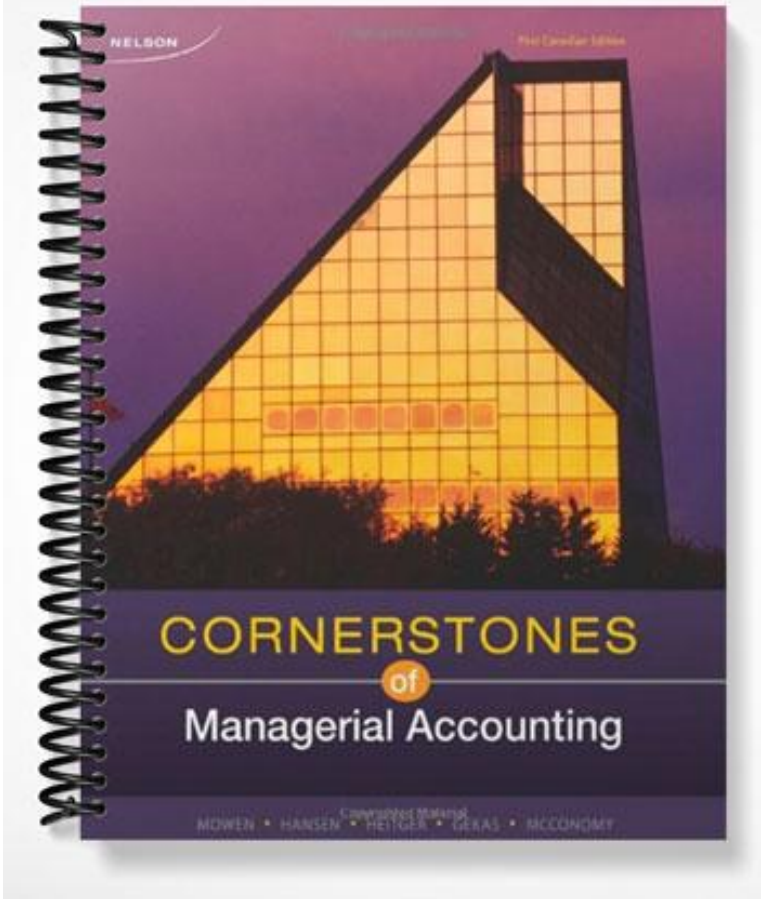
TEST BANK



MULTIPLE CHOICE

1. What are expired costs called?
   a. assets
   b. expenses
   c. revenues
   d. profit

   ANS: B PTS: 1 DIF: Easy REF: p. 30
   OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economies
   MSC: Higher order; classifying

2. In terms of managerial accounting, what is the best definition of cost?
   a. the amount of cash or cash equivalent sacrificed for goods or services that are expected to bring a current or future benefit to the organization
   b. a dollar measure of the cash used to achieve a given benefit
   c. the asset incurred to produce future benefits
   d. is equal to cost of goods sold

   ANS: A PTS: 1 DIF: Easy REF: p. 30
   OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics
   MSC: Higher order; classifying

3. Which of the following is a characteristic of price per unit?
   a. It is equal to the revenue.
   b. It must be less than cost for the firm to earn income.
   c. It is the same as total cost.
   d. It is the same as cost per unit plus income per unit.

   ANS: D PTS: 1 DIF: Easy REF: p. 30
   OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics
   MSC: Higher order; classifying

4. What is the definition of assigning costs?
   a. Assigning costs is the way costs are measured and recorded.
   b. Assigning costs tells the company what money was spent
   c. Assigning costs is the allocation when applied to a cost object using a reasonable and convenient method
   d. Assigning cost is the benefit given up when one choice is made over another

   ANS: C PTS: 1 DIF: Easy REF: p. 30
   OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics
   MSC: Higher order; classifying

5. Which of the following is included in non-manufacturing costs?
   a. marketing and administration
   b. direct materials
   c. indirect materials
   d. overhead

   ANS: A PTS: 1 DIF: Easy REF: p. 31
   OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics
   MSC: Higher order; exemplifying

6. What is one of the main purposes of assigning costs to cost objects?
   a. It provides information on why money was spent for decision making.
   b. It cannot be accomplished in a number of ways.
   c. It is always a very simple process.
   d. It is rarely done in manufacturing.

   ANS: A PTS: 1 DIF: Medium REF: p. 31
   OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics
   MSC: Higher order; classifying

7. Which of the following is a characteristic of an indirect cost?
   a. Indirect costs can be easily and accurately traced to a cost object.
   b. Indirect costs are shared between or among more than one cost object.
   c. Indirect costs should always be assigned to a cost object.
   d. Indirect costs include all labour.

   ANS: B PTS: 1 DIF: Medium REF: p. 33
   OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics
   MSC: Higher order; classifying

8. What is the behaviour pattern of a variable cost?
   a. It increases in total as output increases.
   b. It remains constant in total at all levels of output.
   c. It increases per unit as output increases.
   d. It decreases per unit as output increases.

   ANS: A PTS: 1 DIF: Medium REF: p. 34
   OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics
   MSC: Higher order; exemplifying

9. What is the definition of opportunity cost?
   a. a cost that increases as output increases and decreases as output decreases
   b. a cost that does not increase as output increases and does not decrease as output decreases
   c. the benefit given up or sacrificed when one alternative is chosen over another
   d. a cost that cannot be easily and accurately traced to a cost object

   ANS: C PTS: 1 DIF: Easy REF: p.34
   OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics
   MSC: Higher order; exemplifying

10. Which of the following is an example of an intangible product?
    a. hamburgers
    b. computers
    c. automobiles
    d. dental care

    ANS: D PTS: 1 DIF: Easy REF: p. 35
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; exemplifying

11. Which of the following is an example of a tangible product?
    a. funeral care
    b. legal services
    c. furniture
    d. video rental

    ANS: C PTS: 1 DIF: Easy REF: p. 35
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; exemplifying

12. How does a company report production costs that are NOT attached to units that are sold?
    a. as selling expenses
    b. as cost of goods sold
    c. as administrative costs
    d. as inventory

    ANS: D PTS: 1 DIF: Medium REF: p.35
    OBJ: 2.1 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; inferring

13. Costs are subdivided into which two major functional categories?
    a. production and nonproduction
    b. selling and administration
    c. prime and conversion
    d. opportunity and direct

    ANS: A PTS: 1 DIF: Medium REF: p. 36
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; classifying

14. Which of the following is an example of a direct materials cost?
    a. the windshield on a new automobile
    b. the nails used to construct a new house
    c. the glue used to build cabinets
    d. the solder used to manufacture televisions

    ANS: A PTS: 1 DIF: Medium REF: p. 36
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; exemplifying

15. Which of the following statements best describes a product cost?
    a. Product costs are direct materials and direct labour costs only.
    b. Product costs are manufacturing costs.
    c. Product costs do not include overhead.
    d. Product costs do not include direct materials.

    ANS: B PTS: 1 DIF: Medium REF: p. 36
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; understanding

16. Which of the following are production costs?
    a. selling costs, administrative costs, and period costs
    b. indirect materials, indirect labour, and administrative costs
    c. direct materials, direct labour, and selling costs
    d. direct materials, direct labour, and overhead

    ANS: D PTS: 1 DIF: Challenging REF: p. 36
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; classifying

17. Which of the following is an example of a direct materials cost?
    a. the nails in a dining room table
    b. the engine in an airplane
    c. the glue used to manufacture furniture
    d. the paint on a new car

    ANS: B PTS: 1 DIF: Medium REF: p. 36
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; exemplifying

18. When do materials in the raw materials account become direct materials?
    a. when they are withdrawn from inventory for use in production
    b. when the materials are returned to the supplier
    c. when the materials are spoiled
    d. when they are put into production

    ANS: D PTS: 1 DIF: Easy REF: p. 37
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; differentiating

19. Which of the following job positions is an example of direct labour?
    a. the chef in a restaurant
    b. the caretaker in a production plant
    c. the security guard for the factory
    d. a management accountant

    ANS: A PTS: 1 DIF: Medium REF: p. 37
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; exemplifying

20. What type of cost is direct labour?
    a. a nonproduction cost
    b. a period cost
    c. a nonmanufacturing cost
    d. a product cost

    ANS: D PTS: 1 DIF: Easy REF: p. 37
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; classifying

21. Which of the following expenses is included in manufacturing overhead?
    a. production line supervisor
    b. wood used to manufacture furniture
    c. direct labour wages for a production line worker
    d. advertising for the product

    ANS: A PTS: 1 DIF: Easy REF: p. 37
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; classifying

22. Which of the following expenses is included in overhead?
    a. marketing costs
    b. property taxes on the factory
    c. utility costs at the head office
    d. depreciation on head office furniture

    ANS: B PTS: 1 DIF: Easy REF: p. 37
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; classifying

23. Which of the following labour costs is included in indirect labour?
    a. the salary of the vice-president of marketing
    b. the salary of the CEO
    c. the salary of factory supervisor
    d. the wages of the production line worker

    ANS: C PTS: 1 DIF: Medium REF: p. 37
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; exemplifying

24. How is prime cost calculated?
    a. indirect materials cost plus indirect labour cost
    b. direct materials cost plus direct labour cost
    c. period costs plus overhead cost
    d. selling cost plus administrative cost

    ANS: B PTS: 1 DIF: Easy REF: p. 37
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; classifying

25. How is conversion cost calculated?
    a. direct materials cost plus prime costs
    b. indirect labour cost plus opportunity costs
    c. product costs plus period costs
    d. direct labour cost plus overhead cost

    ANS: D PTS: 1 DIF: Easy REF: p. 37
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; classifying

26. How is unit cost calculated?
    a. total product costs divided by the number of units produced
    b. period costs divided by the total number of units produced
    c. total prime costs divided by the number of units produced
    d. total conversion costs divided by the number of units produced

    ANS: A PTS: 1 DIF: Challenging REF: p. 38
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; classifying

27. Which of the following is a period cost?
    a. direct materials
    b. indirect labour
    c. indirect materials
    d. depreciation on an office building

    ANS: D PTS: 1 DIF: Medium REF: p. 38
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; classifying

28. Which of the following is true for a period cost?
    a. they include selling costs and administrative costs
    b. they are used to compute product cost
    c. they can be included in overhead costs
    d. they are carried in inventory until the goods are sold

    ANS: A PTS: 1 DIF: Medium REF: p.38
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; inferring

29. Which of the following is an example of a period cost?
    a. direct materials
    b. direct labour
    c. general accounting
    d. manufacturing overhead

    ANS: C PTS: 1 DIF: Medium REF: p. 38
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; classifying

30. Rancor, Inc., had a per-unit conversion cost of $2.50 during April and incurred a direct materials cost of $100,000, direct labour costs of $75,000, and overhead costs of $45,000. How many units did Rancor manufacture during April?
    a. 18,000
    b. 30,000
    c. 48,000
    d. 70,000

    ANS: C
    SUPPORTING CALCULATIONS:
    ($75,000 + $45,000)/$2.50 = $48,000

    PTS: 1 DIF: Challenging REF: p.38 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; executing

31. Lakeland, Inc., manufactured 5,000 units during the month of March and incurred a direct materials cost of $100,000 and an overhead cost of $40,000. Suppose the per-unit prime cost was $26.00 per unit. How much direct labour cost did Lakeland incur during March?
    a. $20,000
    b. $30,000
    c. $35,000
    d. $90,000

    ANS: B
    SUPPORTING CALCULATIONS:
    ($100,000 + $30,000)/5,000 = $26.00

    PTS: 1 DIF: Medium REF: p. 38 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; executing

Concam Inc. manufactures television sets. Last month, direct materials (e.g., electronic components) costing $500,000 were put into production. Direct labour of $800,000 was incurred, overhead equalled $450,000, and selling and administrative costs totalled $360,000. The company manufactured 8,000 television sets during the month. Assume the company had no beginning or ending work-in-process balances.

32. Refer to **Concam Inc.** What were the total product costs last month?
    a. $1,250,000
    b. $1,300,000
    c. $1,750,000
    d. $2,110,000

    ANS: C
    SUPPORTING CALCULATIONS:
    $500,000 + $800,000 + $450,000

    PTS: 1 DIF: Easy REF: p. 38 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; executing

33. Refer to **Concam Inc.** What was the total per-unit prime cost last month?
    a. $62.50
    b. $156.25
    c. $162.50
    d. $263.75

    ANS: C
    SUPPORTING CALCULATIONS:
    ($500,000 + $800,000)/8,000

    PTS: 1 DIF: Easy REF: p. 38 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; executing

34. Refer to **Concam Inc.** What was the per-unit conversion cost last month?
    a. $100.00
    b. $156.25
    c. $162.50
    d. $218.75

    ANS: B
    SUPPORTING CALCULATIONS:
    ($800,000 + $450,000)/8,000

    PTS: 1 DIF: Easy REF: p.39 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; implementing

35. Refer to **Concam Inc.** What was the amount of cost of goods manufactured last month?
    a. $1,250,000
    b. $1,300,000
    c. $1,750,000
    d. $2,110,000

    ANS: C
    SUPPORTING CALCULATIONS:
    $500,000 + $800,000 + $450,000

    PTS: 1 DIF: Medium REF: p. 44 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; implementing

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

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

In addition, direct labour costs of $30,000 were incurred, overhead equalled $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.

36. Refer to **Lonborg Co.** What were the total manufacturing costs for the year?
a. $101,000
b. $102,000
c. $106,500
d. $123,000

ANS: A
SUPPORTING CALCULATIONS:

Materials used in production	$ 29,000
Direct labour	30,000
Overhead	42,000
Total manufacturing costs	$101,000

PTS: 1 DIF: Medium REF: p. 38 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; executing

37. Refer to **Lonborg Co.** What was the amount of Cost of Goods Manufactured for the year?
a. $100,000
b. $101,000
c. $102,000
d. $124,000

ANS: C
SUPPORTING CALCULATIONS:

Materials 1/1	$10,000	
Purchases	27,000	
	37,000	
Materials 12/31	(8,000)	
Materials used		29,000
Direct labour		30,000
Overhead		42,000
Total manufacturing costs		101,000
Work in process 1/1		18,000
Work in process 12/31		(17,000)
Cost of goods manufactured		$102,000

PTS: 1 DIF: Medium REF: p. 44 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; executing

38. Refer to **Lonborg Co.** What was the amount of cost of goods sold for the year?
    a. $97,500
    b. $102,000
    c. $106,500
    d. $128,500

    ANS: C
    SUPPORTING CALCULATIONS:

Cost of Goods Manufactured	$102,000
Finished Goods Inventory 1/1	21,000
Finished Goods Inventory 12/31	(16,500)
Cost of Goods Sold	$106,500

    PTS: 1 DIF: Challenging REF: p.44 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; executing

39. Refer to **Lonborg Co.** What was Lonborg's operating income or loss for the year?
    a. $(3,500)
    b. $5,500
    c. $18,500
    d. $125,000

    ANS: A
    SUPPORTING CALCULATIONS:

Sales	$125,000
Cost of goods sold	106,500
Gross margin	18,500
Selling & administrative	22,000
Operating income	(3,500)

    PTS: 1 DIF: Challenging REF: p. 48 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; executing

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

40. Refer to **Junko Company**. How many financial calculators did Junko sell during the year?
    a. 96,780
    b. 97,000
    c. 97,220
    d. 98,260

    ANS: C
    SUPPORTING CALCULATIONS:

Units manufactured	97,000
Decrease in inventory balances	220
Units sold	97,220

    PTS: 1 DIF: Challenging REF: p. 38 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; implementing

41. Refer to **Junko Company**. Suppose each financial calculator had a per-unit product cost of $112. What would be the cost of finished goods inventory on December 31?
    a. $24,640
    b. $116,480
    c. $124,640
    d. $141,120

    ANS: B
    SUPPORTING CALCULATIONS:
    1,040 × $112 = $116,480

    PTS: 1 DIF: Easy REF: p. 44 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; executing

42. Refer to **Junko Company**. Suppose each financial calculator has a per-unit product cost of $112. What would be the cost of goods sold last year?
    a. $10,839,360
    b. $10,864,000
    c. $10,888,640
    d. $11,005,120

    ANS: C
    SUPPORTING CALCULATIONS:
    97,220 × $112 = $10,888,640

    PTS: 1 DIF: Medium REF: p. 44 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order, implementing

    Last year **Quest Company** incurred the following costs:

Direct materials	$40,000
Direct labour	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.

43. Refer to **Quest Company**. What was Quest's total period expense?
    a. $24,000
    b. $46,000
    c. $190,000
    d. $250,000

    ANS: B
    SUPPORTING CALCULATIONS:
    $24,000 + $22,000 = $46,000

    PTS: 1 DIF: Easy REF: p. 38 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; classifying

44. Refer to **Quest Company**. What were the total product costs?
    a. $100,000
    b. $150,000
    c. $190,000
    d. $236,000

    ANS: C
    SUPPORTING CALCULATIONS:
    $40,000 + $60,000 + $90,000 = $190,000

    PTS: 1 DIF: Medium REF: p. 38 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; implementing

45. Refer to **Quest Company**. What was the conversion cost per unit?
    a. $50
    b. $75
    c. $95
    d. $125

    ANS: B
    SUPPORTING CALCULATIONS:
    ($60,000 + $90,000)/2,000 = $75

    PTS: 1 DIF: Medium REF: p. 39 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; executing

46. Refer to **Quest Company**. What was the gross margin per unit?
    a. $7
    b. $30
    c. $95
    d. $125

    ANS: B
    SUPPORTING CALCULATIONS:

Sales (2000 × $125)	$250,000
Cost of goods sold	190,000
Gross margin	$ 60,000/2,000 units = $30

    PTS: 1 DIF: Medium REF: p. 48 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; implementing

47. A company's beginning work-in-process inventory is $120,000, its ending work-in-process inventory is $160,000, its cost of goods manufactured is $400,000, and its direct materials used are $100,000. What are the conversion costs?
    a. $140,000
    b. $280,000
    c. $300,000
    d. $340,000

    ANS: D
    SUPPORTING CALCULATIONS:
    $400,000 + $160,000 – $120,000 – $100,000 = $340,000

    PTS: 1 DIF: Challenging REF: p.39 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; implementing

48. Information from the records of Cain Corporation for December is as follows:

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

	Inventories	
	Dec. 1	Dec. 31
Direct materials	$36,000	$42,000
Work in process	75,000	84,000
Finished goods	69,000	57,000

What are the conversion costs?
a. $564,000
b. $705,000
c. $960,000
d. $1,179,000

ANS: B
SUPPORTING CALCULATIONS:
$300,000 + $405,000 = $705,000

PTS: 1 DIF: Medium REF: p. 39 OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; implementing

49. Information from the records of Cain Corporation for December is as follows:

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

	Inventories	
	Dec. 1	Dec. 31
Direct materials	$36,000	$42,000
Work in process	75,000	84,000
Finished goods	69,000	57,000

What are the prime costs?
a. $564,000
b. $705,000
c. $960,000
d. $969,000

ANS: B
SUPPORTING CALCULATIONS:
$264,000 + $300,000 = $564,000

PTS: 1 DIF: Medium REF: p. 39 OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; executing

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

Direct materials	$11
Direct labour	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.

50. Refer to **Gateway Company**. What was the prime cost per unit?
    a. $11
    b. $19
    c. $23
    d. $34

    ANS: B
    SUPPORTING CALCULATIONS:
    $11 + $8 = $19

    PTS: 1 DIF: Easy REF: p. 39 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; executing

51. Refer to **Gateway Company**. What was the cost of goods sold last year?
    a. $14,250
    b. $25,500
    c. $47,500
    d. $51,000

    ANS: B
    SUPPORTING CALCULATIONS:
    750 × $34

    PTS: 1 DIF: Medium REF: p. 47 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; implementing

52. Refer to **Gateway Company**. What was the total operating income last year?
    a. $3,500
    b. $25,500
    c. $29,000
    d. $51,000

    ANS: A
    SUPPORTING CALCULATIONS:

Sales	$51,000
Cost of goods sold	(25,500)
Sell and admin.	(22,000)
Operating income	3,500

    PTS: 1 DIF: Medium REF: p. 48 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; implementing

53. What is the definition of the cost of goods manufactured?
    a. the cost of direct materials used in production
    b. the product cost of goods completed during the current period
    c. the product cost of goods sold during the current period
    d. the cost remaining in ending work-in-process inventory

    ANS: B PTS: 1 DIF: Challenging REF: p. 41
    OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; classifying

54. How is the cost of goods manufactured calculated?
    a. total product costs incurred during the current period + beginning work in process – ending work in process
    b. direct materials cost + direct labour cost + overhead cost
    c. sales – cost of goods sold
    d. gross margin – other expenses

    ANS: A PTS: 1 DIF: Challenging REF: p. 41
    OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; differentiating

55. What is the term for the cost of the partially completed goods at the end of the period?
    a. the beginning work-in-process inventory
    b. the cost of goods manufactured
    c. the ending work-in-process inventory
    d. the ending finished goods inventory

    ANS: C PTS: 1 DIF: Medium REF: p. 42
    OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; classifying

56. When are product costs expensed?
    a. when the product is finished
    b. when the product unit cost is calculated
    c. when the product is sold
    d. when the product begins production

    ANS: C PTS: 1 DIF: Challenging REF: p. 42
    OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
    MSC: Higher order; exemplifying

57. Which of the following would be found on the balance sheet of a manufacturer and not on the balance sheet of a service business?
    a. cost of goods manufactured
    b. work in process
    c. cost of goods sold
    d. gross profit

    ANS: A PTS: 1 DIF: Medium REF: p. 42
    OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; comparing

58. Assuming a separate schedule of cost of goods manufactured, which of the following is found on a manufacturer's income statement?
    a. cost of goods sold
    b. work in process
    c. direct materials
    d. direct labour

    ANS: A PTS: 1 DIF: Medium REF: p. 43
    OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; exemplifying

59. Which of the following would be found on the balance sheet of a manufacturer?
    a. cost of goods sold
    b. cost of goods manufactured
    c. work in progress inventory
    d. revenue

    ANS: C PTS: 1 DIF: Medium REF: p. 43
    OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; classifying

60. During the month of June, Telecom Inc. had cost of goods manufactured of $112,000, direct materials cost of $52,000, direct labour cost of $37,000, and overhead cost of $26,000. The work-in-process balance at June 30 equalled $10,000. What was the work-in-process balance on June 1?
    a. $7,000
    b. $10,000
    c. $13,000
    d. $115,000

    ANS: A
    SUPPORTING CALCULATIONS:

Direct materials	$ 52,000
Direct labour	37,000
Overhead	26,000
Total manufacturing costs	115,000
Work in process 6/1	7,000
Work in process 6/30	(10,000)
Cost of goods manufactured	$112,000

    PTS: 1 DIF: Medium REF: p. 44 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; executing

61. Kutlow, Inc., had cost of goods sold of $112,000 for the year ended December 31, 20x1. The finished goods inventory on January 1, 20x1, was $28,000, and the finished goods inventory on December 31, 20x8, was $17,000. What was the amount of cost of goods manufactured for the year?
    a. $67,000
    b. $101,000
    c. $113,000
    d. $129,000

    ANS: B
    SUPPORTING CALCULATIONS:

Finished Goods 1/1	$ 28,000
Cost of Goods Manufactured	101,000
Goods Available	129,000
Finished Goods 12/31	(17,000)
Cost of Goods Sold	$112,000

    PTS: 1 DIF: Medium REF: p.44 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; implementing

62. Andover, Inc. had a gross margin for the month of February totalling $42,000. The company 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. $42,000
    b. $58,000
    c. $100,000
    d. $158,000

    ANS: B
    SUPPORTING CALCULATIONS:

Sales (5,000 × $20)	$100,000
Cost of Goods Sold	58,000
Gross Margin	42,000

    PTS: 1 DIF: Easy REF: p. 44 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; implementing

In July, **Econo Company** purchased materials costing $21,000 and incurred direct labour cost of $18,000. Overhead totalled $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

63. Refer to **Econo Company**. What were the total manufacturing costs in July?
    a. $50,000
    b. $69,600
    c. $70,100
    d. $71,000

    ANS: C
    SUPPORTING CALCULATIONS:

Materials used	$20,100
Direct Labour	18,000
Overhead	32,000
Total manufacturing costs	$70,100

    PTS: 1 DIF: Medium REF: p. 44 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; executing

64. Refer to **Econo Company**. What was the cost of goods manufactured for July?
    a. $69,100
    b. $69,600
    c. $70,500
    d. $70,700

    ANS: B
    SUPPORTING CALCULATIONS:

Total manufacturing costs	$70,100
Work in Process 7/1	700
Work in Process 7/31	(1,200)
Cost of Goods Manufactured	$69,600

    PTS: 1 DIF: Medium REF: p. 44 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; implementing

65. Refer to **Econo Company**. What was the cost of goods sold for July?
    a. $69,600
    b. $70,200
    c. $71,100
    d. $71,300

    ANS: B
    SUPPORTING CALCULATIONS:

Cost of Goods Manufactured	$69,600
Finished Goods 7/1	3,300
Finished Goods 7/31	(2,700)
Cost of Goods Sold	$70,200

    PTS: 1 DIF: Medium REF: p. 44 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; implementing

66. Refer to **Econo Company**. What was the cost of direct materials used in July?
    a. $20,100
    b. $20,500
    c. $21,000
    d. $21,900

    ANS: A
    SUPPORTING CALCULATIONS:

Materials 7/1	$ 6,200
Purchases	21,000
Materials 7/31	(7,100)
Materials used	$20,100

    PTS: 1 DIF: Medium REF: p. 45 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; implementing

67. Refer to **Econo Company**. Suppose Econo Company sold 10,000 units during July and gross margin totalled $29,800. What would be the sales price per unit?
    a. $9.94
    b. $10.00
    c. $10.09
    d. $10.11

    ANS: B
    SUPPORTING CALCULATIONS:

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

    PTS: 1 DIF: Medium REF: p. 48 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; implementing

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

68. Refer to **Seaview Company**. What was the cost of goods sold for the year?
    a. $40,000
    b. $50,000
    c. $60,000
    d. $100,000

    ANS: C
    SUPPORTING CALCULATIONS:

Sales ($40,000/0.40)	$100,000
Gross margin	(40,000)
Cost of goods sold	60,000

    Also $40,000/0.40 × 0.60

    PTS: 1 DIF: Challenging REF: p. 44 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; implementing

69. Refer to **Seaview Company**. What was the gross margin for the year?
    a. $40,000
    b. $50,000
    c. $60,000
    d. $100,000

    ANS: A
    SUPPORTING CALCULATIONS:

Operating Income	$10,000
Selling and Administrative	$30,000
Gross Margin	$40,000

    PTS: 1 DIF: Challenging REF: p. 48 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; implementing

70. Refer to **Seaview Company**. How many units were sold during the year?
    a. 1,000
    b. 1,500
    c. 2,000
    d. 3,333

    ANS: C
    SUPPORTING CALCULATIONS:
    Cost of goods Sold $60,000/$30 = 2,000 units

    PTS: 1 DIF: Medium REF: p. 48 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; implementing

71. Refer to **Seaview Company**. What was the sales price per unit?
    a. $10
    b. $20
    c. $30
    d. $50

    ANS: D
    SUPPORTING CALCULATIONS:
    Sales $100,000/2,000 units = $50

    PTS: 1 DIF: Medium REF: p. 48 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; implementing

72. During the month of January, Enterprise, Inc. had total manufacturing costs of $110,000 and incurred $40,000 in direct labour costs and $30,000 in overhead costs. The materials inventory on January 1 was $3,000 less than the materials inventory on January 31. What was the cost of materials purchased during the month?
    a. $37,000
    b. $40,000
    c. $43,000
    d. $45,000

    ANS: C
    SUPPORTING CALCULATIONS:

Direct materials used	$ 40,000
Direct labour	$ 40,000
Overhead	$ 30,000
Total manufacturing costs	$110,000
Direct materials purchased	$ 43,000
Difference in inventory balances	(3,000)
Direct materials used	$ 40,000

    PTS: 1 DIF: Challenging REF: p. 45 OBJ: 2.2
    NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; executing

73. 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. $17,000
    b. $20,000
    c. $23,000
    d. $35,000

    ANS: C
    SUPPORTING CALCULATIONS:

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

    PTS: 1 DIF: Medium REF: p.45 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; implementing

74. 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 labour	450,000

	Inventories	
	Dec. 1	Dec. 31
Direct materials	$36,000	$42,000
Work in process	75,000	84,000
Finished goods	69,000	57,000

What is the cost of direct materials purchased?
a. $367,500
b. $397,500
c. $403,500
d. $405,000

ANS: C
SUPPORTING CALCULATIONS:
$397,500 + $42,000 – $36,000 = $403,500

PTS: 1 DIF: Medium REF: p. 45 OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; implementing

75. Which of the following is characteristic of cost of goods sold?
a. Cost of goods sold is the total product cost for the units sold during a period.
b. Cost of goods sold is the total product cost on the on the balance sheet.
c. Cost of goods sold is a cost that will be more than the revenue.
d. Cost of goods sold does not include the direct materials cost of the product.

ANS: A PTS: 1 DIF: Challenging REF: p. 46
OBJ: 2.3 NAT: AACSB Analytic MSC: Higher order; classifying

76. How many inventory accounts does a typical manufacturer have?
a. 1
b. 2
c. 3
d. 4

ANS: C PTS: 1 DIF: Medium REF: p. 47
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; exemplifying

77. Which statement is true for the income statement of a manufacturer?
a. It will show the ending balance of work in process.
b. It contains only manufacturing costs.
c. It will show the ending balance of materials inventory.
d. It covers a certain period of time.

ANS: D PTS: 1 DIF: Challenging REF: p. 47
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; classifying

78. What three categories separate the expenses on a manufacturer's income statement?
    a. production, period, and indirect
    b. materials, work in process, and finished goods
    c. production, selling, and administrative
    d. variable, fixed, and direct

    ANS: C PTS: 1 DIF: Medium REF: p. 47
    OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; classifying

79. What is the formula to calculate gross margin?
    a. sales revenue – selling and administrative expenses
    b. sales revenue – cost of goods sold
    c. cost of goods manufactured + beginning finished goods inventory – ending finished goods inventory
    d. total product costs + beginning work in process – ending work in process

    ANS: B PTS: 1 DIF: Medium REF: p. 48
    OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; classifying

80. What is the formula to calculate operating income?
    a. sales revenue – cost of goods sold – selling and administrative expenses
    b. gross margin – selling expenses
    c. sales revenue – cost of goods sold
    d. sales revenue – selling and administrative expenses

    ANS: A PTS: 1 DIF: Medium REF: p.48
    OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; classifying

81. Information from the records of Place, Inc., for December is as follows:

Sales	$820,000
Selling and administrative expenses	140,000
Direct materials purchases	176,000
Direct labour	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

What is the net income for the month of December?

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

ANS: A
SUPPORTING CALCULATIONS:
COGM = ($24,000 + $176,000 – $28,000) + $200,000 + $270,000 + $50,000 – $56,000 = $636,000
COGS = $636,000 + $46,000 – $38,000 = $644,000
NI = $820,000 – $140,000 – $644,000 = $36,000

PTS: 1 DIF: Challenging REF: p. 48 OBJ: 2.3
NAT: AACSB Analytic | IMA-Business Economics MSC: Higher order; executing

82. What is the formula to calculate gross margin percent?

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

ANS: C PTS: 1 DIF: Medium REF: p. 49
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; classifying

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

83. Refer to **Bartlow Inc.** What was the sales revenue percent?
a. 16%
b. 48%
c. 52%
d. 100%

ANS: D
SUPPORTING CALCULATIONS:
$428,000/$428,000 = 100%

PTS: 1 DIF: Easy REF: p. 49 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; executing

84. Refer to **Bartlow Inc.** What was the cost of goods sold percent?
a. 19%
b. 48%
c. 52%
d. 100%

ANS: B
SUPPORTING CALCULATIONS:
$205,440/$428,000 = 48%

PTS: 1 DIF: Easy REF: p. 49 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; executing

85. Refer to **Bartlow Inc.** What was the gross margin percent?
a. 17%
b. 19%
c. 48%
d. 52%

ANS: D
SUPPORTING CALCULATIONS:
$222,560/$428,000 = 52%

PTS: 1 DIF: Easy REF: p. 49 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; executing

86. Refer to **Bartlow Inc.** What was the selling expense percent?
    a. 17%
    b. 19%
    c. 16%
    d. 21%

    ANS: B
    SUPPORTING CALCULATIONS:
    $81,320/$428,000 = 19%

    PTS: 1 DIF: Easy REF: p. 49 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; executing

87. Refer to **Bartlow Inc.** What was the administrative expense percent?
    a. 15%
    b. 16%
    c. 17%
    d. 19%

    ANS: C
    SUPPORTING CALCULATIONS:
    $72,760/$428,000 = 17%

    PTS: 1 DIF: Easy REF: p. 49 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; executing

88. Refer to **Bartlow Inc.** What was the operating income percent?
    a. 15%
    b. 16%
    c. 17%
    d. 19%

    ANS: B
    SUPPORTING CALCULATIONS:
    $68,480/$428,000 = 16%

    PTS: 1 DIF: Easy REF: p. 49 OBJ: 2.3
    NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; executing

89. Which of the following would **NOT** be found on the income statement of a service organization?
    a. selling expenses
    b. gross margin
    c. operating income
    d. cost of goods sold

    ANS: D PTS: 1 DIF: Medium REF: p. 51
    OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; exemplifying

90. Which of the following can be found on the income statements of both a manufacturer and a service organization?
    a. cash
    b. accumulated amortization
    c. cost of goods sold
    d. administrative expenses

ANS: D PTS: 1 DIF: Medium REF: p. 51
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting MSC: Higher order; exemplifying

TRUE/FALSE

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

ANS: T PTS: 1 DIF: Medium REF: p.30
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

2. Expired costs are called assets.

ANS: F PTS: 1 DIF: Easy REF: p.30
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: F PTS: 1 DIF: Easy REF: p. 30
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

4. Costs are incurred to produce future benefits.

ANS: T PTS: 1 DIF: Easy REF: p. 30
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: F PTS: 1 DIF: Easy REF: p. 30
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

6. The revenue per unit is called price.

ANS: T PTS: 1 DIF: Easy REF: p. 30
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: F PTS: 1 DIF: Easy REF: p. 30
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: T PTS: 1 DIF: Easy REF: p. 30
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: T PTS: 1 DIF: Easy REF: p.31
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: T PTS: 1 DIF: Easy REF: p. 32
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: T PTS: 1 DIF: Easy REF: p. 31
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: F PTS: 1 DIF: Easy REF: p. 31
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: T PTS: 1 DIF: Easy REF: p. 31
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

14. It is **NOT** necessary to assign indirect costs to cost objects.

ANS: F PTS: 1 DIF: Medium REF: p. 32
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

15. Costs are directly, **NOT** indirectly, associated with cost objects.

ANS: F PTS: 1 DIF: Easy REF: p. 32
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: T PTS: 1 DIF: Easy REF: p. 32
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

17. Indirect costs are costs that are **NOT** easily and accurately traced to a cost object.

ANS: T PTS: 1 DIF: Easy REF: p. 32
OBJ: 2.1 NAT: AACSB Analytic | IMA-Cost Management

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

ANS: T PTS: 1 DIF: Easy REF: p. 33
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: T PTS: 1 DIF: Easy REF: p. 33
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: F PTS: 1 DIF: Medium REF: p.34
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

21. Glue used in the manufacture of cabinets is an example of a variable cost.

ANS: T PTS: 1 DIF: Medium REF: p.34
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: T PTS: 1 DIF: Easy REF: p. 34
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: T PTS: 1 DIF: Easy REF: p. 34
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: T PTS: 1 DIF: Easy REF: p. 34
OBJ: 2.1 NAT: AACSB Analytic | IMA-Business Economics

25. Industries that provide intangible services do **NOT** normally have direct contact with their customers.

ANS: F PTS: 1 DIF: Challenging REF: p. 35
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

26. All product costs other than direct materials and indirect labour are called overhead.

ANS: F PTS: 1 DIF: Medium REF: p. 36
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

27. All manufacturing costs are classified as direct materials, direct labour, or overhead.

ANS: T PTS: 1 DIF: Easy REF: p. 36
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: F PTS: 1 DIF: Medium REF: p. 36
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: T PTS: 1 DIF: Medium REF: p. 36
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: T PTS: 1 DIF: Easy REF: p. 37
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

31. Prime cost is the sum of indirect materials and indirect labour.

ANS: F PTS: 1 DIF: Easy REF: p.37
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

32. The cost of janitorial services for a factory building would be classified as direct labour.

ANS: F PTS: 1 DIF: Medium REF: p. 37
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: F PTS: 1 DIF: Medium REF: p.38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

34. Any costs associated with storing, selling, and delivering a product are classified as period costs.

ANS: T PTS: 1 DIF: Medium REF: p. 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

35. Research and development costs would be classified as nonproduction costs.

ANS: T PTS: 1 DIF: Medium REF: p. 39
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

36. Production costs include direct materials, direct labour, and selling costs.

ANS: F PTS: 1 DIF: Easy REF: p. 39
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

37. Marketing costs would be classified as period costs.

ANS: T PTS: 1 DIF: Easy REF: p. 39
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

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

ANS: F PTS: 1 DIF: Challenging REF: p. 43
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

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

ANS: T PTS: 1 DIF: Medium REF: p. 46
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

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

ANS: F PTS: 1 DIF: Medium REF: p.48
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

41. Gross margin equals operating income.

ANS: F PTS: 1 DIF: Medium REF: p. 48
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

MATCHING

Select the appropriate classification of the output generated by each of the following industries.
a. Tangible b. Intangible

1. CA firm
2. Car manufacturer
3. Law firm
4. Medical clinic
5. Bowling alley
6. Fast-food restaurant
7. Video rental
8. Professional sports franchise

1. ANS: B PTS: 1 DIF: Easy REF: p.35
   OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
2. ANS: A PTS: 1 DIF: Easy REF: p.35
   OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
3. ANS: B PTS: 1 DIF: Easy REF: p.35
   OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
4. ANS: B PTS: 1 DIF: Easy REF: p.35
   OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
5. ANS: B PTS: 1 DIF: Easy REF: p.35
   OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
6. ANS: A PTS: 1 DIF: Easy REF: p.35
   OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
7. ANS: B PTS: 1 DIF: Easy REF: p.35
   OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
8. ANS: B PTS: 1 DIF: Easy REF: p.35
   OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

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

a. Period cost
b. Direct cost
c. Opportunity cost
d. Variable cost
e. Indirect cost
f. Fixed cost
g. Product cost

9. A benefit given up when one alternative is chosen over another
10. A cost that stays the same in total regardless of changes in output
11. A cost that is difficult to trace to a cost object
12. A manufacturing cost
13. A cost that is not inventoried
14. A cost that can be easily traced to a cost object
15. A cost that increases in total as output increases

9. ANS: C PTS: 1 DIF: Easy REF: p.35-40
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
10. ANS: F PTS: 1 DIF: Easy REF: p.35 – 40
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
11. ANS: E PTS: 1 DIF: Easy REF: p.35 – 40
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
12. ANS: G PTS: 1 DIF: Easy REF: p.35 – 40
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
13. ANS: A PTS: 1 DIF: Easy REF: p.35 – 40
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
14. ANS: B PTS: 1 DIF: Easy REF: p.35 – 40
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
15. ANS: D PTS: 1 DIF: Easy REF: p. 35 – 40
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

Select the appropriate classification for each of the following costs.

a. Period b. Product

16. Advertising costs
17. Cost accountant's salary
18. Factory supervisor's salary
19. Research and development costs
20. Marketing costs
21. Cost of shipping products to customers
22. Supplies for factory washroom
23. Assembly line worker's wages

16. ANS: A PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
17. ANS: A PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
18. ANS: B PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
19. ANS: A PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
20. ANS: A PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
21. ANS: A PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
22. ANS: B PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
23. ANS: B PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

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

a. Direct materials
b. Direct labour
c. Overhead
d. Selling expense
e. Administrative expense

24. Cost of tires
25. Factory supplies
26. General accounting costs
27. Factory security costs
28. Factory janitorial costs
29. Salary of chief executive officer
30. Depreciation of vehicles used by sales personnel
31. Cost of windshields used in the production process

24. ANS: A PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
25. ANS: C PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
26. ANS: E PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
27. ANS: C PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
28. ANS: C PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
29. ANS: E PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
30. ANS: D PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
31. ANS: A PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

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

a. Product cost b. Period cost

32. Cost of nails used by a home builder
33. Fees paid to an advertising firm
34. Sugar used in soft drink production
35. Rental cost of executive Lear jet
36. Cost of conference for sales team
37. Factory supervisor's salary
38. Fees paid to outside auditing firm
39. Factory security costs

32. ANS: A PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
33. ANS: B PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
34. ANS: A PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
35. ANS: B PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
36. ANS: B PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
37. ANS: A PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
38. ANS: B PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
39. ANS: A PTS: 1 DIF: Easy REF: p. 37 – 38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

Select the appropriate classification of the items listed below.

a. Selling expense
b. Administrative expense
c. Direct materials
d. Direct labour
e. Overhead

40. Chief of surgery's salary at a hospital
41. Wages of assembly line workers in an automobile plant
42. Cost of lubricating factory machinery
43. Cost of shipping goods to customers
44. Glue used in the manufacture of furniture
45. Cost of engines in the manufacture of airplanes
46. Salary of chief executive officer
47. A professor's salary at a university

40. ANS: D PTS: 1 DIF: Easy REF: p.38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
41. ANS: D PTS: 1 DIF: Easy REF: p.38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
42. ANS: E PTS: 1 DIF: Easy REF: p.38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
43. ANS: A PTS: 1 DIF: Easy REF: p.38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
44. ANS: E PTS: 1 DIF: Easy REF: p.38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
45. ANS: C PTS: 1 DIF: Easy REF: p.38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
46. ANS: B PTS: 1 DIF: Easy REF: p.38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
47. ANS: D PTS: 1 DIF: Easy REF: p.38
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

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

a. Per-unit prime cost
b. Per-unit conversion cost
c. Per-unit cost of goods manufactured

48. (direct labour + overhead)/units produced
49. (total manufacturing costs + work in process beginning – work in process ending)/units produced
50. (direct materials + direct labour)/units produced

48. ANS: B PTS: 1 DIF: Easy REF: p. 39 – 44
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
49. ANS: C PTS: 1 DIF: Easy REF: p. 39 – 44
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics
50. ANS: A PTS: 1 DIF: Easy REF: p. 39 – 44
OBJ: 2.2 NAT: AACSB Analytic | IMA-Business Economics

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

a. Gross margin
b. Selling expenses
c. Sales revenue
d. Cost of goods sold
e. Operating income

51. Gross margin – period costs
52. Marketing and distributing costs
53. Number of units sold multiplied by sales price per unit
54. Sales – cost of goods sold
55. Number of units sold multiplied by product cost per unit

51. ANS: E PTS: 1 DIF: Easy REF: p. 44
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting
52. ANS: B PTS: 1 DIF: Easy REF: p. 44
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting
53. ANS: C PTS: 1 DIF: Easy REF: p. 44
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting
54. ANS: A PTS: 1 DIF: Easy REF: p. 44
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting
55. ANS: D PTS: 1 DIF: Easy REF: p. 44
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

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

a. Work-in-process inventory
b. Finished goods inventory
c. Cost of goods sold
d. Cost of goods manufactured
e. Total manufacturing costs

56. The cost of units finished but not sold at the end of the current period
57. Direct materials + direct labour + overhead
58. The cost of units unfinished at the end of the current period
59. Product cost per-unit × units sold
60. (direct materials + direct labour + overhead) +/– the change in work-in-process inventory from the beginning to the end of the current period

56. ANS: B PTS: 1 DIF: Easy REF: p. 44
OBJ: 2.2 | 2.3 NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting
57. ANS: E PTS: 1 DIF: Easy REF: p. 44
OBJ: 2.2 | 2.3 NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting
58. ANS: A PTS: 1 DIF: Easy REF: p. 44
OBJ: 2.2 | 2.3 NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting
59. ANS: C PTS: 1 DIF: Easy REF: p. 44
OBJ: 2.2 | 2.3 NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting
60. ANS: D PTS: 1 DIF: Easy REF: p. 44
OBJ: 2.2 | 2.3 NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting

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

a. Income statement
b. Cost of goods manufactured
c. Work in process
d. Gross margin
e. Operating income

61. Gross margin – selling and administrative expenses
62. The difference between sales revenue and cost of goods sold
63. The total cost of goods completed during the current period
64. Covers a particular period of time
65. Cost of partially completed goods

61. ANS: E PTS: 1 DIF: Easy REF: p. 44
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting
62. ANS: D PTS: 1 DIF: Easy REF: p. 44
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting
63. ANS: B PTS: 1 DIF: Easy REF: p. 44
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting
64. ANS: A PTS: 1 DIF: Easy REF: p. 44
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting
65. ANS: C PTS: 1 DIF: Easy REF: p. 44
OBJ: 2.3 NAT: AACSB Analytic | IMA-Reporting

PROBLEM

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

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

		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		

   ANS:

		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	

   PTS: 1 DIF: Medium REF: p. 37 – 38 OBJ: 2.2
   NAT: AACSB Analytic | IMA-Business Economics

2. Arcadia Company, which manufactures recreational vehicles, 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 Labour	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					

ANS:

		Product Cost			Period Cost	
		Direct Materials	Direct Labour	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	

PTS: 1 DIF: Medium REF: p. 37 – 38 OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

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

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

ANS:

A. ($126,000 + $78,000 + $84,000)/3,000 = $96

B. ($126,000 + $78,000)/3,000 = $68

C. ($78,000 + $84,000)/3,000 = $54

D. ($96 × 2,800) = $268,800

E. ($96 × 200) = $19,200

PTS: 1 DIF: Medium REF: p. 39 – 44 OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

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

Required:

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

ANS:

A. ($516,000 + $430,000 + $645,000)/86,000 = $18.50

B. ($516,000 + $430,000)/86,000 = $11.00

C. ($430,000 + $645,000)/86,000 = $12.50

D.

Sales (86,000 × $21)	$1,806,000
COGS (86,000 × $18.50)	1,591,000
Gross margin	215,000

E.

Gross margin	$ 215,000
Less: sell and admin.	157,000
Operating income	58,000

F. (80,000 × $18.50) = $1,480,000

G. (6,000 × $18.50) = $111,000

PTS: 1 DIF: Medium REF: p.39 – 44 OBJ: 2.2 | 2.3
NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting

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

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

Required: Prepare a statement of cost of goods manufactured

ANS:

Tucker Company
Statement of Cost of Goods Manufactured
For the month ended April 30

Materials inventory, April 1	$ 1,475	
Materials purchased	17,000	
Materials available for use	18,475	
Materials inventory, April 30	1,200	
Materials used		$17,275
Direct labour		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

PTS: 1 DIF: Medium REF: p.44 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

6. In June, Olympic Company purchased materials costing $38,000, and incurred direct labour costs of $42,000. Overhead totalled $27,000 for the month. Information on inventories was as follows.

	June 1	June 30
Materials	$3,000	$2,700
Work in process	1,000	1,275
Finished goods	2,500	1,775

Required:

A. Calculate the cost of direct materials used during June.
B. Calculate the total manufacturing cost for June.
C. Calculate the cost of goods manufactured for June.
D. Calculate cost of goods sold for June.

ANS:

A.	Materials, 6/1	$ 3,000
	Purchases	38,000
	Materials, 6/30	(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

PTS: 1 DIF: Medium REF: p. 44 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

7. 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 labour cost	22,000
Purchases of raw materials	10,000
Finished goods inventory, Nov. 1	2,250
Finished goods inventory, Nov. 30	3,750
Work-in-process inventory, Nov. 1	4,200
Work-in-process inventory, Nov. 30	2,750
Materials inventory, Nov. 1	3,500
Materials inventory, Nov. 30	5,100

Required:

A. Prepare a statement of cost of goods manufactured
B. Prepare a statement of cost of goods sold

ANS:

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

Materials inventory, Nov. 1	$ 3,500	
Purchases of materials	10,000	
Materials inventory, Nov. 30	(5,100)	
Materials used		$ 8,400
Direct labour		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

PTS: 1 DIF: Medium REF: p. 44 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

8. 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 labour costs of $200,000 and selling and administrative expenses of $240,000 were incurred.

Required:

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

ANS:

A. Cost of goods sold $560,000/$56 = 10,000 units

B. 10,000 × $34 – ($200,000 of direct labour cost) = $140,000

C. 10,000 × $42 – ($200,000 of direct labour 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

PTS: 1 DIF: Challenging REF: p.44 – 48 OBJ: 2.2 | 2.3
NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting

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

Required:

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

ANS:

A. 75,000 × $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 adm. expenses	2,000,000
	Operating income	625,000
D.	Sales revenue	$39,675,000
	Cost of goods sold (69,000 ?6? $540)	37,260,000
	Gross margin	2,415,000
	Selling and adm. expenses	2,000,000
	Operating income	415,000

PTS: 1 DIF: Medium REF: p. 48 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

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

Sales commissions	$ 12,000
Sales revenue	120,000
Research and development	17,000
Finished goods inventory, Jan. 1	7,500
Work-in-process inventory, Jan 1	9,000
Finished goods inventory, Dec. 31	6,000
Work-in-process inventory, Dec. 31	11,000
Cost of goods manufactured	52,000

Required: Prepare an income statement for Baleen company.

ANS:

Baleen Company
Income Statement
For the year ended December 31, 20xx

Sales revenue	$120,000
Cost of goods sold*	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)

PTS: 1 DIF: Medium REF: p. 48 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

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

	January 1	December 31
Materials	$21,000	$23,500
Work in process	17,500	8,500
Finished goods	26,000	27,000

Direct labour	$ 40,000
Selling expenses	31,000
Sales revenue	400,000
Administrative expenses	14,500
Purchases of raw materials	62,000
Factory supervision	50,000
Factory supplies used	25,000

Required: Prepare an income statement of Macon Company for the current year

ANS:

Macon Company
Income Statement
For the year ended December 31, 20xx

Sales revenue	$ 400,000
Cost of goods sold*	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 labour	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

PTS: 1 DIF: Challenging REF: p. 48 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

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

Direct labour cost	$11,500
Purchases of raw materials	20,000
Factory depreciation	7,500
Advertising	10,000
Factory property taxes	6,500
Materials inventory, 5/1	1,250
Materials inventory, 5/31	2,500
Work-in-process inventory, 5/1	?
Work-in-process inventory, 5/31	1,500
Cost of goods manufactured	45,850
Sales revenue	?
Executive salary cost	25,000
Finished goods inventory, 5/1	5,500
Finished goods inventory, 5/31	4,250
Operating income	67,900
Gross margin	?

Required: Solve for the missing amounts (?).

ANS:

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

Materials inventory, 5/1	$ 1,250
Purchases of materials	20,000
Materials inventory, 5/31	(2,500)
Materials used	$18,750
Direct labour	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

PTS: 1 DIF: Challenging REF: p. 48 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

13. 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, and F).

ANS:

	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

PTS: 1 DIF: Medium REF: p. 48 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

14. 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 labour	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, and D).

ANS:

	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 labour	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

PTS: 1 DIF: Medium REF: p. 48 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

15. 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 equalled $500,000.

ANS:

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

PTS: 1 DIF: Medium REF: p. 48 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

16. 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	310,080
Less:	
Selling expense	164,160
Administrative expense	63,840
Operating income	$ 82,080

Required:

A. Calculate the sales revenue percent
B. Calculate the cost of goods sold percent
C. Calculate the gross margin percent
D. Calculate the selling expense percent
E. Calculate the administrative expense percent
F. Calculate the operating income percent

ANS:

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

PTS: 1 DIF: Easy REF: p. 49 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

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

Finished goods inventory, Jan 1.	$ 12,000
Finished goods inventory, Dec. 31	7,500
Cost of goods manufactured	152,380
Sales revenue	212,000
Sales commissions	19,080
Research and development costs	15,900

Required:

A. Calculate the cost of goods sold percent
B. Calculate the gross margin percent
C. Calculate the selling expense percent
D. Calculate the administrative expense percent
E. Calculate the operating income percent

ANS:

A.	Cost of goods manufactured	$152,380
	Finished goods inventory, 1/1	12,000
	Finished goods inventory, 12/31	(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%

PTS: 1 DIF: Medium REF: p. 49 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

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

Operating income percent	10.5%
Gross margin percent	30%

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

A. Sales revenue
B. Cost of goods sold
C. Total selling and administrative expenses

ANS:

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 exp.	81,900
Operating income	44,100

PTS: 1 DIF: Medium REF: p. 48 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

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

Direct materials	$17
Direct labour	11
Overhead	12

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

Required: Solve for the following:

A. Total cost of goods sold for last year
B. Operating income for last year
C. Total gross margin for last year
D. Prime cost per unit

ANS:

A. (17 + 11 + 12) × 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

PTS: 1 DIF: Easy REF: p. 48 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

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

Direct materials	$40,000
Direct labour	35,000
Overhead	52,000
Selling expense	17,000
Administrative expense	12,000

Last month, Tesco produced and sold 20,000 units at a sales price per unit of $18. Assume no beginning or ending inventory balances for work in process and finished goods inventory.

Required: Solve for the following amounts.
A. Total product cost for last month
B. Unit product cost for last month
C. Total period costs
D. Gross margin for last month
E. Operating income for last month

ANS:

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

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

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

D & E.

Sales revenue (20,000 × $18)	360,000
Cost of goods sold	127,000
Gross margin	233,000
Less:	
Selling expense	17,000
Administrative expense	12,000
Operating income	$204,000

PTS: 1 DIF: Medium REF: p. 48 OBJ: 2.3
NAT: AACSB Analytic | IMA-Reporting

ESSAY

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

ANS:

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

PTS: 1 DIF: Medium REF: p. 37 OBJ: 2.2
NAT: AACSB Analytic | IMA-Business Economics

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

   ANS:

   The materials inventory is used to keep track of materials that have not yet been used in production. The work-in-process inventory is used to account for the costs of goods that were partially completed at the end of the accounting period. the finished goods inventory is used to account for the cost of goods that were finished at the end of the current period but have not yet been sold.

   PTS: 1 DIF: Medium REF: p. 38 OBJ: 2.2 | 2.3
   NAT: AACSB Analytic | IMA-Business Economics | IMA-Reporting

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

   ANS:

   Direct materials consist 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 labour consists of labour 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 labour category. Examples of overhead costs include insurance on the factory, machinery deprecation, indirect labour, indirect materials, factory supplies, etc.

   PTS: 1 DIF: Medium REF: p. 38 OBJ: 2.2
   NAT: AACSB Analytic | IMA-Business Economics

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

   ANS:

   Total manufacturing costs would consist of the cost of materials used, the direct labour 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.

   PTS: 1 DIF: Medium REF: p. 38 – 44 OBJ: 2.3
   NAT: AACSB Analytic | IMA-Reporting

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

   ANS:

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

   PTS: 1 DIF: Medium REF: p. 37 – 38 OBJ: 2.2
   NAT: AACSB Analytic | IMA-Business Economics