sacrificed when on alternative is chosen over another.
C. 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.
D. the revenue per unit.

72. Price is *not*:
A. the revenue per unit.
B. greater than cost in order for the firm to earn income.
C. the same as cost.
D. the same as cost per unit plus the income per unit.

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

74. An opportunity cost is:
A. the benefit given up or sacrificed when one alternative is chosen over another.
B. the cost to market, distribute, and service a product or service.
C. the total product cost of goods completed during the current period and transferred to finished goods inventory.
D. the difference between sales revenue and cost of goods sold.

75. Non-manufacturing costs include
A. marketing and administration.
B. direct materials.
C. indirect materials.
D. overhead.

76. Which of the following is an example of an intangible product?
A. motorcycle
B. eye exam
C. stereo
D. television

77. Which of the following is an example of a tangible product?
A. lawn care
B. accounting services
C. customer service
D. computer

78. Costs are subdivided into what two major functional categories?
A. opportunity and allocation
B. fixed and variable
C. product and non-production
D. direct and indirect

79. Product costs
A. are costs that are included in the determining the value of the inventory.
B. are manufacturing costs.
C. include direct materials, direct labor, and overhead.
D. are all of these.

80. Which of the following would *not* be a period cost?
A. research and development
B. direct materials
C. advertising costs
D. office supplies

81. Which of the following would be an example of a direct materials cost?
A. engine on an airplane
B. screws used to manufacture a lighting fixture
C. glue used to build cabinets
D. nails used to manufacture a table

82. Product costs consist of
A. period costs.
B. indirect materials, indirect labor, and administrative costs.
C. direct materials, direct labor, and selling costs.
D. direct materials, direct labor, and overhead.

83. Which of the following is *not* an example of a direct materials cost?
A. shelves on a bookcase
B. engine in a car
C. tires on a bicycle
D. nail used to manufacture a desk

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

85. Which of the following is an example of direct labor?
A. vice president of marketing
B. assembly line worker for televisions
C. staff accountant
D. supervisor at a manufacturing plant

86. Direct labor is a(n)
A. product cost.
B. opportunity cost.
C. administrative cost.
D. fixed cost.

87. Overhead includes
A. indirect labor.
B. indirect materials.
C. supplies.
D. all of these.

88. Which of the following would *not* be included in overhead?
A. marketing costs
B. property taxes on the factory
C. factory utility costs
D. deprecation on factory machinery

89. Indirect labor would include
A. salary of the vice-president of marketing.
B. salary of CEO.
C. salary of factory supervisor.
D. none of these are correct.

90. The unit cost
A. is the total product costs divided by the number of units produced.
B. includes period costs.
C. is the total prime costs divided by the number of units produced.
D. is the total conversion costs divided by the number of units produced.

91. Prime cost is
A. indirect materials cost and direct labor cost.
B. direct materials cost and direct labor cost.
C. direct labor cost and indirect labor cost.
D. direct materials cost and indirect labor cost.

92. Conversion cost is the sum of
A. product costs and period costs.
B. selling cost and administrative costs.
C. direct labor cost and direct materials costs.
D. direct labor cost and overhead costs.

93. Period costs
A. are selling costs and administrative costs.
B. are used to compute product cost.
C. can be included in overhead costs.
D. are carried in inventory until the goods are sold.

94. Which of the following is an example of a period cost?
A. research and development
B. selling and marketing
C. general accounting
D. all of these

95. Cost of goods manufactured equals
A. the cost of indirect materials used in production.
B. the product cost of goods completed during the current period.
C. the period costs for the current period.
D. the cost of direct materials and direct labor used during the current period.

96. Cost of goods manufactured equals
A. total product costs incurred during the current period + beginning work in process - ending work in process.
B. direct materials cost + direct labor cost + overhead cost.
C. sales - cost of goods sold.
D. none of these are correct.

97. The cost of the partially completed goods at the end of the period would be
A. ending work in process inventory.
B. cost of goods sold.
C. beginning finished goods inventory.
D. beginning work in process inventory.

98. Product costs are expensed
A. when the product is finished.
B. when the product unit cost is calculated.
C. when the product is sold.
D. all of these are correct.

99. 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?
A. 70,000
B. 18,000
C. 48,000
D. 30,000

100. 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?
A. $20,000
B. $35,000
C. $90,000
D. $30,000

101. 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 that the materials inventory on January 31, what was the cost of materials purchased during the month?
A. $37,000
B. $43,000
C. $40,000
D. none of these

102. Production costs that are *not* attached to units that are sold are reported as:
A. selling expenses.
B. cost of goods sold.
C. administrative costs.
D. inventory.

103. Information from the records of Cain Corporation for December 2011 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		
	Inventories		
	Dec. 1, 2011		Dec. 31, 2011
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.

104. Information from the records of Cain Corporation for December 2011 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		
	Inventories		
	Dec. 1, 2011		Dec. 31, 2011
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.

105. **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.

Refer to Figure 2-1. The per-unit conversion cost was:
A. $218.75
B. $156.25
C. $162.50
D. $100.00

106. **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.

Refer to Figure 2-1. The total product costs for last month were:
A. $1,750,000
B. $2,110,000
C. $1,300,000
D. $1,250,000

107. **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.

Refer to Figure 2-1. The total per unit prime cost was:
A. $263.75
B. $62.50
C. $162.50
D. $156.25

108. **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.

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

109. **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:

	July 1	July 31
Materials	$6,200	$7,100
Work in process	$ 700	$1,200
Finished goods	$3,300	$2,700

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

110. **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:

	July 1	July 31
Materials	$6,200	$7,100
Work in process	$ 700	$1,200
Finished goods	$3,300	$2,700

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

111. **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:

	July 1	July 31
Materials	$6,200	$7,100
Work in process	$ 700	$1,200
Finished goods	$3,300	$2,700

Refer to Figure 2-5. What was the cost of goods manufactured for July?
A. $70,500
B. $70,700
C. $69,600
D. $69,100

112. **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:

	July 1	July 31
Materials	$6,200	$7,100
Work in process	$ 700	$1,200
Finished goods	$3,300	$2,700

Refer to Figure 2-5. What was the cost of goods sold for July?
A. $70,200
B. $69,600
C. $71,300
D. $71,100

113. **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:

	July 1	July 31
Materials	$6,200	$7,100
Work in process	$ 700	$1,200
Finished goods	$3,300	$2,700

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?
A. $9.94
B. $10.00
C. $10.09
D. $10.11

114. **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.

Refer to Figure 2-7. Prime cost per-unit was?
A. $19
B. $23
C. $34
D. $11

115. **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.

Refer to Figure 2-7. Cost of goods sold last year was?
A. $47,500
B. $25,500
C. $14,250
D. $51,000

116. **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.

Refer to Figure 2-7. Total operating income last year was?
A. $29,000
B. $51,000
C. $25,500
D. $3,500

117. **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.

Refer to Figure 2-8. Total period expense was?
A. $24,000
B. $190,000
C. $46,000
D. $250,000

118. **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.

Refer to Figure 2-8. Gross margin per-unit was?
A. $125
B. $7
C. $95
D. $30

119. **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.

Refer to Figure 2-8. Total product costs were?
A. $190,000
B. $100,000
C. $150,000
D. $236,000

120. **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.

Refer to Figure 2-8. Conversion cost per unit was?
A. $50
B. $75
C. $95
D. $125

121. Cost of goods sold
A. represents all costs associated with research, development, and general administration of the organization.
B. is found on the Balance Sheet.
C. is the cost of the partially completed goods that are still on the factory floor at the end of the period.
D. is the total product cost for the units sold during a period.

122. Which of the following would *not* be found on the income statement of a manufacturer?
A. cost of goods sold
B. work in process
C. sales revenue
D. operating income

123. Which of the following would be found on the balance sheet of a manufacturer?
A. work in process
B. raw materials
C. finished goods
D. All of the these are correct

124. Which of the following would be found on the balance sheet of a manufacturer?
A. sales revenue
B. selling expenses
C. factory equipment
D. all of these are correct

125. Gross margin equals
A. cost of goods sold - selling and administrative expenses.
B. direct materials + direct labor + manufacturing overhead.
C. sales revenue - cost of goods sold.
D. cost of goods manufactured + selling and administrative expenses.

126. Operating income equals
A. sales revenue - cost of goods sold - selling and administrative expense
B. gross margin - selling expenses
C. sales revenue - cost of goods sold
D. sales revenue - selling and administrative expenses

127. 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.

128. Which of the following would *not* be found on an income statement of a service organization?
A. selling expenses
B. cost of goods sold
C. operating income
D. sales revenue

129. Which of the following can be found on the income statements of both a manufacturing and service organization?
A. revenues
B. operating income
C. administrative expenses
D. all of these can be found on both.

130. A manufacturer normally has
A. one inventory account.
B. four inventory accounts.
C. three inventory accounts.
D. none of these are correct.

131. 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.

132. 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

133. **Figure 2-2.**
Lonborg Co. had the following beginning and ending inventory balances for the year ended December 31, 2011:

	January 1, 2011	December 31, 2011
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.

Refer to Figure 2-2. What was the amount of cost of goods manufactured for the year?
A. $101,000
B. $124,000
C. $100,000
D. $102,000

134. **Figure 2-2.**
Lonborg Co. had the following beginning and ending inventory balances for the year ended December 31, 2011:

	January 1, 2011	December 31, 2011
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.

Refer to Figure 2-2. What was the amount of cost of goods sold for the year?

A. $102,000
B. $97,500
C. $106,500
D. $128,500

135. **Figure 2-2.**
Lonborg Co. had the following beginning and ending inventory balances for the year ended December 31, 2011:

	January 1, 2011	December 31, 2011
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.

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

136. **Figure 2-2.**
Lonborg Co. had the following beginning and ending inventory balances for the year ended December 31, 2011:

	January 1, 2011	December 31, 2011
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.

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

137. 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

138. 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

139. Kutlow Inc. had cost of goods sold of $112,000 for the year ended December 31, 2011. The finished goods inventory on January 1, 2011 was $28,000 and the finished goods inventory on December 31, 2011 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

140. 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 are correct

141. **Figure 2-3.**
Bartlow, Inc. had the following income statement for the month of May.

Sales revenue	$428,000	
Cost of goods sold	205,440	
Gross margin	222,560	
Less:		
Selling expenses		81,320
Administrative expenses		72,760
Operating income	$ 68,480	

Refer to Figure 2-3. What was the sales revenue percent?
A. 100%
B. 48%
C. 52%
D. 16%

142. **Figure 2-3.**
Bartlow, Inc. had the following income statement for the month of May.

Sales revenue	$428,000	
Cost of goods sold	205,440	
Gross margin	222,560	
Less:		
Selling expenses		81,320
Administrative expenses		72,760
Operating income	$ 68,480	

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

143. **Figure 2-3.**
Bartlow, Inc. had the following income statement for the month of May.

Sales revenue	$428,000	
Cost of goods sold	205,440	
Gross margin	222,560	
Less:		
Selling expenses		81,320
Administrative expenses		72,760
Operating income	$ 68,480	

Refer to Figure 2-3. What was the gross margin percent?
A. 52%
B. 48%
C. 17%
D. 19%

144. **Figure 2-3.**
Bartlow, Inc. had the following income statement for the month of May.

Sales revenue	$428,000	
Cost of goods sold	205,440	
Gross margin	222,560	
Less:		
Selling expenses		81,320
Administrative expenses		72,760
Operating income	$ 68,480	

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

145. **Figure 2-3.**
Bartlow, Inc. had the following income statement for the month of May.

Sales revenue	$428,000	
Cost of goods sold	205,440	
Gross margin	222,560	
Less:		
Selling expenses		81,320
Administrative expenses		72,760
Operating income	$ 68,480	

Refer to Figure 2-3. What was the administrative expense percent?
A. 17%
B. 19%
C. 16%
D. 15%

146. **Figure 2-3.**
Bartlow, Inc. had the following income statement for the month of May.

Sales revenue	$428,000	
Cost of goods sold	205,440	
Gross margin	222,560	
Less:		
Selling expenses		81,320
Administrative expenses		72,760
Operating income	$ 68,480	

Refer to Figure 2-3. What was the operating income percent?
A. 15%
B. 19%
C. 17%
D. 16%

147. **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

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

148. **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

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?
A. $116,480
B. $141,120
C. $24,640
D. none of these are correct

149. **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

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?
A. $10,864,000
B. $10,839,360
C. $11,005,120
D. $10,888,640

150. **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

Refer to Figure 2-6. What was gross margin for the year?
A. $60,000
B. $100,000
C. $40,000
D. none of these

151. **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

Refer to Figure 2-6. What was cost of goods sold for the year?
A. $60,000
B. $40,000
C. $100,000
D. none of these

152. **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

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

153. **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

Refer to Figure 2-6. What was the sales price per unit?
A. $50
B. $30
C. $20
D. $10

154. 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

155. Information from the records of Place, Inc., for December 2011 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.

156. 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	
	Inventories	
	Dec. 1, 2011	Dec. 31, 2011
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.

157. Stone Company, maker of computers, incurred the following costs during the year:

Required: Classify each cost as either fixed or variable cost.

		Fixed	**Variable**
1.	Salary of the factory supervisor		
2.	Materials needed to assemble the computers		
3.	Wages paid to an assembly line worker		
4.	Depreciation on the factory		
5.	Utility bill for the factory		
6.	Grease used to lubricate the machine		
7.	Rent paid for the factory		
8.	Property taxes on the factory and corporate office		
9.	Boxes used to package the completed computers		
10.	Advertising in a newspaper monthly		

158. 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.

		Product	Period
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		

159. Arcadia Company manufactures recreational vehicles and incurred the following costs during the current year.

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

		Product Cost		Period Cost		
		Direct Materials	Direct Labor	Overhead	Selling Expense	Administrative Expense
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					

160. 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?

161. Ross Company makes handbags. Last month direct materials (leather, thread, zippers, decorative accents) costing $76,000 were put into production. Ross had 30 workers, each worked 160 hours this month and each are paid $12 per hour. Overhead equaled $80,000 for the period. Ross Company produced 40,000 handbags as of the end of the month.

Required: Calculate the total product cost for the month and calculate the cost of one handbag that was produced.

162. Room With A View Company manufactures curtains. Last week, direct materials costing $42,000 were put into production. Direct labor of $22,000 was incurred and overhead totaled $50,000. By the end of the week, the company had produced 12,000 curtains.

Required:
1. Calculate the total prime cost for the week.
2. Calculate the per-unit prime cost.
3. Calculate the total conversion cost for the week.
4. Calculate the per-unit conversion cost.

163. 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.

164. 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

165. Picture It Inc. manufactures customized wooden frames. The direct materials needed to construct the frames are wood, glass and cardboard. Picture It has 22 employees who work a 40 hour work week and are each paid $17 per hour. The company produced and sold 900 frames in the month of September.

During the month of September the following purchases were made to produce the 900 frames:
Wood- 4000 ft. at $1.20/ft.
Glass- 400 pieces at $5.60/piece
Cardboard- 500 pieces at $.50/piece

Required:
1. Calculate the total product cost for the month. Assume that all employees worked four full weeks in September and that the company incurred $55,000 in overhead costs.

2. Calculate the per unit cost.

3. Calculate the gross margin for the month of September assuming that the company sells each frame for $250.

166. 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

167. 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.

168. 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

169. 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.

170. 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.

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

	January 1, 2011	December 31,2011
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.

172. 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 (?)

173. See the following separate cases.

	Case #1	Case #2
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)

174. See the following separate cases.

	Case #1	Case #2
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).

175. 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	601,920
Gross margin	310,280
Less:	
Selling expense	164,160
Administrative expense	63,840
Operating income	$ 82,280

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

176. 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

177. 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.

178. 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

179. 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

180. 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

181. Stabler Company, a manufacturing firm, has provided the following information for the month of May:

Factory supplies used	22,000
Depreciation on factory building	10,000
Commissions for sales personnel	32,000
Salary of company CFO	9,000
Factory janitorial costs	3,000
Research and development	5,000
Depreciation on corporate office	8,500
Advertising costs	2,500
Direct labor cost	40,000
Purchases of raw materials	15,000
Finished goods inventory, May 1	4,000
Finished goods inventory, May 31	6,500
Work in process inventory, May 1	7,500
Work in process inventory, May 31	3,300
Materials inventory, May 1	2,100
Materials inventory, May 31	4,200

Required:

A. Prepare a Statement of Cost of Goods Manufactured.
B. Calculate the cost of one unit assuming 10,000 units were completed during May.
C. Prepare a Statement of Cost of Goods Sold.
D. Calculate the number of units that were sold during May.
E. Prepare an Income Statement assuming the sales price per unit is $35.

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

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

184. Explain the difference between a cost that is included in valuing inventory and a cost that is not included in valuing inventory.

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

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

187. You Decide

You are the accounting manager at Falcon Inc. You just hired a new staff accountant to assist you in breaking out costs into their appropriate classifications. The staff accountant asks you why cost classification is important.

How would you respond?

Chapter 2--Basic Managerial Accounting Concepts Key

1. It is beneficial to assign indirect costs to cost objects.
TRUE

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

3. Accumulating costs is the way that costs are measured and recorded.
TRUE

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

5. Assigning costs tells the accountant who spent the money.
FALSE

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

7. Costs are directly, *not i*ndirectly, associated with cost objects.
FALSE

8. Direct costs are those costs that cannot be easily and accurately traced to a cost object.
FALSE

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

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

11. A variable cost is one that does *not* increase in total as output increase and does *not* decrease in total as output decreases.
FALSE

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

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

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

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

16. The revenue per unit is called cost.
FALSE

17. As costs are used up in the production of revenues, they are said to expire. Expired costs are called expenses.
TRUE

18. Costs are incurred to produce future benefits.
TRUE

19. Expired costs are called assets.
FALSE

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

21. Costs can be assigned to cost objects in only one way.
FALSE

22. Property taxes on a factory building would normally be classified as a fixed cost.
TRUE

23. Glue used in the manufacture of cabinets would be an example of a fixed cost.
FALSE

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

25. Research and development costs would be classified as product cost.
FALSE

26. Product costs include direct materials, direct labor, and selling costs.
FALSE

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

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

29. Any costs associated with storing, selling, and delivering the product are classified as product costs.
FALSE

30. Prime cost is the sum of direct materials cost and direct labor cost.
TRUE

31. Product costs are carried in inventory until the goods are finished.
FALSE

32. Marketing costs would be classified as period costs.
TRUE

33. The cost of janitorial services for a factory building would be classified as indirect labor.
TRUE

34. Period costs are all costs that are *not* product costs, such as office supplies.
TRUE

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

36. All manufacturing costs are classified as overhead.
FALSE

37. For external reporting purposes, costs must be classified into only three categories.
TRUE

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

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

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

41. Gross margin is the difference between sales revenue and cost of goods sold.
TRUE

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

1. (direct labor + overhead)/units produced	per-unit conversion cost	**1**
2. (direct materials + direct labor)/units produced	per-unit cost of goods manufactured	**3**
3. (total manufacturing costs + work in process beginning - work in process ending)/units produced	per-unit prime cost	**2**

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

1. A cost that is not inventoried	opportunity cost	**3**
2. A cost that can be easily traced to a cost object	fixed cost	**7**
3. A benefit given up when one alternative is chosen over another	indirect cost	**5**
4. A manufacturing cost	product cost	**4**
5. A cost that is difficult to trace to a cost object	period cost	**1**
6. A cost that increases in total as output increases	direct cost	**2**
7. A cost that stays the same in total regardless of changes in output	variable cost	**6**

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

1. (direct materials + direct labor + overhead) +/- the change in work in process inventory from the beginning to the end of the current period	Finished goods inventory	**5**
2. Direct materials + direct labor + overhead	Total manufacturing costs	**2**
3. Beginning finished goods inventory + Cost of goods manufactured - Ending finished goods inventory	Work in process inventory	**4**
4. The cost of units unfinished at the end of the current period	Cost of goods sold	**3**
5. The cost of units finished but not sold at the end of the current period	Cost of goods manufactured	**1**

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

1. sales revenue - cost of goods sold	operating income	**4**
2. Beginning finished goods inventory + Cost of goods manufactured - Ending finished goods inventory	selling expenses	**3**
3. marketing and distributing costs	sales revenue	**5**
4. gross margin - selling and administrative expenses	gross margin	**1**
5. price x units sold	cost of goods sold	**2**

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

1. The total cost of goods completed during the current period	Operating income	**3**
2. Cost of partially completed goods	Gross margin	**4**
3. Gross margin - selling and administrative expenses	Cost of goods manufactured	**1**
4. The difference between sales revenue and cost of goods sold	Income Statement	**5**
5. Covers a particular period of time	Work in process	**2**

47. Expired costs are called _____.
expenses

48. _____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.
Cost

49. _____ is the way that a cost is linked to some cost object.
Assigning costs

50. A _____ is any item such as a product, customer, department, project, geographic region, plan and so on, for which costs are measured and assigned.
cost object

51. Costs that can be easily and accurately traced to a cost object are called _____.
direct costs

52. The process of assigning an indirect cost to a cost object by using a reasonable and convenient method is called _____.
allocation.

53. A(n)_____ is the benefit given up or sacrificed when one alternative is chosen over another.
opportunity cost

54. A(n) _____ is a cost that does not increase in total as output increase and does not decrease in total as output decreases.
fixed cost

55. Organizations that produce products are called _____.
manufacturing organizations

56. _____ are those costs, both direct and indirect, of producing a product in a manufacturing firm or of acquiring a product in a merchandising firm and preparing it for sale.
Product costs

57. Materials that become part of a product usually are classified as _____.
direct materials.

58. Insurance coverage, medical care, and accounting are examples of _____ performed for customers.
service activities

59. _____ equals the sum of direct materials, direct labor, and manufacturing overhead.
Total product cost

60. All product costs other than direct materials and direct labor are put into a category called _____.
manufacturing overhead.

61. _____ is the sum of direct labor cost and manufacturing overhead cost.
Conversion cost

62. _____ and _____ costs are considered period costs.
Selling and administrative

63. Employees who convert direct materials into a product are classified as _____.
direct labor.

64. _____ is the cost of the partially completed goods that are still on the factory floor at the end of a time period.
Work in process

65. The difference between sales revenue and cost of goods sold is known as the _____.
gross margin

66. The _____ represents that total product cost of goods completed during the current period and transferred to finished goods inventory.
cost of goods manufactured

67. Expired costs are called
A. fixed.
B. costs.
C. expenses.
D. profit.

68. Assigning costs to cost objects
A. provides information for decision making.
B. can be accomplished in a number of ways.
C. can be a simple or complex process.
D. do all of these.

69. An indirect cost
A. can be easily and accurately traced to a cost object.
B. is hard to trace.
C. should never be assigned to a cost object.
D. do none of these.

70. A variable cost in total
A. increases as output increases and decreases as output decreases.
B. increases as output increases and/or decreases.
C. remains constant no matter the level of output.
D. increases as output decreases and decreases as output increases.

71. Cost is:
A. the difference between sales revenue and cost of goods sold.
B. the benefit given up or sacrificed when on alternative is chosen over another.
C. 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.
D. the revenue per unit.

72. Price is *not*:
A. the revenue per unit.
B. greater than cost in order for the firm to earn income.
C. the same as cost.
D. the same as cost per unit plus the income per unit.

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

74. An opportunity cost is:
A. the benefit given up or sacrificed when one alternative is chosen over another.
B. the cost to market, distribute, and service a product or service.
C. the total product cost of goods completed during the current period and transferred to finished goods inventory.
D. the difference between sales revenue and cost of goods sold.

75. Non-manufacturing costs include
A. marketing and administration.
B. direct materials.
C. indirect materials.
D. overhead.

76. Which of the following is an example of an intangible product?
A. motorcycle
B. eye exam
C. stereo
D. television

77. Which of the following is an example of a tangible product?
A. lawn care
B. accounting services
C. customer service
D. computer

78. Costs are subdivided into what two major functional categories?
A. opportunity and allocation
B. fixed and variable
C. product and non-production
D. direct and indirect

79. Product costs
A. are costs that are included in the determining the value of the inventory.
B. are manufacturing costs.
C. include direct materials, direct labor, and overhead.
D. are all of these.

80. Which of the following would *not* be a period cost?
A. research and development
B. direct materials
C. advertising costs
D. office supplies

81. Which of the following would be an example of a direct materials cost?
A. engine on an airplane
B. screws used to manufacture a lighting fixture
C. glue used to build cabinets
D. nails used to manufacture a table

82. Product costs consist of
A. period costs.
B. indirect materials, indirect labor, and administrative costs.
C. direct materials, direct labor, and selling costs.
D. direct materials, direct labor, and overhead.

83. Which of the following is *not* an example of a direct materials cost?
A. shelves on a bookcase
B. engine in a car
C. tires on a bicycle
D. nail used to manufacture a desk

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

85. Which of the following is an example of direct labor?
A. vice president of marketing
B. assembly line worker for televisions
C. staff accountant
D. supervisor at a manufacturing plant

86. Direct labor is a(n)
A. product cost.
B. opportunity cost.
C. administrative cost.
D. fixed cost.

87. Overhead includes
A. indirect labor.
B. indirect materials.
C. supplies.
D. all of these.

88. Which of the following would *not* be included in overhead?
A. marketing costs
B. property taxes on the factory
C. factory utility costs
D. deprecation on factory machinery

89. Indirect labor would include
A. salary of the vice-president of marketing.
B. salary of CEO.
C. salary of factory supervisor.
D. none of these are correct.

90. The unit cost
A. is the total product costs divided by the number of units produced.
B. includes period costs.
C. is the total prime costs divided by the number of units produced.
D. is the total conversion costs divided by the number of units produced.

91. Prime cost is
A. indirect materials cost and direct labor cost.
B. direct materials cost and direct labor cost.
C. direct labor cost and indirect labor cost.
D. direct materials cost and indirect labor cost.

92. Conversion cost is the sum of
A. product costs and period costs.
B. selling cost and administrative costs.
C. direct labor cost and direct materials costs.
D. direct labor cost and overhead costs.

93. Period costs
A. are selling costs and administrative costs.
B. are used to compute product cost.
C. can be included in overhead costs.
D. are carried in inventory until the goods are sold.

94. Which of the following is an example of a period cost?
A. research and development
B. selling and marketing
C. general accounting
D. all of these

95. Cost of goods manufactured equals
A. the cost of indirect materials used in production.
B. the product cost of goods completed during the current period.
C. the period costs for the current period.
D. the cost of direct materials and direct labor used during the current period.

96. Cost of goods manufactured equals
A. total product costs incurred during the current period + beginning work in process - ending work in process.
B. direct materials cost + direct labor cost + overhead cost.
C. sales - cost of goods sold.
D. none of these are correct.

97. The cost of the partially completed goods at the end of the period would be
A. ending work in process inventory.
B. cost of goods sold.
C. beginning finished goods inventory.
D. beginning work in process inventory.

98. Product costs are expensed
A. when the product is finished.
B. when the product unit cost is calculated.
C. when the product is sold.
D. all of these are correct.

99. 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?
A. 70,000
B. 18,000
C. 48,000
D. 30,000

100. 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?
A. $20,000
B. $35,000
C. $90,000
D. $30,000

101. 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 that the materials inventory on January 31, what was the cost of materials purchased during the month?
A. $37,000
B. $43,000
C. $40,000
D. none of these

102. Production costs that are *not* attached to units that are sold are reported as:
A. selling expenses.
B. cost of goods sold.
C. administrative costs.
D. inventory.

103. Information from the records of Cain Corporation for December 2011 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	
	Inventories	
	Dec. 1, 2011	Dec. 31, 2011
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.

104. Information from the records of Cain Corporation for December 2011 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	
	Inventories	
	Dec. 1, 2011	Dec. 31, 2011
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.

105. **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.

Refer to Figure 2-1. The per-unit conversion cost was:
A. $218.75
B. $156.25
C. $162.50
D. $100.00

106. **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.

Refer to Figure 2-1. The total product costs for last month were:
A. $1,750,000
B. $2,110,000
C. $1,300,000
D. $1,250,000

107. **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.

Refer to Figure 2-1. The total per unit prime cost was:
A. $263.75
B. $62.50
C. $162.50
D. $156.25

108. **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.

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

109. **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:

	July 1	July 31
Materials	$6,200	$7,100
Work in process	$ 700	$1,200
Finished goods	$3,300	$2,700

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

110. **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:

	July 1	July 31
Materials	$6,200	$7,100
Work in process	$ 700	$1,200
Finished goods	$3,300	$2,700

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

111. **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:

	July 1	July 31
Materials	$6,200	$7,100
Work in process	$ 700	$1,200
Finished goods	$3,300	$2,700

Refer to Figure 2-5. What was the cost of goods manufactured for July?
A. $70,500
B. $70,700
C. $69,600
D. $69,100

112. **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:

	July 1	July 31
Materials	$6,200	$7,100
Work in process	$ 700	$1,200
Finished goods	$3,300	$2,700

Refer to Figure 2-5. What was the cost of goods sold for July?
A. $70,200
B. $69,600
C. $71,300
D. $71,100

113. **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:

	July 1	July 31
Materials	$6,200	$7,100
Work in process	$ 700	$1,200
Finished goods	$3,300	$2,700

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?
A. $9.94
B. $10.00
C. $10.09
D. $10.11

114. **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.

Refer to Figure 2-7. Prime cost per-unit was?

A. $19
B. $23
C. $34
D. $11

115. **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.

Refer to Figure 2-7. Cost of goods sold last year was?

A. $47,500
B. $25,500
C. $14,250
D. $51,000

116. **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.

Refer to Figure 2-7. Total operating income last year was?

A. $29,000
B. $51,000
C. $25,500
D. $3,500

117. **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.

Refer to Figure 2-8. Total period expense was?
A. $24,000
B. $190,000
C. $46,000
D. $250,000

118. **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.

Refer to Figure 2-8. Gross margin per-unit was?
A. $125
B. $7
C. $95
D. $30

119. **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.

Refer to Figure 2-8. Total product costs were?
A. $190,000
B. $100,000
C. $150,000
D. $236,000

120. **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.

Refer to Figure 2-8. Conversion cost per unit was?
A. $50
B. $75
C. $95
D. $125

121. Cost of goods sold
A. represents all costs associated with research, development, and general administration of the organization.
B. is found on the Balance Sheet.
C. is the cost of the partially completed goods that are still on the factory floor at the end of the period.
D. is the total product cost for the units sold during a period.

122. Which of the following would *not* be found on the income statement of a manufacturer?
A. cost of goods sold
B. work in process
C. sales revenue
D. operating income

123. Which of the following would be found on the balance sheet of a manufacturer?
A. work in process
B. raw materials
C. finished goods
D. All of the these are correct

124. Which of the following would be found on the balance sheet of a manufacturer?
A. sales revenue
B. selling expenses
C. factory equipment
D. all of these are correct

125. Gross margin equals
A. cost of goods sold - selling and administrative expenses.
B. direct materials + direct labor + manufacturing overhead.
C. sales revenue - cost of goods sold.
D. cost of goods manufactured + selling and administrative expenses.

126. Operating income equals
A. sales revenue - cost of goods sold - selling and administrative expense
B. gross margin - selling expenses
C. sales revenue - cost of goods sold
D. sales revenue - selling and administrative expenses

127. 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.

128. Which of the following would *not* be found on an income statement of a service organization?
A. selling expenses
B. cost of goods sold
C. operating income
D. sales revenue

129. Which of the following can be found on the income statements of both a manufacturing and service organization?
A. revenues
B. operating income
C. administrative expenses
D. all of these can be found on both.

130. A manufacturer normally has
A. one inventory account.
B. four inventory accounts.
C. three inventory accounts.
D. none of these are correct.

131. 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.

132. 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

133. **Figure 2-2.**
Lonborg Co. had the following beginning and ending inventory balances for the year ended December 31, 2011:

	January 1, 2011	December 31, 2011
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.

Refer to Figure 2-2. What was the amount of cost of goods manufactured for the year?
A. $101,000
B. $124,000
C. $100,000
D. $102,000

134. **Figure 2-2.**
Lonborg Co. had the following beginning and ending inventory balances for the year ended December 31, 2011:

	January 1, 2011	December 31, 2011
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.

Refer to Figure 2-2. What was the amount of cost of goods sold for the year?

A. $102,000
B. $97,500
C. $106,500
D. $128,500

135. **Figure 2-2.**
Lonborg Co. had the following beginning and ending inventory balances for the year ended December 31, 2011:

	January 1, 2011	December 31, 2011
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.

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

136. **Figure 2-2.**
Lonborg Co. had the following beginning and ending inventory balances for the year ended December 31, 2011:

	January 1, 2011	December 31, 2011
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.

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

137. 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

138. 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

139. Kutlow Inc. had cost of goods sold of $112,000 for the year ended December 31, 2011. The finished goods inventory on January 1, 2011 was $28,000 and the finished goods inventory on December 31, 2011 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

140. 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 are correct

141. **Figure 2-3.**
Bartlow, Inc. had the following income statement for the month of May.

Sales revenue	$428,000	
Cost of goods sold	205,440	
Gross margin	222,560	
Less:		
Selling expenses		81,320
Administrative expenses		72,760
Operating income	$ 68,480	

Refer to Figure 2-3. What was the sales revenue percent?

A. 100%
B. 48%
C. 52%
D. 16%

142. **Figure 2-3.**
Bartlow, Inc. had the following income statement for the month of May.

Sales revenue	$428,000	
Cost of goods sold	205,440	
Gross margin	222,560	
Less:		
Selling expenses		81,320
Administrative expenses		72,760
Operating income	$ 68,480	

Refer to Figure 2-3. What was the cost of goods sold percent?

A. 100%
B. 19%
C. 52%
D. 48%

143. **Figure 2-3.**
Bartlow, Inc. had the following income statement for the month of May.

Sales revenue	$428,000	
Cost of goods sold	205,440	
Gross margin	222,560	
Less:		
	Selling expenses	81,320
	Administrative expenses	72,760
Operating income	$ 68,480	

Refer to Figure 2-3. What was the gross margin percent?

A. 52%
B. 48%
C. 17%
D. 19%

144. **Figure 2-3.**
Bartlow, Inc. had the following income statement for the month of May.

Sales revenue	$428,000	
Cost of goods sold	205,440	
Gross margin	222,560	
Less:		
	Selling expenses	81,320
	Administrative expenses	72,760
Operating income	$ 68,480	

Refer to Figure 2-3. What was the selling expense percent?

A. 17%
B. 19%
C. 16%
D. no correct answer

145. **Figure 2-3.**
Bartlow, Inc. had the following income statement for the month of May.

Sales revenue	$428,000	
Cost of goods sold	205,440	
Gross margin	222,560	
Less:		
Selling expenses		81,320
Administrative expenses		72,760
Operating income	$ 68,480	

Refer to Figure 2-3. What was the administrative expense percent?

A. 17%
B. 19%
C. 16%
D. 15%

146. **Figure 2-3.**
Bartlow, Inc. had the following income statement for the month of May.

Sales revenue	$428,000	
Cost of goods sold	205,440	
Gross margin	222,560	
Less:		
Selling expenses		81,320
Administrative expenses		72,760
Operating income	$ 68,480	

Refer to Figure 2-3. What was the operating income percent?

A. 15%
B. 19%
C. 17%
D. 16%

147. **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

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

148. **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

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?
A. $116,480
B. $141,120
C. $24,640
D. none of these are correct

149. **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

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?
A. $10,864,000
B. $10,839,360
C. $11,005,120
D. $10,888,640

150. **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

Refer to Figure 2-6. What was gross margin for the year?
A. $60,000
B. $100,000
C. $40,000
D. none of these

151. **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

Refer to Figure 2-6. What was cost of goods sold for the year?
A. $60,000
B. $40,000
C. $100,000
D. none of these

152. **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

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

153. **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

Refer to Figure 2-6. What was the sales price per unit?

A. $50
B. $30
C. $20
D. $10

154. 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

155. Information from the records of Place, Inc., for December 2011 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.

156. 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	
	Inventories	
	Dec. 1, 2011	Dec. 31, 2011
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.

157. Stone Company, maker of computers, incurred the following costs during the year:

Required: Classify each cost as either fixed or variable cost.

		Fixed	Variable
1.	Salary of the factory supervisor		
2.	Materials needed to assemble the computers		
3.	Wages paid to an assembly line worker		
4.	Depreciation on the factory		
5.	Utility bill for the factory		
6.	Grease used to lubricate the machine		
7.	Rent paid for the factory		
8.	Property taxes on the factory and corporate office		
9.	Boxes used to package the completed computers		
10.	Advertising in a newspaper monthly		

1. Fixed
2. Variable
3. Variable
4. Fixed
5. Variable
6. Variable
7. Fixed
8. Fixed
9. Variable
10. Fixed

158. 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.

		Product	Period
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		

		Product	Period
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	

159. Arcadia Company manufactures recreational vehicles and incurred the following costs during the current year.

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

		Product Cost		Period Cost		
		Direct Materials	Direct Labor	Overhead	Selling Expense	Administrative Expense
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					

		Product Cost		Period Cost		
		Direct Materials	Direct Labor	Overhead	Selling Expense	Administrative Expense
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	

160. 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?

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 ´ 2,800) = $268,800

E. ($96 ´ 200) = $19,200

161. Ross Company makes handbags. Last month direct materials (leather, thread, zippers, decorative accents) costing $76,000 were put into production. Ross had 30 workers, each worked 160 hours this month and each are paid $12 per hour. Overhead equaled $80,000 for the period. Ross Company produced 40,000 handbags as of the end of the month.

Required: Calculate the total product cost for the month and calculate the cost of one handbag that was produced.

Direct materials = 76,000
Direct labor = 57,600 (30 employees x 160 hrs. x $12 per hour)
Overhead = 80,000
Total cost 213,600

Cost of one handbag: 213,600/40,000 = $5.34

162. Room With A View Company manufactures curtains. Last week, direct materials costing $42,000 were put into production. Direct labor of $22,000 was incurred and overhead totaled $50,000. By the end of the week, the company had produced 12,000 curtains.

Required:
1. Calculate the total prime cost for the week.
2. Calculate the per-unit prime cost.
3. Calculate the total conversion cost for the week.
4. Calculate the per-unit conversion cost.

1. $64,000 (42,000 + 22,000)
2. $5.33 (64,000/12,000)
3. $72,000 (22,000 + 50,000)
4. $6.00 (72,000/12,000)

163. 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.

A.

B.

C.

D. $1,806,000

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F.(80,000 ´ $18.50) = $1,480,000

G(6,000 ´ $18.50) = $111,000
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164. 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

A.	Cost of goods sold	$560,000/$56 = 10,000 units
B.	10,000 ´ $34 - ($200,000 of direct labor cost) = $140,000	
C.	10,000 ´ $42 - ($200,000 of direct labor cost) = $220,000	
D.	Sales revenue (10,000 ´ $100)	$1,000,000
	Cost of goods sold	560,000
	Gross margin	440,000
E.	Gross margin	$ 440,000
	Less: Sell. and admin.	240,000
	Operating income	200,000

165. Picture It Inc. manufactures customized wooden frames. The direct materials needed to construct the frames are wood, glass and cardboard. Picture It has 22 employees who work a 40 hour work week and are each paid $17 per hour. The company produced and sold 900 frames in the month of September.

During the month of September the following purchases were made to produce the 900 frames:
Wood- 4000 ft. at $1.20/ft.
Glass- 400 pieces at $5.60/piece
Cardboard- 500 pieces at $.50/piece

Required:
1. Calculate the total product cost for the month. Assume that all employees worked four full weeks in September and that the company incurred $55,000 in overhead costs.

2. Calculate the per unit cost.

3. Calculate the gross margin for the month of September assuming that the company sells each frame for $250.

1. Direct materials:
   Wood = $4,800 (4,000 x 1.20)
   Glass = 2,240 (400 x 5.65)
   Cardboard = 250 (500 x .50)
   $7,290

Direct labor: 59,840 (22 x 160 x 17)
Overhead 55,000
Total cost 122,130

2. 122,130/900 = $135.70

3. Gross margin = sales revenue-cost of goods sold
   Gross margin = 225,000 (250 x 900) - 122,130 = $102,870

166. 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

Tucker Company		
Statement of Cost of Goods Manufactured		
For the Month of April		
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

167. 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.

A.	Materials, 6/1	$ 3,000
	Purchases	38,000
	Materials, 6/30	(2,700)
	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	(1,275)
	Cost of goods manufactured	$107,025
D.	Cost of goods manufactured	$107,025
	Finished goods, 6/1	2,500
	Finished goods, 6/30	(1,775)
	Cost of goods sold	$107,750

168. 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

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	(5,100)	
Materials used		$ 8,400
Direct labor		22,000
Overhead		40,000
Total manufacturing costs		70,400
Work-in-process inventory, Nov. 1		4,200
Work-in-process inventory, Nov. 30		(2,750)
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	(3,750)
Cost of goods sold	$70,350

169. 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.

A.	75,000 ´ $575 = $43,125,000	
B.	Sales revenue	$43,125,000
	Cost of goods sold (75,000 ´ $540)	40,500,000
	Gross margin	2,625,000
C.	Gross margin	$ 2,625,000
	Selling and admin. expenses	2,000,000
	Operating income	625,000
D.	Sales revenue	$39,675,000
	Cost of goods sold (69,000 ´ $540)	37,260,000
	Gross margin	2,415,000
	Selling and admin. expenses	2,000,000
	Operating income	415,000

170. 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.

Baleen Company Income Statement For the Year Ended December 31, 2011	
Sales revenue	$120,000
Cost of goods sold*	53,500
Gross margin	66,500
Less:	
Selling expense	12,000
Administrative expense	17,000
Operating income	$ 37,500
*Cost of goods manufactured	$ 52,000
Finished goods inventory, Jan. 1	7,500
Finished goods inventory, Dec. 31	(6,000)

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

	January 1, 2011	December 31,2011
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.

Macon Company	
Income Statement	
For the Year Ended December 31, 2011	
Sales revenue	$ 400,000
Cost of goods sold*	182,500
Gross margin	217,500
Less:	
Selling expenses	31,000
Administrative expenses	14,500
Operating income	$172,000
*Cost of goods manufactured**	$183,500
Finished goods inventory, Jan. 1	26,000
Finished goods inventory, Dec. 31	(27,000)
Cost of goods sold	182,500
**Purchases of raw materials	$ 62,000
Materials inventory, 1/1	21,000
Materials inventory, 12/31	(23,500)
Materials used	59,500
Direct labor	40,000
Overhead ($50,000 + $25,000)	75,000
Total manufacturing costs	174,500
Work in process inventory, Jan. 1	17,500
Work in process inventory, Dec. 31	(8,500)
Cost of goods manufactured	$183,500

172. 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 (?)

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	(2,500)
Materials used	$18,750
Direct labor	11,500
Overhead (7,500 + 6,500)	14,000
Total manufacturing costs	44,250
Work in process, 5/1	3,100
Work in process, 5/31	(1,500)
Cost of goods manufactured	$45,850

Bartlow Company Income Statement For the Month of May	
Sales revenue	$150,000
Cost of goods sold*	47,100
Gross margin	102,900
Less:	
Selling expense	10,000
Administrative expense	25,000
Operating income	$ 67,900
*Cost of goods manufactured	$ 45,850
Finished goods inventory, 5/1	5,500
Finished goods inventory, 5/31	(4,250)
Cost of goods sold	$ 47,100

173. See the following separate cases.

	Case #1	Case #2
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)

	Case #1	Case #2
Sales	$1,000	$1,300
Cost of goods manufactured	750	500
Finished goods inventory (beginning balance)	100	300
Finished goods inventory (ending balance)	(150)	(200)
Cost of goods sold	700	600
Gross margin	300	700
Selling expenses	50	75
Administrative expenses	50	40
Operating income	200	585

174. See the following separate cases.

	Case #1	Case #2
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).

	Case #1	Case #2
Purchases of materials	$ 5,000	$ 3,500
Materials inventory (beginning balance)	750	220
Materials inventory (ending balance)	(1,000)	(350)
Materials used	4,750	3,370
Direct labor	7,000	4,250
Overhead	2,750	2,000
Total manufacturing costs	14,500	9,620
Work in process inventory, (beginning balance)	1,200	1,230
Work in process inventory, (ending balance)	(1,100)	(650)
Cost of goods manufactured	$14,600	$10,200

175. 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	601,920
Gross margin	310,280
Less:	
Selling expense	164,160
Administrative expense	63,840
Operating income	$ 82,280

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

A. 912,000/912,000 = 100%
B. 601,920/912,000 = 66%
C. 310,280/912,000 = 34%
D. 164,160/912,000 = 18%
E. 63,840/912,000 = 7%
F. 82,280/912,000 = 9%

176. 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

A.

Cost of goods manufactured	$152,380
Finished goods inventory, 1/1	12,000
Finished goods inventory, 12/31	(7,500)
Cost of goods sold	156,880
Sales revenue	$212,000
Cost of goods sold	156,880
Gross margin	55,120
Less:	
Selling expense	19,080
Administrative expense	15,900
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%

177. 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.

Rizzuto Company Income Statement For the Month of January	
Sales revenue	$500,000
Cost of goods sold (500,000 ´ 62%)	310,000
Gross margin (500,000 ´ 38%)	190,000
Less:	
Selling expense (500,000 ´ 6%)	30,000
Administrative expense (500,000 ´ 13%)	65,000
Operating income	95.000

178. 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

A.	Sales Revenue = $44,100/.105 = 420,000	
B.	Cost of goods sold = 420,000 ´ .70 = $294,000	
C.	Gross margin (420,000 ´ .30)	126,000
	Less: Selling and administrative expense	81,900
	Operating income	44,100

179. 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

A. (17 + 11 + 12) ´ 3,000 = $120,000

B. & C.

Sales revenue (3,000 ´ 80)	$240,000
Cost of goods sold	120,000
Gross margin	120,000
Less:	
Selling and administrative expenses	25,000
Operating income	$ 95,000

D. 17 + 11 = $28

180. 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

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	127,000
Gross margin	233,000
Less:	
Selling expense	17,000
Administrative expense	12,000
Operating income	$204,000

181. Stabler Company, a manufacturing firm, has provided the following information for the month of May:

Factory supplies used	22,000
Depreciation on factory building	10,000
Commissions for sales personnel	32,000
Salary of company CFO	9,000
Factory janitorial costs	3,000
Research and development	5,000
Depreciation on corporate office	8,500
Advertising costs	2,500
Direct labor cost	40,000
Purchases of raw materials	15,000
Finished goods inventory, May 1	4,000
Finished goods inventory, May 31	6,500
Work in process inventory, May 1	7,500
Work in process inventory, May 31	3,300
Materials inventory, May 1	2,100
Materials inventory, May 31	4,200

Required:

A. Prepare a Statement of Cost of Goods Manufactured.
B. Calculate the cost of one unit assuming 10,000 units were completed during May.
C. Prepare a Statement of Cost of Goods Sold.
D. Calculate the number of units that were sold during May.
E. Prepare an Income Statement assuming the sales price per unit is $35.

A.

Stabler Company Statement of Cost of Goods Manufactured For the Month of May		
Materials Inventory, May 1	$ 2,100	
Purchases of materials	15,000	
Materials Inventory, May 31	(4,200)	
Materials used		$ 12,900
Direct Labor		40,000
Overhead		35,000
Total manufacturing costs		87,900
Work in Process Inventory, May 1		7,500
Work in Process Inventory, May 31		(3,300)
Cost of Goods Manufactured		$92,100

B. 92,100/10,000 = $9.21

C.

Stabler Company Statement of Cost of Goods Sold For the Month of May	
Cost of Goods Manufactured	$92,100
Finished Goods Inventory, May 1	4,000
Finished Goods Inventory, May 31	(6,500)
Cost of Goods Sold	$89,600

D. Number of units sold:

Finished goods inventory, May 1	4,000
Units finished during May	10,000
Finished goods inventory, May 31	(6,500)
Units sold during May	7,500

E.

Stabler Company Income Statement For the Month of May		
Sales revenue (7,500 x 35)		262,500
Cost of goods sold		89,600
Gross margin		172,900
Less:		
Selling expense		
Commissions	32,000	
Advertising	2,500	34,500
Administrative expense		
Salary of CFO	9,000	
Research and development	5,000	
Depreciation on corporate office	8,500	22,500
Operating income		115,900

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

A period cost is a cost that is not a product cost. It is expensed during the current period rather than inventoried. Examples of period costs are 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.

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

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 deprecation, indirect labor, indirect materials, factory supplies, etc.

184. Explain the difference between a cost that is included in valuing inventory and a cost that is not included in valuing inventory.

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

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

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 and is used to accumulate current production costs. 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.

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

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.

187. You Decide

You are the accounting manager at Falcon Inc. You just hired a new staff accountant to assist you in breaking out costs into their appropriate classifications. The staff accountant asks you why cost classification is important.

How would you respond?

Cost classification is important for a variety of reasons. Probably the two most important are decision making and proper presentation on the financial statements. For example, by determining if a cost is fixed or variable it can help a company determine if each cost has a direct relationship to the level of output. If the company feels that their costs are becoming too high, then this type of classification can give them important information. Maybe the cost of the direct materials has increased significantly and they may need to look for a new supplier. Or when reviewing their fixed costs, they determine that the rent for their factory is causing the rise in costs and they should consider moving locations. The break out of product cost and period cost in also vital to a company. A company wants to know how much they are spending to actually produce the product (direct materials, direct labor, overhead) so that they can make such decisions as to the appropriate price to charge a customer. The allocation of product and period costs is also essential to properly generate the income statement, which is also used by external users to make decisions.