

TEST BANK

HORNGREN'S
FINANCIAL & MANAGERIAL
ACCOUNTING

THE MANAGERIAL CHAPTERS
FOURTH EDITION

NOBLES • MATTISON • MATSUMURA



Horngren's Financial & Managerial Accounting, 4e (Nobles)
Chapter 16 Introduction to Managerial Accounting

Learning Objective 16-1

1) Managerial accounting focuses on providing information for internal planning and control.

Answer: TRUE

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

2) Financial accounting prepares reports for internal purposes, whereas managerial accounting provides information to external stakeholders.

Answer: FALSE

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

3) The IMA standards of ethical practice require managerial accountants to maintain their professional competence.

Answer: TRUE

Diff: 1

LO: 16-1

AACSB: Ethical Understanding

AICPA Functional: Reporting

4) The accountant for Myra Lido deliberately deferred cash payments for business expenses in order to record a higher operating cash flow for the company. As long as the amount was not material, this would not be considered unethical behavior.

Answer: FALSE

Diff: 1

LO: 16-1

AACSB: Ethical Understanding

AICPA Functional: Reporting

5) Financial statements prepared for investors and creditors often include forward-looking information because they make decisions based on a company's future prospects.

Answer: FALSE

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

6) Management accounting reporting by a public firm is required to follow the rules of GAAP and guidelines of the Securities Exchange Commission.

Answer: FALSE

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

7) A budget is a managerial accounting tool used in the planning process.

Answer: TRUE

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

8) Financial reporting is typically much more detailed than managerial accounting.

Answer: FALSE

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

9) The IMA Standards of Ethical Practice include confidentiality, competence, credibility, and integrity.

Answer: TRUE

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

10) ERP systems can integrate all of a company's functions, departments, and data into a single system.

Answer: TRUE

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

11) Which of the following is an objective of management accounting?

A) to generate financial statements of a company for tax reporting

B) to provide information to business managers to assist them in controlling their business

C) to provide information to shareholders to assist them with their investment decisions

D) to ensure that the reports produced for internal and external business purposes are GAAP compliant

Answer: B

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

12) Which of the following statements is true of management accounting?

- A) The external stakeholders of a company are the primary users of management accounting.
- B) Management accounting information is used to help managers plan and control their operations.
- C) An external audit by an independent CPA is required for management accounting information.
- D) Management accounting information must comply with Generally Accepted Accounting Principles.

Answer: B

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

13) Management accounting information of a company is primarily used by _____.

- A) its customers to understand the pricing of the product
- B) its creditors to understand the credibility of the business
- C) its employees to plan and control operations
- D) its investors to make their investment decisions

Answer: C

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

14) Which of the following statements is true of financial accounting?

- A) It provides information to investors needed for their investment decisions.
- B) It provides forward-looking information needed for managing and delegating operations.
- C) It focuses on detailed reports for parts of the company rather than the whole company.
- D) It focuses on planning and controlling day-to-day operations.

Answer: A

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

15) Management's accountability to its suppliers and vendors is to _____.

- A) provide products to customers that are safe and free of defects
- B) obey laws and pay taxes timely
- C) provide a return on shareholders' investment
- D) make timely payments and comply with contract terms

Answer: D

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

16) How is the management of a company accountable to its employees?

- A) The management must provide products that are safe and free of defects.
- B) The management must provide a safe workplace.
- C) The management must ensure that it earns a net positive return on its investments.
- D) The management must ensure the business is environmentally responsible to its community.

Answer: B

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

17) Management of a company is accountable to _____ for obeying laws and paying taxes.

- A) the natural environment
- B) its asset vendors
- C) the securities exchange
- D) the government

Answer: D

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

18) In which of the following ways is the management of a company accountable to its communities?

- A) making timely interest payments to creditors and dividend payments to investors
- B) ensuring the company's environmental impact is not harmful to its area of operations
- C) providing a capital return on the shareholders' investment
- D) repaying principal and interest to the suppliers

Answer: B

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

19) Managerial accounting includes the planning function. Which of the following items would be part of the planning function of a business's managerial accounting?

- A) comparing actual performance to previously budgeted amounts
- B) creating detailed budgets
- C) implementing operational plans
- D) evaluating results of operations

Answer: B

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

20) Comparing actual performance to previously budgeted amounts is part of the _____.

- A) controlling function of managerial accounting
- B) planning function of managerial accounting
- C) reporting function of managerial accounting
- D) organizing function of managerial accounting

Answer: A

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

21) Which of the following is the primary objective of managerial accounting?

- A) providing information that managers need to make operational decisions
- B) providing historical data to investors and creditors
- C) providing summarized results of operations
- D) providing information to comply with laws and regulations of government bodies

Answer: A

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

22) Which of the following is the primary focus of financial accounting?

- A) providing information that managers need to make operational decisions
- B) providing summarized information on operational results to investors and creditors
- C) providing budgets for future periods
- D) providing highly detailed information on product lines, regions, and divisions

Answer: B

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

23) _____ is a philosophy of continuous improvement of products and processes.

- A) Just-in-time (JIT) management
- B) Enterprise resource planning (ERP)
- C) Supply chain management (SCM)
- D) Total quality management (TQM)

Answer: D

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

24) Which of the following describes a system in which suppliers deliver materials at the time they are needed and finished units are completed when customer orders need to be filled?

- A) Supply chain management (SCM)
- B) Just-in-time (JIT) management
- C) Enterprise resource planning (ERP)
- D) Total quality management (TQM)

Answer: B

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

25) What is total quality management (TQM)?

- A) a philosophy of supplying customers with superior products and services
- B) an exchange of information with suppliers and customers to create efficient and effective processes
- C) a software system that integrates a company's functions, departments and data into a single system
- D) a system which speeds the transformation of raw materials into finished products

Answer: A

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

26) An enterprise resource planning system (ERP) _____.

- A) is a cost management system in which a company produces products just in time to satisfy needs
- B) requires the implementation of total quality management
- C) integrates all worldwide functions, departments and data of a company into a single system
- D) cannot be implemented in service companies

Answer: C

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

27) Which of the following correctly describes just-in-time (JIT) inventory management?

- A) It is a production approach that maintains surplus goods at each stage of manufacture.
- B) It is an inventory purchase approach that seeks purchase discounts on buying large quantities.
- C) It is a cost management approach that focuses on maintaining lean inventory levels.
- D) It is an inventory approach which stockpiles raw materials to protect against supply interruptions.

Answer: C

Diff: 2

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

28) Which of the following is true of just-in-time (JIT) inventory management?

- A) It results in more storage and insurance cost.
- B) It is a system in which the company produces product only after receiving an order.
- C) It promotes surplus inventory to prevent production shut-down in case of supply interruptions.
- D) It requires a surplus inventory of finished goods to ensure timely, or just-in-time, delivery to customers.

Answer: B

Diff: 2

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

29) Which of the following is a philosophy designed to integrate all organizational areas in order to provide customers with superior products and services, while meeting organizational goals throughout the value chain?

- A) Supply chain management (SCM)
- B) Just-in-time (JIT) management
- C) Enterprise resource planning (ERP)
- D) Total quality management (TQM)

Answer: D

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

30) The whole sequence of activities that add value to a company's products and services is called _____.

- A) the value chain
- B) the planning process
- C) TQM production chain
- D) enterprise resource planning

Answer: A

Diff: 1

LO: 16-1

AACSB: Concept

AICPA Functional: Reporting

31) Which of the following is one of the key standards of ethical practice published by the Institute of Management Accountants (IMA)?

- A) objectivity
- B) environmental sensitivity
- C) technicality
- D) confidentiality

Answer: D

Diff: 1

LO: 16-1

AACSB: Ethical Understanding

AICPA Functional: Reporting

32) Seria Inc. has received a bulk order from an overseas client. As a result, the reported earnings of this year is expected to be significantly higher than the estimates of financial analysts. Joshua, an accountant at Seria, tells this to one of his friends. Which of the IMA standards has Joshua violated?

- A) objectivity
- B) competence
- C) confidentiality
- D) technicality

Answer: C

Diff: 1

LO: 16-1

AACSB: Reflective Thinking

AICPA Functional: Reporting

33) You did not understand what the term accrual meant and failed to accrue the interest due at the end of the year on the company's bonds. Which of the IMA standards appears to have been violated here?

- A) integrity
- B) confidentiality
- C) competence
- D) objectivity

Answer: C

Diff: 1

LO: 16-1

AACSB: Reflective Thinking

AICPA Functional: Reporting

Learning Objective 16-2

1) Product costs, such as direct materials, are expensed in the period they were paid.

Answer: FALSE

Diff: 1

LO: 16-2

AACSB: Application

AICPA Functional: Reporting

2) Unlike merchandising companies, income statements of service companies include cost of goods sold as a line item.

Answer: FALSE

Diff: 1

LO: 16-2

AACSB: Application

AICPA Functional: Reporting

3) Manufacturing businesses have inventory accounts, but merchandising businesses do not.

Answer: FALSE

Diff: 1

LO: 16-2

AACSB: Concept

AICPA Functional: Reporting

4) Manufacturing businesses produce their own products, but merchandising businesses do not.

Answer: TRUE

Diff: 1

LO: 16-2

AACSB: Concept

AICPA Functional: Reporting

5) If Royal Inc. purchases each unit of product X for \$100 and can sell it in the market for \$135; the selling price of the product for Royal would be \$100.

Answer: FALSE

Diff: 1

LO: 16-2

AACSB: Application

AICPA Functional: Reporting

6) Merchandising companies, like service companies, do not have a Cost of Goods Sold account.

Answer: FALSE

Diff: 1

LO: 16-2

AACSB: Application

AICPA Functional: Reporting

7) Selling and administrative expenses are subtracted from the cost of goods sold to obtain operating profit.

Answer: TRUE

Diff: 1

LO: 16-2

AACSB: Concept

AICPA Functional: Reporting

8) For external reporting purposes, GAAP requires companies to treat period costs as assets.

Answer: FALSE

Diff: 1

LO: 16-2

AACSB: Application

AICPA Functional: Reporting

9) The primary activity of manufacturing businesses is to purchase goods from a wholesaler and resell them.

Answer: FALSE

Diff: 1

LO: 16-2

AACSB: Concept

AICPA Functional: Reporting

10) Service companies include companies that provide health care, communication, banking, and other important benefits to society.

Answer: TRUE

Diff: 1

LO: 16-2

AACSB: Concept

AICPA Functional: Reporting

11) The income statement of a service company will most likely include _____.

- A) salary expense
- B) factory overhead
- C) cost of goods sold
- D) direct materials

Answer: A

Diff: 1

LO: 16-2

AACSB: Application

AICPA Functional: Reporting

12) Which of the following is true of service companies?

- A) All costs of service companies are product costs.
- B) Service companies modify and resell products they buy from manufacturers.
- C) Revenues of service companies are only recorded on cash receipt.
- D) Service companies carry no inventories of products for sale.

Answer: D

Diff: 1

LO: 16-2

AACSB: Concept

AICPA Functional: Reporting

13) For a manufacturing company, which of the following is a period cost?

- A) direct materials
- B) office rent
- C) wages expense of factory workers
- D) indirect materials

Answer: B

Diff: 1

LO: 16-2

AACSB: Application

AICPA Functional: Reporting

14) One of the primary activities of Rex Inc. is to purchase hats from Viva Inc. in Texas and sell them to its customers in Washington for a profit. It is likely that Rex is a _____.

- A) manufacturing company
- B) hybrid company
- C) service company
- D) merchandising company

Answer: D

Diff: 1

LO: 16-2

AACSB: Application

AICPA Functional: Reporting

15) Which of the following is most likely a service company?

- A) a law firm
- B) a car dealership
- C) a grocery store
- D) a patisserie

Answer: A

Diff: 1

LO: 16-2

AACSB: Application

AICPA Functional: Reporting

16) A company that uses labor, equipment, supplies, and facilities to convert raw materials into finished products is a _____.

- A) merchandising company
- B) manufacturing company
- C) service company
- D) trading company

Answer: B

Diff: 1

LO: 16-2

AACSB: Concept

AICPA Functional: Reporting

17) Goods that have been started in the manufacturing process but are not yet complete are included in the _____.

- A) Finished Goods Inventory account
- B) Work-in-Process Inventory account
- C) Raw Materials Inventory account
- D) Cost of Goods Sold account.

Answer: B

Diff: 1

LO: 16-2

AACSB: Concept

AICPA Functional: Reporting

18) Which of the following would appear as a line item on the income statements of both, a merchandiser and a manufacturer?

- A) Direct labor
- B) Cost of goods manufactured
- C) Direct materials
- D) Cost of goods sold

Answer: D

Diff: 1

LO: 16-2

AACSB: Concept

AICPA Functional: Reporting

19) Damsel Inc. is a large manufacturer of auto tires. Damsel has provided the following information:

Sales Revenue	\$45,500
Beginning Finished Goods Inventory	1,500
Cost of Goods Sold	32,500
Cost of Goods Manufactured	35,000

Calculate the amount of ending finished goods inventory reported in Damsel's balance sheet.

- A) \$10,500
- B) \$36,500
- C) \$4,000
- D) \$3,500

Answer: C

Explanation: C)

Beginning Finished Goods Inventory	\$1,500
Add: Cost of Goods Manufactured	<u>35,000</u>
Cost of Goods Available for Sale	36,500
Less: Cost of Goods Sold	<u>-32,500</u>
Ending Finished Goods Inventory	<u>\$4,000</u>

Diff: 2

LO: 16-2

AACSB: Concept

AICPA Functional: Reporting

20) The balance sheet of a _____ company will show Work-in-Process Inventory as a line item.

- A) manufacturing
- B) merchandising
- C) service
- D) trading

Answer: A

Diff: 1

LO: 16-2

AACSB: Concept

AICPA Functional: Reporting

21) Partial income statements of Company A and Company B are provided below:

Company A		Company B	
Revenue	\$80,000	Revenue	\$50,000
Expenses:		Cost of Goods Sold:	
Utilities Expense	\$5,000	Beginning Inventory	\$4,000
Salaries Expense	15,500	Purchases and Freight In	23,000
Rent Expense	3,200	Ending Inventory	-5,500
Total Expenses	23,700	Cost of Goods Sold	21,500
Operating Income	\$56,300	Gross Profit	\$28,500

Which of the following statements is true?

- A) Company A is a merchandising company.
- B) Company B is a manufacturing company.
- C) Company A is a manufacturing company.
- D) Company A is a service company.

Answer: D

Diff: 1

LO: 16-2

AACSB: Application

AICPA Functional: Reporting

22) Product costs are expensed _____.

- A) when the products are consumed or sold
- B) when the accounting period they are incurred in comes to an end
- C) when the products are transferred to Work-in-Process Inventory account
- D) when the market value of products goes above the recorded value

Answer: A

Diff: 1

LO: 16-2

AACSB: Concept

AICPA Functional: Reporting

23) The Work-in-Process Inventory account includes the _____./

- A) goods that are ready to be sold
- B) goods that are partially completed
- C) goods that have been sold in the market
- D) goods that are damaged during production

Answer: B

Diff: 1

LO: 16-2

AACSB: Concept

AICPA Functional: Reporting

24) Which of the following is true of finished goods inventory?

- A) Finished Goods Inventory is an account used by a manufacturer and includes completed goods that have not yet been sold.
- B) Finished Goods Inventory is an account used by a merchandiser and includes completed goods that have not yet been sold.
- C) Finished Goods Inventory is an account used by service companies in lieu of raw materials inventory.
- D) Finished Goods Inventory is an account used by a manufacturer in lieu of raw materials inventory.

Answer: A

Diff: 1

LO: 16-2

AACSB: Concept

AICPA Functional: Reporting

25) Which of the following is true of product costs?

- A) They are expensed in the period they are paid.
- B) For external reporting, GAAP requires that they be expensed before the products are sold.
- C) They are first recorded in an inventory account.
- D) For merchandising companies, product costs do not include freight costs.

Answer: C

Diff: 1

LO: 16-2

AACSB: Concept

AICPA Functional: Reporting

26) Crystal Inc. is a merchandiser of stone ornaments. It sold 15,000 units in 2015. The company has provided the following information:

Sales Revenue	\$557,000
Purchases (excluding freight in)	300,000
Selling and Administrative Expenses	69,000
Freight In	15,000
Beginning Merchandise Inventory	45,000
Ending Merchandise Inventory	55,700

How much is the gross profit for 2015?

- A) \$183,700
- B) \$304,300
- C) \$252,700
- D) \$257,000

Answer: C

Explanation: C) $\$304,300$ (Cost of Goods Sold) = $\$45,000$ (Beginning Merchandise Inventory) + $\$300,000$ (Purchases) + $\$15,000$ (Freight In) - $\$55,700$ (Ending Merchandise Inventory)
 $\$557,000$ (Sales Revenue) - $\$304,300$ (Cost of Goods Sold) = $\$252,700$ (Gross Profit)

Diff: 2

LO: 16-2

AACSB: Application

AICPA Functional: Measurement

27) Which of the following formulas represents cost of goods sold for a merchandising business?

A) Beginning Inventory - Ending Inventory = Cost of Goods Sold

B) Purchases and Freight In - Ending Inventory = Cost of Goods Sold

C) Ending Inventory + Purchases and Freight In - Beginning Inventory = Cost of Goods Sold

D) Beginning Inventory + Purchases and Freight In - Ending Inventory = Cost of Goods Sold

Answer: D

Diff: 1

LO: 16-2

AACSB: Application

AICPA Functional: Reporting

28) Amber Corporation has provided the following information of its operating activities for 2015:

Merchandise Inventory, January 1, 2015	\$150,000
Merchandise Inventory, December 31, 2015	75,000
Purchases	854,000
Selling and Administrative Expenses	65,000
Sales Revenue	1,000,000

Required: Prepare Amber's income statement for the year ended December 31, 2015. Use the format provided below:

Sales Revenue		
Cost of Goods Sold		
Beginning Inventory		
Purchases		
Cost of Goods Available for Sale		
Ending Inventory		
Cost of Goods Sold		
Gross Profit		
Selling and Administrative Expenses		
Operating Income		

Answer:

AMBER CORPORATION
Income Statement
Year Ended December 31, 2015

Sales Revenue		\$1,000,000
Cost of Goods Sold		
Beginning Inventory	\$150,000	
Purchases	<u>854,000</u>	
Cost of Goods Available for Sale	\$1,004,000	
Ending Inventory	<u>-75,000</u>	
Cost of Goods Sold		<u>929,000</u>
Gross Profit		71,000
Selling and Administrative Expenses		<u>65,000</u>
Operating Income		\$6,000

Diff: 2

LO: 16-2

AACSB: Application

AICPA Functional: Measurement

29) Excellent Inc. sells accounting textbooks. The following information summarizes Excellent's operating activities for 2015:

Merchandise Inventory, January 1, 2015	\$10,000
Merchandise Inventory, December 31, 2015	7,000
Purchases	95,000
Selling and Administrative Expenses	65,000
Sales Revenue	180,000

Required: Prepare Excellent Inc. income statement for the year ended December 31, 2015.

Answer:

EXCELLENT INC.

Income Statement

Year Ended December 31, 2015

Sales Revenue		\$180,000
Cost of Goods Sold		
Beginning Inventory	\$10,000	
Purchases	95,000	
Cost of Goods Available for Sale	105,000	
Ending Inventory	<u>-7,000</u>	
Cost of Goods Sold		<u>98,000</u>
Gross Profit		82,000
Selling and Administrative Expenses		<u>65,000</u>
Operating Income		<u>\$17,000</u>

Diff: 2

LO: 16-2

AACSB: Application

AICPA Functional: Measurement

30) Simons Inc. sells plasticware. The following information summarizes Simons' operating activities for 2015:

Utilities Expense	\$ 65,000
Rent Expense	10,000
Sales Commissions Expense	32,500
Purchases of Merchandise	260,000
Inventory on January 1, 2015	65,000
Inventory on December 31, 2015	97,500
Sales Revenue	650,000

Prepare an income statement for Simons Inc., a merchandiser, for the year ended December 31, 2015 using the format below:

Sales Revenue		
Cost of Goods Sold		
Beginning Inventory		
Purchases		
Cost of Goods Available for Sale		
Ending Inventory		
Cost of Goods Sold		
Gross Profit		
Selling Expenses		
Sales Commissions Expense		
Administrative Expenses		
Rent Expense		
Utilities Expense		
Total Operating Expenses		
Operating Income		

Answer:

SIMONS INC.
Income Statement
Year Ended December 31, 2015

Sales Revenue		\$650,000
Cost of Goods Sold		
Beginning Inventory	\$65,000	
Purchases	<u>260,000</u>	
Cost of Goods Available for Sale	325,000	
Ending Inventory	<u>-97,500</u>	
Cost of Goods Sold		<u>227,500</u>
Gross Profit		422,500
Selling Expenses		
Sales Commissions Expense		32,500
Administrative Expenses		
Rent Expense	10,000	
Utilities Expense	<u>65,000</u>	75,000
Total Operating Expenses		<u>107,500</u>
Operating Income		<u>\$315,000</u>

Diff: 2

LO: 16-2

AACSB: Application

AICPA Functional: Measurement

31) Best Inc., a merchandiser, sells office supplies. The following information summarizes Best's operating activities during 2015:

Utilities Expense	\$6,000
Rent for Store Expense	8,000
Sales Commissions Expense	4,500
Purchases of Merchandise	54,000
Inventory on January 1, 2015	30,000
Inventory on December 31, 2015	20,500
Sales Revenue	108,000

Required: Prepare an income statement for Best Inc. for the year ended December 31, 2015, using the format below.

Sales Revenue		
Cost of Goods Sold		
Beginning Inventory		
Purchases		
Cost of Goods Available for Sale		
Ending Inventory		
Cost of Goods Sold		
Gross Profit		
Selling Expenses		
Sales Commissions Expense		
Administrative Expenses		
Rent Expense		
Utilities Expense		
Total Operating Expenses		
Operating Income		

Answer:

Sales Revenue		\$108,000
Cost of Goods Sold		
Beginning Inventory	\$30,000	
Purchases	<u>54,000</u>	
Cost of Goods Available for Sale	84,000	
Ending Inventory	<u>-20,500</u>	
Cost of Goods Sold		<u>63,500</u>
Gross Profit		44,500
Selling Expenses		
Sales Commissions Expense	4,500	
Administrative Expenses		
Rent Expense	8,000	
Utilities Expense	<u>6,000</u>	
Total Operating Expenses		<u>18,500</u>
Operating Income		<u>\$26,000</u>

Diff: 3

LO: 16-2

AACSB: Application

AICPA Functional: Measurement

Learning Objective 16-3

1) Product costs, such as factory overhead, should be treated as an asset until the product is sold.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Reporting

2) Manufacturing overhead includes all manufacturing costs, such as direct labor and direct materials.

Answer: FALSE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Reporting

3) Manufacturing overhead includes indirect manufacturing costs, such as insurance and depreciation on the factory building.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Reporting

4) All costs incurred in the manufacture of final products are product costs.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Reporting

5) The cost of direct materials cannot easily be traced to the manufactured product and therefore it is a component of manufacturing overhead.

Answer: FALSE

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

6) Wages and benefits of assembly line workers are period costs.

Answer: FALSE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

7) Wages and benefits of assembly line workers are included in manufacturing overhead.

Answer: FALSE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

8) Wages and benefits of factory managers are considered as product costs.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

9) The three categories of period costs are direct materials, direct labor, and manufacturing overhead.

Answer: FALSE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

10) Salary of a factory manager will be included in manufacturing overhead.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

11) Direct costs and indirect costs can be easily traced directly to a cost object.

Answer: FALSE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

12) In a manufacturing company, the salary of sales staff is an example of period cost.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

13) Wages of factory janitors is considered non-manufacturing overhead as these are not directly related to the manufacturing process.

Answer: FALSE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

14) Indirect materials costs such as lubes and cleaning fluids are product costs.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

15) Indirect materials costs are included in manufacturing overhead.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

16) For a manufacturer, rent paid for an office building is an example of a period cost.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

17) Factory rent, taxes, and insurance are included in manufacturing overhead.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

18) Transportation costs paid to ship raw materials to a company warehouse are considered product costs.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

19) Sales commissions are included in manufacturing overhead.

Answer: FALSE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

20) In a manufacturing company, advertising and marketing costs are examples of period costs.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

21) In a manufacturing company, advertising and marketing costs are included in manufacturing overhead.

Answer: FALSE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

22) In a manufacturing company, accounting, legal, and administrative costs are typical examples of product costs.

Answer: FALSE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

23) In a manufacturing company, administrative costs are included in period costs.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

24) Repair and maintenance costs for factory equipment are product costs.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

25) Repair and maintenance costs for factory equipment are included in manufacturing overhead.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

26) Repair and maintenance costs of vehicles used to deliver products to customers are product costs.

Answer: FALSE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

27) Repair and maintenance costs of vehicles used to deliver products to the customers are included in manufacturing overhead.

Answer: FALSE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

28) Direct materials and direct labor are prime costs.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

29) In manufacturing, the cost objects are often units of product.

Answer: TRUE

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Measurement

30) Period costs are the _____.

A) product costs must be paid in the accounting period in which they are incurred

B) costs that are incurred and expensed during the same accounting period

C) costs related to production of products the company purchases and sells

D) same as manufacturing overhead costs

Answer: B

Diff: 2

LO: 16-3

AACSB: Concept

AICPA Functional: Reporting

31) Which of the following is an example of a period cost for a manufacturing company?

- A) advertising expense
- B) depreciation on factory equipment
- C) indirect materials
- D) property taxes for the factory

Answer: A

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Reporting

32) Which of the following is a part of manufacturing overhead?

- A) cost of raw materials
- B) wages of assembly line workers
- C) factory insurance
- D) depreciation on office furniture

Answer: C

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Reporting

33) Which of the following is a product cost for a manufacturing company?

- A) salary of administrative staff
- B) wages paid to factory janitor
- C) commissions paid to sales staff
- D) depreciation on corporate building

Answer: B

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Reporting

34) Which of the following is a period cost for a manufacturing company?

- A) office rent
- B) wages of factory janitor
- C) insurance cost of production equipment
- D) raw materials

Answer: A

Diff: 2

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

35) Which of the following is an example of direct labor cost in a factory?

- A) wages of assembly line personnel
- B) salary of vice president of production
- C) wages of factory security guard
- D) salary of production manager

Answer: A

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

36) Which of the following will be included in manufacturing overhead costs?

- A) indirect labor and indirect materials
- B) salaries of salesmen
- C) direct materials and direct labor
- D) delivery costs to ship goods to customers

Answer: A

Diff: 2

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

37) Manufacturing overhead is also referred to as _____.

- A) indirect manufacturing costs
- B) direct manufacturing costs
- C) prime costs
- D) period costs

Answer: A

Diff: 2

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

38) Anything for which managers want a separate measurement of cost is called a _____.

- A) responsibility center
- B) cost object
- C) profit object
- D) conversion cost

Answer: B

Diff: 1

LO: 16-3

AACSB: Concept

AICPA Functional: Reporting

39) Kyanite Corporation, a manufacturer reports costs for 2015 as follows:

Raw Materials	\$50,000
Wages to Line Workers	25,000
Office Rent	14,000
Indirect Materials	30,000

How much is the total period costs of Kyanite?

- A) \$30,000
- B) \$80,000
- C) \$39,000
- D) \$14,000

Answer: D

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Measurement

40) Kyanite Corporation reports costs for 2015 as follows:

Raw Materials	\$50,000
Wages to Line Workers	25,000
Office Rent	14,000
Indirect Materials	30,000

How much is the total product costs for 2015?

- A) \$30,000
- B) \$105,000
- C) \$119,000
- D) \$75,000

Answer: B

Explanation: B) \$105,000 (Total product costs) = \$50,000 (Raw Materials) + \$25,000 (Wages to Line Workers) + \$30,000 (Indirect Materials)

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Measurement

41) Which of the following is a product cost?

- A) sales commissions
- B) CEO's salary
- C) delivery van depreciation
- D) depreciation on production equipment

Answer: D

Diff: 2

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

42) Which of the following correctly describes the accounting for indirect labor costs?

- A) Indirect labor costs are product costs and are expensed as incurred.
- B) Indirect labor costs are period costs and are expensed as incurred.
- C) Indirect labor costs are product costs and are expensed when the manufactured product is sold.
- D) Indirect labor costs are period costs and are expensed when the manufactured product is sold.

Answer: C

Diff: 2

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

43) Which of the following correctly describes the accounting for factory depreciation?

- A) Factory depreciation is a product cost and is expensed as incurred.
- B) Factory depreciation is a period cost and is expensed as incurred.
- C) Factory depreciation is a product cost and is expensed when the manufactured product is sold.
- D) Factory depreciation is a period cost and is expensed when the manufactured product is sold.

Answer: C

Diff: 2

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

44) Which of the following correctly describes the accounting for administrative expenses of a manufacturing company?

- A) Administrative expenses are product costs and are expensed as incurred.
- B) Administrative expenses are period costs and are expensed as incurred.
- C) Administrative expenses are product costs and are expensed when the manufactured product is sold.
- D) Administrative expenses are period costs and are expensed when the manufactured product is sold.

Answer: B

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

45) Which of the following correctly describes the accounting for advertising costs?

- A) Advertising costs are product costs and are expensed as incurred.
- B) Advertising costs are period costs and are expensed as incurred.
- C) Advertising costs are product costs and are expensed when the manufactured product is sold.
- D) Advertising costs are period costs and are expensed when the manufactured product is sold.

Answer: B

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

46) The following information relates to Webster Inc.

Advertising Costs	\$10,270
Administrative Salaries	24,700
Delivery Vehicle Depreciation	1,027
Factory Repair and Maintenance	910
Indirect Labor	11,700
Indirect Materials	9,360
Manufacturing Equipment Depreciation	2,080
Office Rent	61,100
President's Salary	40,300
Sales Revenue	450,000
Sales Salary	4,500

How much were Webster's period costs?

- A) \$141,897
- B) \$474,050
- C) \$615,947
- D) \$61,503

Answer: A

Explanation: A)

Advertising Costs	\$10,270
President's Salary	40,300
Office Rent	61,100
Sales Salary	4,500
Delivery Vehicle Depreciation	1,027
Administrative Salaries	<u>24,700</u>
Total Period Cost	<u>\$141,897</u>

Diff: 2

LO: 16-3

AACSB: Application

AICPA Functional: Measurement

47) The following information relates to Webster Inc.:

Advertising Costs	\$10,270
Sales Salary	4,500
Sales Revenue	450,000
President's Salary	40,300
Office Rent	61,100
Manufacturing Equipment Depreciation	2,080
Indirect Materials	9,360
Indirect Labor	11,700
Factory Repair and Maintenance	910
Direct Materials	28,080
Direct Labor	35,100
Delivery Vehicle Depreciation	1,027
Administrative Salaries	24,700

How much were Webster's product costs?

- A) \$141,897
- B) \$697,127
- C) \$229,127
- D) \$87,230

Answer: D

Explanation: D)

Indirect Labor	\$11,700
Indirect Materials	9,360
Factory Repair and Maintenance	910
Manufacturing Equipment Depreciation	2,080
Direct Materials	28,080
Direct Labor	<u>35,100</u>
Total Product Cost	<u>\$87,230</u>

Diff: 2

LO: 16-3

AACSB: Application

AICPA Functional: Measurement

48) The following information relates to Webster Inc.:

Advertising Costs	\$10,270
Sales Salary	4,500
Sales Revenue	450,000
President's Salary	40,300
Office Rent	61,100
Manufacturing Equipment Depreciation	2,080
Indirect Materials	9,360
Indirect Labor	11,700
Factory Repair and Maintenance	910
Direct Materials	28,080
Direct Labor	35,100
Delivery Vehicle Depreciation	1,027
Administrative Salaries	24,700

How much was Webster's manufacturing overhead?

- A) \$21,060
- B) \$21,970
- C) \$24,050
- D) \$141,897

Answer: C

Explanation: C)

Indirect Labor	\$11,700
Indirect Materials	9,360
Factory Repair and Maintenance	910
Manufacturing Equipment Depreciation	<u>2,080</u>
Total Manufacturing Overhead	<u>\$24,050</u>

Diff: 2

LO: 16-3

AACSB: Application

AICPA Functional: Measurement

49) The following information was obtained from Fizz Inc.:

Advertising Costs	\$9,900
Indirect Labor	11,000
CEO's Salary	49,000
Direct Labor	41,000
Indirect Materials	7,900
Direct Materials Used	61,000
Factory Utilities	700
Factory Janitorial Costs	2,300
Manufacturing Equipment Depreciation	2,100
Delivery Vehicle Depreciation	1,100
Administrative Wages and Salaries	21,000

How much were Fizz's period costs?

- A) \$60,000
- B) \$81,000
- C) \$92,000
- D) \$79,900

Answer: B

Explanation: B)

Advertising Costs	\$9,900
CEO's Salary	49,000
Delivery Vehicle Depreciation	1,100
Administrative Wages and Salaries	<u>21,000</u>
Total Period Costs	<u>\$81,000</u>

Diff: 2

LO: 16-3

AACSB: Application

AICPA Functional: Measurement

50) The following information was obtained from Fizz Inc.:

Advertising Costs	\$9,900
Indirect Labor	11,000
CEO's Salary	49,000
Direct Labor	41,000
Indirect Materials	7,900
Direct Materials Used	61,000
Factory Utilities	700
Factory Janitorial Costs	2,300
Manufacturing Equipment Depreciation	2,100
Delivery Vehicle Depreciation	1,100
Administrative Wages and Salaries	21,000

Calculate Fizz's total product costs.

- A) \$126,000
- B) \$104,100
- C) \$127,100
- D) \$115,000

Answer: A

Explanation: A)

Indirect labor	\$11,000
Direct Labor	41,000
Indirect Materials	7,900
Direct Materials Used	61,000
Factory Utilities	700
Factory Janitorial Costs	2,300
Manufacturing Equipment Depreciation	<u>2,100</u>
Total Product Costs	<u>\$126,000</u>

Diff: 2

LO: 16-3

AACSB: Application

AICPA Functional: Measurement

51) Which of the following would be considered a product cost for a manufacturing business?

- A) research and development
- B) property taxes on the factory
- C) advertising
- D) delivery costs

Answer: B

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

52) Which of the following would be considered a product cost for a manufacturing business?

- A) salary of the sales manager
- B) salary of the CEO
- C) salaries of the accounting staff
- D) salary of the production manager

Answer: D

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

53) Which of the following would be considered a product cost for a manufacturing business?

- A) depreciation on delivery vehicles
- B) depreciation on administrative building furniture and fixtures
- C) depreciation on manufacturing equipment
- D) depreciation on the accounting department's computer equipment

Answer: C

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

54) Which of the following would be considered a direct labor cost for a manufacturing business?

- A) wages of the assembly line staff
- B) wages of the factory janitors
- C) wages of the factory manager
- D) salaries of the internal auditors

Answer: A

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

55) Which of the following would be included as indirect manufacturing costs for a manufacturing business?

- A) sales commissions
- B) fuel and maintenance for delivery vehicles
- C) wages of the assembly line workers
- D) wages of the factory manager

Answer: D

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

56) For decision-making purposes, _____ costs are often divided into prime costs and conversion costs.

- A) fixed costs
- B) product costs
- C) period costs
- D) sunk costs

Answer: B

Diff: 2

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

57) Which of the following would be included as manufacturing overhead for a manufacturing business?

- A) direct materials cost
- B) indirect materials cost
- C) direct labor
- D) advertising

Answer: B

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

58) Which of the following would be considered a period cost for a manufacturing business?

- A) indirect materials
- B) factory utilities
- C) direct labor
- D) sales salaries

Answer: D

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

59) Which of the following is a prime cost and a conversion cost?

- A) manufacturing overhead
- B) direct materials
- C) direct labor
- D) selling expenses

Answer: C

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

60) Which of the following represents the combined sum of direct labor and manufacturing overhead?

- A) conversion costs
- B) period costs
- C) prime costs
- D) fixed costs

Answer: A

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

61) Which of the following represents the combined sum of direct materials and direct labor?

- A) conversion costs
- B) period costs
- C) prime costs
- D) fixed costs

Answer: C

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

62) Which of the following will be classified as a conversion cost?

- A) cost of raw materials
- B) depreciation on factory equipment
- C) salary of sales personnel
- D) depreciation on office furniture

Answer: B

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

63) Which of the following would be classified as a prime cost?

- A) cost of raw materials
- B) depreciation on factory equipment
- C) salary of sales personnel
- D) depreciation on office furniture

Answer: A

Diff: 1

LO: 16-3

AACSB: Application

AICPA Functional: Reporting

Learning Objective 16-4

1) The cost of goods manufactured includes selling expenses, administrative expenses, and manufacturing overhead.

Answer: FALSE

Diff: 1

LO: 16-4

AACSB: Concept

AICPA Functional: Reporting

2) Merchandiser's inventory consists of raw materials inventory, work-in-process inventory, and finished goods inventory.

Answer: FALSE

Diff: 1

LO: 16-4

AACSB: Concept

AICPA Functional: Reporting

3) Total manufacturing costs to account for during the year minus the ending work-in-process inventory equals the cost of goods manufactured.

Answer: TRUE

Diff: 1

LO: 16-4

AACSB: Concept

AICPA Functional: Reporting

4) Which of the following statements is true of the flow of product and period costs for a manufacturer?

A) When the manufacturing process is completed, the costs are transferred to the Work-in-Process Inventory account.

B) The cost of the finished goods that the manufacturer sells becomes its Cost of Goods Sold on the income statement.

C) Period costs remain in inventory accounts on the balance sheet until the product is sold.

D) All product costs that have been paid are expensed and shown on the income statement at the end of the accounting period.

Answer: B

Diff: 2

LO: 16-4

AACSB: Concept

AICPA Functional: Reporting

5) Goods that are produced by a manufacturing company and are ready to sell are recorded in the _____.

- A) Materials Inventory account
- B) Work-in-Process Inventory account
- C) Manufacturing Overhead account
- D) Finished Goods Inventory account

Answer: D

Diff: 1

LO: 16-4

AACSB: Concept

AICPA Functional: Reporting

6) At the beginning of 2015, Swift Inc. Work-in-Process Inventory account had a balance of \$120,000. During 2015, \$250,000 of direct materials were used in production, and \$75,000 of direct labor costs were incurred. Manufacturing overhead amounted to \$850,000. The cost of goods manufactured was \$675,000. What is the balance in the Work-in-Process Inventory account on December 31, 2015?

- A) \$230,000
- B) \$1,295,000
- C) \$675,000
- D) \$620,000

Answer: D

Explanation: D)

Beginning Work-in-Process Inventory	\$120,000
Direct Materials Used	250,000
Direct Labor	75,000
Manufacturing Overhead	<u>850,000</u>
Total Manufacturing Costs To account for	1,295,000
Cost of Goods Manufactured	<u>-675,000</u>
Ending Work-in-Process Inventory	<u><u>\$620,000</u></u>

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

7) Selected data for Lemon Grass Inc. for 2015 is provided below:

Factory Utilities	\$1,500
Indirect Materials Used	37,500
Direct Materials Used	300,000
Property Taxes on Factory Building	6,900
Sales Commissions	85,000
Indirect Labor Incurred	25,000
Direct Labor Incurred	150,000
Depreciation on Factory Equipment	6,500

What is the total factory overhead?

- A) \$450,000
- B) \$612,000
- C) \$77,400
- D) \$62,400

Answer: C

Explanation: C)

Factory Utilities	\$1,500
Indirect Materials Used	37,500
Property Taxes on Factory Building	6,900
Indirect Labor Incurred	25,000
Depreciation on Factory Equipment	<u>6,500</u>
Total Factory Overhead	<u>\$77,400</u>

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

8) Which of the following describes the cost of goods manufactured?

- A) the cost of the goods that were sold during the period
- B) the total cost of all goods that were completed, or partially completed during the period
- C) the cost of those goods which were completed during the period
- D) the total costs in inventory at the end of the period

Answer: C

Diff: 2

LO: 16-4

AACSB: Concept

AICPA Functional: Measurement

9) Fireox Inc. selected cost data for 2015 are shown below:

Cost of Goods Manufactured	\$145,200
Work-in-Process Inventory, Jan. 1, 2015	18,500
Work-in-Process Inventory, Dec. 31, 2015	22,500
Direct Materials Used	15,800

What is the total of manufacturing costs incurred by Fireox Inc. in 2015?

- A) \$149,200
- B) \$158,300
- C) \$139,800
- D) \$117,100

Answer: A

Explanation: A) \$149,200 (Total manufacturing costs incurred) = \$22,500 (Ending Work-in-Process Inventory) + \$145,200 (Cost of Goods Manufactured) - \$18,500 (Beginning Work-in-Process Inventory)

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

10) Fireox Inc. selected cost data for 2015 are shown below:

Work-in-Process Inventory, Jan. 1, 2015	\$5,640
Direct Materials Used	105,000
Work-in-Process Inventory, Dec. 31, 2015	2,870
Cost of Goods Manufactured	193,200

Assuming manufacturing overhead costs of \$27,850, what is the amount of direct labor incurred by Fireox Inc. in 2015?

- A) \$63,120
- B) \$190,430
- C) \$57,580
- D) \$79,690

Answer: C

Explanation: C) \$190,430 (Cost of goods sold) = \$2,870 (Ending Work-in-Process Inventory) + \$193,200 (Cost of Goods Manufactured) - \$5,640 (Beginning Work-in-Process Inventory)

\$57,580 (Direct labor costs) = \$190,430 (Cost of goods sold) - \$27,850 (Manufacturing overhead costs) - \$105,000 (Direct Materials Used)

Diff: 3

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

11) Jasper Inc. reports the following cost information for March:

Cost of Goods Manufactured	\$75,000
Manufacturing Overhead	18,250
Finished Goods Inventory, March 1	4,500
Finished Goods Inventory, March 31	2,650
Work-in-Process Inventory, March 1	9,670
Work-in-Process Inventory, March 31	1,250
Direct Materials Used	25,300

What is the cost of goods sold for March?

A) \$83,420

B) \$73,150

C) \$76,850

D) \$82,150

Answer: C

Explanation: C)

Finished Goods Inventory, March 1	\$4,500
+ Cost of Goods Manufactured	75,000
- Finished Goods Inventory, March 31	<u>-2,650</u>
= Cost of Goods Sold	<u>\$76,850</u>

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

12) Jasper Inc. reports the following cost information for March:

Cost of Goods Manufactured	\$75,000
Manufacturing Overhead	18,250
Finished Goods Inventory, March 1	4,500
Finished Goods Inventory, March 31	2,650
Work-in-Process Inventory, March 1	9,670
Work-in-Process Inventory, March 31	1,250
Direct Materials Used	25,300

What is the amount of direct labor incurred by Jasper in March?

- A) \$29,600
- B) \$39,870
- C) \$126,970
- D) \$23,030

Answer: D

Explanation: D)

Cost of Goods Manufactured	\$75,000
- Direct Materials Used	-25,300
- Manufacturing Overhead	-18,250
- Work-in-Process Inventory, March 1	-9,670
+ Work-in-Process Inventory, March 31	<u>1,250</u>
= Direct Labor	<u>\$23,030</u>

Diff: 3

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

13) Jasper Corporation reports the following cost information for March:

Cost of Goods Manufactured	\$75,000
Manufacturing Overhead	16,850
Finished Goods Inventory, March 1	4,500
Finished Goods Inventory, March 31	2,650
Work-in-Process Inventory, March 1	9,670
Work-in-Process Inventory, March 31	1,250
Direct Labor	36,300

What is the amount of manufacturing overhead incurred by the company in March?

- A) \$13,430
- B) \$20,000
- C) \$30,270
- D) \$136,570

Answer: A

Explanation: A)

Cost of Goods Manufactured	\$75,000
- Direct Labor	-36,300
- Manufacturing Overhead	-16,850
- Work-in-Process Inventory, March 1	-9,670
+ Work-in-Process Inventory, March 31	<u>1,250</u>
= Manufacturing Overhead Incurred	<u>\$13,430</u>

Diff: 3

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

14) Jasper Corporation reports the following cost information for March:

Cost of Goods Manufactured	\$75,000
Manufacturing Overhead	18,250
Finished Goods Inventory, March 1	4,500
Finished Goods Inventory, March 31	2,650
Work-in-Process Inventory, March 1	9,670
Work-in-Process Inventory, March 31	1,250
Direct Labor	36,300

What is the amount of manufacturing overhead incurred by the company in March?

- A) \$20,000
- B) \$30,270
- C) \$13,430
- D) \$136,570

Answer: C

Explanation: C)

Cost of Goods Manufactured	\$75,000
- Direct Labor	-36,300
- Direct Material Used	-16,850
- Work-in-Process Inventory, March 1	-9,670
+ Work-in-Process Inventory, March 31	<u>1,250</u>
Manufacturing Overhead	<u>\$13,430</u>

Diff: 3

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

15) A corporation used \$35,000 of direct materials, incurred \$73,000 in direct labor cost, and \$114,000 in manufacturing overhead costs during the period. What is the cost of goods manufactured if the beginning and ending Work-in-Process Inventories were \$28,000 and \$21,000, respectively?

- A) \$250,000
- B) \$229,000
- C) \$215,000
- D) \$222,000

Answer: B

Explanation: B) \$229,000 (Cost of goods manufactured) = \$28,000 (Beginning Work-in-Process Inventory) + \$35,000 (Direct Materials) + \$73,000 (Direct Labor Cost) + \$114,000 (Manufacturing Overhead Costs) - \$21,000 (Ending Work-in-Process Inventory)

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

16) Given the following information, determine the cost of goods manufactured.

Direct Labor Incurred	\$63,000
Manufacturing Overhead Incurred	179,500
Direct Materials Used	150,000
Finished Goods Inventory, 1/1/2015	197,500
Finished Goods Inventory, 12/31/2015	221,000
Work-in-Process Inventory, 1/1/2015	96,500
Work-in-Process Inventory, 12/31/2015	109,000

- A) \$243,000
- B) \$380,000
- C) \$867,000
- D) \$160,000

Answer: B

Explanation: B)

Work-in-Process Inventory, 1/1/2015	\$96,500
Direct Materials Used	150,000
Direct Labor Incurred	63,000
Manufacturing Overhead Incurred	179,500
Work-in-Process Inventory, 12/31/2015	<u>-109,000</u>
Cost of Goods Manufactured	<u>380,000</u>

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

17) Given the following information, determine the cost of goods sold.

Direct Labor Incurred	\$63,000
Manufacturing Overhead Incurred	179,500
Direct Materials Used	150,000
Finished Goods Inventory, 1/1/2015	197,500
Finished Goods Inventory, 12/31/2015	221,000
Work-in-Process Inventory, 1/1/2015	96,500
Work-in-Process Inventory, 12/31/2015	109,000

- A) \$380,000
- B) \$1,016,500
- C) \$356,500
- D) \$414,000

Answer: C

Explanation: C)

Work-in-Process Inventory, 1/1/2015	\$96,500
Direct Materials Used	150,000
Direct Labor Incurred	63,000
Manufacturing Overhead Incurred	179,500
Work-in-Process Inventory, 12/31/2015	<u>-109,000</u>
Cost of Goods Manufactured	<u>\$380,000</u>

Finished Goods Inventory, 1/1/2015	\$197,500
Cost of Goods Manufactured	380,000
Finished Goods Inventory, 12/31/2015	<u>-221,000</u>
Cost of Goods Sold	<u>\$356,500</u>

Diff: 3

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

18) The cost of goods sold for Frye Manufacturing in 2015 was \$233,000. The January 1, 2015, finished goods inventory balance was \$31,600, and the December 31, 2015, finished goods inventory balance was \$24,200. Calculate the cost of goods manufactured during 2015.

- A) \$288,800
- B) \$233,000
- C) \$225,600
- D) \$240,400

Answer: C

Explanation: C) $\$225,600$ (Cost of goods manufactured) = $\$233,000$ (Cost of goods sold) + $\$24,200$ (Ending finished goods inventory) - $\$31,600$ (Beginning finished goods inventory)

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

19) Which of the following will most likely be considered an indirect material cost for a bakery?

- A) spices
- B) flour
- C) milk
- D) eggs

Answer: A

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Reporting

20) The following information has been provided by Squash Corporation:

Direct Labor	\$6,500
Direct Materials Used	2,550
Raw Materials Purchased	5,000
Cost of Goods Manufactured	10,500
Ending Work-in-Process Inventory	1,200
Corporate Headquarters' Property taxes	350
Manufacturing Overhead	510

The beginning balance of Work-in-Process Inventory account was _____.

- A) \$2,400
- B) \$2,140
- C) \$18,860
- D) \$9,560

Answer: B

Explanation: B) Cost of Goods Manufactured	\$10,500
Direct Labor	-6,500
Direct Materials Used	-2,550
Manufacturing Overhead	-510
Ending Work-in-Process Inventory	<u>1,200</u>
Beginning Work-in-Process Inventory	<u>\$2,140</u>

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

21) Barricades Corporation provided the following information for the year 2015:

Beginning Balance — Work-in-Process Inventory	\$24,000
Ending Balance — Work-in-Process Inventory	56,000
Beginning Balance — Raw Materials Inventory	84,000
Ending Balance — Raw Materials Inventory	60,000
Purchases — Raw Materials	360,000
Direct Labor	470,000
Indirect Materials	47,000
Indirect Labor	19,000
Depreciation on Factory Plant & Equipment	24,000
Plant Utilities & Insurance	270,000

What was the amount of direct materials used in production during 2015?

- A) \$360,000
- B) \$504,000
- C) \$384,000
- D) \$328,000

Answer: C

Explanation: C) Beginning balance — Raw Materials Inventory	\$84,000
Purchases — Raw Materials	360,000
Ending Balance — Raw Materials Inventory	<u>-60,000</u>
Direct Materials Used	<u>\$384,000</u>

Diff: 1

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

22) Barricades Corporation provided the following information for the year 2015:

Beginning Balance – Work-in-Process Inventory	\$24,000
Ending Balance – Work-in-Process Inventory	56,000
Beginning Balance – Raw Materials Inventory	84,000
Ending Balance – Raw Materials Inventory	60,000
Purchases – Raw Materials	360,000
Direct Labor	470,000
Indirect Materials	47,000
Indirect Labor	19,000
Depreciation on Factory Plant & Equipment	24,000
Plant Utilities & Insurance	270,000

What was the amount of the manufacturing overhead costs?

- A) \$360,000
- B) \$313,000
- C) \$90,000
- D) \$336,000

Answer: A

Explanation: A)

Plant utilities & Insurance	\$270,000
Depreciation on Factory Plant & Equipment	24,000
Indirect Labor	19,000
Indirect Materials	<u>47,000</u>
Total Manufacturing Overhead Costs	<u>\$360,000</u>

Diff: 1

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

23) Barricades Corporation provided the following information for the year 2015:

Beginning Balance — Work-in-Process Inventory	\$24,000
Ending Balance — Work-in-Process Inventory	56,000
Beginning Balance — Raw Materials Inventory	84,000
Ending Balance — Raw Materials Inventory	60,000
Purchases — Raw Materials	360,000
Direct Labor	470,000
Indirect Materials	47,000
Indirect Labor	19,000
Depreciation on Factory Plant & Equipment	24,000
Plant Utilities & Insurance	270,000

What was the total manufacturing costs incurred during the year 2015?

- A) \$744,000
- B) \$360,000
- C) \$1,414,000
- D) \$1,214,000

Answer: D

Explanation: D)

Beginning Balance — Raw Materials Inventory	\$84,000
Purchases — Raw Materials	360,000
Ending Balance — Raw Materials Inventory	<u>-60,000</u>
Direct Materials Used	<u>\$384,000</u>

Plant Utilities & Insurance	\$270,000
Depreciation on Factory Plant & Equipment	24,000
Indirect Labor	19,000
Indirect Materials	<u>47,000</u>
Total Manufacturing Overhead Costs	<u>\$360,000</u>

Direct Materials Used	\$384,000
Direct Labor	470,000
Manufacturing Overhead	<u>360,000</u>
Total Manufacturing Cost Incurred During Year	<u>\$1,214,000</u>

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

24) Barricades Corporation provided the following information for the year 2015:

Beginning Balance — Work-in-Process Inventory	\$24,000
Ending Balance — Work-in-Process Inventory	56,000
Beginning Balance — Raw Materials Inventory	84,000
Ending Balance — Raw Materials Inventory	60,000
Purchases — Raw Materials	360,000
Direct Labor	470,000
Indirect Materials	47,000
Indirect Labor	19,000
Depreciation on Factory Plant & Equipment	24,000
Plant Utilities & Insurance	270,000

What was the amount of the cost of goods manufactured for the year 2015?

- A) \$1,414,000
- B) \$1,214,000
- C) \$1,182,000
- D) \$1,246,000

Answer: C

Explanation: C)

Beginning Balance — Raw Materials Inventory	\$84,000
Purchases — Raw Materials	360,000
Ending Balance — Raw Materials Inventory	<u>-60,000</u>
Direct Materials Used	<u>\$384,000</u>
Plant Utilities & Insurance	\$270,000
Depreciation on Factory Plant & Equipment	24,000
Indirect Labor	19,000
Indirect Materials	<u>47,000</u>
Total Manufacturing Overhead Costs	<u>\$360,000</u>
Direct Materials Used	\$384,000
Direct Labor	470,000
Manufacturing Overhead	<u>360,000</u>
Total Manufacturing Cost Incurred During Year	<u>\$1,214,000</u>
Beginning Balance — Work-in-Process Inventory	\$24,000
Total Manufacturing Cost Incurred During Year	1,214,000
Ending Balance — Work-in-Process Inventory	<u>-56,000</u>
Cost of Goods Manufactured	<u>\$1,182,000</u>

Diff: 3

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

25) Viva Inc. has provided the following information for the year 2015:

Cost of Goods Manufactured	\$1,234,000
Beginning Balance—Finished Goods Inventory	99,000
Ending Balance—Finished Goods Inventory	84,000

How much is the cost of goods sold?

- A) \$183,000
- B) \$1,249,000
- C) \$1,234,000
- D) \$1,219,000

Answer: B

Explanation: B)

Beginning Balance—Finished Goods Inventory	\$99,000
Cost of Goods Manufactured	1,234,000
Ending Balance—Finished Goods Inventory	<u>-84,000</u>
Cost of Goods Sold	<u>\$1,249,000</u>

Diff: 1

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

26) Amoeba Manufacturing Inc. provided the following information for the year 2015:

Purchases—Raw Materials	\$90,000
Plant Utilities & Insurance	67,500
Indirect Materials	11,750
Indirect Labor	4,750
Direct Materials Used in Production	96,000
Direct Labor	117,500
Depreciation on Factory Plant & Equipment	6,000

The inventory account balances as of January 1st 2015 are given below.

Raw Materials Inventory	\$42,000
Work-in-Process Inventory	12,000
Finished Goods Inventory	49,500

What is the ending balance in the Raw Materials Inventory account?

A) \$54,000

B) \$6,000

C) \$111,000

D) \$24,250

Answer: D

Explanation: D) $\$42,000 + \$90,000 - \$96,000 - \$11,750 = \$24,250$

Diff: 1

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

27) Amoeba Manufacturing Inc. provided the following information for the year 2015:

Purchases—Raw Materials	\$90,000
Plant Utilities & Insurance	67,500
Indirect Materials	11,750
Indirect Labor	4,750
Direct Materials Used in Production	96,000
Direct Labor	117,500
Depreciation on Factory Plant & Equipment	6,000
Cost of Goods Manufactured	290,850

The inventory account balances as of January 1st 2015 are given below.

Raw Materials Inventory	\$42,000
Work-in-Process Inventory	12,000
Finished Goods Inventory	49,500

What is the ending balance in the Work-in-Process Inventory account?

- A) \$24,650
- B) \$12,000
- C) \$49,500
- D) \$65,350

Answer: A

Explanation: A)

Indirect Materials	\$11,750
Indirect Labor	4,750
Depreciation on Factory Plant & Equipment	6,000
Plant Utilities & Insurance	<u>67,500</u>
Total Manufacturing Overhead	<u>\$90,000</u>

Beginning—Work-in-Process Inventory	\$12,000
Direct Materials Used in Production	96,000
Direct Labor	117,500
Manufacturing Overhead	90,000
Cost of Goods Manufactured	<u>-290,850</u>
Ending—Work-in-Process Inventory	<u>\$24,650</u>

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

28) Amoeba Manufacturing Inc. provided the following information for the year 2015:

Purchases—Raw Materials	\$90,000
Plant Utilities & Insurance	67,500
Indirect Materials	11,750
Indirect Labor	4,750
Direct Materials Used in Production	96,000
Direct Labor	117,500
Depreciation on Factory Plant & Equipment	6,000
Cost of Goods Manufactured	290,850
Cost of Goods Sold	304,550

The inventory account balances as of January 1, 2015 are given below.

Raw Materials Inventory	\$42,000
Work-in-Process Inventory	12,000
Finished Goods Inventory	49,500

What is the ending balance in the finished goods inventory?

- A) \$49,500
- B) \$63,200
- C) \$35,800
- D) \$24,650

Answer: C

Explanation: C)

Beginning Balance—Finished Goods Inventory	\$49,500
Cost of Goods Manufactured	290,850
Cost of Goods Sold	<u>-304,550</u>
Ending Balance—Finished Goods Inventory	<u>\$35,800</u>

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

29) The following information has been provided by New Age Inc.:

Direct Labor	\$25,000
Direct Materials Used	10,000
Raw Materials Purchased	16,750
Cost of Goods Manufactured	49,750
Ending Work-in-Process Inventory	11,500
Corporate Headquarters' Property Taxes	1,500
Manufacturing Overhead	19,750

Calculate the beginning balance of the Work-in-Process Inventory account.

- A) \$5,000
- B) \$10,500
- C) \$6,500
- D) \$16,500

Answer: C

Explanation: C)

Cost of Goods Manufactured	\$49,750
Direct Materials Used	-10,000
Direct Labor	-25,000
Manufacturing Overhead	-19,750
Ending Work-in-Process Inventory	<u>11,500</u>
Beginning Work-in-Process Inventory	<u>\$6,500</u>

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

30) Reed Productions has provided the following information for the year 2015:

Direct Labor	\$153,000
Beginning Work-in-Process Inventory	62,500
Direct Materials Used	271,000
Ending Work-in-Process Inventory	53,850
Manufacturing Overhead	135,500

During the year, Reed produced 71,020 units of product. Calculate the unit product cost.

- A) \$8.00
- B) \$10.00
- C) \$9.52
- D) \$7.88

Answer: A

Explanation: A)

Cost of Goods Manufactured

Beginning Work-in-Process Inventory		\$62,500
Direct Materials Used:	\$271,000	
Direct Labor	153,000	
Manufacturing Overhead	<u>135,500</u>	
Total mfg. Costs Incurred		<u>559,500</u>
Total mfg. Costs to Account For		622,000
Ending Work-in-Process Inventory		<u>-53,850</u>
Cost of Goods Manufactured		<u>\$568,150</u>

Unit product cost = $\$568,150 \div 71,020 = \8.00 per unit

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Reporting

31) Evanston Manufacturing Inc. reported the following information for the year 2015:

Number of Units Produced	4,800
Number of Units Sold	5,250
Cost of Goods Manufactured	\$460,800
Cost of Goods Sold	\$488,250
Sales Revenue	\$1,260,000
Gross Profit	\$771,750
Operating Expense	\$724,900

What was the unit product cost?

- A) \$87.77
- B) \$262.50
- C) \$93.00
- D) \$96.00

Answer: D

Explanation: D) \$96.00 (Unit product cost) = \$460,800 (Cost of goods manufactured) ÷ 4,800 units

Diff: 1

LO: 16-4

AACSB: Application

AICPA Functional: Reporting

32) South State Inc. used \$71,000 of direct materials and incurred \$37,000 of direct labor costs during 2015. Indirect labor amounted to \$2,700 while indirect materials used totaled \$1,600. Other operating costs pertaining to the factory included utilities of \$3,100; maintenance of \$4,500; repairs of \$1,800; depreciation of \$7,900; and, property taxes of \$2,600. There was no beginning or ending finished goods inventory, but Work-in-Process inventory began the year with a \$5,500 balance and ended the year with a \$7,500 balance.

How much is the cost of goods manufactured?

- A) \$124,700
- B) \$130,200
- C) \$137,700
- D) \$132,200

Answer: B

Explanation: B)

Beginning Work-in-Process Inventory		\$5,500
Direct Materials Used	71,000	
Direct Labor	37,000	
Manufacturing Overhead	24,200	
Total Manufacturing Costs Incurred during the Year		132,200
Total Manufacturing Costs to Account For		137,700
Ending Work-in-Process Inventory		<u>-7,500</u>
Cost of Goods Manufactured		<u>\$130,200</u>

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

33) Arturo Manufacturing Inc. provided the following information for the year 2015:

Beginning Balance — Work-in-Process Inventory	\$12,000
Ending Balance — Work-in-Process Inventory	28,000
Beginning Balance — Raw Materials Inventory	42,000
Ending Balance — Raw Materials Inventory	30,000
Purchases — Raw Materials	180,000
Direct Labor	235,000
Indirect Materials	23,500
Indirect Labor	9,500
Depreciation on Factory Plant & Equipment	12,000
Plant Utilities & Insurance	135,000

How much is the cost of goods manufactured?

- A) \$591,000
- B) \$607,000
- C) \$619,000
- D) \$579,000

Answer: A

Explanation: A)

Beginning Balance — Work-in-Process Inventory		\$12,000
Direct Materials Used:		
Beginning Balance — Raw Materials Inventory	42,000	
Purchases — Raw Materials	<u>180,000</u>	
Raw Materials Available for Use	222,000	
Ending Balance — Raw Materials Inventory	<u>-30,000</u>	
Direct Materials Used		192,000
Direct Labor		235,000
Manufacturing Overhead		<u>180,000</u>
Total Manufacturing Costs Incurred during the Year		<u>607,000</u>
Total Manufacturing Costs to Account For		619,000
Ending Work-in-Process Inventory		<u>-28,000</u>
Cost of Goods Manufactured		<u>\$591,000</u>

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

34) Opal Inc. used \$213,000 of direct materials and incurred \$111,000 of direct labor costs during 2015. Indirect labor amounted to \$8,100 while indirect materials used totaled \$4,800. Other operating costs pertaining to the factory included utilities of \$9,300; maintenance of \$13,500; repairs of \$5,400; depreciation of \$23,700; and, property taxes of \$7,800. There was no beginning or ending finished goods inventory. The Work-in-Process Inventory account reflected a balance of \$16,500 at the beginning of the period and \$22,500 at the end of the period.

Required: Prepare a schedule of cost of goods manufactured for Opal Inc. using the format below.

COST OF GOODS MFGD

Beginning Work-in-Process Inventory			
Direct Materials Used			
Direct Labor			
Manufacturing Overhead:			
Indirect Labor			
Indirect Materials			
Utility Expenses			
Maintenance			
Repairs			
Depreciation			
Property Taxes			
Total Manufacturing Overhead			
Total Manufacturing Costs Incurred during the Year			
Total Manufacturing Costs to Account For			
Ending Work-in-Process Inventory			
Cost of Goods Manufactured			

Answer: **Schedule of Cost of Goods Manufactured**

Beginning Work-in-Process Inventory			\$16,500
Direct Materials Used		\$213,000	
Direct Labor		111,000	
Manufacturing Overhead:			
Indirect Labor	\$8,100		
Indirect Materials	4,800		
Utility Expenses	9,300		
Maintenance	13,500		
Repairs	5,400		
Depreciation	23,700		
Property Taxes	7,800		
Total Manufacturing Overhead		<u>72,600</u>	
Total Manufacturing Costs Incurred during the Year			<u>396,600</u>
Total Manufacturing Costs to Account For			413,100
Ending Work-in-Process Inventory			<u>-22,500</u>
Cost of Goods Manufactured			<u>\$390,600</u>

Diff: 2

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

35) Dreams Manufacturing Inc. provided the following information for the year 2015:

Purchases—Raw Materials	\$270,000
Plant Utilities & Insurance	202,500
Indirect Materials	35,250
Indirect Labor	14,250
Ending Balance—Work-in-Process Inventory	42,000
Ending Balance—Raw Materials Inventory	45,000
Direct Labor	352,500
Depreciation on Factory Plant & Equipment	18,000
Beginning Balance—Work-in-Process Inventory	18,000
Beginning Balance—Raw Materials Inventory	63,000

Required: Prepare a statement of the cost of goods manufactured using the following format:

COST OF GOODS MFGD			
Beginning Work-in-Process Inventory			
Direct Materials Used:			
Beginning Raw Materials Inventory			
Purchases of Raw Materials			
Raw Materials Available for Use			
Ending Raw Materials Inventory			
Direct Materials Used			
Direct Labor			
Manufacturing Overhead:			
Indirect Materials			
Indirect Labor			
Depreciation—Plant & Equip.			
Plant utilities & Insurance			
Total Manufacturing Overhead			
Total Manufacturing Costs Incurred During the Year			
Total Manufacturing Costs to Account For			
Ending Work-in-Process Inventory			
Cost of Goods Manufactured			

Answer: **Schedule of Cost of Goods Manufactured**

Beginning Work-in-Process Inventory			\$18,000
Direct Materials Used			
Beginning Raw Materials Inventory	\$63,000		
Purchases of Raw Materials	<u>270,000</u>		
Raw Materials Available for Use	333,000		
Ending Raw Materials Inventory	<u>-45,000</u>		
Direct Materials Used		\$288,000	
Direct Labor		352,500	
Manufacturing Overhead			
Indirect Materials	35,250		
Indirect Labor	14,250		
Depreciation On Factory Plant & Equipment	18,000		
Plant Utilities & Insurance	<u>202,500</u>		
Total Manufacturing Overhead		<u>270,000</u>	
Total Manufacturing Costs Incurred During the Year			<u>910,500</u>
Total Manufacturing Costs to Account For			928,500
Ending Work-in-Process Inventory			<u>- 42,000</u>
Cost of Goods Manufactured			<u>\$886,500</u>

Diff: 3

LO: 16-4

AACSB: Application

AICPA Functional: Measurement

Learning Objective 16-5

1) Managerial accounting is used in manufacturing and merchandising companies, but not in service companies.

Answer: FALSE

Diff: 1

LO: 16-5

AACSB: Concept

AICPA Functional: Measurement

2) Service companies do not have product costs so they often consider all operating expenses as part of their cost of service.

Answer: TRUE

Diff: 1

LO: 16-5

AACSB: Concept

AICPA Functional: Measurement

3) Managerial accounting can be used to calculate costs for service and merchandising companies.

Answer: TRUE

Diff: 1

LO: 16-5

AACSB: Concept

AICPA Functional: Measurement

4) A merchandiser need not calculate cost per unit as it resells goods that are already manufactured.

Answer: FALSE

Diff: 1

LO: 16-5

AACSB: Concept

AICPA Functional: Measurement

5) Cost per service is calculated by dividing total costs by total number of services provided.

Answer: TRUE

Diff: 1

LO: 16-5

AACSB: Concept

AICPA Functional: Measurement

6) Nurix Inc. is a business consulting firm. During the month of February, Nurix earned \$55,400 of revenues by providing services to 45 clients. Operating expenses for February were \$8,500 and non-operating expenses were \$4,500.

What is the cost per service?

- A) \$100.00
- B) \$188.89
- C) \$942.22
- D) \$288.00

Answer: B

Explanation: B) \$188.89 (Cost per service) = \$8,500 (Operating expenses) ÷ 45 Clients

Diff: 1

LO: 16-5

AACSB: Application

AICPA Functional: Reporting

7) Samson Inc. reported the following information for the year 2015:

Service Revenue	\$40,000
Operating Expenses	\$23,625
Net Income	\$16,375
Number of Services Provided for the Year	10,500

How much was the unit cost per service?

- A) \$1.56
- B) \$3.20
- C) \$2.25
- D) \$3.81

Answer: C

Explanation: C) \$2.25 (Cost per service) = \$23,625(Operating Expenses) ÷ 10,500 Services

Diff: 1

LO: 16-5

AACSB: Application

AICPA Functional: Reporting

8) Crystal Inc. is a merchandiser of stone ornaments. The company sold 15,000 units in 2015. The company has provided the following information:

Sales Revenue	\$557,000
Purchases (excluding freight in)	300,000
Selling and Administrative Expenses	69,000
Freight In	15,000
Beginning Merchandise Inventory	45,000
Ending Merchandise Inventory	55,700

What is the cost per unit sold?

- A) \$20.29
- B) \$15.00
- C) \$23.88
- D) \$12.25

Answer: A

Explanation: A)

Purchases (excluding freight in)	\$300,000
Freight In	15,000
Beginning Merchandise Inventory	45,000
Ending Merchandise Inventory	<u>-55,700</u>
Cost of Goods Sold	<u>\$ 304,300</u>

Cost per unit sold = $\$304,300 \div 15,000 \text{ units} = \20.29

Diff: 2

LO: 16-5

AACSB: Application

AICPA Functional: Measurement

9) Five Seasons is a merchandiser of packed foods. The company provides the following information for the year 2015:

Sales Revenue	\$140,000
Cost of Goods Sold	\$63,000
Operating Expenses	\$67,500
Net Income	\$9,500
Number of Units Sold	27,000

How much was the unit cost per unit of product sold?

- A) \$3.14
- B) \$5.18
- C) \$2.33
- D) \$0.82

Answer: C

Explanation: C) \$2.33 (Cost per unit of product sold) = \$63,000 (Cost of Goods Sold) ÷ 27,000 units

Diff: 1

LO: 16-5

AACSB: Application

AICPA Functional: Reporting

10) Fuchsia Inc. provides automobile repair services in the local community. The company provides the following information for the month of March:

Building Rent Expense	\$5,000
Depreciation Expense—Equipment	1,700
Supplies Expense	8,500
Utilities Expense	2,450

Fuchsia provided services to 1,500 clients in the month of March and generated \$20,500 as revenue.

How much is the cost per service?

- A) \$11.77
- B) \$5.18
- C) \$13.67
- D) \$10.63

Answer: A

Explanation: A) \$11.77 (Cost per service) = \$17,650 (Total costs) ÷ 1,500 services

Diff: 2

LO: 16-5

AACSB: Application

AICPA Functional: Reporting

11) Star Health Inc. is a fitness center in Oklahoma City. In October, the company earned \$550,000 in revenues and incurred the following operating costs from 340 customers:

Manager's salary	\$50,000
Gym Rent	60,000
Depreciation Expense—Equipment	25,000
Office Supplies	30,000
Utilities Expense	89,700
Trainer's Salary	25,000

How much is the unit cost per customer service?

- A) \$795.00
- B) \$749.12
- C) \$1,617.65
- D) \$822.65

Answer: D

Explanation: D)

Manager's salary	\$50,000
Gym Rent	60,000
Depreciation Expense—Equipment	25,000
Office Supplies	30,000
Utilities Expense	89,700
Trainer's Salary	<u>25,000</u>
Total Operating Expenses	<u>\$279,700</u>

$\$822.65$ (Cost per service) = $\$279,700 \div 340$ customers

Diff: 1

LO: 16-5

AACSB: Application

AICPA Functional: Reporting

12) Kentucky Inc. purchases and sells widgets. The following information summarizes the company's operating activities for 2015:

Selling and Administrative Expenses	\$4,500
Purchases	157,000
Sales Revenue	785,000
Merchandise Inventory, January 1, 2015	38,250
Merchandise Inventory, December 31, 2015	79,000

If the company sold 7,500 units of widgets during 2015, how much is the cost for one widget?

- A) \$50.00
- B) \$15.50
- C) \$26.36
- D) \$16.10

Answer: B

Explanation: B)

Merchandise Inventory, January 1, 2015	\$38,250
Purchases	157,000
Merchandise Inventory, December 31, 2015	<u>-79,000</u>
Total cost of goods sold	<u>\$116,250</u>

Per unit cost = $\$116,250 \div 7,500 \text{ units} = \15.50

Diff: 2

LO: 16-5

AACSB: Application

AICPA Functional: Reporting

13) Crystal Inc. is a merchandiser of stone ornaments. The company sold 15,000 units in 2015. The company has provided the following information:

Sales Revenue	\$557,000
Purchases (excluding freight in)	300,000
Selling and Administrative Expenses	69,000
Freight In	15,000
Beginning Merchandise Inventory	45,000
Ending Merchandise Inventory	55,700

What is the cost of goods available for sale for 2015?

- A) \$360,000
- B) \$304,300
- C) \$345,000
- D) \$330,000

Answer: A

Explanation: A) $\$360,000$ (Cost of goods available for sale) = $\$45,000$ (Beginning Merchandise Inventory) + $\$300,000$ (Purchases) + $\$15,000$ (Freight In)

Diff: 2

LO: 16-5

AACSB: Application

AICPA Functional: Measurement

14) Crystal Inc. is a merchandiser of stone ornaments. The company sold 15,000 units in 2015. The company has provided the following information:

Sales Revenue	\$557,000
Purchases (excluding freight in)	300,000
Selling and Administrative Expenses	69,000
Freight In	15,000
Beginning Merchandise Inventory	45,000
Ending Merchandise Inventory	55,700

What is the cost of goods sold for 2015?

- A) \$360,000
- B) \$304,300
- C) \$358,300
- D) \$330,000

Answer: B

Explanation: B) \$304,300 (Cost of goods sold) = \$45,000 (Beginning Merchandise Inventory) + \$300,000 (Purchases) + \$15,000 (Freight In) - \$55,700 (Ending Merchandise Inventory)

Diff: 2

LO: 16-5

AACSB: Application

AICPA Functional: Measurement

15) Crabapples Inc. purchases and sells dry fruit boxes. The following information summarizes its operating activities for 2015:

Selling Expenses	\$9,375
Inventory on December 31, 2015	32,500
Inventory on January 1, 2015	46,875
Purchases of merchandise	84,375
Rent for store	12,500
Sales commissions	7,031
Sales revenue	168,750

What is the cost per box of dry fruits if Crabapples sold 5,000 boxes of dry fruits during the year?

- A) \$72.28
- B) \$32.75
- C) \$10.55
- D) \$19.75

Answer: D

Explanation: D)

Inventory on January 1, 2015	\$46,875
Purchases of Merchandise	84,375
Inventory on December 31, 2015	<u>-32,500</u>
Cost of Goods Sold	<u>\$98,750</u>

Cost per box = $\$98,750 \div 5,000 \text{ boxes} = \19.75

Diff: 2

LO: 16-5

AACSB: Application

AICPA Functional: Measurement

16) Crystal Inc. is a merchandiser of stone ornaments. The company sold 15,000 units in 2015. The company has provided the following information:

Sales Revenue	\$557,000
Purchases (excluding freight in)	300,000
Selling and Administrative Expenses	69,000
Freight In	15,000
Beginning Merchandise Inventory	45,000
Ending Merchandise Inventory	55,700

What is the operating income for 2015?

- A) \$183,700
- B) \$304,300
- C) \$252,700
- D) \$257,000

Answer: A

Explanation: A) $\$304,300$ (Cost of Goods Sold) = $\$45,000$ (Beginning Merchandise Inventory) + $\$300,000$ (Purchases) + $\$15,000$ (Freight In) - $\$55,700$ (Ending Merchandise Inventory)

$\$183,700$ (Operating Income) = $\$557,000$ (Sales Revenue) - $\$304,300$ (Cost of Goods Sold) - $\$69,000$

Diff: 2

LO: 16-5

AACSB: Application

AICPA Functional: Measurement

17) Star Health Inc. is a fitness center in Oklahoma City. In October, the company earned \$550,000 in revenues and incurred the following operating costs from 340 customers:

Manager's salary	\$50,000
Gym Rent	60,000
Depreciation Expense—Equipment	25,000
Office Supplies	30,000
Utilities Expense	89,700
Trainer's Salary	25,000

Required: Prepare Star Health's income statement for the month of October.

Answer: Revenue

Service Revenue		\$550,000
Expenses		
Manager's salary	\$50,000	
Gym Rent	60,000	
Depreciation Expense—Equipment	25,000	
Office Supplies	30,000	
Utilities Expense	89,700	
Trainer's Salary	<u>25,000</u>	
Total Expenses		<u>279,700</u>
Operating Income		<u>\$270,300</u>

Diff: 2

LO: 16-5

AACSB: Application

AICPA Functional: Reporting