

TEST BANK



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STANDARDS FOR
THE CPA AND
CMA EXAMS

COST MANAGEMENT STRATEGIES FOR BUSINESS DECISIONS

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Student: _____

1. Product costs are costs assigned to goods that were either purchased or manufactured for resale.
True False
2. Product costs become expenses in the period they are purchased.
True False
3. The product cost of merchandise inventory acquired by a retailer consists of the purchase cost of the inventory plus any shipping charges.
True False
4. Inventoriable cost is another term for product costs.
True False
5. Period costs are recognized as expenses by retailers, but are included in inventory by manufacturers.
True False
6. The difference between sales revenue and cost of goods sold is called contribution margin.
True False
7. The basic formula used to compute cost of goods sold is beginning inventory plus purchases plus ending inventory.
True False
8. Marketing costs are considered period costs for retailers and product costs for manufacturers.
True False
9. Cost of goods sold does not include the costs of selling merchandise.
True False
10. Theoretically, the cost of employer paid health insurance premiums for direct labor personnel should be considered a manufacturing overhead cost.
True False
11. Factory heating and air conditioning should be considered a product cost in a manufacturing operation.
True False
12. Depreciation of office equipment is a manufacturing overhead cost at Dell Computer, a large manufacturer of personal computers.
True False
13. Maintenance workers in the factory are considered a direct labor cost at Hewlett-Packard, a leading manufacturer of computers and computer equipment.
True False
14. Lubricants used for production machinery should be considered a direct material cost at General Motors Corporation.
True False
15. Before materials enter the production process, they are called raw materials.
True False
16. After materials enter the production process, those used in products are called direct materials.
True False

17. Employees who handle materials in the factory of a manufacturing plant are considered direct labor costs.
True False
18. Overtime premium costs should theoretically be considered part of direct labor cost.
True False
19. Prime costs include direct materials and direct labor costs.
True False
20. Conversion costs equal direct materials and manufacturing overhead costs.
True False
21. Nonmanufacturing costs include selling and administrative costs, which are not used to produce products.
True False
22. Work-in-process inventory refers to partially completed units.
True False
23. The cost of direct materials placed into production is computed by adding the cost of purchases to the ending inventory of raw materials.
True False
24. In a manufacturing company, cost of goods manufactured consists of direct materials put into production, direct labor and manufacturing overhead incurred plus the beginning inventory of finished goods less the ending inventory of finished goods
True False
25. A cost driver is a characteristic of an activity or event that causes that activity or event to incur cost.
True False
26. Variable costs change in total direct proportion to a change in the activity of a cost driver.
True False
27. Fixed costs per unit remain the same as volume of production increases.
True False
28. As the volume of production increases, fixed costs per unit remain unchanged, while variable costs per unit will decrease.
True False
29. The identification of a cost as fixed or variable is valid only within a specified range of output volume.
True False
30. Unit-level costs are incurred for every unit of product manufactured or service performed.
True False
31. Batch-level costs are incurred for each line of product service.
True False
32. Facility-level costs are incurred to maintain the organization's overall facility and infrastructure.
True False
33. All unit-level costs are variable costs.
True False
34. All variable costs are unit-level costs.
True False

35. Electricity and welding materials used by robotic welders would be considered unit-level costs.
True False
36. The costs of equipment, buildings, and purchased technology should be considered when making production decisions.
True False
37. Most management systems measure both opportunity costs and out of pocket costs.
True False
38. Opportunity cost is the current value of the foregone, next best alternative use of whatever is supplied or used.
True False
39. It is possible for a cost to be a direct cost of one cost object and an indirect cost of another.
True False
40. If a manager can control or heavily influence the level of a cost, then that cost is classified as a controllable cost.
True False
41. Tracing costs means attaching or assigning indirect costs by some reasonable but imprecise method of averaging.
True False
42. Tracing costs is generally considered a more accurate method of cost assignment than allocating costs.
True False
43. A committed cost may be changed quickly and easily.
True False
44. Sunk costs are past resource payments that cannot be changed by any current or future decision.
True False
45. Absorption costing uses sales less variable costs to measure the contribution to profit.
True False
46. Absorption costing measures use gross margin as the contribution to profit.
True False
47. Gross margin is sales less variable production costs.
True False
48. Throughput costing inventory contains no conversion and indirect costs.
True False
49. When inventory levels increase, absorption costing will result in a higher operating income than direct costing.
AASCB: Analytic
True False
50. When inventory levels remain constant, absorption and direct costing will result in the same operating income.
AASCB: Analytic
True False
51. When inventory levels decrease absorption costing will result in a higher operating income than direct costing.
AASCB: Analytic
True False

52. The difference in the amount of fixed overhead cost that is expensed to the income statement under absorption and variable costing is solely attributable to the difference between the number of units produced during the period and the number of units sold.
AASCB: Analytic
True False
53. Absorption costing can distort the costs to provide products and services if they represent greatly different levels of support from indirect resources.
True False
54. Throughout costing assigns only batch-level spending for direct costs of products or services.
True False
55. Throughout costing considers only unit-level spending for direct costs of products or services.
True False

Use the following to answer questions 56-59:

Crowley Company has gathered the following data related to its production process of two of its products for the week ended April 30:

Model	#100 B	#250C
Quantity produced	60	100
Unit-level material cost	\$ 42,000	\$ 100,000
Variable conversion cost	72,000	300,000
Total direct costs	\$114,000	\$ 400,000
Indirect costs		
Indirect manufacturing cost	163,200	272,000
Indirect operating cost	255,000	425,000
Total indirect costs	418,200	697,000
Total costs	\$532,200	\$1,097,000

56. If the cost behaviors exhibited in this chart continue and the company produces 90 units of product 100B during May, the expected total unit-level material cost of product 100 B would be:
A. \$171,000
B. \$63,000
C. \$42,000
D. \$114,000
57. The throughput cost per unit for Product 250C is:
A. \$10,970
B. \$4,000
C. \$1,000
D. \$6,970
58. The absorption cost per unit for product 250C was:
A. \$1,900
B. \$9,760
C. \$6,970
D. \$6,720
59. The costs above that appear to be allocated rather than traced are:
A. Unit level material costs
B. Variable conversion costs
C. Indirect production costs only
D. All indirect costs
60. Which of the following is **not** a name for indirect resources?
A. Overhead costs
B. Burden
C. Direct costs
D. Common costs

61. Which of the following should be considered part of a manufacturing company's direct labor cost?
- Factory supervisor's salary
 - Forklift operator's hourly wages
 - Employer-paid health insurance on factory assemblers' wages
 - Cost of idle time

Use the following to answer questions 62-71:

Beginning inventory in units	0
Units produced	4,800
Units sold	4,000
Sales	\$400,000
Material cost (unit level or variable)	\$ 96,000
Variable conversion cost used (Committed)	\$ 48,000
Facility-level or fixed manufacturing cost	\$ 72,000
Indirect operating costs (fixed)	\$ 80,000

62. The throughput product cost of goods sold is:
- \$96,000
 - \$120,000
 - \$144,000
 - \$80,000
63. The variable cost of goods sold is:
- \$110,000
 - \$120,000
 - \$144,000
 - \$40,000
64. The absorption cost of goods sold is:
- \$246,667
 - \$120,000
 - \$180,000
 - \$40,000
65. The throughput operating income is:
- \$128,000
 - \$120,000
 - \$104,000
 - \$256,000
 - ** (\$20 x 4,000)
66. The variable operating income is:
- \$120,000
 - \$140,000
 - \$104,000
 - \$128,000
 - *** \$30 per unit x 4,000 units sold
67. The absorption operating income is:
- \$120,000
 - \$140,000
 - \$128,000
 - \$112,000
 - ***\$45 per unit x 4,000 units sold
68. The throughput ending inventory is:
- \$16,000
 - \$18,000
 - \$20,000
 - \$24,000

69. The variable ending inventory is:
 A. \$36,000
 B. \$8,000
 C. \$40,000
 D. \$24,000
70. The absorption ending inventory is:
 A. \$40,000
 B. \$24,000
 C. \$36,000
 D. \$8,000
71. The difference between the variable ending inventory cost and the absorption ending inventory cost is:
 A. 800 units times \$15 per unit indirect manufacturing cost
 B. 800 units times \$10 per unit material cost
 C. 800 units times \$20 per unit variable conversion cost plus \$15 per unit indirect manufacturing cost
 D. 800 units times \$20 per unit variable conversion cost plus \$15 per unit indirect manufacturing cost plus \$16.67 per unit indirect operating costs
72. Throughput costing:
 A. Measures **only** unit-level spending for direct costs of products or services
 B. Includes both committed and discretionary costs in the costs of products or services
 C. Includes both direct and indirect costs in the costs of products or services
 D. Includes only variable costs in the costs of products or services
73. Absorption costing measures contribution to profit as:
 A. Sales less unit-level costs spent of goods sold
 B. Sales less variable costs of goods sold
 C. Sales less absorption cost of goods sold
 D. Sales less all costs including operating expenses
74. Under variable costing, operating income is measured by:
 A. Gross margin minus operating expenses
 B. Throughput minus operating expenses
 C. Contribution margin minus indirect manufacturing and operating costs
 D. Sales minus variable costs
75. Oliveira's operating income under absorption costing will be:
 In its first month of operations, Oliveira Corporation produced 100,000 units. 80,000 units were sold. The manufacturing cost per unit was as follows:

Direct materials cost:	\$40
Direct labor cost	10
Variable overhead cost	30
Fixed overhead cost	50
Total per unit cost	\$130

- A. Lower than variable costing by \$1,000,000
 B. Higher than variable costing by \$600,000
 C. Higher than variable costing by \$1,000,000
 D. The same as variable costing

76. Which of the following statements is **True**?
- A. Operating income under variable costing equals contribution margin less operating expenses
 - B. When sales exceed production, absorption costing income will be higher than variable costing income
 - C. Throughput costing assigns all variable costs to cost of goods sold
 - D. When production exceeds sales, absorption costing income will be higher than variable costing income
77. If units produced are greater than units sold:
- A. Variable costing will have a higher profit than absorption costing
 - B. Throughput costing will have a higher profit than absorption costing
 - C. Absorption costing will have a higher profit than throughput costing but a lower profit than variable costing
 - D. Absorption costing will have a higher profit than both throughput costing and variable costing
78. Under throughput costing:
- A. Both conversion and indirect costs are added to inventory
 - B. Neither conversion or indirect costs are added to inventory
 - C. Conversion costs are added to inventory but indirect costs are not
 - D. Indirect costs are added to inventory but conversion costs are not
79. Which of the following is **not** an argument in favor of throughput costing?
- A. Managers cannot hide committed costs or past resource spending by increasing production
 - B. Only increases in sales will increase profits
 - C. Increases in sales and production will increase profits
 - D. Base production decisions should be based on resource supply and use only
80. Period costs
- A. Do not become part of the value of inventory for financial or tax reporting
 - B. Become part of the value of inventory for financial reporting but not tax reporting
 - C. Become part of the value of inventory for tax reporting but not financial reporting
 - D. Are the same as indirect manufacturing costs
81. Which of the following would be considered an indirect product cost?
- A. Depreciation on sales staff automobiles
 - B. President's salary
 - C. Maintenance on factory equipment
 - D. Direct Materials used in production
82. Wages paid to supervisors in the factory are typically classified as:
- A. Direct manufacturing labor costs
 - B. Manufacturing overhead costs
 - C. Prime costs
 - D. Period costs
83. Which of the following is a fixed cost?
- A. A 5% sales commissions
 - B. Direct labor personnel
 - C. Rent
 - D. Both A and C are fixed costs
84. Which of the following is **not** a conversion resource?
- A. Parts
 - B. Labor
 - C. Supervision
 - D. Maintenance

85. Which of the following is **not** a material resource?
- A. Equipment
 - B. Leather used in shoe manufacturing
 - C. Components
 - D. Assemblies
86. Which of the following is a conversion resource?
- A. Office supplies
 - B. Supervisory labor
 - C. Sales department
 - D. Hard drives used in manufacture of computers
87. Theoretically, overtime premium paid to a machine operator should be accounted for as:
- A. A period cost
 - B. Part of direct labor
 - C. As indirect labor
 - D. As part of manufacturing overhead
88. Idle time caused by equipment breakdown should be accounted for as:
- A. A period cost
 - B. Direct labor cost
 - C. A selling expense
 - D. A manufacturing overhead cost
89. Prime costs are the same as:
- A. Manufacturing overhead costs
 - B. Indirect labor costs
 - C. Direct labor and direct materials used
 - D. Direct labor and direct materials purchased
90. The cost of renting a car for the sales force should be accounted for as:
- A. Period cost
 - B. Manufacturing overhead
 - C. Prime cost
 - D. Conversion cost
91. Depreciation on forklifts used to transport materials should be accounted for as:
- A. Manufacturing overhead cost
 - B. Period cost
 - C. Prime cost
 - D. Part of the direct materials cost
92. Which of the following describes the formula for cost of goods manufactured?
- A Direct materials used plus direct labor plus overhead minus beginning inventory of work- in-process . plus ending inventory of work- in -process
 - B Direct materials used plus direct labor plus overhead plus beginning inventory of work- in- process . minus ending inventory of work- in- process
 - C. Beginning inventory of raw materials plus purchases of raw materials less ending inventory raw materials
 - D. Beginning inventory of finished goods plus purchases of direct materials less ending inventory of finished goods
93. Which of the following best describes a variable cost?
- A. Per unit cost decreases as activity increases and increases as activity decreases
 - B. Total cost decreases as activity increases and increases as activity decreases
 - C. Per unit cost remains the same regardless of activity
 - D. Total cost remains the same regardless of activity

94. Which of the following best describes a fixed cost?
- A. Per unit cost decreases as activity decreases and increases as activity increases
 - B. Total cost decreases as activity increases and increases as activity decreases
 - C. Per unit cost remains the same regardless of activity
 - D. Total cost remains the same regardless of activity
95. Which of the following is an example of a unit-level cost?
- A. Factory maintenance
 - B. Customer service
 - C. Direct materials
 - D. Set-up
96. Which of the following is an example of a batch-level cost?
- A. Factory maintenance
 - B. Customer service
 - C. Direct materials
 - D. Set-up
97. Which of the following is an example of a product-level cost?
- A. Special packaging for a particular customer
 - B. Moving materials for a batch of production
 - C. Designing a product using computer-aided design software
 - D. Random inspection of finished units
98. Which of the following is an example of a facility-level cost?
- A. Special packaging for a particular customer
 - B. Electricity used by robotic welders
 - C. General corporate advertising
 - D. Insurance on the factory
99. Which of the following describes an opportunity cost?
- A. A cost is not intended to vary with production or sales volume
 - B. Foregone benefit that could have been realized from the best alternative use of resources
 - C. Past payments for resources that cannot be changed by any current or future decision
 - D. Costs that can be changed quickly and easily
100. Which of the following describes a sunk cost?
- A. A cost that is not intended to vary with production or sales volume
 - B. Foregone benefit that could have been realized from the best alternative use of resources
 - C. Past resources payments that cannot be changed by any current or future decision
 - D. Costs that can be changed quickly and easily
101. Which of the following is **not** a relevant cost for a decision?
- A. Variable cost
 - B. Opportunity cost
 - C. Direct cost
 - D. Sunk cost

102. Required:

- (a) Compute the operating income under variable costing and absorption costing for each month.
 (b) Provide an explanation for the difference in operating income between the two methods in each month.

Below is presented information regarding the production process of Ghavidel Manufacturing for a two-month period.

	Month 1	Month 2
Beginning inventory in units	0	200
Units Produced	1,000	1,000
Units Sold	800	1,200
Sales	\$200,000	\$240,000
Material Costs	\$ 50,000	\$ 50,000
Variable Conversion costs used	\$ 20,000	\$ 20,000
Indirect Conversion costs	\$ 7,800	\$ 7,800
Indirect Operating costs	\$ 20,000	\$ 20,000

103. Required:

- (a) Prepare income statements for both years using absorption costing
 (b) Prepare income statements for both years using variable costing
 (c) Comment on the different operating income figures. Explain the management implications of any differences in operating profits between the two methods.

Below is presented information regarding the production process Chen Manufacturing for years 1 and 2

	Year 1	Year 2
Sales Units	1,000,000	1,000,000
Units Produced	1,000,000	1,250,000
Selling price per unit	\$15	\$15
Variable Manufacturing cost per unit	\$6	\$6
Annual fixed manufacturing costs	\$3,000,000	\$3,000,000
Variable Marketing and administrative costs per unit sold	\$2	\$2
Fixed marketing and administrative costs	\$900,000	\$900,000
Beginning inventory	\$0	?

- 104.(a) Prepare an income statement under absorption costing for 2007 and 2008. Include a column for both years taken together.
 (b) Prepare an income statement under variable costing for 2007 and 2008. Include a column for both years taken together.
 (c) Comment on the results and reconcile any differences in income.
 You have the following information regarding Crosby Company:
 Sales 25,000 units per year at \$45 per unit
 Production 30,000 units in 2007 and 20,000 units in 2008
 At the beginning of 2007 there was no inventory.
 Variable manufacturing costs are \$30.00 per unit
 Fixed manufacturing costs are \$150,000 per year
 Marketing costs are all fixed at \$75,000 per year
Required:

- 105.**Required:** Calculate cost of goods sold under throughput costing, variable costing and absorption costing.
 The following data are available for the Saint Paul Manufacturing Company for the year 2007, its first year of operations:

Beginning inventory in units	0
Units produced	4,800
Units sold	4,000
Sales	\$400,000
Material cost (unit level)	\$48,000
Variable conversion cost used	\$96,000
Indirect manufacturing cost	\$72,000
Indirect operating costs	\$80,000

106.Required:

(a) Calculate ending inventory under throughput costing, variable costing and absorption costing. Assume that management has committed to direct labor and manufacturing resources sufficient to produce the planned annual production of 2,400 units.

(b) Calculate operating income under throughput costing, variable costing and absorption costing. Assume that management has committed to direct labor and manufacturing resources sufficient to produce the planned annual production of 2,400 units.

(c) Explain the relationship between a and b above.

The following data are available for the Lawrence Manufacturing Company for the year 2007, its first year of operations:

Beginning inventory in units	0
Units produced	2,400
Units sold	2,000
Sales	\$200,000
Material cost	\$24,000
Variable conversion cost used	\$48,000
Indirect manufacturing cost	\$36,000
Indirect operating costs	\$40,000

107.Required:

Calculate the following.

(a) The unit cost of ending inventory on the balance sheet prepared for stockholders.

(b) The unit cost of ending inventory on a variable cost balance sheet.

(c) The operating income using absorption costing

(d) The operating income using variable costing.

(e) The ending inventory using absorption costing.

(f) The ending inventory using variable costing.

(g) A reconciliation of the difference in operating income between absorption costing and variable costing using the shortcut method.

Dimmick Corporation produces and sells a single product at \$40 per unit. During 2007, the company produced 200,000 units, 160,000 of which were sold during the year. All ending inventory was in finished goods inventory; there was no inventory on hand at the beginning of the year. The following data relate to the company's production process:

Direct materials	\$550,000
Direct labor	400,000
Variable Manufacturing overhead	100,000
Fixed Manufacturing overhead	300,000
Variable marketing and administrative	160,000
Fixed marketing and administrative	110,000

108. Boylan Company had an operating profit of \$400,000 using variable costing in April, 2007. Beginning inventory was 36,000 units and ending inventory was 46,000 units. The committed (fixed) overhead was \$10 per unit for the beginning and ending inventory. Sales were \$900,000 and committed (fixed) operating expenses were \$50,000.

Required: Calculate the operating profit in April, 2007 using absorption costing.

109. Additional information:

- Sales revenue: \$12,500,000
- Beginning inventory: \$3,375,000
- The only spending increase was for material cost due to increased production. All other spending as shown above was unchanged.
- Sales of all parts are the same as the number of units produced.

Hinsley Machine Parts, Inc. uses the throughput costing method.

Required

(a) Compute the throughput contribution margin, operating income and ending inventory for Hinsley Machine Parts, Inc.

(b) Assume that production of part D-1251 increases by 25 units during the given period (sales remain constant). Re-compute the above figures.

(c) Diana Holinger, the production foreperson, argues that an overall average cost is good enough; it is a waste of resources to compute the costs of individual parts. According to her, Hero's products are better than that of competitors. Therefore, all that needs to be done is to produce more so that the average cost figure goes down. Do you agree? Why or why not?

Consider the following cost and production information for Hinsley Machine Parts, Inc.

Quantity	Part C-1849		Part D-1251		All other parts	
	72	Average	60	Average	570	Average
	Subtotal	Per unit	Subtotal	Per unit	Subtotal	Per unit
Direct costs						
Materials cost	\$126,000	\$ 1,750	\$232,500	\$ 3,875	\$1,565,220	\$ 2,746
Conversion cost	72,000	1,000	82,500	1,375	658,350	1,155
Total direct costs	\$198,000	\$ 2,750	\$315,000	\$5,250	\$2,223,570	\$ 3,901
Indirect Costs						
Indirect production						
Cost	500,400	6,950	417,000	6,950	3,961,500	6,950
Indirect operating						
Cost	390,600	5,425	325,500	5,425	3,092,250	5,425
Total indirect costs	\$ 891,000	\$12,375	\$ 742,500	\$12,375	\$7,053,750	\$12,375
Total costs	\$1,089,000	\$15,125	\$1,057,500	\$17,625	\$9,277,320	\$16,276

110. Quinn Machine Tools, Inc. uses the throughput costing method.

Required

(a) Compute the throughput contribution margin, operating income, and ending inventory for Quinn Machine Tools, Inc.

(b) Assume that sales of part D-1251 increases by 15 units during the given period (production remains constant). Re-compute the above figures.

(c) Joel Shukla, the production manager of Quinn Machine Tools, argues with the controller that computing costs for each different part is a waste of time. He asks: "Costs per unit of the different parts are average costs after all. How is that an improvement over using overall average cost?" Assume the role of the controller of Quinn Machine Tools, Inc. Explain to Joel why he is wrong.

Additional information:

Sales revenue:	\$12,000,000
Beginning inventory:	\$ 3,375,000
Sales of part D-1251:	40 units
Sales price of part D-1251:	\$ 27,000 per unit
Sales of other parts:	same as production

Consider the following cost and production information for Quinn Machine Tools, Inc.

Quantity	Part C-1849		Part D-1251		All other parts	
	72		60		570	
	Subtotal	Average Per unit	Subtotal	Average Per unit	Subtotal	Average Per unit
Direct costs						
Materials cost	\$126,000	\$ 1,750	\$232,500	\$ 3,875	\$1,565,220	\$ 2,746
Conversion cost	<u>72,000</u>	<u>1,000</u>	<u>82,500</u>	<u>1,375</u>	<u>658,350</u>	<u>1,155</u>
Total direct costs	\$198,000	\$ 2,750	\$315,000	\$5,250	\$2,223,570	\$ 3,901
Indirect Costs						
Indirect manufacturing Cost	500,400	6,950	417,000	6,950	3,961,500	6,950
Indirect operating Cost	<u>390,600</u>	<u>5,425</u>	<u>325,500</u>	<u>5,425</u>	<u>3,092,250</u>	<u>5,425</u>
Total indirect costs	\$ 891,000	\$12.375	\$ 742,500	\$12.375	\$7,053,750	\$12.375
Total costs	\$1,089,000	\$15,125	\$1,057,500	\$17,625	\$9,277,320	\$16,276

111. Additional information:

- Sales revenue: \$10,400,000
- Beginning inventory: \$575,000
- The only spending increase was for material cost due to increased production. All other spending as shown above was unchanged.
- Sales of all parts are the same as the number of units produced.

Keenan Electronic Components, Inc. uses the variable costing method.

Required

- (a) Compute the contribution margin, operating income, and ending inventory for Keenan Electronic Components, Inc.
- (b) Assume that production of part D-1251 increases by 25 units during the given period (sales remain constant). Re-compute the above figures.
- (c) Charles Simek, the cost manager of Keenan Electronic Components, argues with the controller that throughput costing is a better method for product costing. Using the information in part b above, re-compute the operating income for Hi-tec using throughput costing. Explain any differences in the operating incomes obtained under the two different methods.
- Consider the following cost and production information for Keenan Electronic Components, Inc.

Quantity	Part C-1849		Part D-1251		All other parts	
	72		60		570	
	Subtotal	Average Per unit	Subtotal	Average Per unit	Subtotal	Average Per unit
Direct costs						
Materials cost	\$ 90,000	\$ 1,250	\$202,500	\$ 3,375	\$1,223,220	\$ 2,146
Conversion cost	36,000	500	64,500	1,075	487,350	855
Total direct costs	\$126,000	\$ 1,750	\$267,000	\$4,450	\$1,710,570	\$ 3,001
Indirect costs						
Indirect manufacturing cost	442,800	6,150	369,000	6,150	3,505,500	6,150
Indirect operating cost	361,800	5,025	301,500	5,025	2,864,250	5,025
Total indirect costs	\$804,600	\$11,175	\$670,500	\$11,175	\$6,369,750	\$11,175
Total costs	\$930,600	\$12,925	\$937,500	\$15,625	\$8,080,320	\$14,176

- 112.(a) Compute the contribution margin, operating income, and ending inventory for Bedell Metal Company
 (b) Assume that sales of part D-1340 increases by 30 units to 110 units during the given period (production remains constant). Re-compute the above figures.
 (c) Mary Keenan, the controller of Bedell Metal Company., is considering the use of absorption costing instead of variable costing to be in line with financial reporting requirements. She knows that the use of a different costing method will give rise to different incentives. Explain to her how alternative methods of calculating product costs create different incentives.

Additional information:

- Sales revenue: \$20,000,000
- Beginning inventory: \$1,150,000
- Sales of part D-1340: 80 units
- Sales of all other parts are the same as the number of units produced.
- Sales price of part D-1340: \$35,500 per unit
- The only spending increase was for material cost due to increased production. All other spending as shown above was unchanged.

Bedell Metal Company uses the variable costing method.

Required

Consider the following cost and production information for Bedell Metal Company, Inc.

Quantity	Part C-2472		Part D-1340		All other parts	
	144	Average	120	Average	1140	Average
	Subtotal	Per unit	Subtotal	Per unit	Subtotal	Per unit
Direct costs						
Materials cost	\$ 180,000	\$ 1,250	\$405,000	\$ 3,375	\$2,446,440	\$ 2,146
Conversion cost	72,000	500	129,000	1,075	974,700	855
Total direct costs	\$252,000	\$ 1,750	\$534,000	\$4,450	\$3,421,140	\$ 3,001
Indirect costs						
Indirect production						
Cost	885,600	6,150	738,000	6,150	7,011,000	6,150
Indirect operating cost	723,600	5,025	603,000	5,025	5,728,480	5,025
Total indirect costs	\$1,609,200	\$11,175	\$ 1,341,000	\$11,175	\$12,739,480	\$11,175
Total costs	\$1,861,200	\$12,925	\$ 1,875,000	\$15,625	\$16,160,620	\$14,176

113.(a) Compute the gross margin, operating income, and ending inventory for Dover Automotive Components, Inc.

(b) Assume that production of part D-1251 increases by 25 units during the given period (sales remain constant). Re-compute the above figures.

(c) Ernest Murphy, the cost manager of Dover Automotive Components, argues with the controller that variable costing is a better method for product costing. Using the information in part b above, re-compute the operating income for Dover Automotive Components using variable costing. Explain any differences in the operating incomes obtained under the two different methods.

Additional information:

- Sales revenue: \$5,200,000
- Beginning inventory: \$275,000
- The only spending increase was for material cost due to increased production. All other spending as shown above was unchanged.
- Sales of all parts are the same as the number of units produced.

Dover Automotive Components, Inc. uses the absorption costing method.

Required

Consider the following cost and production information for Dover Automotive Components, Inc.

Quantity	Part C-1849		Part D-1251		All other parts	
	72		60		570	
	Subtotal	Average Per unit	Subtotal	Average Per unit	Subtotal	Average Per unit
Direct costs						
Materials cost	\$ 45,000	\$ 625	\$101,400	\$ 1,690	\$ 611,610	\$ 1,073
Conversion cost	18,000	250	32,400	540	243,960	428
Total direct costs	\$ 63,000	\$ 875	\$133,800	\$2,230	\$ 855,570	\$ 1,501
Indirect costs						
Indirect manufacturing cost	221,400	3,075	184,500	3,075	1,752,750	3,075
Indirect operating cost	181,080	2,515	150,900	2,515	1,433,550	2,515
Total indirect costs	\$402,480	\$ 5,590	\$ 335,400	\$ 5,590	\$3,186,300	\$ 5,590
Total costs	\$465,480	\$ 6,465	\$ 469,200	\$ 7,820	\$4,041,870	\$ 7,091

- 114.(a) Prepare a schedule of cost of goods manufactured for 2007.
 (b) Prepare a schedule of cost of goods sold for 2007.
 (c) Prepare an income statement for 2007.

Required:

Hurwitz Corporation had the following activities during 2007:

Raw Materials:	
Inventory January 1, 2007	\$200,000
Purchases of raw materials	318,000
Inventory December 31,2007	210,000
Direct manufacturing labor	180,000
Utilities: plant	50,000
Depreciation: plant and equipment	40,000
Indirect materials	30,000
Indirect labor	150,000
Other manufacturing overhead	60,000
Sales revenues	1,250,000
Selling and administrative expenses	150,000
Income tax rate	30%
Work in process inventory, December 31,2007	120,000
Work in process inventory, January 1,2007	64,000
Finished goods inventory, January 1, 2007	80,000
Finished goods inventory, December 31, 2007	150,000

115. Classify each of the following costs as inventoriable (I) or period (P) and indicate whether the cost is a variable cost (V) or a fixed cost (F).

	Description	Inventoriable or Period	Variable or Fixed
a	Direct materials		
b	Depreciation on corporate jet for sales force		
c	Lubricants for factory machinery		
d	Sales commissions at 5% of sales		
e	Factory insurance		
f	Product brochures		
g	Factory utilities		
h	President's salary		
i	Employer paid health insurance premiums on direct labor personnel		

116.

Classify each of the following costs as inventoriable (I) or period (P). If the cost is inventoriable, indicate whether it would be considered a direct cost (D) or a factory overhead cost. (O)

	Description	Inventoriable or Period	Direct or Overhead
a	Direct labor		
b	Glue for textbooks		
c	Leather used in leather couches		
d	Depreciation on office equipment		
e	Idle time		
f	Accounting staff salaries		
g	Factory supervisors salaries		
h	Factory rent		
i	Office telephone bill		

117. Assume the role of Molly Wright. Write a brief report outlining the basics of a cost management information system. Include in your report the following:

- Resources and costs
- Supply of resources vs. the use of resources
- Classification of costs (three dimensions of resources)
- Alternative costing systems

Lyon Toys, Inc. (LTI) manufactures a variety of electronic toys for children aged 3 to 14 years. The company started as a Ma & Pa basement operation, and grew steadily over the last nine years. It now employs over 100 people and has sales revenue of over \$250 million. Katie Burger, the CEO of LTI also recognizes that competition has increased during this period; therefore future growth will not be easy. Burger recognizes that one of the areas of weakness is the accounting and costing system. Burger's maternal uncle, Martin, had maintained the accounts for the company. He meticulously kept track of all the invoices that were received, payments made, and painstakingly prepared crude annual reports. With Martin passing away at the age of 85, Burger decided to hire a professional cost management expert to keep track of the company's costs. She hired Molly Wright, who had just completed her CMA.

After acquainting Wright with the company and its people, Burger decided to get down to business. She called Wright to her office to have a serious conversation about accounting and costing, in particular.

Burger: Molly, I would like you to pay particular attention to developing an official costing system. Currently, we don't have one. I believe this should be your first priority because competition is rising and if we do not understand our costs, we might start losing to our rivals.

Wright: I understand your point very well, Ms. Burger.

Burger: Call me Katie.

Wright: Very well, Katie. I have a few ideas that I picked up from my CMA courses that I think are worth implementing. However, it looks like we need to start with the basics.

Required

118. Explain how producing more units than can be sold can **increase** operating income. Would this be an issue in a service company or is it only an issue in a manufacturing environment? Could a company employ this strategy indefinitely to show continuous increases in profits?

119. **Required:** For each of the cost terms listed below, define the term and give an example of a cost that might fit into that category at McCormick & Company.

(a) Unit-level costs

(b) Product costs

(c) Direct costs

(d) Manufacturing overhead costs

(e) Period costs

(f) Batch-level costs

The following description appeared in the 2005 annual report of McCormick & Company:

McCormick is a global leader in the manufacture, marketing and distribution of spices, herbs, seasonings and other flavors to the entire food industry. Customers range from retail outlets and food service providers to food manufacturers. Founded in 1889 and built on a culture of Multiple Management, McCormick has approximately 8,000 employees." (**McCormick & Company- 2005 Annual report**)

120. Briefly compare and contrast throughput costing, variable costing and absorption costing. What are the theoretical arguments for and against each method?

121. Additional information:

- Sales prices:

\$8,900 per unit of Model # AA2-S

16,700 per unit of Model AA2-L

10,000 per unit of all other models

- The only spending increase was for material cost because this increased production. All other spending as shown above was unchanged.

- Sales were as follows:

32 units of part Model # AA2-S

55 units of Model # AA2-L

350 units of all other models

Case

Sabrina Wood has recently inherited a medium-sized machine shop. Upon taking over, she finds that the business is not doing as well as her Dad had made it out to be. The list of dissatisfied customers has been steadily growing; she has had to do a lot of explaining to customers and promised to improve the situation. She called her Dad's loyal production manager, James Hurley, to her office in order to have a chat with him.

Wood: Good morning Mr. Hurley. How are you?

Hurley: Good morning. I'm doing fine. What can I do for you?

Wood: I'll be honest with you. I need your help and advice. You always were my Dad's most trusted employee.

Hurley: Any time, Ms. Wood. What seems to be the problem?

Wood: I have recently received calls from some long-time customers who are frustrated with our cost, quality and on-time delivery performance. They said they would soon take their business elsewhere if we do not improve. These people were good friends of my Dad and gave him their business only because of this friendship.

Hurley: To be honest, our production processes need improvement. The whole shop floor has become a bit chaotic during the last five years when more orders started coming in. We are just unable to cope. It is not that we do not have the capacity or the capabilities. Our problem is more because of the lack of discipline. I could not do a whole lot because your Dad was determined to continue in this manner.

Wood: My father was stubborn. I do not want to be like him. Please tell me if there are other problems that we need to deal with.

Hurley: The other problem is the lack of a cost management system. Your Dad ran the show by just recording all the costs and computing an average. We have no idea which products are making money and which are not. Do you mind if I call Lindsay Sawin, our new accountant, and ask her to join us? She can explain you what is going on, and can also make some suggestions to improve.

Wood: Please do. (She waits for Sawin to join the meeting.) Good morning, Lindsay. Mr. Hurley tells me that our costing system is in disarray.

Sawin: Yes. Currently, there is no order in the way that we measure costs. In fact, in the last three months since I joined this company, I have just been trying to understand the processes, the types of resources that are used, where they are used in the company's value-chain, and their traceability to decisions.

Wood: Thank you for doing this. What can we do? In fact, is there any hope for us? It is important that we understand costs and are able to compute the cost and profitability information for each of our products or at least product lines. Do you have any ideas?

Sawin: Yes, we can certainly do that. However, I must inform you that there are three alternative costing methods and each of these has its merits and limitations.

Wood: I did not realize that we have to make decisions about the type of the costing system we would like to use. We need to know a little more about each system. Can you show us what would happen under each costing system? In particular, I would like you to present a scenario where you use cost data to show us the product costs and operating incomes from using the three different costing methods. This might open the eyes of many of us around here. Together, we can work hard to keep my Dad's company alive.

Sawin: Please give me a month's time. I will put together something to present to you and several others. It would be nice if we can spend an entire afternoon on this so that I can get into some detail.

Required:

Assume the role of Lindsay Sawin. Identify all the issues raised and address them. For the computational requirement, consider the following information.

	Model#AA2-S		Model#AA2-L		All other models	
Quantity	40		55		400	
	Subtotal	Average Per unit	Subtotal	Average Per unit	Subtotal	Average Per unit
Direct costs						
Materials cost	\$ 25,000	\$ 625	\$ 92,950	\$ 1,690	\$429,200	\$ 1,073
Conversion cost	<u>10,000</u>	<u>250</u>	<u>29,700</u>	<u>540</u>	<u>171,200</u>	<u>428</u>
Total direct costs	\$ 35,000	\$ 875	\$122,650	\$ 2,230	\$600,400	\$ 1,501
Indirect costs						
Indirect manufacturing Cost	123,000	3,075	169,125	3,075	1,230,000	3,075
Indirect operating Cost	<u>100,600</u>	<u>2,515</u>	<u>138,325</u>	<u>2,515</u>	<u>1,006,000</u>	<u>2,515</u>
Total indirect costs	\$223,600	\$ 5,590	\$ 307,450	\$ 5,590	\$2,236,000	\$ 5,590
Total costs	\$258,600	\$ 6,465	\$ 430,100	\$ 7,820	\$2,836,400	\$ 7,091

122. Product costs are costs assigned to goods that were either purchased or manufactured for resale.
True False
123. Product costs become expenses in the period they are purchased.
True False
124. The product cost of merchandise inventory acquired by a retailer consists of the purchase cost of the inventory plus any shipping charges.
True False
125. Inventoriable cost is another term for product costs.
True False
126. Period costs are recognized as expenses by retailers, but are included in inventory by manufacturers.
True False
127. The difference between sales revenue and cost of goods sold is called contribution margin.
True False
128. The basic formula used to compute cost of goods sold is beginning inventory plus purchases plus ending inventory.
True False
129. Marketing costs are considered period costs for retailers and product costs for manufacturers.
True False
130. Cost of goods sold does not include the costs of selling merchandise.
True False
131. Theoretically, the cost of employer paid health insurance premiums for direct labor personnel should be considered a manufacturing overhead cost.
True False

132. Factory heating and air conditioning should be considered a product cost in a manufacturing operation.
True False
133. Depreciation of office equipment is a manufacturing overhead cost at Dell Computer, a large manufacturer of personal computers.
True False
134. Maintenance workers in the factory are considered a direct labor cost at Hewlett-Packard, a leading manufacturer of computers and computer equipment.
True False
135. Lubricants used for production machinery should be considered a direct material cost at General Motors Corporation.
True False
136. Before materials enter the production process, they are called raw materials.
True False
137. After materials enter the production process, those used in products are called direct materials.
True False
138. Employees who handle materials in the factory of a manufacturing plant are considered direct labor costs.
True False
139. Overtime premium costs should theoretically be considered part of direct labor cost.
True False
140. Prime costs include direct materials and direct labor costs.
True False
141. Conversion costs equal direct materials and manufacturing overhead costs.
True False
142. Nonmanufacturing costs include selling and administrative costs, which are not used to produce products.
True False
143. Work-in-process inventory refers to partially completed units.
True False
144. The cost of direct materials placed into production is computed by adding the cost of purchases to the ending inventory of raw materials.
True False
145. In a manufacturing company, cost of goods manufactured consists of direct materials put into production, direct labor and manufacturing overhead incurred plus the beginning inventory of finished goods less the ending inventory of finished goods
True False
146. A cost driver is a characteristic of an activity or event that causes that activity or event to incur cost.
True False
147. Variable costs change in total direct proportion to a change in the activity of a cost driver.
True False
148. Fixed costs per unit remain the same as volume of production increases.
True False

149. As the volume of production increases, fixed costs per unit remain unchanged, while variable costs per unit will decrease.
True False
150. The identification of a cost as fixed or variable is valid only within a specified range of output volume.
True False
151. Unit-level costs are incurred for every unit of product manufactured or service performed.
True False
152. Batch-level costs are incurred for each line of product service.
True False
153. Facility-level costs are incurred to maintain the organization's overall facility and infrastructure.
True False
154. All unit-level costs are variable costs.
True False
155. All variable costs are unit-level costs.
True False
156. Electricity and welding materials used by robotic welders would be considered unit-level costs.
True False
157. The costs of equipment, buildings, and purchased technology should be considered when making production decisions.
True False
158. Most management systems measure both opportunity costs and out of pocket costs.
True False
159. Opportunity cost is the current value of the foregone, next best alternative use of whatever is supplied or used.
True False
160. It is possible for a cost to be a direct cost of one cost object and an indirect cost of another.
True False
161. If a manager can control or heavily influence the level of a cost, then that cost is classified as a controllable cost.
True False
162. Tracing costs means attaching or assigning indirect costs by some reasonable but imprecise method of averaging.
True False
163. Tracing costs is generally considered a more accurate method of cost assignment than allocating costs.
True False
164. A committed cost may be changed quickly and easily.
True False
165. Sunk costs are past resource payments that cannot be changed by any current or future decision.
True False
166. Absorption costing uses sales less variable costs to measure the contribution to profit.
True False

167. Absorption costing measures use gross margin as the contribution to profit.
True False
168. Gross margin is sales less variable production costs.
True False
169. Throughput costing inventory contains no conversion and indirect costs.
True False
170. When inventory levels increase, absorption costing will result in a higher operating income than direct costing.
AASCB: Analytic
True False
171. When inventory levels remain constant, absorption and direct costing will result in the same operating income.
AASCB: Analytic
True False
172. When inventory levels decrease absorption costing will result in a higher operating income than direct costing.
AASCB: Analytic
True False
173. The difference in the amount of fixed overhead cost that is expensed to the income statement under absorption and variable costing is solely attributable to the difference between the number of units produced during the period and the number of units sold.
AASCB: Analytic
True False
174. Absorption costing can distort the costs to provide products and services if they represent greatly different levels of support from indirect resources.
True False
175. Throughout costing assigns only batch-level spending for direct costs of products or services.
True False
176. Throughout costing considers only unit-level spending for direct costs of products or services.
True False
177. If the cost behaviors exhibited in this chart continue and the company produces 90 units of product 100B during May, the expected total unit-level material cost of product 100 B would be:
A. \$171,000
B. \$63,000
C. \$42,000
D. \$114,000
178. The throughput cost per unit for Product 250C is:
A. \$10,970
B. \$4,000
C. \$1,000
D. \$6,970
179. The absorption cost per unit for product 250C was:
A. \$1,900
B. \$9,760
C. \$6,970
D. \$6,720

180. The costs above that appear to be allocated rather than traced are:
- A. Unit level material costs
 - B. Variable conversion costs
 - C. Indirect production costs only
 - D. All indirect costs
181. Which of the following is **not** a name for indirect resources?
- A. Overhead costs
 - B. Burden
 - C. Direct costs
 - D. Common costs
182. Which of the following should be considered part of a manufacturing company's direct labor cost?
- A. Factory supervisor's salary
 - B. Forklift operator's hourly wages
 - C. Employer-paid health insurance on factory assemblers' wages
 - D. Cost of idle time
183. The throughput product cost of goods sold is:
- A. \$96,000
 - B. \$120,000
 - C. \$144,000
 - D. \$80,000
184. The variable cost of goods sold is:
- A. \$110,000
 - B. \$120,000
 - C. \$144,000
 - D. \$40,000
185. The absorption cost of goods sold is:
- A. \$246,667
 - B. \$120,000
 - C. \$180,000
 - D. \$40,000
186. The throughput operating income is:
- A. \$128,000
 - B. \$120,000
 - C. \$104,000
 - D. \$256,000
 - E. ** (\$20 x 4,000)
187. The variable operating income is:
- A. \$120,000
 - B. \$140,000
 - C. \$104,000
 - D. \$128,000
 - E. *** \$30 per unit x 4,000 units sold
188. The absorption operating income is:
- A. \$120,000
 - B. \$140,000
 - C. \$128,000
 - D. \$112,000
 - E. *** \$45 per unit x 4,000 units sold

189. The throughput ending inventory is:
- A. \$16,000
 - B. \$18,000
 - C. \$20,000
 - D. \$24,000
190. The variable ending inventory is:
- A. \$36,000
 - B. \$8,000
 - C. \$40,000
 - D. \$24,000
191. The absorption ending inventory is:
- A. \$40,000
 - B. \$24,000
 - C. \$36,000
 - D. \$8,000
192. The difference between the variable ending inventory cost and the absorption ending inventory cost is:
- A. 800 units times \$15 per unit indirect manufacturing cost
 - B. 800 units times \$10 per unit material cost
 - C. 800 units times \$20 per unit variable conversion cost plus \$15 per unit indirect manufacturing cost
 - D. 800 units times \$20 per unit variable conversion cost plus \$15 per unit indirect manufacturing cost plus \$16.67 per unit indirect operating costs
193. Throughput costing:
- A. Measures **only** unit-level spending for direct costs of products or services
 - B. Includes both committed and discretionary costs in the costs of products or services
 - C. Includes both direct and indirect costs in the costs of products or services
 - D. Includes only variable costs in the costs of products or services
194. Absorption costing measures contribution to profit as:
- A. Sales less unit-level costs spent of goods sold
 - B. Sales less variable costs of goods sold
 - C. Sales less absorption cost of goods sold
 - D. Sales less all costs including operating expenses
195. Under variable costing, operating income is measured by:
- A. Gross margin minus operating expenses
 - B. Throughput minus operating expenses
 - C. Contribution margin minus indirect manufacturing and operating costs
 - D. Sales minus variable costs

196. Oliveira's operating income under absorption costing will be:

In its first month of operations, Oliveira Corporation produced 100,000 units. 80,000 units were sold. The manufacturing cost per unit was as follows:

Direct materials cost:	\$40
Direct labor cost	10
Variable overhead cost	30
Fixed overhead cost	50
Total per unit cost	\$130

- A. Lower than variable costing by \$1,000,000
- B. Higher than variable costing by \$600,000
- C. Higher than variable costing by \$1,000,000
- D. The same as variable costing

197. Which of the following statements is **True**?

- A. Operating income under variable costing equals contribution margin less operating expenses
- B. When sales exceed production, absorption costing income will be higher than variable costing income
- C. Throughput costing assigns all variable costs to cost of goods sold
- D. When production exceeds sales, absorption costing income will be higher than variable costing income

198. If units produced are greater than units sold:

- A. Variable costing will have a higher profit than absorption costing
- B. Throughput costing will have a higher profit than absorption costing
- C. Absorption costing will have a higher profit than throughput costing but a lower profit than variable costing
- D. Absorption costing will have a higher profit than both throughput costing and variable costing

199. Under throughput costing:

- A. Both conversion and indirect costs are added to inventory
- B. Neither conversion or indirect costs are added to inventory
- C. Conversion costs are added to inventory but indirect costs are not
- D. Indirect costs are added to inventory but conversion costs are not

200. Which of the following is **not** an argument in favor of throughput costing?

- A. Managers cannot hide committed costs or past resource spending by increasing production
- B. Only increases in sales will increase profits
- C. Increases in sales and production will increase profits
- D. Base production decisions should be based on resource supply and use only

201. Period costs

- A. Do not become part of the value of inventory for financial or tax reporting
- B. Become part of the value of inventory for financial reporting but not tax reporting
- C. Become part of the value of inventory for tax reporting but not financial reporting
- D. Are the same as indirect manufacturing costs

202. Which of the following would be considered an indirect product cost?

- A. Depreciation on sales staff automobiles
- B. President's salary
- C. Maintenance on factory equipment
- D. Direct Materials used in production

203. Wages paid to supervisors in the factory are typically classified as:

- A. Direct manufacturing labor costs
- B. Manufacturing overhead costs
- C. Prime costs
- D. Period costs

204. Which of the following is a fixed cost?
- A. A 5% sales commissions
 - B. Direct labor personnel
 - C. Rent
 - D. Both A and C are fixed costs
205. Which of the following is **not** a conversion resource?
- A. Parts
 - B. Labor
 - C. Supervision
 - D. Maintenance
206. Which of the following is **not** a material resource?
- A. Equipment
 - B. Leather used in shoe manufacturing
 - C. Components
 - D. Assemblies
207. Which of the following is a conversion resource?
- A. Office supplies
 - B. Supervisory labor
 - C. Sales department
 - D. Hard drives used in manufacture of computers
208. Theoretically, overtime premium paid to a machine operator should be accounted for as:
- A. A period cost
 - B. Part of direct labor
 - C. As indirect labor
 - D. As part of manufacturing overhead
209. Idle time caused by equipment breakdown should be accounted for as:
- A. A period cost
 - B. Direct labor cost
 - C. A selling expense
 - D. A manufacturing overhead cost
210. Prime costs are the same as:
- A. Manufacturing overhead costs
 - B. Indirect labor costs
 - C. Direct labor and direct materials used
 - D. Direct labor and direct materials purchased
211. The cost of renting a car for the sales force should be accounted for as:
- A. Period cost
 - B. Manufacturing overhead
 - C. Prime cost
 - D. Conversion cost
212. Depreciation on forklifts used to transport materials should be accounted for as:
- A. Manufacturing overhead cost
 - B. Period cost
 - C. Prime cost
 - D. Part of the direct materials cost

213. Which of the following describes the formula for cost of goods manufactured?
- A. Direct materials used plus direct labor plus overhead minus beginning inventory of work-in-process plus ending inventory of work-in-process
 - B. Direct materials used plus direct labor plus overhead plus beginning inventory of work-in-process minus ending inventory of work-in-process
 - C. Beginning inventory of raw materials plus purchases of raw materials less ending inventory raw materials
 - D. Beginning inventory of finished goods plus purchases of direct materials less ending inventory of finished goods
214. Which of the following best describes a variable cost?
- A. Per unit cost decreases as activity increases and increases as activity decreases
 - B. Total cost decreases as activity increases and increases as activity decreases
 - C. Per unit cost remains the same regardless of activity
 - D. Total cost remains the same regardless of activity
215. Which of the following best describes a fixed cost?
- A. Per unit cost decreases as activity decreases and increases as activity increases
 - B. Total cost decreases as activity increases and increases as activity decreases
 - C. Per unit cost remains the same regardless of activity
 - D. Total cost remains the same regardless of activity
216. Which of the following is an example of a unit-level cost?
- A. Factory maintenance
 - B. Customer service
 - C. Direct materials
 - D. Set-up
217. Which of the following is an example of a batch-level cost?
- A. Factory maintenance
 - B. Customer service
 - C. Direct materials
 - D. Set-up
218. Which of the following is an example of a product-level cost?
- A. Special packaging for a particular customer
 - B. Moving materials for a batch of production
 - C. Designing a product using computer-aided design software
 - D. Random inspection of finished units
219. Which of the following is an example of a facility-level cost?
- A. Special packaging for a particular customer
 - B. Electricity used by robotic welders
 - C. General corporate advertising
 - D. Insurance on the factory
220. Which of the following describes an opportunity cost?
- A. A cost is not intended to vary with production or sales volume
 - B. Foregone benefit that could have been realized from the best alternative use of resources
 - C. Past payments for resources that cannot be changed by any current or future decision
 - D. Costs that can be changed quickly and easily
221. Which of the following describes a sunk cost?
- A. A cost that is not intended to vary with production or sales volume
 - B. Foregone benefit that could have been realized from the best alternative use of resources
 - C. Past resources payments that cannot be changed by any current or future decision
 - D. Costs that can be changed quickly and easily

222. Which of the following is **not** a relevant cost for a decision?

- A. Variable cost
- B. Opportunity cost
- C. Direct cost
- D. Sunk cost

223. **Required:**

- (a) Compute the operating income under variable costing and absorption costing for each month.
- (b) Provide an explanation for the difference in operating income between the two methods in each month.

Below is presented information regarding the production process of Ghavidel Manufacturing for a two-month period.

	Month 1	Month 2
Beginning inventory in units	0	200
Units Produced	1,000	1,000
Units Sold	800	1,200
Sales	\$200,000	\$240,000
Material Costs	\$ 50,000	\$ 50,000
Variable Conversion costs used	\$ 20,000	\$ 20,000
Indirect Conversion costs	\$ 7,800	\$ 7,800
Indirect Operating costs	\$ 20,000	\$ 20,000

224. **Required:**

- (a) Prepare income statements for both years using absorption costing
- (b) Prepare income statements for both years using variable costing
- (c) Comment on the different operating income figures. Explain the management implications of any differences in operating profits between the two methods.

Below is presented information regarding the production process Chen Manufacturing for years 1 and 2

	Year 1	Year 2
Sales Units	1,000,000	1,000,000
Units Produced	1,000,000	1,250,000
Selling price per unit	\$15	\$15
Variable Manufacturing cost per unit	\$6	\$6
Annual fixed manufacturing costs	\$3,000,000	\$3,000,000
Variable Marketing and administrative costs per unit sold	\$2	\$2
Fixed marketing and administrative costs	\$900,000	\$900,000
Beginning inventory	\$0	?

- 225.(a) Prepare an income statement under absorption costing for 2007 and 2008. Include a column for both years taken together.
- (b) Prepare an income statement under variable costing for 2007 and 2008. Include a column for both years taken together.
- (c) Comment on the results and reconcile any differences in income.
- You have the following information regarding Crosby Company:
- Sales 25,000 units per year at \$45 per unit
 Production 30,000 units in 2007 and 20,000 units in 2008
 At the beginning of 2007 there was no inventory.
 Variable manufacturing costs are \$30.00 per unit
 Fixed manufacturing costs are \$150,000 per year
 Marketing costs are all fixed at \$75,000 per year
- Required:**

- 226.**Required:** Calculate cost of goods sold under throughput costing, variable costing and absorption costing.
- The following data are available for the Saint Paul Manufacturing Company for the year 2007, its first year of operations:

Beginning inventory in units	0
Units produced	4,800
Units sold	4,000
Sales	\$400,000
Material cost (unit level)	\$48,000
Variable conversion cost used	\$96,000
Indirect manufacturing cost	\$72,000
Indirect operating costs	\$80,000

227.Required:

(a) Calculate ending inventory under throughput costing, variable costing and absorption costing. Assume that management has committed to direct labor and manufacturing resources sufficient to produce the planned annual production of 2,400 units.

(b) Calculate operating income under throughput costing, variable costing and absorption costing. Assume that management has committed to direct labor and manufacturing resources sufficient to produce the planned annual production of 2,400 units.

(c) Explain the relationship between a and b above.

The following data are available for the Lawrence Manufacturing Company for the year 2007, its first year of operations:

Beginning inventory in units	0
Units produced	2,400
Units sold	2,000
Sales	\$200,000
Material cost	\$24,000
Variable conversion cost used	\$48,000
Indirect manufacturing cost	\$36,000
Indirect operating costs	\$40,000

228.Required:

Calculate the following.

(a) The unit cost of ending inventory on the balance sheet prepared for stockholders.

(b) The unit cost of ending inventory on a variable cost balance sheet.

(c) The operating income using absorption costing

(d) The operating income using variable costing.

(e) The ending inventory using absorption costing.

(f) The ending inventory using variable costing.

(g) A reconciliation of the difference in operating income between absorption costing and variable costing using the shortcut method.

Dimmick Corporation produces and sells a single product at \$40 per unit. During 2007, the company produced 200,000 units, 160,000 of which were sold during the year. All ending inventory was in finished goods inventory; there was no inventory on hand at the beginning of the year. The following data relate to the company's production process:

Direct materials	\$550,000
Direct labor	400,000
Variable Manufacturing overhead	100,000
Fixed Manufacturing overhead	300,000
Variable marketing and administrative	160,000
Fixed marketing and administrative	110,000

229.Boylan Company had an operating profit of \$400,000 using variable costing in April, 2007. Beginning inventory was 36,000 units and ending inventory was 46,000 units. The committed (fixed) overhead was \$10 per unit for the beginning and ending inventory. Sales were \$900,000 and committed (fixed) operating expenses were \$50,000.

Required: Calculate the operating profit in April, 2007 using absorption costing.

230.Additional information:

- Sales revenue: \$12,500,000
- Beginning inventory: \$3,375,000
- The only spending increase was for material cost due to increased production. All other spending as shown above was unchanged.
- Sales of all parts are the same as the number of units produced.

Hinsley Machine Parts, Inc. uses the throughput costing method.

Required

(a) Compute the throughput contribution margin, operating income and ending inventory for Hinsley Machine Parts, Inc.

(b) Assume that production of part D-1251 increases by 25 units during the given period (sales remain constant). Re-compute the above figures.

(c) Diana Holinger, the production foreperson, argues that an overall average cost is good enough; it is a waste of resources to compute the costs of individual parts. According to her, Hero's products are better than that of competitors. Therefore, all that needs to be done is to produce more so that the average cost figure goes down. Do you agree? Why or why not?

Consider the following cost and production information for Hinsley Machine Parts, Inc.

Quantity	Part C-1849		Part D-1251		All other parts	
	72	Average	60	Average	570	Average
	Subtotal	Per unit	Subtotal	Per unit	Subtotal	Per unit
Direct costs						
Materials cost	\$126,000	\$ 1,750	\$232,500	\$ 3,875	\$1,565,220	\$ 2,746
Conversion cost	72,000	1,000	82,500	1,375	658,350	1,155
Total direct costs	\$198,000	\$ 2,750	\$315,000	\$5,250	\$2,223,570	\$ 3,901
Indirect Costs						
Indirect production						
Cost	500,400	6,950	417,000	6,950	3,961,500	6,950
Indirect operating						
Cost	390,600	5,425	325,500	5,425	3,092,250	5,425
Total indirect costs	\$ 891,000	\$12,375	\$ 742,500	\$12,375	\$7,053,750	\$12,375
Total costs	\$1,089,000	\$15,125	\$1,057,500	\$17,625	\$9,277,320	\$16,276

231. Quinn Machine Tools, Inc. uses the throughput costing method.

Required

- (a) Compute the throughput contribution margin, operating income, and ending inventory for Quinn Machine Tools, Inc.
- (b) Assume that sales of part D-1251 increases by 15 units during the given period (production remains constant). Re-compute the above figures.
- (c) Joel Shukla, the production manager of Quinn Machine Tools, argues with the controller that computing costs for each different part is a waste of time. He asks: "Costs per unit of the different parts are average costs after all. How is that an improvement over using overall average cost?" Assume the role of the controller of Quinn Machine Tools, Inc. Explain to Joel why he is wrong.

Additional information:

Sales revenue:	\$12,000,000
Beginning inventory:	\$ 3,375,000
Sales of part D-1251:	40 units
Sales price of part D-1251:	\$ 27,000 per unit
Sales of other parts:	same as production

Consider the following cost and production information for Quinn Machine Tools, Inc.

Quantity	Part C-1849		Part D-1251		All other parts	
	72		60		570	
	Subtotal	Average Per unit	Subtotal	Average Per unit	Subtotal	Average Per unit
Direct costs						
Materials cost	\$126,000	\$ 1,750	\$232,500	\$ 3,875	\$1,565,220	\$ 2,746
Conversion cost	<u>72,000</u>	<u>1,000</u>	<u>82,500</u>	<u>1,375</u>	<u>658,350</u>	<u>1,155</u>
Total direct costs	\$198,000	\$ 2,750	\$315,000	\$5,250	\$2,223,570	\$ 3,901
Indirect Costs						
Indirect manufacturing Cost	500,400	6,950	417,000	6,950	3,961,500	6,950
Indirect operating Cost	<u>390,600</u>	<u>5,425</u>	<u>325,500</u>	<u>5,425</u>	<u>3,092,250</u>	<u>5,425</u>
Total indirect costs	\$ 891,000	\$12.375	\$ 742,500	\$12.375	\$7,053,750	\$12.375
Total costs	\$1,089,000	\$15,125	\$1,057,500	\$17,625	\$9,277,320	\$16,276

232. Additional information:

- Sales revenue: \$10,400,000
- Beginning inventory: \$575,000
- The only spending increase was for material cost due to increased production. All other spending as shown above was unchanged.
- Sales of all parts are the same as the number of units produced.

Keenan Electronic Components, Inc. uses the variable costing method.

Required

- (a) Compute the contribution margin, operating income, and ending inventory for Keenan Electronic Components, Inc.
- (b) Assume that production of part D-1251 increases by 25 units during the given period (sales remain constant). Re-compute the above figures.
- (c) Charles Simek, the cost manager of Keenan Electronic Components, argues with the controller that throughput costing is a better method for product costing. Using the information in part b above, re-compute the operating income for Hi-tec using throughput costing. Explain any differences in the operating incomes obtained under the two different methods.
- Consider the following cost and production information for Keenan Electronic Components, Inc.

Quantity	Part C-1849		Part D-1251		All other parts	
	72	60	570			
	Subtotal	Average Per unit	Subtotal	Average Per unit	Subtotal	Average Per unit
Direct costs						
Materials cost	\$ 90,000	\$ 1,250	\$202,500	\$ 3,375	\$1,223,220	\$ 2,146
Conversion cost	36,000	500	64,500	1,075	487,350	855
Total direct costs	\$126,000	\$ 1,750	\$267,000	\$4,450	\$1,710,570	\$ 3,001
Indirect costs						
Indirect manufacturing cost	442,800	6,150	369,000	6,150	3,505,500	6,150
Indirect operating cost	361,800	5,025	301,500	5,025	2,864,250	5,025
Total indirect costs	\$804,600	\$11,175	\$670,500	\$11,175	\$6,369,750	\$11,175
Total costs	\$930,600	\$12,925	\$937,500	\$15,625	\$8,080,320	\$14,176

- 233.(a) Compute the contribution margin, operating income, and ending inventory for Bedell Metal Company
 (b) Assume that sales of part D-1340 increases by 30 units to 110 units during the given period (production remains constant). Re-compute the above figures.
 (c) Mary Keenan, the controller of Bedell Metal Company., is considering the use of absorption costing instead of variable costing to be in line with financial reporting requirements. She knows that the use of a different costing method will give rise to different incentives. Explain to her how alternative methods of calculating product costs create different incentives.

Additional information:

- Sales revenue: \$20,000,000
- Beginning inventory: \$1,150,000
- Sales of part D-1340: 80 units
- Sales of all other parts are the same as the number of units produced.
- Sales price of part D-1340: \$35,500 per unit
- The only spending increase was for material cost due to increased production. All other spending as shown above was unchanged.

Bedell Metal Company uses the variable costing method.

Required

Consider the following cost and production information for Bedell Metal Company, Inc.

Quantity	Part C-2472		Part D-1340		All other parts	
	144	Average	120	Average	1140	Average
	Subtotal	Per unit	Subtotal	Per unit	Subtotal	Per unit
Direct costs						
Materials cost	\$ 180,000	\$ 1,250	\$405,000	\$ 3,375	\$2,446,440	\$ 2,146
Conversion cost	72,000	500	129,000	1,075	974,700	855
Total direct costs	\$252,000	\$ 1,750	\$534,000	\$4,450	\$3,421,140	\$ 3,001
Indirect costs						
Indirect production						
Cost	885,600	6,150	738,000	6,150	7,011,000	6,150
Indirect operating cost	723,600	5,025	603,000	5,025	5,728,480	5,025
Total indirect costs	\$1,609,200	\$11,175	\$ 1,341,000	\$11,175	\$12,739,480	\$11,175
Total costs	\$1,861,200	\$12,925	\$ 1,875,000	\$15,625	\$16,160,620	\$14,176

234.(a) Compute the gross margin, operating income, and ending inventory for Dover Automotive Components, Inc.

(b) Assume that production of part D-1251 increases by 25 units during the given period (sales remain constant). Re-compute the above figures.

(c) Ernest Murphy, the cost manager of Dover Automotive Components, argues with the controller that variable costing is a better method for product costing. Using the information in part b above, re-compute the operating income for Dover Automotive Components using variable costing. Explain any differences in the operating incomes obtained under the two different methods.

Additional information:

- Sales revenue: \$5,200,000
- Beginning inventory: \$275,000
- The only spending increase was for material cost due to increased production. All other spending as shown above was unchanged.
- Sales of all parts are the same as the number of units produced.

Dover Automotive Components, Inc. uses the absorption costing method.

Required

Consider the following cost and production information for Dover Automotive Components, Inc.

Quantity	Part C-1849		Part D-1251		All other parts	
	72		60		570	
	Subtotal	Average Per unit	Subtotal	Average Per unit	Subtotal	Average Per unit
Direct costs						
Materials cost	\$ 45,000	\$ 625	\$101,400	\$ 1,690	\$ 611,610	\$ 1,073
Conversion cost	18,000	250	32,400	540	243,960	428
Total direct costs	\$ 63,000	\$ 875	\$133,800	\$2,230	\$ 855,570	\$ 1,501
Indirect costs						
Indirect manufacturing cost	221,400	3,075	184,500	3,075	1,752,750	3,075
Indirect operating cost	181,080	2,515	150,900	2,515	1,433,550	2,515
Total indirect costs	\$402,480	\$ 5,590	\$ 335,400	\$ 5,590	\$3,186,300	\$ 5,590
Total costs	\$465,480	\$ 6,465	\$ 469,200	\$ 7,820	\$4,041,870	\$ 7,091

- 235.(a) Prepare a schedule of cost of goods manufactured for 2007.
 (b) Prepare a schedule of cost of goods sold for 2007.
 (c) Prepare an income statement for 2007.

Required:

Hurwitz Corporation had the following activities during 2007:

Raw Materials:	
Inventory January 1, 2007	\$200,000
Purchases of raw materials	318,000
Inventory December 31,2007	210,000
Direct manufacturing labor	180,000
Utilities: plant	50,000
Depreciation: plant and equipment	40,000
Indirect materials	30,000
Indirect labor	150,000
Other manufacturing overhead	60,000
Sales revenues	1,250,000
Selling and administrative expenses	150,000
Income tax rate	30%
Work in process inventory, December 31,2007	120,000
Work in process inventory, January 1,2007	64,000
Finished goods inventory, January 1, 2007	80,000
Finished goods inventory, December 31, 2007	150,000

236. Classify each of the following costs as inventoriable (I) or period (P) and indicate whether the cost is a variable cost (V) or a fixed cost (F).

	Description	Inventoriable or Period	Variable or Fixed
a	Direct materials		
b	Depreciation on corporate jet for sales force		
c	Lubricants for factory machinery		
d	Sales commissions at 5% of sales		
e	Factory insurance		
f	Product brochures		
g	Factory utilities		
h	President's salary		
i	Employer paid health insurance premiums on direct labor personnel		

237.

Classify each of the following costs as inventoriable (I) or period (P). If the cost is inventoriable, indicate whether it would be considered a direct cost (D) or a factory overhead cost. (O)

	Description	Inventoriable or Period	Direct or Overhead
a	Direct labor		
b	Glue for textbooks		
c	Leather used in leather couches		
d	Depreciation on office equipment		
e	Idle time		
f	Accounting staff salaries		
g	Factory supervisors salaries		
h	Factory rent		
i	Office telephone bill		

238. Assume the role of Molly Wright. Write a brief report outlining the basics of a cost management information system. Include in your report the following:

- Resources and costs
- Supply of resources vs. the use of resources
- Classification of costs (three dimensions of resources)
- Alternative costing systems

Lyon Toys, Inc. (LTI) manufactures a variety of electronic toys for children aged 3 to 14 years. The company started as a Ma & Pa basement operation, and grew steadily over the last nine years. It now employs over 100 people and has sales revenue of over \$250 million. Katie Burger, the CEO of LTI also recognizes that competition has increased during this period; therefore future growth will not be easy. Burger recognizes that one of the areas of weakness is the accounting and costing system. Burger's maternal uncle, Martin, had maintained the accounts for the company. He meticulously kept track of all the invoices that were received, payments made, and painstakingly prepared crude annual reports. With Martin passing away at the age of 85, Burger decided to hire a professional cost management expert to keep track of the company's costs. She hired Molly Wright, who had just completed her CMA.

After acquainting Wright with the company and its people, Burger decided to get down to business. She called Wright to her office to have a serious conversation about accounting and costing, in particular.

Burger: Molly, I would like you to pay particular attention to developing an official costing system. Currently, we don't have one. I believe this should be your first priority because competition is rising and if we do not understand our costs, we might start losing to our rivals.

Wright: I understand your point very well, Ms. Burger.

Burger: Call me Katie.

Wright: Very well, Katie. I have a few ideas that I picked up from my CMA courses that I think are worth implementing. However, it looks like we need to start with the basics.

Required

239. Explain how producing more units than can be sold can **increase** operating income. Would this be an issue in a service company or is it only an issue in a manufacturing environment? Could a company employ this strategy indefinitely to show continuous increases in profits?

240. **Required:** For each of the cost terms listed below, define the term and give an example of a cost that might fit into that category at McCormick & Company.

(a) Unit-level costs

(b) Product costs

(c) Direct costs

(d) Manufacturing overhead costs

(e) Period costs

(f) Batch-level costs

The following description appeared in the 2005 annual report of McCormick & Company:

McCormick is a global leader in the manufacture, marketing and distribution of spices, herbs, seasonings and other flavors to the entire food industry. Customers range from retail outlets and food service providers to food manufacturers. Founded in 1889 and built on a culture of Multiple Management, McCormick has approximately 8,000 employees." (**McCormick & Company- 2005 Annual report**)

241. Briefly compare and contrast throughput costing, variable costing and absorption costing. What are the theoretical arguments for and against each method?

242. Additional information:

- Sales prices:
\$8,900 per unit of Model # AA2-S
16,700 per unit of Model AA2-L
10,000 per unit of all other models
- The only spending increase was for material cost because this increased production. All other spending as shown above was unchanged.
- Sales were as follows:
32 units of part Model # AA2-S
55 units of Model # AA2-L
350 units of all other models

Case

Sabrina Wood has recently inherited a medium-sized machine shop. Upon taking over, she finds that the business is not doing as well as her Dad had made it out to be. The list of dissatisfied customers has been steadily growing; she has had to do a lot of explaining to customers and promised to improve the situation. She called her Dad's loyal production manager, James Hurley, to her office in order to have a chat with him.

Wood: Good morning Mr. Hurley. How are you?

Hurley: Good morning. I'm doing fine. What can I do for you?

Wood: I'll be honest with you. I need your help and advice. You always were my Dad's most trusted employee.

Hurley: Any time, Ms. Wood. What seems to be the problem?

Wood: I have recently received calls from some long-time customers who are frustrated with our cost, quality and on-time delivery performance. They said they would soon take their business elsewhere if we do not improve. These people were good friends of my Dad and gave him their business only because of this friendship.

Hurley: To be honest, our production processes need improvement. The whole shop floor has become a bit chaotic during the last five years when more orders started coming in. We are just unable to cope. It is not that we do not have the capacity or the capabilities. Our problem is more because of the lack of discipline. I could not do a whole lot because your Dad was determined to continue in this manner.

Wood: My father was stubborn. I do not want to be like him. Please tell me if there are other problems that we need to deal with.

Hurley: The other problem is the lack of a cost management system. Your Dad ran the show by just recording all the costs and computing an average. We have no idea which products are making money and which are not. Do you mind if I call Lindsay Sawin, our new accountant, and ask her to join us? She can explain you what is going on, and can also make some suggestions to improve.

Wood: Please do. (She waits for Sawin to join the meeting.) Good morning, Lindsay. Mr. Hurley tells me that our costing system is in disarray.

Sawin: Yes. Currently, there is no order in the way that we measure costs. In fact, in the last three months since I joined this company, I have just been trying to understand the processes, the types of resources that are used, where they are used in the company's value-chain, and their traceability to decisions.

Wood: Thank you for doing this. What can we do? In fact, is there any hope for us? It is important that we understand costs and are able to compute the cost and profitability information for each of our products or at least product lines. Do you have any ideas?

Sawin: Yes, we can certainly do that. However, I must inform you that there are three alternative costing methods and each of these has its merits and limitations.

Wood: I did not realize that we have to make decisions about the type of the costing system we would like to use. We need to know a little more about each system. Can you show us what would happen under each costing system? In particular, I would like you to present a scenario where you use cost data to show us the product costs and operating incomes from using the three different costing methods. This might open the eyes of many of us around here. Together, we can work hard to keep my Dad's company alive.

Sawin: Please give me a month's time. I will put together something to present to you and several others. It would be nice if we can spend an entire afternoon on this so that I can get into some detail.

Required:

Assume the role of Lindsay Sawin. Identify all the issues raised and address them. For the computational requirement, consider the following information.

	Model#AA2-S		Model#AA2-L		All other models	
Quantity	40		55		400	
	Subtotal	Average Per unit	Subtotal	Average Per unit	Subtotal	Average Per unit
Direct costs						
Materials cost	\$ 25,000	\$ 625	\$ 92,950	\$ 1,690	\$429,200	\$ 1,073
Conversion cost	<u>10,000</u>	<u>250</u>	<u>29,700</u>	<u>540</u>	<u>171,200</u>	<u>428</u>
Total direct costs	\$ 35,000	\$ 875	\$122,650	\$ 2,230	\$600,400	\$ 1,501
Indirect costs						
Indirect manufacturing Cost	123,000	3,075	169,125	3,075	1,230,000	3,075
Indirect operating Cost	<u>100,600</u>	<u>2,515</u>	<u>138,325</u>	<u>2,515</u>	<u>1,006,000</u>	<u>2,515</u>
Total indirect costs	<u>\$223,600</u>	<u>\$ 5,590</u>	<u>\$ 307,450</u>	<u>\$ 5,590</u>	<u>\$2,236,000</u>	<u>\$ 5,590</u>
Total costs	\$258,600	\$ 6,465	\$ 430,100	\$ 7,820	\$2,836,400	\$ 7,091

02 Key

1. Product costs are costs assigned to goods that were either purchased or manufactured for resale.
TRUE
*Difficulty: Easy
Hilton - Chapter 02 #1
Learning Objective: 1*
2. Product costs become expenses in the period they are purchased.
FALSE
*Difficulty: Easy
Hilton - Chapter 02 #2
Learning Objective: 1*
3. The product cost of merchandise inventory acquired by a retailer consists of the purchase cost of the inventory plus any shipping charges.
TRUE
*Difficulty: Easy
Hilton - Chapter 02 #3
Learning Objective: 1*
4. Inventoriable cost is another term for product costs.
TRUE
*Difficulty: Easy
Hilton - Chapter 02 #4
Learning Objective: 1*
5. Period costs are recognized as expenses by retailers, but are included in inventory by manufacturers.
FALSE
*Difficulty: Easy
Hilton - Chapter 02 #5
Learning Objective: 1*
6. The difference between sales revenue and cost of goods sold is called contribution margin.
FALSE
*Difficulty: Easy
Hilton - Chapter 02 #6
Learning Objective: 2*
7. The basic formula used to compute cost of goods sold is beginning inventory plus purchases plus ending inventory.
FALSE
*Difficulty: Medium
Hilton - Chapter 02 #7
Learning Objective: 2*
8. Marketing costs are considered period costs for retailers and product costs for manufacturers.
FALSE
*Difficulty: Medium
Hilton - Chapter 02 #8
Learning Objective: 2*
9. Cost of goods sold does not include the costs of selling merchandise.
TRUE
*Difficulty: Medium
Hilton - Chapter 02 #9
Learning Objective: 2*
10. Theoretically, the cost of employer paid health insurance premiums for direct labor personnel should be considered a manufacturing overhead cost.
FALSE
*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #10
Learning Objective: 3*

11. Factory heating and air conditioning should be considered a product cost in a manufacturing operation.

TRUE

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #11
Learning Objective: 3*

12. Depreciation of office equipment is a manufacturing overhead cost at Dell Computer, a large manufacturer of personal computers.

FALSE

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #12
Learning Objective: 3*

13. Maintenance workers in the factory are considered a direct labor cost at Hewlett-Packard, a leading manufacturer of computers and computer equipment.

FALSE

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #13
Learning Objective: 3*

14. Lubricants used for production machinery should be considered a direct material cost at General Motors Corporation.

FALSE

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #14
Learning Objective: 3*

15. Before materials enter the production process, they are called raw materials.

TRUE

*Difficulty: Medium
Hilton - Chapter 02 #15
Learning Objective: 3*

16. After materials enter the production process, those used in products are called direct materials.

TRUE

*Difficulty: Medium
Hilton - Chapter 02 #16
Learning Objective: 3*

17. Employees who handle materials in the factory of a manufacturing plant are considered direct labor costs.

FALSE

*Difficulty: Medium
Hilton - Chapter 02 #17
Learning Objective: 3*

18. Overtime premium costs should theoretically be considered part of direct labor cost.

FALSE

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #18
Learning Objective: 3*

19. Prime costs include direct materials and direct labor costs.

TRUE

*Difficulty: Medium
Hilton - Chapter 02 #19
Learning Objective: 3*

20. Conversion costs equal direct materials and manufacturing overhead costs.

FALSE

*Difficulty: Medium
Hilton - Chapter 02 #20
Learning Objective: 3*

21. Nonmanufacturing costs include selling and administrative costs, which are not used to produce products.

TRUE

*Difficulty: Easy
Hilton - Chapter 02 #21
Learning Objective: 3*

22. Work-in-process inventory refers to partially completed units.

TRUE

*Difficulty: Easy
Hilton - Chapter 02 #22
Learning Objective: 3*

23. The cost of direct materials placed into production is computed by adding the cost of purchases to the ending inventory of raw materials.

FALSE

*Difficulty: Easy
Hilton - Chapter 02 #23
Learning Objective: 3*

24. In a manufacturing company, cost of goods manufactured consists of direct materials put into production, direct labor and manufacturing overhead incurred plus the beginning inventory of finished goods less the ending inventory of finished goods

FALSE

*Difficulty: Medium
Hilton - Chapter 02 #24
Learning Objective: 3*

25. A cost driver is a characteristic of an activity or event that causes that activity or event to incur cost.

TRUE

*Difficulty: Easy
Hilton - Chapter 02 #25
Learning Objective: 4*

26. Variable costs change in total direct proportion to a change in the activity of a cost driver.

TRUE

*Difficulty: Medium
Hilton - Chapter 02 #26
Learning Objective: 4*

27. Fixed costs per unit remain the same as volume of production increases.

FALSE

*Difficulty: Medium
Hilton - Chapter 02 #27
Learning Objective: 4*

28. As the volume of production increases, fixed costs per unit remain unchanged, while variable costs per unit will decrease.

FALSE

*Difficulty: Medium
Hilton - Chapter 02 #28
Learning Objective: 4*

29. The identification of a cost as fixed or variable is valid only within a specified range of output volume.

TRUE

*Difficulty: Medium
Hilton - Chapter 02 #29
Learning Objective: 4*

30. Unit-level costs are incurred for every unit of product manufactured or service performed.

TRUE

*Difficulty: Easy
Hilton - Chapter 02 #30
Learning Objective: 4*

31. Batch-level costs are incurred for each line of product service.

FALSE

*Difficulty: Medium
Hilton - Chapter 02 #31
Learning Objective: 4*

32. Facility-level costs are incurred to maintain the organization's overall facility and infrastructure.

TRUE

*Difficulty: Medium
Hilton - Chapter 02 #32
Learning Objective: 4*

33. All unit-level costs are variable costs.

TRUE

*Difficulty: Medium
Hilton - Chapter 02 #33
Learning Objective: 4*

34. All variable costs are unit-level costs.

FALSE

*Difficulty: Medium
Hilton - Chapter 02 #34
Learning Objective: 4*

35. Electricity and welding materials used by robotic welders would be considered unit-level costs.

TRUE

*Difficulty: Medium
Hilton - Chapter 02 #35
Learning Objective: 4*

36. The costs of equipment, buildings, and purchased technology should be considered when making production decisions.

FALSE

*AICPA FN: Decision Making
Difficulty: Medium
Hilton - Chapter 02 #36
Learning Objective: 5*

37. Most management systems measure both opportunity costs and out of pocket costs.

FALSE

*Difficulty: Medium
Hilton - Chapter 02 #37
Learning Objective: 5*

38. Opportunity cost is the current value of the foregone, next best alternative use of whatever is supplied or used.

TRUE

*Difficulty: Easy
Hilton - Chapter 02 #38
Learning Objective: 5*

39. It is possible for a cost to be a direct cost of one cost object and an indirect cost of another.

TRUE

*Difficulty: Easy
Hilton - Chapter 02 #39
Learning Objective: 5*

40. If a manager can control or heavily influence the level of a cost, then that cost is classified as a controllable cost.

TRUE

*Difficulty: Easy
Hilton - Chapter 02 #40
Learning Objective: 5*

41. Tracing costs means attaching or assigning indirect costs by some reasonable but imprecise method of averaging.

FALSE

*Difficulty: Medium
Hilton - Chapter 02 #41
Learning Objective: 5*

42. Tracing costs is generally considered a more accurate method of cost assignment than allocating costs.

TRUE

*Difficulty: Medium
Hilton - Chapter 02 #42
Learning Objective: 5*

43. A committed cost may be changed quickly and easily.

FALSE

*Difficulty: Easy
Hilton - Chapter 02 #43
Learning Objective: 5*

44. Sunk costs are past resource payments that cannot be changed by any current or future decision.

TRUE

*Difficulty: Easy
Hilton - Chapter 02 #44
Learning Objective: 5*

45. Absorption costing uses sales less variable costs to measure the contribution to profit.

FALSE

*Difficulty: Medium
Hilton - Chapter 02 #45
Learning Objective: 6*

46. Absorption costing measures use gross margin as the contribution to profit.

TRUE

*Difficulty: Medium
Hilton - Chapter 02 #46
Learning Objective: 6*

47. Gross margin is sales less variable production costs.

FALSE

*Difficulty: Medium
Hilton - Chapter 02 #47
Learning Objective: 6*

48. Throughput costing inventory contains no conversion and indirect costs.

TRUE

*Difficulty: Medium
Hilton - Chapter 02 #48
Learning Objective: 6*

49. When inventory levels increase, absorption costing will result in a higher operating income than direct costing.

AASCB: Analytic

TRUE

*AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #49
Learning Objective: 7*

50. When inventory levels remain constant, absorption and direct costing will result in the same operating income.

AASCB: Analytic

TRUE

*AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #50
Learning Objective: 7*

51. When inventory levels decrease absorption costing will result in a higher operating income than direct costing.

AASCB: Analytic

FALSE

AICPA BB: Critical Thinking
 Difficulty: Medium
 Hilton - Chapter 02 #51
 Learning Objective: 7

52. The difference in the amount of fixed overhead cost that is expensed to the income statement under absorption and variable costing is solely attributable to the difference between the number of units produced during the period and the number of units sold.

AASCB: Analytic

TRUE

AICPA BB: Critical Thinking
 Difficulty: Medium
 Hilton - Chapter 02 #52
 Learning Objective: 7

53. Absorption costing can distort the costs to provide products and services if they represent greatly different levels of support from indirect resources.

TRUE

AACSB: Reflective Thinking
 AICPA BB: Critical Thinking
 Difficulty: Easy
 Hilton - Chapter 02 #53
 Learning Objective: 8

54. Throughout costing assigns only batch-level spending for direct costs of products or services.

FALSE

AACSB: Reflective Thinking
 AICPA BB: Critical Thinking
 Difficulty: Medium
 Hilton - Chapter 02 #54
 Learning Objective: 8

55. Throughout costing considers only unit-level spending for direct costs of products or services.

TRUE

AACSB: Reflective Thinking
 AICPA BB: Critical Thinking
 Difficulty: Medium
 Hilton - Chapter 02 #55
 Learning Objective: 8

Use the following to answer questions 56-59:

Crowley Company has gathered the following data related to its production process of two of its products for the week ended April 30:

Model	#100 B	#250C
Quantity produced	60	100
Unit-level material cost	\$ 42,000	\$ 100,000
Variable conversion cost	72,000	300,000
Total direct costs	\$114,000	\$ 400,000
Indirect costs		
Indirect manufacturing cost	163,200	272,000
Indirect operating cost	255,000	425,000
Total indirect costs	418,200	697,000
Total costs	\$532,200	\$1,097,000

56. If the cost behaviors exhibited in this chart continue and the company produces 90 units of product 100B during May, the expected total unit-level material cost of product 100 B would be:
- A. \$171,000
 - B. \$63,000**
 - C. \$42,000
 - D. \$114,000

$$(\$42,000/60) = \$700; \$700 \times 90 = \$63,000$$

*AACSB: Analytic
AICPA FN: Measurement
Difficulty: Medium
Hilton - Chapter 02 #56
Learning Objective: 7*

57. The throughput cost per unit for Product 250C is:
- A. \$10,970
 - B. \$4,000
 - C. \$1,000**
 - D. \$6,970

$$\$100,000/100 = \$1,000$$

*AACSB: Analytic
AICPA FN: Measurement
Difficulty: Medium
Hilton - Chapter 02 #57
Learning Objective: 7*

58. The absorption cost per unit for product 250C was:
- A. \$1,900
 - B. \$9,760
 - C. \$6,970
 - D. \$6,720**

$$(\$100,000 + \$300,000 + \$272,000)/100 = \$6,720$$

*AACSB: Analytic
AICPA FN: Measurement
Difficulty: Hard
Hilton - Chapter 02 #58
Learning Objective: 7*

59. The costs above that appear to be allocated rather than traced are:
- A. Unit level material costs
 - B. Variable conversion costs
 - C. Indirect production costs only
 - D. All indirect costs**

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Hard
Hilton - Chapter 02 #59
Learning Objective: 7*

60. Which of the following is **not** a name for indirect resources?
- A. Overhead costs
 - B. Burden
 - C. Direct costs**
 - D. Common costs

*Difficulty: Easy
Hilton - Chapter 02 #60
Learning Objective: 3*

61. Which of the following should be considered part of a manufacturing company's direct labor cost?
- A. Factory supervisor's salary
 - B. Forklift operator's hourly wages
 - C. Employer-paid health insurance on factory assemblers' wages**
 - D. Cost of idle time

AACSB: Reflective Thinking
 AICPA BB: Critical Thinking
 Difficulty: Medium
 Hilton - Chapter 02 #61
 Learning Objective: 3

Use the following to answer questions 62-71:

Beginning inventory in units	0
Units produced	4,800
Units sold	4,000
Sales	\$400,000
Material cost (unit level or variable)	\$ 96,000
Variable conversion cost used (Committed)	\$ 48,000
Facility-level or fixed manufacturing cost	\$ 72,000
Indirect operating costs (fixed)	\$ 80,000

62. The throughput product cost of goods sold is:
- A. \$96,000
 - B. \$120,000
 - C. \$144,000
 - D. \$80,000**

Hilton - Chapter 02

$$\$96,000/4,800 = \$20; 4,000 \text{ units sold} \times \$20 = \$80,000$$

AACSB: Analytic
 AICPA FN: Measurement
 Difficulty: Medium
 Hilton - Chapter 02 #62
 Learning Objective: 6

63. The variable cost of goods sold is:
- A. \$110,000
 - B. \$120,000**
 - C. \$144,000
 - D. \$40,000

$$(\$96,000 + \$48,000)/4800 = \$30 \text{ per unit} \times 4,000 = \$120,000$$

AACSB: Analytic
 AICPA FN: Measurement
 Difficulty: Medium
 Hilton - Chapter 02 #63
 Learning Objective: 6

64. The absorption cost of goods sold is:
- A. \$246,667
 - B. \$120,000
 - C. \$180,000**
 - D. \$40,000

$$(\$96,000 + \$48,000 + \$72,000)/4800 = \$45 \text{ per unit} \times 4,000 = \$180,000$$

AACSB: Analytic
 AICPA FN: Measurement
 Difficulty: Medium
 Hilton - Chapter 02 #64
 Learning Objective: 6

65. The throughput operating income is:
A. \$128,000
B. \$120,000
C. \$104,000
D. \$256,000
E. ** (\$20 x 4,000)

$$\$400,000 - 80,000^{**} - 48,000 - 72,000 - 80,000 = \$120,000$$

*AACSB: Analytic
AICPA FN: Measurement
Difficulty: Medium
Hilton - Chapter 02 #65
Learning Objective: 6*

66. The variable operating income is:
A. \$120,000
B. \$140,000
C. \$104,000
D. \$128,000
E. *** \$30 per unit x 4,000 units sold

$$\$400,000 - 120,000^{***} - 72,000 - 80,000 = \$128,000$$

*AACSB: Analytic
AICPA FN: Measurement
Difficulty: Medium
Hilton - Chapter 02 #66
Learning Objective: 6*

67. The absorption operating income is:
A. \$120,000
B. \$140,000
C. \$128,000
D. \$112,000
E. ***\$45 per unit x 4,000 units sold

$$\$400,000 - 180,000^{***} - 80,000 = \$140,000$$

*AACSB: Analytic
AICPA FN: Measurement
Difficulty: Medium
Hilton - Chapter 02 #67
Learning Objective: 6*

68. The throughput ending inventory is:
A. \$16,000
B. \$18,000
C. \$20,000
D. \$24,000

$$\$96,000 / 4800 = \$20 \text{ per unit}; \$20 \text{ per unit} \times 800 \text{ units} = \$16,000$$

*AACSB: Analytic
AICPA FN: Measurement
Difficulty: Medium
Hilton - Chapter 02 #68
Learning Objective: 6*

69. The variable ending inventory is:
- A. \$36,000
 - B. \$8,000
 - C. \$40,000
 - D. \$24,000**

$$(\$96,000 + 48,000)/4,800 = \$30 \text{ per unit}; \$30 \text{ per unit} \times 800 \text{ units} = \$24,000$$

AACSB: Analytic
AICPA FN: Measurement
Difficulty: Medium
Hilton - Chapter 02 #69
Learning Objective: 6

70. The absorption ending inventory is:
- A. \$40,000
 - B. \$24,000
 - C. \$36,000**
 - D. \$8,000

$$(\$96,000 + 48,000 + 72,000)/4,800 = \$45 \text{ per unit}; \$45 \text{ per unit} \times 800 \text{ units} = \$36,000$$

AACSB: Analytic
AICPA FN: Measurement
Difficulty: Medium
Hilton - Chapter 02 #70
Learning Objective: 6

71. The difference between the variable ending inventory cost and the absorption ending inventory cost is:
- A. 800 units times \$15 per unit indirect manufacturing cost**
 - B. 800 units times \$10 per unit material cost
 - C. 800 units times \$20 per unit variable conversion cost plus \$15 per unit indirect manufacturing cost
 - D. 800 units times \$20 per unit variable conversion cost plus \$15 per unit indirect manufacturing cost plus \$16.67 per unit indirect operating costs

AACSB: Analytic
AICPA FN: Measurement
Difficulty: Hard
Hilton - Chapter 02 #71
Learning Objective: 7

72. Throughput costing:
- A. Measures **only** unit-level spending for direct costs of products or services**
 - B. Includes both committed and discretionary costs in the costs of products or services
 - C. Includes both direct and indirect costs in the costs of products or services
 - D. Includes only variable costs in the costs of products or services

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #72
Learning Objective: 8

73. Absorption costing measures contribution to profit as:
- A. Sales less unit-level costs spent of goods sold
 - B. Sales less variable costs of goods sold
 - C. Sales less absorption cost of goods sold**
 - D. Sales less all costs including operating expenses

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #73
Learning Objective: 8

74. Under variable costing, operating income is measured by:
- A. Gross margin minus operating expenses
 - B. Throughput minus operating expenses
 - C. Contribution margin minus indirect manufacturing and operating costs**
 - D. Sales minus variable costs

*Difficulty: Easy
Hilton - Chapter 02 #74
Learning Objective: 8*

75. Oliveira's operating income under absorption costing will be:
In its first month of operations, Oliveira Corporation produced 100,000 units. 80,000 units were sold.
The manufacturing cost per unit was as follows:

Direct materials cost:	\$40
Direct labor cost	10
Variable overhead cost	30
Fixed overhead cost	50
Total per unit cost	\$130

- A. Lower than variable costing by \$1,000,000
- B. Higher than variable costing by \$600,000
- C. Higher than variable costing by \$1,000,000**
- D. The same as variable costing

$$20,000 \text{ units} \times \$50 \text{ per unit} = \$1,000,000$$

*AACSB: Analytic
AICPA FN: Measurement
Difficulty: Medium
Hilton - Chapter 02 #75
Learning Objective: 7*

76. Which of the following statements is **True**?
- A. Operating income under variable costing equals contribution margin less operating expenses
 - B. When sales exceed production, absorption costing income will be higher than variable costing income
 - C. Throughput costing assigns all variable costs to cost of goods sold
 - D. When production exceeds sales, absorption costing income will be higher than variable costing income**

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Hard
Hilton - Chapter 02 #76
Learning Objective: 7*

77. If units produced are greater than units sold:
- A. Variable costing will have a higher profit than absorption costing
 - B. Throughput costing will have a higher profit than absorption costing
 - C. Absorption costing will have a higher profit than throughput costing but a lower profit than variable costing
 - D. Absorption costing will have a higher profit than both throughput costing and variable costing**

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Hard
Hilton - Chapter 02 #77
Learning Objective: 7*

78. Under throughput costing:
- A. Both conversion and indirect costs are added to inventory
 - B.** Neither conversion or indirect costs are added to inventory
 - C. Conversion costs are added to inventory but indirect costs are not
 - D. Indirect costs are added to inventory but conversion costs are not

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #78
Learning Objective: 6*

79. Which of the following is **not** an argument in favor of throughput costing?
- A. Managers cannot hide committed costs or past resource spending by increasing production
 - B. Only increases in sales will increase profits
 - C.** Increases in sales and production will increase profits
 - D. Base production decisions should be based on resource supply and use only

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #79
Learning Objective: 8*

80. Period costs
- A.** Do not become part of the value of inventory for financial or tax reporting
 - B. Become part of the value of inventory for financial reporting but not tax reporting
 - C. Become part of the value of inventory for tax reporting but not financial reporting
 - D. Are the same as indirect manufacturing costs

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #80
Learning Objective: 1*

81. Which of the following would be considered an indirect product cost?
- A. Depreciation on sales staff automobiles
 - B. President's salary
 - C.** Maintenance on factory equipment
 - D. Direct Materials used in production

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #81
Learning Objective: 3*

82. Wages paid to supervisors in the factory are typically classified as:
- A. Direct manufacturing labor costs
 - B.** Manufacturing overhead costs
 - C. Prime costs
 - D. Period costs

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #82
Learning Objective: 3*

83. Which of the following is a fixed cost?
- A. A 5% sales commissions
 - B. Direct labor personnel
 - C.** Rent
 - D. Both A and C are fixed costs

*Difficulty: Medium
Hilton - Chapter 02 #83
Learning Objective: 4*

84. Which of the following is **not** a conversion resource?
A. Parts
B. Labor
C. Supervision
D. Maintenance

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #84
Learning Objective: 3*

85. Which of the following is **not** a material resource?
A. Equipment
B. Leather used in shoe manufacturing
C. Components
D. Assemblies

*Difficulty: Easy
Hilton - Chapter 02 #85
Learning Objective: 3*

86. Which of the following is a conversion resource?
A. Office supplies
B. Supervisory labor
C. Sales department
D. Hard drives used in manufacture of computers

*Difficulty: Easy
Hilton - Chapter 02 #86
Learning Objective: 3*

87. Theoretically, overtime premium paid to a machine operator should be accounted for as:
A. A period cost
B. Part of direct labor
C. As indirect labor
D. As part of manufacturing overhead

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #87
Learning Objective: 3*

88. Idle time caused by equipment breakdown should be accounted for as:
A. A period cost
B. Direct labor cost
C. A selling expense
D. A manufacturing overhead cost

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #88*

89. Prime costs are the same as:
A. Manufacturing overhead costs
B. Indirect labor costs
C. Direct labor and direct materials used
D. Direct labor and direct materials purchased

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #89
Learning Objective: 3*

90. The cost of renting a car for the sales force should be accounted for as:
- A.** Period cost
 - B. Manufacturing overhead
 - C. Prime cost
 - D. Conversion cost

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #90
Learning Objective: 3*

91. Depreciation on forklifts used to transport materials should be accounted for as:
- A.** Manufacturing overhead cost
 - B. Period cost
 - C. Prime cost
 - D. Part of the direct materials cost

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #91
Learning Objective: 3*

92. Which of the following describes the formula for cost of goods manufactured?
- A Direct materials used plus direct labor plus overhead minus beginning inventory of work- in-process plus ending inventory of work- in-process
 - B** Direct materials used plus direct labor plus overhead plus beginning inventory of work- in-process minus ending inventory of work- in-process
 - C. Beginning inventory of raw materials plus purchases of raw materials less ending inventory raw materials
 - D. Beginning inventory of finished goods plus purchases of direct materials less ending inventory of finished goods

*AACSB: Analytic
AICPA FN: Measurement
Difficulty: Medium
Hilton - Chapter 02 #92
Learning Objective: 3*

93. Which of the following best describes a variable cost?
- A. Per unit cost decreases as activity increases and increases as activity decreases
 - B. Total cost decreases as activity increases and increases as activity decreases
 - C.** Per unit cost remains the same regardless of activity
 - D. Total cost remains the same regardless of activity

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #93
Learning Objective: 4*

94. Which of the following best describes a fixed cost?
- A. Per unit cost decreases as activity decreases and increases as activity increases
 - B. Total cost decreases as activity increases and increases as activity decreases
 - C. Per unit cost remains the same regardless of activity
 - D.** Total cost remains the same regardless of activity

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #94
Learning Objective: 4*

95. Which of the following is an example of a unit-level cost?
- A. Factory maintenance
 - B. Customer service
 - C. Direct materials**
 - D. Set-up

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #95
Learning Objective: 4*

96. Which of the following is an example of a batch-level cost?
- A. Factory maintenance
 - B. Customer service
 - C. Direct materials
 - D. Set-up**

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
Difficulty: Medium
Hilton - Chapter 02 #96
Learning Objective: 4*

97. Which of the following is an example of a product-level cost?
- A. Special packaging for a particular customer
 - B. Moving materials for a batch of production
 - C. Designing a product using computer-aided design software**
 - D. Random inspection of finished units

*Difficulty: Easy
Hilton - Chapter 02 #97
Learning Objective: 4*

98. Which of the following is an example of a facility-level cost?
- A. Special packaging for a particular customer
 - B. Electricity used by robotic welders
 - C. General corporate advertising
 - D. Insurance on the factory**

*Difficulty: Medium
Hilton - Chapter 02 #98
Learning Objective: 4*

99. Which of the following describes an opportunity cost?
- A. A cost is not intended to vary with production or sales volume
 - B. Foregone benefit that could have been realized from the best alternative use of resources**
 - C. Past payments for resources that cannot be changed by any current or future decision
 - D. Costs that can be changed quickly and easily

*Difficulty: Easy
Hilton - Chapter 02 #99
Learning Objective: 4*

100. Which of the following describes a sunk cost?
- A. A cost that is not intended to vary with production or sales volume
 - B. Foregone benefit that could have been realized from the best alternative use of resources
 - C. Past resources payments that cannot be changed by any current or future decision**
 - D. Costs that can be changed quickly and easily

*Difficulty: Easy
Hilton - Chapter 02 #100
Learning Objective: 5*

101. Which of the following is **not** a relevant cost for a decision?
- A. Variable cost
 - B. Opportunity cost
 - C. Direct cost
 - D. Sunk cost**

*Difficulty: Medium
Hilton - Chapter 02 #101
Learning Objective: 5*