

TEST BANK

Introduction to
ACCOUNTING
A User Perspective
Second Edition



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CHAPTER 2

CLASSIFYING COSTS

LEARNING OBJECTIVES

1. Classify costs by cost objects, and distinguish between direct and indirect costs.
2. Distinguish between product costs and period costs, and contrast their accounting treatment.
3. Explain the differences in product cost for a merchandiser and for a manufacturer.
4. Describe the components of the costs included in each of the three types of inventory in a manufacturing operation.
5. Calculate cost of goods manufactured and cost of goods sold.
6. Describe the components of the cost of services provided by a service firm.
7. Prepare basic journal entries for a manufacturer (Appendix A).

MULTIPLE-CHOICE QUESTIONS

1. **Any activity or item for which a separate cost measurement is desired by management is called a(n):**
Moderate
LO 1
Comprehension
(a)
- cost object
 - direct cost
 - indirect cost
 - common cost
2. **According to the text, if you think of any noun associated with business, you have a potential:**
Moderate
LO 1
Comprehension
(c)
- direct cost
 - indirect object
 - cost object
 - common cost
3. **For which of the following types of businesses would service be a highly useful cost objective?**
Moderate
LO 1
Comprehension
(d)
- manufacturing computers
 - manufacturing automobiles
 - a private contractor building a bridge
 - a surgeon performing surgery
4. **A cost object is identified to:**
Moderate
LO 1
Comprehension
(a)
- determine the cost of that particular object
 - determine the range of costs for a corporation
 - determine if a product line should be improved due to technological change
 - None of these answers is correct.
5. **A cost that is easily traced to an individual cost object is called a(n):**
Moderate
LO 1
Comprehension
(c)
- common cost
 - period cost
 - direct cost
 - indirect cost
6. **A cost that is common to more than one cost objective is a(n):**
Moderate
LO 1
Comprehension
(a)
- indirect cost
 - product cost
 - direct cost
 - period cost
7. **Another term used to describe an indirect cost is a:**
Moderate
LO 1
Comprehension
(b)
- direct cost
 - common cost
 - product cost
 - period cost

8. **A cost that benefits more than one cost object and is somewhat difficult to trace to an individual cost object is called a:**
Moderate
LO 1
Comprehension
(c)
- a. period cost
 - b. product cost
 - c. common cost
 - d. direct cost
9. **A cost that has been traced to more than one cost object should probably be considered a(n):**
Moderate
LO 1
Comprehension
(d)
- a. uncommon cost
 - b. period cost
 - c. direct cost
 - d. indirect cost
10. **A large retail chain has 12 stores in one geographic area. Each store has a manager and the geographic region has a general manager who has responsibility for all 12 stores. For an individual store, the store manager's salary would be considered a(n):**
Moderate
LO 1
Comprehension
(d)
- a. indirect cost
 - b. period cost
 - c. product cost
 - d. direct cost
11. **A large retail chain has 12 stores in one geographic area. Each store has a manager and the geographic region has a general manager who has responsibility for all 12 stores. For an individual store, the general manager's salary would be considered a(n):**
Moderate
LO 1
Application
(a)
- a. indirect cost
 - b. direct cost
 - c. product cost
 - d. uncommon cost
12. **Buds' has a chain of five grocery stores in the city. An example of a common cost for the five stores is the:**
Moderate
LO 1
Application
(c)
- a. individual store utility costs
 - b. individual store manager's salary
 - c. local television advertising
 - d. individual store cashiers' wages
13. **Buds' is a small grocery store chain with five stores in a city. An example of a direct cost for an individual store is the:**
Moderate
LO 1
Application
(b)
- a. local television advertising
 - b. wages paid to the store manager
 - c. wages paid to the vice president of the chain
 - d. wages paid to the chief buyer for the grocery chain

14. **Books purchased for resale by a store is an example of a:**
Moderate
LO 2
Comprehension
(a) a. product cost
b. period cost
c. common cost
d. All of these answers are correct.
15. **From the bookstore's perspective, freight-in paid to ship books to the store for resale is an example of a(n):**
Moderate
LO 2
Comprehension
(b) a. period cost
b. product cost
c. common cost
d. indirect cost
16. **Another term used to describe product costs is:**
Moderate
LO 2
Comprehension
(c) a. period costs
b. common costs
c. inventoriable costs
d. selling costs
17. **A product held for sale by a retailer is known as a(n):**
Moderate
LO 2
Application
(d) a. common cost
b. indirect cost
c. liability
d. asset
18. **An example of a product cost is:**
Moderate
LO 2
Application
(a) a. freight-in
b. freight-out
c. sales commissions paid
d. advertising charges
19. **A product cost would not include the following:**
Moderate
LO 2
Application
(b) a. freight-in
b. sales commissions paid
c. merchandise purchase price
d. special package cost
20. **A cost which would be included in inventory for any unsold products is:**
Moderate
LO 2
Application
(c) a. sales commissions paid
b. freight-out
c. the cost of purchasing the product
d. advertising charges
21. **The purchase price paid by a company for an item is a:**
Easy
LO 2
Comprehension
(d) a. selling cost
b. common cost
c. period cost
d. product cost

22. **When a product is sold, its cost is reflected by:**
Moderate
LO 2
Comprehension
(b)
- a. increasing inventory on the balance sheet
 - b. increasing the cost of goods sold on the income statement
 - c. reducing the cost of goods sold on the income statement
 - d. None of these answers is correct.
23. **If a cost is not connected with the purchase of a product for sale, it is considered a(n):**
Moderate
LO 2
Comprehension
(a)
- a. period cost
 - b. inventoriable cost
 - c. product cost
 - d. None of these answers is correct.
24. **A cost that is incurred by the firm that is not a merchandise cost is called a(n):**
Moderate
LO 2
Comprehension
(d)
- a. inventoriable cost
 - b. None of these answers is correct.
 - c. product cost
 - d. period cost
25. **An example of a period cost is a(n):**
Easy
LO 2
Comprehension
(c)
- a. inventoriable cost
 - b. product cost
 - c. selling cost
 - d. manufacturing cost
26. **Freight-out is an example of a _____ cost and freight-in is an example of a _____ cost.**
Moderate
LO 2
Comprehension
(d)
- a. product; product
 - b. product; period
 - c. period; period
 - d. period; product
27. **The costs of locating customers to buy a product are also known as:**
Easy
LO 2
Comprehension
(b)
- a. product costs
 - b. period costs
 - c. administrative costs
 - d. inventoriable cost
28. **The key to identifying a freight cost as either a product or period costs is:**
Easy
LO 2
Comprehension
(c)
- a. determining who pays the cost
 - b. whether the cost is for air express or ground freight
 - c. determining if it is to ship the product in or ship it out
 - d. None of these answers is correct.

29. **Commissions paid on sales of a product can be classified as:**
Moderate
LO 2
Comprehension
(a)
a. period costs
b. inventoriable costs
c. administrative costs
d. manufacturing costs
30. **The costs incurred to process the paperwork necessary to complete a customer's order is a(n):**
Moderate
LO 2
Comprehension
(a)
a. selling cost
b. administrative cost
c. product cost
d. None of these answers is correct.
31. **The cost of delivering the goods to the customer is a(n):**
Moderate
LO 2
Application
(d)
a. administrative cost
b. manufacturing cost
c. product cost
d. selling cost
32. **The costs incurred by a business to store goods that are ready to sell is a(n):**
Moderate
LO 2
Application
(c)
a. inventory cost
b. product cost
c. selling cost
d. administrative cost
33. **The cost of delivering an item to a customer is classified as a(n):**
Moderate
LO 2
Application
(b)
a. inventory cost
b. selling cost
c. manufacturing cost
d. product cost
34. **Period costs are shown as _____ expenses.**
Moderate
LO 2
Comprehension
(b)
a. cost of goods sold
b. operating
c. other
d. inventoriable
35. **A possible distinction between product cost and period cost is based on whether the cost in question:**
Moderate
LO 2
Application
(c)
a. is a selling or administrative cost
b. is an inventory or product cost
c. involves getting products ready for sale or involves the selling function itself
d. None of these answers is correct.

36. **The president's salary is what type of cost to the firm?**
Moderate
LO 2
Application
(a)
a. administrative cost
b. product cost
c. selling cost
d. inventory cost
37. **Freight-in is considered a _____ cost and a bookkeeper's salary is considered a _____ cost.**
Moderate
LO 2
Application
(d)
a. period; period
b. administrative; administrative
c. product; product
d. product; period
38. **The wages of a factory security guard are considered a(n):**
Moderate
LO 2
Comprehension
(d)
a. administrative cost
b. period cost
c. selling cost
d. product cost
39. **The salary of a corporate office security guard is considered a(n):**
Moderate
LO 2
Comprehension
(b)
a. inventoriable cost
b. period cost
c. factory overhead
d. product cost
40. **Depreciation taken on the desk located in the office of the production manager in a factory is a(n):**
Moderate
LO 2
Comprehension
(a)
a. product cost
b. administrative cost
c. None of these answers is correct.
d. selling cost
41. **Depreciation taken on the desk located in the office of the controller is a(n):**
Moderate
LO 2
Comprehension
(c)
a. product cost
b. inventoriable cost
c. period cost
d. None of these answers is correct.
42. **The product cost is recognized as an expense when the goods are:**
Easy
LO 2
Comprehension
(a)
a. sold
b. ordered
c. received
d. paid for

43. **A merchandising firm generates a profit when it _____ the goods it resells.**
Easy
LO 3
Comprehension
(d)
a. adds freight-out to
b. subtracts freight-in from
c. advertises
d. adds a markup to
44. **The cost of goods sold for a merchandising firm is determined by taking:**
Moderate
LO 3
Application
(c)
a. beginning inventory + purchases + ending inventory
b. beginning inventory – purchases + ending inventory
c. beginning inventory + purchases - ending inventory
d. beginning inventory - purchases - ending inventory
45. **For a merchandising firm, product costs includes all of the following items except:**
Moderate
LO 3
Comprehension
(b)
a. freight-in costs
b. advertising expense
c. merchandise packaging
d. the cost of the merchandise itself
46. **The most significant cost for a merchandiser is:**
Moderate
LO 3
Comprehension
(d)
a. advertising
b. the president's and vice president's salaries
c. sales commissions
d. product costs
47. **Typically, a merchandising firm has:**
Moderate
LO 3
Comprehension
(b)
a. multiple inventory classifications
b. one inventory classification
c. no greater than eight inventory classifications
d. no inventory classification
48. **Which cost is not included as a necessary cost to complete the manufacture of a unit?**
Moderate
LO 3
Comprehension
(c)
a. direct materials costs
b. direct labor costs
c. administrative costs
d. manufacturing overhead costs
49. **Until the product is sold, the cost to prepare merchandise for sale is part of:**
Moderate
LO 3
Comprehension
(a)
a. merchandise inventory
b. selling costs
c. cost of good sold
d. administrative costs

50. **Raw materials cost that can be traced straight to a single unit of manufactured product are called:**
Moderate
LO 3
Comprehension
(c)
- a. overhead costs
 - b. traced material costs
 - c. direct material costs
 - d. manufactured material costs
51. **If material cost is incurred for more than one cost object, it is considered a(n):**
Moderate
LO 4
Comprehension
(a)
- a. indirect material cost
 - b. overhead cost
 - c. direct labor cost
 - d. administration cost
52. **The cost of all production labor that can be traced straight to a unit of manufactured product is called:**
Moderate
LO 4
Comprehension
(b)
- a. traced labor cost
 - b. direct labor cost
 - c. manufacturing labor cost
 - d. overhead cost
53. **Touch labor is another term used interchangeably with:**
Moderate
LO 4
Comprehension
(d)
- a. independent contractor
 - b. administrative salaries
 - c. indirect labor
 - d. direct labor
54. **Any cost associated with the operation of a manufacturing facility that is not direct labor or direct materials is considered:**
Moderate
LO 4
Comprehension
(a)
- a. manufacturing overhead
 - b. administrative cost
 - c. finished goods inventory
 - d. merchandise inventory
55. **Goods purchased but which have not yet entered into the production process are known as:**
Moderate
LO 4
Comprehension
(b)
- a. merchandise inventory
 - b. raw materials inventory
 - c. work-in-process inventory
 - d. finished goods inventory
56. **Another term used to describe raw materials is:**
Moderate
LO 4
Comprehension
(c)
- a. goods for sale
 - b. manufacturing material
 - c. material stores
 - d. finished products

57. **Raw materials that are used in the production process can be considered:**
Moderate
LO 4
Comprehension
(d)
- a. direct materials only
 - b. indirect materials only
 - c. administrative use only
 - d. either direct or indirect materials
58. **Products that have entered the production process but have not yet been completed are known as:**
Moderate
LO 4
Comprehension
(b)
- a. raw materials inventory
 - b. work-in-process inventory
 - c. finished goods inventory
 - d. manufacturing overhead
59. **Products that have completed the production process and are ready to sell are known as:**
Moderate
LO 4
Comprehension
(d)
- a. direct materials inventory
 - b. raw materials inventory
 - c. work-in-process inventory
 - d. finished goods inventory
60. **Printmaster, Inc., manufactures college textbooks. Printmaster currently has 40,000 reams of papers sitting in the warehouse. For Printmaster, the paper in the warehouse represents:**
Moderate
LO 4
Comprehension
(c)
- a. indirect materials
 - b. work-in-process
 - c. raw materials
 - d. finished goods
61. **Clockworks is a company that manufactures grandfather clocks. Fully assembled grandfather clocks represent:**
Moderate
LO 4
Comprehension
(a)
- a. finished goods
 - b. work-in-process
 - c. indirect materials
 - d. raw materials
62. **If the production process is considered reality, work-in-process inventory is considered:**
Moderate
LO 4
Comprehension
(b)
- a. reality
 - b. a measurement of reality
 - c. a theoretical concept which has nothing to do with accounting
 - d. None of these answers is correct.
63. **Products that have entered the manufacturing process, but which are still being worked on at the end of an accounting period, make up:**
Moderate
LO 4
Comprehension
(a)
- a. work-in-process inventory
 - b. raw materials inventory
 - c. finished goods inventory
 - d. merchandise inventory

64. **The cost of direct labor should:**
Moderate
LO 4
Comprehension
(c)
a. decrease the value of inventory
b. not impact any inventory account
c. increase the value of inventory
d. be treated as direct labor expense on the income statement
65. **A unit currently on the production line would be accounted for as:**
Easy
LO 4
Comprehension
(d)
a. supplies
b. raw materials
c. finished goods
d. work-in-process
66. **The cost of goods that are only partially complete are part of the:**
Moderate
LO 4
Comprehension
(a)
a. work-in-process inventory
b. raw materials inventory
c. finished goods inventory
d. supplies inventory
67. **Which of the following costs are accounted for as part of the work-in-process account?**
Moderate
LO 4
Comprehension
(b)
a. direct labor costs only
b. direct material, direct labor, and overhead costs
c. direct material costs only
d. overhead costs only
68. **Which cost below could be accounted for as part of the work-in-process inventory?**
Moderate
LO 4
Comprehension
(c)
a. advertising costs
b. None of these answers is correct.
c. direct labor
d. president's salary
69. **Another term used to describe manufacturing overhead is:**
Moderate
LO 4
Comprehension
(d)
a. overhead
b. factory overhead
c. factory burden
d. All of these answers are correct.
70. **Indirect manufacturing cost is another term for:**
Moderate
LO 4
Comprehension
(c)
a. work-in-process
b. supplies inventory
c. manufacturing overhead
d. administrative expense

71. **Materials consumed in a manufacturing facility in support of multiple cost objects are called:**
Moderate
LO 4
Comprehension
(d)
- a. supplies
 - b. direct materials
 - c. raw materials
 - d. indirect materials
72. **An example of an indirect material is:**
Moderate
LO 4
Comprehension
(d)
- a. glue
 - b. caulking
 - c. factory supplies
 - d. All of these answers are correct.
73. **In the manufacture of wooden tables, a direct material is:**
Easy
LO 4
Comprehension
(d)
- a. glue
 - b. machine oil
 - c. sanding paper
 - d. wooden planks
74. **The time spent by production workers as they transform raw materials into units of finished product is classified as:**
Moderate
LO 4
Comprehension
(a)
- a. direct labor
 - b. indirect labor
 - c. marketing labor
 - d. administration
75. **Labor cost incurred in a manufacturing facility in support of multiple cost objects is known as:**
Easy
LO 4
Comprehension
(b)
- a. salaries expense
 - b. indirect labor
 - c. wages expense
 - d. direct labor
76. **An example of an indirect labor cost would be a(n):**
Easy
LO 4
Comprehension
(d)
- a. vice president in charge of marketing
 - b. salesperson
 - c. assembly line worker
 - d. factory supervisor
77. **If workers clean the production area at the end of a shift, this portion of their wages:**
Moderate
LO 4
Comprehension
(a)
- a. should be treated as indirect labor since they are not assembling a product
 - b. should be treated as direct labor since they work in the factory
 - c. should be paid at a lower rate of pay per hour
 - d. None of these answers is correct.

78. **If managers believe labor cost is insignificant, such cost can be:**
Moderate
LO 4
Comprehension
(b)
- a. ignored
 - b. treated as an indirect labor cost
 - c. treated as an operating cost of the business
 - d. deferred until it is significant, at which point it can be treated as direct labor
79. **The cost of a plant janitor is a(n):**
Moderate
LO 4
Comprehension
(c)
- a. direct labor cost
 - b. administrative cost
 - c. indirect labor cost
 - d. sales salary cost
80. **Which of the following costs is not an example of an indirect labor cost?**
Moderate
LO 4
Comprehension
(a)
- a. production line worker
 - b. plant security guard
 - c. factory secretary
 - d. production supervisor
81. **Which one of the following costs would not be classified as manufacturing overhead costs for a company?**
Moderate
LO 4
Comprehension
(b)
- a. factory rent
 - b. direct materials
 - c. factory taxes
 - d. factory insurance
82. **When direct materials are started into the production process, the cost of the materials flow into the:**
Moderate
LO 4
Comprehension
(c)
- a. Finished Goods account
 - b. Overhead account
 - c. Work-in-Process account
 - d. Supplies account
83. **At what point do raw materials become a part of raw materials inventory?**
Moderate
LO 4
Comprehension
(d)
- a. as they are used in the production process
 - b. when a product is complete and ready for sale
 - c. never
 - d. immediately after they have been purchased
84. **When materials are transferred from raw materials inventory to the production process, they are classified as:**
Moderate
LO 4
Comprehension
(c)
- a. direct materials only
 - b. indirect materials only
 - c. either direct or indirect materials based on their use
 - d. finished goods inventory

85. **Materials transferred to the production process that are not yet ready to sell at the end of an accounting period are classified as:**
Moderate
LO 4
Comprehension
(a)
- work-in-process
 - overhead
 - finished goods
 - raw materials
86. **The cost of direct materials is added to the _____ and the cost of indirect material is classified as _____.**
Moderate
LO 4
Comprehension
(b)
- work-in-process inventory; work-in-process inventory
 - work-in-process inventory; manufacturing overhead
 - manufacturing overhead; work-in-process inventory
 - finished goods inventory; work-in-process inventory
87. **The cost of direct labor is added to the _____ and the cost of indirect labor is classified as _____.**
Moderate
LO 4
Comprehension
(a)
- work-in-process inventory; manufacturing overhead
 - merchandise inventory; manufacturing overhead
 - work-in-process; finished goods
 - supplies inventory; work-in-process inventory
88. **Work-in-process inventory consists of:**
Easy
LO 4
Comprehension
(d)
- direct material only
 - direct labor only
 - manufacturing overhead only
 - direct material, direct labor, and manufacturing overhead
89. **Finished goods inventory appears on the _____ and the cost of goods sold appears on the _____.**
Moderate
LO 5
Application
(b)
- balance sheet; balance sheet
 - balance sheet; income statement
 - income statement; income statement
 - income statement; balance sheet
90. **The formula used to determine how much the ending raw materials remain in inventory is:**
Moderate
LO 5
Application
(a)
- beginning raw materials + purchases - materials used
 - beginning raw materials - purchases - materials used
 - beginning raw materials - purchases + materials used
 - beginning raw materials + purchases + materials used
91. **Which of the following documents is used to determine the cost of the goods completed during the current period?**
Moderate
LO 5
Comprehension
(b)
- cost of goods sold schedule
 - cost of goods manufactured schedule
 - physical inventory count report
 - job cost report

92. **The formula used to determine the manufacturing costs for the current period is:**
 Moderate
 LO 5
 Application
 (a)
- direct materials used + direct labor + manufacturing overhead
 - direct materials used - direct labor + manufacturing overhead
 - direct materials used + direct labor – manufacturing overhead
 - direct materials used - direct labor - manufacturing overhead
93. **The calculation for cost of goods manufactured is current manufacturing costs:**
 Moderate
 LO 5
 Application
 (d)
- + beginning work-in-process + ending work-in-process
 - beginning work-in-process - ending work-in-process
 - beginning work-in-process + ending work-in-process
 - + beginning work-in-process - ending work-in-process

TABLE M2-1

Chambers Manufacturing Firm incurred the following costs during 200X. Chambers completed 35,000 units during the year. All materials used were classified as direct materials.

Beginning Raw Materials Inventory	\$ 25,000
Beginning Work-in-process Inventory	30,000
Beginning Finished Goods Inventory	32,000
Ending Raw Materials Inventory	24,000
Ending Work-in-process Inventory	28,000
Ending Finished Goods Inventory	34,000
Raw materials purchased	250,000
Assembly line labor costs	175,000
Factory supplies used	4,500
Depreciation on factory	22,000
Depreciation on production machinery	35,000
Depreciation on sales office	13,000
Depreciation on administrative equipment	9,000
Sales	875,000
Sales salaries	78,000
Factory supervision	65,000
Factory security guard cost	33,000
Office security guard cost	28,000

94. **Using the information found in Table M2-1, the cost of materials used during 200X was:**
Moderate
LO 5
Application
(d)
a. \$201,000
b. \$224,000
c. \$250,000
d. \$251,000
95. **Using the information for Chambers in Table M2-1, the overhead incurred during 200X was:**
Moderate
LO 5
Application
(c)
a. \$ 58,500
b. \$156,500
c. \$159,500
d. \$206,500
96. **Using the information found in Table M2-1, the manufacturing costs for the 200X period were:**
Moderate
LO 5
Application
(c)
a. \$459,500
b. \$524,500
c. \$585,500
d. \$579,500
97. **Using the information found in Table M2-1 for the Chambers Firm, the cost of goods manufactured during this period was:**
Moderate
LO 5
Application
(a)
a. \$587,500
b. \$553,500
c. \$555,500
d. \$559,500
98. **Using the information in Table M2-1, the cost of goods sold for the current period was:**
Challenging
LO 5
Application
(b)
a. \$525,500
b. \$585,500
c. \$561,500
d. \$579,500
99. **Using the information found in Table M2-1, the gross profit for Chambers was:**
Challenging
LO 5
Analysis
(c)
a. \$241,500
b. \$245,500
c. \$289,500
d. \$267,500
100. **Based on the information for Chambers found in Table M2-1, the net income for this period was:**
Challenging
LO 5
Analysis
(d)
a. \$139,500
b. \$167,500
c. \$217,500
d. \$161,500

101.
Challenging
LO 5
Application
(b)

The following information is available:

Beginning raw materials inventory	\$10,000
Ending raw materials inventory	12,000
Beginning work-in-process inventory	27,000
Ending work-in-process inventory	30,000
Beginning finished goods inventory	56,000
Ending finished goods inventory	52,000
Raw materials purchased	95,000

Based on the above, the raw materials transferred to production was:

- a. \$94,000
- b. \$93,000
- c. \$95,000
- d. None of these answers is correct.

102.
Challenging
LO 5
Application
(c)

The following information is available:

Beginning raw materials inventory	\$100,000
Ending raw materials inventory	120,000
Beginning work-in-process inventory	270,000
Ending work-in-process inventory	300,000
Beginning finished goods inventory	560,000
Ending finished goods inventory	480,000
Raw materials purchased	990,000

Based on the above, the raw materials transferred to production was:

- a. \$1,020,000
- b. \$990,000
- c. \$970,000
- d. None of these answers is correct.

103.
Challenging
LO 5
Application
(a)

The following information is available:

Direct materials cost	\$100,000
Direct labor cost	120,000
Manufacturing overhead cost	270,000
Beginning work-in-process inventory	30,000
Ending work-in-process inventory	36,000
Beginning finished goods inventory	56,000
Ending finished goods inventory	48,000

Based on the above, the cost of goods manufactured was:

- a. \$484,000
- b. \$492,000
- c. \$100,000
- d. None of these answers is correct.

104. **The following information is available:**
- | | | |
|-------------|--|-----------------|
| Challenging | Direct material cost | \$20,000 |
| LO 5 | Direct labor cost | 30,000 |
| Application | Manufacturing overhead cost | 40,000 |
| (c) | Beginning raw materials inventory | 10,000 |
| | Ending raw materials inventory | 12,000 |
| | Beginning work-in-process inventory | 27,000 |
| | Ending work-in-process inventory | 30,000 |
| | Beginning finished goods inventory | 56,000 |
| | Ending finished goods inventory | 48,000 |
- Based on the above, the cost of goods manufactured was:**
- \$18,000
 - \$90,000
 - \$87,000
 - None of these answers is correct.

105. **The following information is available:**
- | | | |
|-------------|--|------------------|
| Challenging | Beginning raw materials inventory | \$ 11,000 |
| LO 5 | Ending raw materials inventory | 13,000 |
| Application | Beginning work-in-process inventory | 20,000 |
| (a) | Ending work-in-process inventory | 28,000 |
| | Beginning finished goods inventory | 56,000 |
| | Ending finished goods inventory | 48,000 |
| | Raw materials purchased | 90,000 |
| | Cost of goods manufactured | 229,000 |
- Based on the above, the cost of goods sold was:**
- \$237,000
 - \$98,000
 - \$317,000
 - None of these answers is correct.

106. **The following information is available:**
- | | | |
|-------------|---|------------------|
| Challenging | Assembly line labor costs | \$175,000 |
| LO 5 | Factory supplies used | 4,000 |
| Application | Depreciation on factory | 22,000 |
| (c) | Depreciation on administrative equipment | 9,000 |
| | Sales salaries | 78,000 |
| | Factory security guard cost | 33,000 |
| | Sales office security guard cost | 28,000 |
- Based on the above, cost of factory overhead was:**
- \$174,000
 - \$349,000
 - \$59,000
 - None of these answers is correct.

107.
Challenging
LO 5
Application
(b)

The following information is available:

Assembly line labor costs	\$175,000
Raw materials purchased	120,000
Indirect materials used	8,000
Depreciation on factory	25,000
Depreciation on administrative equipment	9,000
Sales salaries	78,000
Factory supervision	33,000
Sales office security guard cost	28,000

Based on the above, cost of factory overhead was:

- \$476,000
- \$66,000
- \$181,000
- None of these answers is correct.

108.
Moderate
LO 6
Comprehension
(b)

The cost of materials purchased by a service firm are probably in the:

- Raw Materials account
- Supplies account
- Work-in-Process account
- Finished Goods account

109.
Moderate
LO 6
Comprehension
(d)

The procedures for identifying product costs for a service firm differ from a merchandiser or manufacturer because:

- service firms use different advertising methods
- manufacturers do not deal with the general public
- merchandisers have no inventory
- service firms have no inventory

110.
Moderate
LO 6
Comprehension
(c)

The materials used in performing a service are actually more like:

- the direct materials used by a manufacturer
- the raw materials inventory of a manufacturer
- the indirect materials used by a manufacturer
- None of these answers is correct.

111.
Moderate
LO 6
Comprehension
(b)

Regarding labor costs, service businesses:

- use little, if any direct labor
- are labor intensive
- use independent contractors almost exclusively
- None of these answers is correct.

* The following questions apply to the Appendix in Chapter 2.

*112.
Moderate
LO 7
Application
(d)

When the labor costs are incurred for employees who have worked on products, the account that is debited is:

- Wages Expense
- Wages Payable
- Finished Goods Inventory
- Work-in-Process Inventory

- *113. **When goods have been completed and are transferred to finished goods, the account that will be debited is:**
Moderate
LO 7
Application
(a)
- Finished Goods Inventory
 - Work-in-Process Inventory
 - Cost of Goods Manufactured
 - Cost of Goods Sold
- *114. **When goods have been completed and are transferred to finished goods, the account that will be credited is:**
Moderate
LO 7
Application
(b)
- Finished Goods Inventory
 - Work-in-Process Inventory
 - Cost of Goods Manufactured
 - Cost of Goods Sold
- *115. **When goods have been sold to customers, the entry to remove the goods from inventory will have a debit to:**
Moderate
LO 7
Application
(d)
- Finished Goods Inventory
 - Work-in-Process Inventory
 - Cost of Goods Manufactured
 - Cost of Goods Sold
- *116. **When goods have been sold to customers, the entry to remove the goods from inventory will have a credit to:**
Moderate
LO 7
Application
(a)
- Finished Goods Inventory
 - Work-in-Process Inventory
 - Cost of Goods Manufactured
 - Cost of Goods Sold
- *117. **A debit will increase which one of the following accounts?**
Easy
LO 7
Comprehension
(c)
- Sales
 - Accounts Payable
 - Work-in-Process Inventory
 - Wages Payable
- *118. **Which one of the following accounts would be decreased by a credit entry?**
Easy
LO 7
Comprehension
(d)
- Sales
 - Accounts Payable
 - Notes Payable
 - Finished Goods Inventory

*119. **The correct journal entry to record the purchase of \$320,000 of raw materials on account is:**

Challenging LO 7 Application (b)	a.	Direct Materials Expense	320,000	
		Accounts Payable		320,000
	b.	Raw Materials Inventory	320,000	
		Accounts Payable		320,000
	c.	Accounts Payable	320,000	
		Raw Materials Inventory		320,000
	d.	Accounts Payable	320,000	
		Direct Materials Expense		320,000

*120. **The correct journal entry to record the transfer of \$120,000 of raw materials into production is:**

Challenging LO 7 Application (c)	a.	Direct Materials Expense	120,000	
		Work-in-Process Inventory		120,000
	b.	Work-in-Process Inventory	120,000	
		Accounts Payable		120,000
	c.	Work-in-Process Inventory	120,000	
		Raw Materials Inventory		120,000
	d.	Accounts Payable	120,000	
		Direct Materials Expense		120,000

*121. **The correct journal entry to record payment of direct labor cost of \$180,000 is:**

Challenging LO 7 Application (b)	a.	Direct Labor Expense	180,000	
		Cash		180,000
	b.	Work-in-Process Inventory	180,000	
		Cash		180,000
	c.	Cash	180,000	
		Direct Labor Expense		180,000
	d.	Manufacturing labor	180,000	
		Cash		180,000

*122. **The correct journal entry to record manufacturing overhead cost of \$180,000 would include which of the following debits:**

Challenging LO 7 Application (d)	a.	Manufacturing Overhead Expense	180,000
	b.	Cash	180,000
	c.	Indirect Labor Expense	180,000
	d.	Work-in-Process Inventory	180,000

*123. **The correct journal entry to record cost of goods manufactured of \$480,000 is:**

Challenging LO 7 Application (c)	a.	Cost of Goods Manufactured	480,000	
		Cash		480,000
	b.	Cost of Goods Manufactured	480,000	
		Work-in-Process Inventory		480,000
	c.	Finished Goods Inventory	480,000	
		Work-in-Process Inventory		480,000
	d.	Cash	480,000	
		Cost of Goods Manufactured		480,000

*124. **The correct journal entry to record completion of goods costing \$80,000 to manufacture is:**

Challenging
LO 7
Application
(b)

a.	Work-in Process Inventory	80,000	
	Cash		80,000
b.	Finished Goods Inventory	80,000	
	Work-in-Process Inventory		80,000
c.	Cost of Goods Sold	80,000	
	Work-in-Process Inventory		80,000
d.	Finished Goods Inventory	80,000	
	Cost of Goods Manufactured		80,000

*125. **The correct journal entry to record the sale of goods costing \$20,000 for \$32,000 on account is:**

Challenging
LO 7
Application
(d)

a.	Accounts Receivable	32,000	
	Sales		20,000
	Gross Profit		12,000
b.	Sales	32,000	
	Cost of Goods Sold		20,000
	Gross Profit		8,000
c.	Sales	32,000	
	Accounts Receivable		32,000
	Finished Goods Inventory	20,000	
	Cost of Goods Manufactured		20,000
d.	Accounts Receivable	32,000	
	Sales		32,000
	Cost of Goods Sold	20,000	
	Finished Goods Inventory		20,000

* Appendix in Chapter 2.

EXPLANATIONS TO SELECTED MULTIPLE-CHOICE QUESTIONS

94. $\$25,000 + \$250,000 - \$24,000 = \$251,000$
95. $\$4,500 + \$22,000 + \$35,000 + \$65,000 + \$33,000 = \$159,500$
96. $\$251,000$ (see No. 98) + $\$175,000$ + $\$159,500$ (see No. 99) = $\$585,500$
97. $\$30,000 + \$585,500$ (see No. 96) - $\$28,000 = \$587,500$
98. $\$32,000 + \$587,500$ (see No. 97) - $\$34,000 = \$585,500$
99. $\$875,000 - \$585,500$ (see No. 98) = $\$289,500$
100. $\$875,000 - \$585,500$ (see No. 99) - $\$13,000 - \$9,000 - \$78,000 - \$28,000 = \$161,500$
101. $\$10,000 + \$95,000 - \$12,000 = \$93,000$
102. $\$100,000 + \$990,000 - \$120,000 = \$970,000$
103. $\$100,000 + \$120,000 + \$270,000 + \$30,000 - \$36,000 = \$484,000$
104. $\$20,000 + \$30,000 + \$40,000 + \$27,000 - \$30,000 = \$87,000$
105. $\$56,000 + \$229,000 - \$48,000 = \$237,000$
106. $\$4,000 + \$22,000 + \$33,000 = \$59,000$
107. $\$8,000 + \$25,000 + \$33,000 = \$66,000$

EXERCISES

126.

Moderate

LO 1

Comprehension

Presented below is a list of terms relating to cost classification, followed by definitions of those terms.

- a. Administrative costs
- b. Common cost
- c. Direct cost
- d. Direct materials cost
- e. Direct labor cost
- f. Indirect labor
- g. Inventoriable costs
- h. Overhead
- i. Product cost
- j. Selling cost

Required: Match the letter next to each term on the list with the appropriate definition. Each letter will be used only once.

- _____ 1. A term used to describe a cost that jointly belongs to more than one cost object
- _____ 2. In a service business, the indirect service cost; in a manufacturing company, another name for manufacturing overhead cost
- _____ 3. The cost of the various products a company sells
- _____ 4. All costs incurred by a company that are not product costs or selling costs
- _____ 5. Another name for product cost
- _____ 6. A term used to describe a cost that can be easily traced to an individual cost object
- _____ 7. The cost of all production labor that can be directly traced to a unit of manufactured product
- _____ 8. The labor incurred in support of multiple cost objects
- _____ 9. The cost of all raw materials that can be directly traced to a unit of manufactured product
- _____ 10. The cost of locating customers and marketing to them, and the cost of necessary paperwork to document and record sales

Solution:

- | | |
|------|-------|
| 1. b | 6. c |
| 2. h | 7. e |
| 3. i | 8. f |
| 4. a | 9. d |
| 5. g | 10. j |

127.
Moderate
LO 1
Comprehension

Presented below is a list of terms relating to cost classification, followed by definitions of those terms:

- a. Product cost
- b. Direct labor hours
- c. Finished goods inventory
- d. Indirect cost
- e. Indirect materials
- f. Ending inventory
- g. Manufacturing overhead
- h. Period costs
- i. Raw materials inventory
- j. Work-in-process inventory

Required: Match the letter next to each term on the list with the appropriate definition. Each letter will be used only once.

- _____ 1. The time spent by production workers as they transform raw materials into units of finished products
- _____ 2. Products that have entered the production process but have not yet been completed
- _____ 3. Products that have been completed and are ready to sell
- _____ 4. All activities involved in the manufacture of products besides direct materials or direct labor
- _____ 5. Materials that have been purchased but have not yet entered the production process
- _____ 6. Goods not yet sold at the end of an accounting period
- _____ 7. Materials consumed in support of multiple cost objects
- _____ 8. Often the most significant of all the costs for a merchandiser
- _____ 9. A term used to describe a cost that supports more than one cost object
- _____ 10. All costs incurred by a company that are not considered product costs

Solution:

- | | |
|------|-------|
| 1. b | 6. f |
| 2. j | 7. e |
| 3. c | 8. a |
| 4. g | 9. d |
| 5. i | 10. h |

128. Do-It-Yourself is a chain of home design stores in ten states. The headquarters are in Denver, Colorado, where the offices of the company president and vice president are located. The following items represent direct and indirect costs with respect to a store location in Oklahoma City, Oklahoma.

Moderate
LO 1
Application

Required: Label each item as a direct cost (D) or an indirect cost (I), with the Oklahoma City store as the cost object.

- _____ 1. Depreciation on the headquarters building
- _____ 2. Rent on the store
- _____ 3. The costs of the products sold by the store
- _____ 4. Maintenance at the company headquarters
- _____ 5. The president's salary
- _____ 6. Depreciation on the store's furniture and fixtures
- _____ 7. Computer costs for the chain
- _____ 8. Insurance on the store
- _____ 9. The vice president's employee benefits
- _____ 10. Salaries for the store's employees

Solution:

- | | |
|------|-------|
| 1. I | 6. D |
| 2. D | 7. I |
| 3. D | 8. D |
| 4. I | 9. I |
| 5. I | 10. D |

129.
Moderate
LO 1
Application

Route 66 Trucking is a long-haul carrier headquartered in Adrian, Texas. It has six regional terminals. Its truckers are owner-operators, which means they all own their own rigs and are responsible for their truck maintenance and upkeep. The following items represent direct and indirect costs regarding an individual owner-operator.

Required: Label each item as a direct cost (D) or an indirect cost (I), with the individual owner-operator as the cost object.

- _____ 1. Maintenance on the terminal building
- _____ 2. Computer services provided by headquarters
- _____ 3. The company president's salary
- _____ 4. Salary of the terminal manager
- _____ 5. Repairs to a trucker's rig
- _____ 6. Health insurance for the trucker
- _____ 7. The terminal manager's salary
- _____ 8. Depreciation on the trucker's rig
- _____ 9. Diesel fuel for the trucker's rig
- _____ 10. Depreciation on the office equipment at headquarters

Solution:

- | | |
|------|-------|
| 1. I | 6. D |
| 2. I | 7. I |
| 3. I | 8. D |
| 4. I | 9. D |
| 5. D | 10. I |

130. The following costs are incurred in a typical manufacturing company. For each item, insert the type of cost in Column 1. Insert whether the cost is a product cost or a period cost in Column 2. Use the following abbreviations for your answers:
 Moderate
 LO 2
 Application

Column 1:

Column 2:

DM = Direct material
 DL = Direct labor
 MO = Manufacturing overhead
 S = Selling
 A = Administrative

1 = Product cost
 2 = Period cost

Column
1

Column
2

- | | | |
|-------|-------|--|
| _____ | _____ | 1. Cost of significant raw materials that becomes part of the products |
| _____ | _____ | 2. Factory manager's office telephone costs |
| _____ | _____ | 3. Factory accountant's salary |
| _____ | _____ | 4. Rent on the sales office |
| _____ | _____ | 5. Insurance benefits for production-line supervisors |
| _____ | _____ | 6. Manufacturing vice president's salary |
| _____ | _____ | 7. Company president's salary |
| _____ | _____ | 8. Supplies used by the president's secretary |
| _____ | _____ | 9. Depreciation on factory equipment |
| _____ | _____ | 10. Liability insurance on company headquarters |
| _____ | _____ | 9. Cost of assembly line workers |

Solution:

- | | |
|----------|-----------|
| 1. DM, 1 | 6. MO, 1 |
| 2. MO, 1 | 7. A, 2 |
| 3. MO, 1 | 8. A, 2 |
| 4. S, 2 | 9. MO, 1 |
| 5. MO, 1 | 10. A, 2 |
| | 11. DL, 1 |

131.
Moderate
LO 2
Application

The following costs are incurred in a typical manufacturing company. For each item, insert the type of cost in Column 1. Insert whether the cost is a product cost or a period cost in Column 2. Use these abbreviations:

Column 1:

Column 2:

DM = Direct material
DL = Direct labor
MO = Manufacturing overhead
S = Selling
A = Administrative

1 = Product cost
2 = Period cost

Column 1	Column 2	
_____	_____	1. Lubricants for factory machinery
_____	_____	2. Corporate accounting department
_____	_____	3. Freight expense on direct materials purchased
_____	_____	4. Factory manager’s salary
_____	_____	5. Storage costs for finished goods inventory
_____	_____	6. Hazard insurance on factory
_____	_____	7. Production supervisor’s salary
_____	_____	8. Factory supplies used
_____	_____	9. Telephone expense for human resources department
_____	_____	10. Freight expense to ship goods to customers

Solution:

- | | |
|----------|----------|
| 1. MO, 1 | 6. MO, 1 |
| 2. A, 2 | 7. MO, 1 |
| 3. DM, 1 | 8. MO, 1 |
| 4. MO, 1 | 9. A, 2 |
| 5. S, 2 | 10. S, 2 |

PROBLEMS

132.

Moderate

LO 5

Application

The following data pertain to the Southern Star Products Company for the year ended December 31, 200X. Southern Star manufactures parts for appliances.

Beginning direct material inventory	\$ 6,500
Ending direct material inventory	3,000
Beginning work-in-process inventory	7,500
Ending work-in-process inventory	7,000
Beginning finished goods inventory	8,300
Ending finished goods inventory	7,200
Direct material purchased	42,000
Factory supplies	8,500
Factory depreciation	7,500
Assembly-line labor cost	98,500
Depreciation on production equipment	12,500
Other indirect factory costs	15,000

Required:

- A. Prepare a cost of goods manufactured schedule for 200X.
- B. Prepare a cost of goods sold schedule for 200X.

Solution:

A.

Southern Star Products Company
Cost of Goods Manufactured Schedule
For the Year Ending December 31, 200X

Direct Materials:		
Beginning Direct Material Inventory	\$ 6,500	
Purchases During 200X	<u>42,000</u>	
Materials Available During 200X	\$48,500	
Less: Ending Direct Material Inventory	<u>(3,000)</u>	
Direct Materials Used During 200X		\$ 45,500
Direct Labor During 200X		98,500
Manufacturing Overhead Cost:		
Factory Supplies	\$ 8,500	
Factory Depreciation	7,500	
Depreciation on Production Equipment	12,500	
Other Indirect Factory Costs	<u>15,000</u>	
Total Manufacturing Overhead Cost during 200X		<u>43,500</u>
Manufacturing Cost for Current Period		\$187,500
Beginning Work-In-Process Inventory		<u>7,500</u>
Cost of Goods Available to be Finished in 200X		\$195,000
Less: Ending Work-In-Process Inventory		<u>(7,000)</u>
Cost of Goods Manufactured in 200X		<u>\$188,000</u>

B.

Southern Star Parts Company
Cost of Goods Sold Schedule
For the Year Ended December 31, 200X

Beginning Finished Goods Inventory	\$ 8,300
Cost of Goods Manufactured During 200X	<u>188,000</u>
Goods Available for Sale In 200X	\$196,300
Less: Ending Finished Goods Inventory	<u>(7,200)</u>
Cost of Goods Sold for 200X	<u>\$189,100</u>

133. The following data pertain to the Northern Lights Fixture Company for the year ended December 31, 200X. Northern Lights manufactures office lighting.

Moderate
LO 5
Application

Beginning direct material inventory	\$ 9,500
Ending direct material inventory	6,000
Beginning work-in-process inventory	6,200
Ending work-in-process inventory	9,000
Beginning finished goods inventory	8,800
Ending finished goods inventory	7,900
Direct material purchased	240,000
Factory supplies	26,700
Factory depreciation	18,000
Assembly-line labor cost	495,000
Depreciation on production equipment	80,000
Other indirect factory costs	61,000

Required:

- Prepare a cost of goods manufactured schedule for 200X.
- Prepare a cost of goods sold schedule for 200X

Solution:

A. Northern Lights Manufacturing Company
Cost of Goods Manufactured Schedule
For the Year Ending December 31, 200X

Direct Materials:		
Beginning Direct Material Inventory	\$ 9,500	
Purchases During 200X	<u>240,000</u>	
Materials Available During 200X	\$249,500	
Less: Ending Direct Material Inventory	<u>(6,000)</u>	
Direct Materials Used During 200X		\$243,500
Direct Labor During 200X		495,000
Manufacturing Overhead Cost:		
Factory Supplies	\$ 26,700	
Factory Depreciation	18,000	
Depreciation on Production Equipment	80,000	
Other Indirect Factory Costs	<u>61,000</u>	
Total Manufacturing Overhead Cost		<u>185,700</u>
Manufacturing Cost for Current Period		\$924,200
Beginning Work-In-Process Inventory		<u>6,200</u>
Cost of Goods Available to be Finished in 200X		\$930,400
Less: Ending Work-In-Process Inventory		<u>(9,000)</u>
Cost of Goods Manufactured in 200X		<u>\$921,400</u>

B. Northern Lights Manufacturing Company
Cost of Goods Sold Schedule
For the Year Ended December 31, 200X

Beginning Finished Goods Inventory	\$ 8,800
Cost of Goods Manufactured During 200X	<u>921,400</u>
Goods Available for Sale In 200X	\$930,200
Less: Ending Finished Goods Inventory	<u>(7,900)</u>
Cost of Goods Sold for 200X	<u>\$922,300</u>

134. The following data pertain to Arnold’s Auto Parts Company for the year ended December 31, 200X.

Moderate
LO 5
Application

Beginning direct material inventory	\$ 6,000
Ending direct material inventory	4,000
Beginning work-in-process inventory	8,000
Ending work-in-process inventory	3,000
Beginning finished goods inventory	9,000
Ending finished goods inventory	6,000
Direct material purchased	93,500
Factory supplies	8,500
Factory depreciation	17,500
Depreciation on the sales office	20,000
Assembly-line labor cost	298,000
Sales salaries	62,000
Depreciation on production equipment	12,500
Factory supervision	183,250

Required:

- What is the cost of direct material used during 200X?
- What is the cost of direct labor during 200X?
- What is the cost of manufacturing overhead for 200X?
- What is the total manufacturing cost incurred during 200X?
- What is the cost of goods manufactured for 200X?
- What is the cost of goods sold for 200X?

Solution:

- A. Direct Materials:
- | | |
|--|-----------------|
| Beginning Direct Material Inventory | \$ 6,000 |
| Purchases During 200X | <u>93,500</u> |
| Materials Available During 200X | \$99,500 |
| Less: Ending Direct Material Inventory | <u>(4,000)</u> |
| Direct Materials Used During 200X | <u>\$95,500</u> |
- B. Direct Labor During 200X = \$298,000
- C. Manufacturing Overhead Cost:
- | | |
|---|------------------|
| Factory Supplies | \$ 8,500 |
| Factory Depreciation | 17,500 |
| Depreciation on Production Equipment | 12,500 |
| Factory Supervision | <u>183,250</u> |
| Total Manufacturing Overhead Cost during 200X | <u>\$221,750</u> |
- D. $\$95,500 + \$298,000 + \$221,750 = \$615,250$
- E. $\$615,250 + \$8,000 - 3,000 = \$620,250$
- F. $\$9,000$ (beginning finished goods) + $\$620,250$ (cost of goods manufactured.) - $\$6,000$ (ending finished goods) = $\$623,250$

135. The following data pertain to the Sulligent Semiconductor Manufacturing Company

Moderate for the year ended December 31, 200X.

LO 5

Application

Beginning direct material inventory	\$ 9,000
Ending direct material inventory	3,000
Beginning work-in-process inventory	7,000
Ending work-in-process inventory	5,000
Beginning finished goods inventory	19,000
Ending finished goods inventory	6,000
Direct material purchased	526,250
Factory supplies	128,500
Factory depreciation	38,000
Depreciation on the administrative office	20,000
Assembly-line labor cost	595,500
Sales clerical salaries	75,000
Depreciation on production equipment	120,000
Factory supervision	363,250

Required:

- A. What is the cost of direct material used during 200X?
- B. What is the cost of direct labor during 200X?
- C. What is the cost of manufacturing overhead for 200X?
- D. What is the total manufacturing cost incurred during 200X?
- E. What is the cost of goods manufactured for 200X?
- F. What is the cost of goods sold for 200X?

Solution:

- A. Direct Materials:
- | | |
|--|-------------------------|
| Beginning Direct Material Inventory | \$ 9,000 |
| Purchases During 200X | <u>526,250</u> |
| Materials Available During 200X | \$535,250 |
| Less: Ending Direct Material Inventory | <u>(3,000)</u> |
| Direct Materials Used During 200X | <u><u>\$532,250</u></u> |
- B. Direct Labor During 200X = \$595,500
- C. Manufacturing Overhead Cost:
- | | |
|---|-------------------------|
| Factory Supplies | \$128,500 |
| Factory Depreciation | 38,000 |
| Depreciation on Production Equipment | 120,000 |
| Factory Supervision | <u>363,250</u> |
| Total Manufacturing Overhead Cost during 200X | <u><u>\$649,750</u></u> |
- D. $\$532,250 + \$595,500 + \$649,750 = \$1,777,500$
- E. $\$1,777,500 + \$7,000 - \$5,000 = \$1,779,500$
- F. $\$1,779,500 + \$19,000 - \$6,000 = \$1,792,500$

136. Smith and Smith, LLP, is a law firm. Following are the firm's revenues and costs for 200X:

Moderate
LO 6
Application

Direct labor	\$ 750,000
Direct supplies	125,000
Service revenue	1,450,000
Administrative expenses	150,000
Indirect supplies	30,000
Office rent	100,000
Depreciation	45,000
Office taxes	6,000
Office insurance	25,000

Required:

- A. Calculate the cost of services provided.
- B. Prepare a multi-step income statement for the year ended December 31, 200X.

Solution:

A.	Direct labor	\$ 750,000
	Direct supplies	125,000
	Indirect supplies	30,000
	Office rent	100,000
	Depreciation	45,000
	Office taxes	6,000
	Office insurance	<u>25,000</u>
	Cost of services provided	<u>\$1,081,000</u>

- B.
- Smith and Smith, LLP
Income Statement
For the Year Ending December 31, 200X

Service Revenue	\$1,450,000
Cost of Services	<u>(1,081,000)</u>
Gross Margin on Services	\$ 369,000
Operating Expenses:	
Administrative Expenses	<u>(125,000)</u>
Operating Income	<u>\$ 219,000</u>

137. Thomas and Thomas, CPAs, is a public accounting firm. Following are the firm's revenues and costs for 200X:

Moderate
LO 6

Application

Direct labor	\$375,000
Direct supplies	128,000
Service revenue	920,000
Administrative expenses	70,000
Indirect supplies	50,000
Office rent	120,000
Depreciation	25,000
Office taxes	3,000
Office insurance	15,000

Required:

- A. Calculate the cost of services provided.
- B. Prepare a multi-step income statement for the year ended December 31, 200X.

Solution:

A.	Direct labor	\$375,000
	Direct supplies	128,000
	Indirect supplies	50,000
	Office rent	120,000
	Depreciation	25,000
	Office taxes	3,000
	Office insurance	<u>15,000</u>
	Cost of services provided	<u>\$716,000</u>

B. Thomas and Thomas, CPAs
Income Statement
For the Year Ending December 31, 200X

Service Revenue	\$920,000
Cost of Services	<u>716,000</u>
Gross Margin on Services	\$204,000
Operating Expenses:	
Administrative Expenses	<u>(70,000)</u>
Operating Income	<u>\$134,000</u>

*138.
Moderate
LO 7
Appendix
Application
(*Appendix
problem)

The following information is for Round-The-Top Toy Manufacturing Company.

Beginning raw materials inventory	\$ 30,000
Ending raw materials inventory	18,000
Beginning work-in-process inventory	22,000
Ending work-in-process inventory	15,000
Beginning finished goods inventory	20,000
Ending finished goods inventory	23,000
Direct materials purchases	220,000
Direct labor cost	490,000
Manufacturing overhead	215,000

Required: Prepare general journal entries to record the following:

- The purchase of direct material on account
- The use of direct material in production
- Direct labor cost
- Manufacturing overhead cost (use “various accounts” for the credit side of the entry)
- The cost of goods manufactured
- The sale of the finished goods, assuming the sale price was \$1,500,000, and they were sold on account.

Solution:

A.	Raw material	220,000	
	Accounts payable		220,000
	To record the purchase of raw material.		
B.	Work-in-process	232,000	
	Raw material		232,000
	To transfer raw material into production (\$30,000 + \$220,000 - \$18,000 = \$232,000).		
C.	Work-in-process	490,000	
	Cash		490,000
	To record wages paid for direct labor.		
D.	Work-in-process	215,000	
	Various accounts		215,000
	To record overhead cost.		
E.	Finished goods	944,000	
	Work-in-process		944,000
	To record transfer of completed goods from production to finished goods. (\$232,000 + \$490,000 + \$215,000 + \$22,000 - \$15,000 = \$944,000)		
F.	Accounts receivable	1,500,000	
	Sales		1,500,000
	To record sales on account.		
	Cost of goods sold	944,000	
	Finished goods		944,000
	To record cost of goods sold.		

*139. The following information is for Johnson Appliance Manufacturing Company.

Moderate	Beginning raw materials inventory	\$ 20,000
LO 7	Ending raw materials inventory	22,000
Appendix	Beginning work-in-process inventory	30,000
Application	Ending work-in-process inventory	20,000
(*Appendix	Beginning finished goods inventory	25,000
problem)	Ending finished goods inventory	27,000
	Direct materials purchases	280,000
	Direct labor cost	340,000
	Manufacturing overhead	185,000

Required: Prepare general journal entries to record the following:

- The purchase of direct material on account
- The use of direct material in production
- Direct labor cost
- Manufacturing overhead cost (use “various accounts” for the credit side of the entry)
- The cost of goods manufactured
- The sale of the finished goods, assuming the sale price was \$1,750,000, and they were sold on account.

Solution:	A.	Raw material	280,000	
		Accounts payable		280,000
		To record the purchase of raw material.		
	B.	Work-in-process	278,000	
		Raw material		278,000
		To transfer raw material into production ($\$20 + \$280 - \$22 = \278).		
	C.	Work-in-process	340,000	
		Cash		340,000
		To record wages paid for direct labor.		
	D.	Work-in-process	185,000	
		Various accounts		185,000
		To record overhead cost.		
	E.	Finished goods	813,000	
		Work-in-process		813,000
		To record transfer of goods to finished goods inventory upon completion. ($\$278,000$ direct materials + $\$340,000$ direct labor + $\$185,000$ manufacturing overhead + $\$30,000$ beginning WIP inventory – $\$20,000$ ending WIP inventory = $\$813,000$ completed and transferred from WIP inventory to finished goods inventory.)		
	F.	Accounts receivable	1,750,000	
		Sales		1,750,000
		To record sales on account.		
		Cost of goods sold	813,000	
		Finished goods		813,000
		To record cost of goods sold.		

ESSAY QUESTIONS

140. **What are cost objects? How do direct and indirect costs relate to cost objects?**
Moderate
LO 1
Comprehension
Pages M2-4 to M2-5
Solution: A cost object is any activity or item for which management desires a separate cost measurement. Because businesses incur many different costs, managers find it useful to classify costs using cost objects. When a cost is assigned to a particular cost object, it is either a direct cost or an indirect cost. A direct cost is one that is easily traceable to an individual cost object. An indirect cost is one that supports more than one cost object. Indirect costs are sometimes called common costs.
141. **What is freight-in and freight-out? Which cost is a product cost? Which cost is a period cost? Why are freight-in and freight-out costs treated differently?**
Moderate
LO 2
Comprehension
Pages M2-7 to M2-8
Solution: Carriers charge for delivering inventory from the supplier to the customer. Either the seller or the buyer will pay for this freight cost. Freight-in is the term used to describe the cost to the buyer when they pay the freight to bring product in to their place of business. Freight-out is the cost to the seller to have the product delivered to its customers. Freight-out is often called delivery expense. Freight-out is a selling expense because companies offering free delivery to their customers are almost always doing it to encourage sales. Freight-in is a necessary cost for company purchasing product or raw material to bring the goods in to their place of business. Therefore, it is treated as a product cost.
142. **What are direct materials costs? What are indirect materials costs? How are direct materials costs different from indirect materials costs in a manufacturing firm?**
Moderate
LO 4
Comprehension
Pages M2-15 to M2-18
Solution: Direct material costs are the costs of raw materials that become part of the final product and that can be easily traced to the individual units produced.

Indirect materials are those consumed in support of multiple cost objects. Some indirect materials are insignificant raw materials that actually become part of the product, such as glue, nails, or caulking. The cost of these materials or items is so low that it is not worth tracing the cost to the cost object, and it would cost more to accurately trace such costs to a given cost object than it would be worth from an accounting information perspective. The second type of indirect materials cost includes factory supplies, such as janitorial supplies and machine lubricants. Indirect materials are included in the manufacturing overhead cost because of the difficulty of tracing the costs to specific cost objects.

143. **What is meant by the term “administrative cost”?**

Moderate
LO 2 & 3
Comprehension
Pages M2-9
Solution:

The cost of any activity in the company that is not part of the selling function or a product cost is considered an administrative cost. These costs are usually associated with various support functions within a company, such as accounting, human resources, finance, and some executive functions. Administrative costs are period costs and are shown on a company’s income statement as operating expenses.

144. **What is the most significant of all costs for a merchandiser and why?**

Moderate
LO 2 & 3
Comprehension
Page M2-11
Solution:

In most cases, product cost is the most significant of all costs for a merchandiser. In some cases merchandisers may have a cost of goods sold as high as eighty percent of sales. This leaves a twenty percent gross profit margin and all of the other costs, meaning that selling and administrative expense must be less than twenty percent of sales or losses will occur.

145. **Describe materials, labor, and overhead costs for a service firm.**

Moderate
LO 6
Comprehension
Page M2-33 to
2-36
Solution:

Materials in a service firm are frequently incidental supplies, which are classified as indirect materials or indirect supplies, and therefore are included in the firm’s overhead cost. Materials that can be easily traced to individual cost objects can be classified as direct materials. This is not the usual treatment because service firms generally have little, if any, direct materials usage as part of the services they perform.

The greatest cost for many service firms is labor cost. Labor costs include the costs of persons who perform all or part of the service. Receptionists, bookkeepers, and similar staff work for the firm but do not perform services for customers or clients. Their costs are counted as period costs rather than labor costs.

Overhead in a service firm is similar to overhead for a manufacturer. Overhead costs are costs associated with the service being performed, but cannot easily be traced to one specific cost objective. These costs are also called indirect service costs. They include items such as indirect supplies, rent, depreciation, and insurance.

146.
Moderate
LO 3, 5, and 6
Pages M2-39 to
M2-43
Solution:

How do the calculations for the cost of goods or services sold differ among merchandising, manufacturing, and service firms?

In a merchandising company, the cost of goods sold consists of all the goods on hand at the beginning of the year, plus the purchases, less the goods in ending inventory. All the goods are ready or nearly ready to be sold when the merchandiser acquires them, so the computation of cost of goods sold is more straightforward.

In a manufacturing company, the cost of goods sold consists of the finished goods on hand at the beginning of the year, plus the cost of the goods manufactured during the year, less the finished goods in ending inventory. The cost of goods manufactured is a separate computation that includes the year's product costs, adjusted for the amounts in the beginning and ending direct materials and work-in-process inventories.

The cost of services provided in a service firm generally includes direct labor, direct supplies, and overhead. Since the service firm does not sell products, the cost of services is not adjusted for beginning and ending inventory amounts. Most service firms do not maintain inventory accounts like a merchandiser or manufacturer.