

TEST BANK

**MANAGERIAL
ACCOUNTING**

Bamber | Braun | Harrison



Managerial Accounting, 1e
Bamber/Braun/Harrison
Test Item File
Chapter 2: Building Blocks of Managerial Accounting

2.1-1 Retailers sell their products to other wholesalers.

Answer: False LO: 2-1 Diff: 1 EOC: E2-19

2.1-2 Merchandising companies include both wholesalers and retailers.

Answer: True LO: 2-1 Diff: 1 EOC: S2-1

2.1-3 All companies have the same types of inventories.

Answer: False LO: 2-1 Diff: 1 EOC: S2-2

2.1-4 Merchandising and manufacturing companies have finished goods inventory.

Answer: False LO: 2-1 Diff: 2 EOC: S2-2

2.1-5 Which of the following are merchandising companies?

- A. Manufacturers
- B. Retailers
- C. Wholesalers
- D. Both Retailers and Wholesalers

Answer: D LO: 2-1 Diff: 1 EOC: E2-19

2.1-6 Raw materials, work in process and finished goods are the three types of inventory held by which of the following types of companies?

- A. Manufacturers
- B. Retailers
- C. Wholesalers
- D. Service companies

Answer: A LO: 2-1 Diff: 1 EOC: S2-1

2.1-7 The balance sheet of a service company has:

- A. little or no inventory.
- B. raw materials inventory.
- C. three categories of inventory.
- D. two categories of inventory.

Answer: A LO: 2-1 Diff: 1 EOC: S2-1

2.1-8 H & R Block is what type of company?

- A. Manufacturer
- B. Service company
- C. Retailer
- D. Wholesaler

Answer: B LO: 2-1 Diff: 1 EOC: S2-2

2.1-9 Which type of company typically produces its own inventory?

- A. Manufacturer
- B. Service company
- C. Retailer
- D. Wholesaler

Answer: A LO: 2-1 Diff: 1 EOC: S2-2

2.1-10 What type of company resells products it previously purchased ready-made from suppliers?

- A. Merchandiser
- B. Retailer
- C. Wholesaler
- D. All of the above

Answer: D LO: 2-1 Diff: 1 EOC: S2-2

2.1-11 Before these materials are used, Toyota classifies steel, glass, and plastic as:

- A. finished goods inventory.
- B. raw materials inventory.
- C. work in process inventory.
- D. merchandise inventory.

Answer: B LO: 2-1 Diff: 1 EOC: S2-2

2.1-12 How would Toyota classify its partially completed vehicles?

- A. Finished goods
- B. Raw materials
- C. Supplies
- D. Work in process

Answer: D LO: 2-1 Diff: 1 EOC: S2-2

2.1-13 Which of the following types of companies is the fastest growing in the United States?

- A. Service
- B. Merchandising
- C. Manufacturing
- D. None of the above

Answer: A LO: 2-1 Diff: 1 EOC: S2-1

- 2.1-14 Which of the following is characteristic of a service company?
- A. Service companies generally have no tangible products to sell.
 - B. Service companies have a single category of inventory.
 - C. Service companies make a product.
 - D. Service companies transform raw materials into finished goods.

Answer: A LO: 2-1 Diff: 1 EOC: S2-1

- 2.1-15 A lawn mowing business would be classified as a:
- A. manufacturing company.
 - B. merchandising company.
 - C. service company.
 - D. simple company.

Answer: C LO: 2-1 Diff: 1 EOC: S2-1

- 2.1-16 _____ has/have three types of inventory.
- A. A service company
 - B. A merchandising company
 - C. A manufacturing company
 - D. All of these companies

Answer: C LO: 2-1 Diff: 1 EOC: S2-1

- 2.1-17 In _____, inventory consists of freight-in and the cost of the resold product.
- A. a service company
 - B. a merchandising company
 - C. a manufacturing company
 - D. all of these companies

Answer: B LO: 2-1 Diff: 1 EOC: S2-1

- 2.1-18 Which type of company has the highest percentage of labor costs?
- A. Service company
 - B. Merchandising company
 - C. Manufacturing company
 - D. All of the above are the same

Answer: A LO: 2-1 Diff: 1 EOC: S2-1

- 2.1-19 Which type(s) of companies prepare income statements and balance sheets?
- A. Service company
 - B. Merchandising company
 - C. Manufacturing company
 - D. All of the above

Answer: D LO: 2-1 Diff: 1 EOC: S2-1

2.2-1 All of the components of manufacturing—from research and development through customer service after the sale—are part of a firm’s value chain.

Answer: True LO: 2-2 Diff: 1 EOC: S2-3

2.2-2 The activities in the value chain must take place in a specific order.

Answer: False LO: 2-2 Diff: 1 EOC: S2-4

2.2-3 The value chain helps companies control costs of products only.

Answer: False LO: 2-2 Diff: 1 EOC: S2-4

2.2-4 Research and development is needed to improve products and to design new products.

Answer: True LO: 2-2 Diff: 1 EOC: S2-4

2.2-5 Receipt of materials is part of the firm’s value chain.

Answer: True LO: 2-2 Diff: 2 EOC: S2-4

2.2-6 A company’s distribution system is an important part of the value chain.

Answer: True LO: 2-6 Diff: 1 EOC: S2-4

2.2-7 Which of the following is NOT part of a company’s value chain?

- A. Design
- B. Distribution
- C. Marketing
- D. Administration

Answer: D LO: 2-2 Diff: 1 EOC: S2-3

2.2-8 All of the following activities are included in the value chain EXCEPT for:

- A. customer service.
- B. design.
- C. production.
- D. reporting.

Answer: D LO: 2-2 Diff: 2 EOC: S2-4

2.2-9 Which of the following would NOT be a cost object?

- A. Built-to-order web sales
- B. Costs in the legal department
- C. Sales of a particular model in the southeast
- D. All of these could serve as cost objects

Answer: D LO: 2-2 Diff: 2 EOC: S2-4

- 2.2-10 The value chain is used by:
- A. only manufacturing and merchandising businesses.
 - B. only service and manufacturing businesses.
 - C. only service and merchandising businesses.
 - D. service, manufacturing and merchandising businesses.

Answer: D LO: 2-2 Diff: 2 EOC: S2-4

- 2.2-11 Collectively, all costs such as design, customer service, etc. are part of:
- A. downstream activities.
 - B. fixed costs.
 - C. manufacturing costs.
 - D. the value chain.

Answer: D LO: 2-2 Diff: 2 EOC: S2-4

- 2.2-12 The promotion of products and services is known as:
- A. customer service.
 - B. design.
 - C. distribution.
 - D. marketing.

Answer: D LO: 2-2 Diff: 2 EOC: S2-4

- 2.2-13 Which cost does NOT relate to part of the value chain for Milton-Bradley toys?
- A. Administrative costs
 - B. Cost of advertising the new products
 - C. Cost of shipping to retailers
 - D. Salaries of game designers

Answer: A LO: 2-2 Diff: 2 EOC: S2-4

- 2.2-14 Depreciation on a factory would be classified as which part of the value chain?
- A. Design
 - B. Distribution
 - C. Production
 - D. Research and development

Answer: C LO: 2-2 Diff: 2 EOC: E2-21

- 2.2-15 A technical support hotline for customers would be considered which part of the value chain?
- A. Customer service
 - B. Design
 - C. Distribution
 - D. Marketing

Answer: A LO: 2-2 Diff: 2 EOC: E2-21

2.2-16 Advertising expenses would be considered which part of the value chain?

- A. Customer service
- B. Marketing
- C. Production
- D. Research and development

Answer: B LO: 2-2 Diff: 2 EOC: E2-21

2.2-17 A company decision as to where to locate a new store would be considered:

- A. customer service.
- B. marketing.
- C. production.
- D. research and development.

Answer: D LO: 2-2 Diff: 2 EOC: E2-21

2.2-18 Excellent Dairy provided the following expense information for May:

Assembly-line workers' wages	\$ 80,000
Caps for milk bottles	1,000
Reconfiguring the assembly line	160,000
Customer support hotline	7,500
Delivery expenses	20,000
Depreciation on factory equipment	100,000
Plastic milk bottles	75,000
Salaries of salespeople	50,000
Salaries of research scientists	150,000
Customer toll-free order line	5,000

What is the total cost of research and development?

- A. \$150,000
- B. \$160,000
- C. \$310,000
- D. None of the above

Answer: A LO: 2-2 Diff: 2 EOC: E2-21

2.2-19 Excellent Dairy provided the following expense information for May:

Assembly-line workers' wages	\$ 80,000
Caps for milk bottles	1,000
Reconfiguring the assembly line	160,000
Customer support hotline	7,500
Delivery expenses	20,000
Depreciation on factory equipment	100,000
Plastic milk bottles	75,000
Salaries of salespeople	50,000
Salaries of research scientists	150,000
Customer toll-free order line	5,000

What is the total cost for the production category of the value chain?

- A. \$200,000
- B. \$250,000
- C. \$256,000
- D. \$416,000

Answer: C LO: 2-2 Diff: 2 EOC: E2-21

2.2-20 Excellent Dairy provided the following expense information for May:

Assembly-line workers' wages	\$ 80,000
Caps for milk bottles	1,000
Reconfiguring the assembly line	160,000
Customer support hotline	7,500
Delivery expenses	20,000
Depreciation on factory equipment	100,000
Plastic milk bottles	75,000
Salaries of salespeople	50,000
Salaries of research scientists	150,000
Customer toll-free order line	5,000

What is the total cost for the design category of the value chain?

- A. \$0
- B. \$150,000
- C. \$160,000
- D. \$310,000

Answer: C LO: 2-2 Diff: 2 EOC: E2-21

2.2-21 Excellent Dairy provided the following expense information for May:

Assembly-line workers' wages	\$ 80,000
Caps for milk bottles	1,000
Reconfiguring the assembly line	160,000
Customer support hotline	7,500
Delivery expenses	20,000
Depreciation on factory equipment	100,000
Plastic milk bottles	75,000
Salaries of salespeople	50,000
Salaries of research scientists	150,000
Customer toll-free order line	5,000

What is the total cost for the distribution category of the value chain?

- A. \$ 5,000
- B. \$20,000
- C. \$27,500
- D. \$27,600

Answer: B LO: 2-2 Diff: 2 EOC: E2-21

2.2-22 Excellent Dairy provided the following expense information for May:

Assembly-line workers' wages	\$ 80,000
Caps for milk bottles	1,000
Reconfiguring the assembly line	160,000
Customer support hotline	7,500
Delivery expenses	20,000
Depreciation on factory equipment	100,000
Plastic milk bottles	75,000
Salaries of salespeople	50,000
Salaries of research scientists	150,000
Customer toll-free order line	5,000

What is the total cost for the marketing category of the value chain?

- A. \$ 5,000
- B. \$ 7,500
- C. \$55,000
- D. \$62,500

Answer: C LO: 2-2 Diff: 2 EOC: E2-21

2.2-23 Delivery expenses are charged to which of the following areas?

- A. Customer service
- B. Distribution
- C. Production or purchases
- D. Marketing

Answer: B LO: 2-2 Diff: 2 EOC: S2-5

2.2-24 A customer support hot line would be considered:

- A. customer service.
- B. distribution.
- C. production or purchases.
- D. marketing.

Answer: A LO: 2-2 Diff: 2 EOC: S2-5

2.3-1 If a company wants to determine a product's cost, they must assign only direct costs.

Answer: False LO: 2-3 Diff: 2 EOC: E2-22

2.3-2 Costs can be either direct or indirect, depending upon the cost object.

Answer: True LO: 2-3 Diff: 1 EOC: E2-22

2.3-3 Indirect costs can be traced to specific units.

Answer: False LO: 2-3 Diff: 2 EOC: E2-22

2.3-4 Indirect costs cannot be traced to the cost objects, so it is allocated.

Answer: True LO: 2-3 Diff: 2 EOC: E2-22

2.3-5 Indirect costs incurred in manufacturing autos include all of the following EXCEPT:

- A. cost of the engines.
- B. machinery depreciation in the factory.
- C. plant utilities.
- D. plant supervisor salary.

Answer: A LO: 2.3-5 Diff: 2 EOC: S2-6

2.3-6 When determining the cost of a manufactured product, a supervisor's salary would be classified as:

- A. a direct cost.
- B. an indirect cost.
- C. a period cost.
- D. none of the above.

Answer: B LO: 2-3 Diff: 1 EOC: S2-6

- 2.3-7 All of the following would be consider a direct material for a sofa EXCEPT:
- A. fabric.
 - B. glue.
 - C. lumber.
 - D. steel.

Answer: B LO: 2-3 Diff: 1 EOC: E2-22

- 2.3-8 Prime costs consist of:
- A. direct labor and manufacturing overhead.
 - B. direct materials and direct labor.
 - C. direct materials and manufacturing overhead.
 - D. direct materials, direct labor and manufacturing overhead.

Answer: B LO: 2-3 Diff: 1 EOC: S2-6

- 2.3-9 Conversion costs consist of:
- A. direct labor and manufacturing overhead.
 - B. direct materials and direct labor.
 - C. direct materials and manufacturing overhead.
 - D. direct materials, direct labor and manufacturing overhead.

Answer: A LO: 2-3 Diff: 1 EOC: S2-6

- 2.3-10 Which of the following is an example of direct labor?
- A. Salary of a production manager
 - B. Salary of the vice-president of operations
 - C. Wages of assembly line personnel
 - D. Wages of factory security

Answer: C LO: 2-3 Diff: 2 EOC: S2-6

- 2.3-11 Which statement describes direct materials in a manufacturing setting?
- A. Direct materials are used to determine total inventoriable product costs.
 - B. Direct materials are used to determine total manufacturing overhead.
 - C. Direct materials can not be separately and conveniently traced.
 - D. Direct materials do not become part of the finished product.

Answer: A LO: 2-3 Diff: 2 EOC: S2-6

- 2.3-12 In a manufacturing plant, which is an example of indirect labor?
- A. Chief operating officer
 - B. Machine operators
 - C. Plant managers
 - D. Salesmen

Answer: C LO: 2-3 Diff: 2 EOC: S2-6

2.3-13 Which of the following are classified as manufacturing overhead?

- A. Direct materials and direct labor
- B. Indirect labor and indirect materials
- C. All materials
- D. Factory rent and direct labor

Answer: B LO: 2-3 Diff: 2 EOC: S2-6

2.3-14 Which of the following is an example of overhead in a factory?

- A. Wages of machine operators
- B. Wages of factory maintenance personnel
- C. Wages of administrators in the corporate office
- D. Salaries of salespersons

Answer: B LO: 2-3 Diff: 2 EOC: S2-6

2.4-1 An inventoriable cost could be the cost of the marketing and distribution of a product.

Answer: False LO: 2-4 Diff: 2 EOC: S2-8

2.4-2 Inventoriable product costs consist of manufacturing overhead, direct labor and direct materials.

Answer: True LO: 2-4 Diff: 2 EOC: S2-9

2.4-3 All of the following are product costs for a manufacturer EXCEPT:

- A. direct labor.
- B. direct materials.
- C. freight out.
- D. manufacturing overhead.

Answer: C LO: 2-4 Diff: 2 EOC: S2-9

2.4-4 Period costs are:

- A. always considered part of the inventory.
- B. always recorded as an expense.
- C. expensed only when the inventory is sold.
- D. none of the above.

Answer: B LO: 2-4 Diff: 2 EOC: S2-8

2.4-5 Which of the following is NOT a period cost?

- A. Direct labor expenses
- B. Distribution expenses
- C. Marketing expenses
- D. Research and development expenses

Answer: A LO: 2-4 Diff: 2 EOC: S2-8

- 2.4-6 Which of the following describes full product costs for a product?
- A. Full product costs are narrower in scope than inventoriable product costs.
 - B. Full product costs consist of direct materials, direct labor and manufacturing overhead.
 - C. Full product costs include all costs of the value chain.
 - D. Both A and B are correct.

Answer: C LO: 2-4 Diff: 2 EOC: S2-8

- 2.4-7 Inventoriable product costs for a manufactured product include:
- A. marketing and research and development costs.
 - B. the costs of direct materials, direct labor and manufacturing overhead.
 - C. the costs of direct materials and direct labor only.
 - D. none of the above.

Answer: B LO: 2-4 Diff: 2 EOC: S2-8

- 2.4-8 Which of the following statements describes inventoriable product costs?
- A. They are expensed on the income statement when incurred.
 - B. They are used for external reporting purposes.
 - C. They include marketing and distribution costs.
 - D. Both A and C are correct.

Answer: B LO: 2-4 Diff: 2 EOC: E2-22

- 2.4-9 Where would period costs be found on the financial statements?
- A. Under current assets on the balance sheet
 - B. Under current liabilities on the balance sheet
 - C. As operating expenses on the income statement for a previous period
 - D. As operating expenses on the income statement in the period incurred

Answer: D LO: 2-4 Diff: 2 EOC: E2-22

- 2.4-10 Which of the following statements is correct concerning product costs?
- A. Product costs are expensed in the period incurred.
 - B. Product costs are expensed in the period the related product is sold.
 - C. Product costs are shown with operating expenses on the income statement.
 - D. Product costs are shown with current liabilities on the balance sheet.

Answer: B LO: 2-4 Diff: 2 EOC: E2-22

- 2.4-11 _____ costs include all costs associated with the production of a product.
- A. Direct
 - B. Inventoriable
 - C. Mixed
 - D. Overhead

Answer: B LO: 2-4 Diff: 2 EOC: E2-22

2.4-12 Manufacturing overhead costs for a product include:

- A. direct material.
- B. operating expenses.
- C. prime costs
- D. indirect manufacturing costs

Answer: D LO: 2-4 Diff: 2 EOC: E2-22

2.4-13 When do inventoriable costs become liabilities?

- A. When direct materials are purchased
- B. When the manufacturing process begins
- C. When the manufacturing process is completed
- D. None of the above

Answer: D LO: 2-4 Diff: 2 EOC: E2-22

2.4-14 For a manufactured product, indirect materials and indirect labor are:

- A. overhead and period costs.
- B. overhead and product costs.
- C. operating and period costs.
- D. operating and product costs.

Answer: B LO: 2-4 Diff: 2 EOC: E2-22

2.4-15 Manufacturers consider selling and administrative costs to be:

- A. prime costs.
- B. conversion costs.
- C. inventoriable costs.
- D. period costs.

Answer: D LO: 2-4 Diff: 2 EOC: E2-22

2.4-16 When manufacturing products, which of the following is an example of a period cost?

- A. Advertising expense
- B. Depreciation expense on factory equipment
- C. Indirect materials used in the factory
- D. Property taxes on the plant

Answer: A LO: 2-4 Diff: 2 EOC: E2-22

2.4-17 When manufacturing products, which of the following is an example of an inventoriable cost?

- A. Depreciation on office equipment
- B. Depreciation on store building
- C. Depreciation on factory equipment
- D. Sales salaries expenses

Answer: C LO: 2-4 Diff: 2 EOC: E2-22

2.4-18 When manufacturing products, direct labor and direct materials are classified as:

- A. period costs and expensed when incurred.
- B. period costs and expensed when the goods are sold.
- C. product costs and expensed when incurred.
- D. product costs and expensed when the goods are sold.

Answer: D LO: 2-4 Diff: 2 EOC: E2-22

2.4-19 Certain materials used in a manufacturing plant can not be traced to a specific unit. These materials are called _____ materials.

- A. general
- B. direct
- C. finished
- D. indirect

Answer: D LO: 2-4 Diff: 2 EOC: E2-22

2.4-20 How is rent expensed on a factory building?

- A. As a direct cost
- B. As a period cost
- C. As a product cost
- D. As none of the above

Answer: C LO: 2-4 Diff: 2 EOC: E2-22

2.5-1 The income statements of manufacturing companies are much less complex than those of service or merchandising companies.

Answer: False LO: 2-5 Diff: 2 EOC: S2-13

2.5-2 The financial statements of a merchandiser are more complex than those of a manufacturer.

Answer: False LO: 2-5 Diff: 2 EOC: S2-13

2.5-3 Service companies have the simplest accounting with regard to the income statement.

Answer: True LO: 2-5 Diff: 2 EOC: S2-13

2.5-4 Cost of goods sold is a major expense of service companies.

Answer: False LO: 2-5 Diff: 1 EOC: S2-12

2.5-5 The schedule of cost of goods manufactured is prepared before the income statement for a manufacturing company.

Answer: True LO: 2-5 Diff: 2 EOC: S2-16

2.5-6 Which of the following is calculated before operating income can be determined for a manufacturer?

- A. Cost of goods available for sale
- B. Cost of goods manufactured
- C. Cost of goods sold
- D. All of the above

Answer: D LO: 2-5 Diff: 2 EOC: E2-24

2.5-7 The only difference in the balance sheets of various types of businesses (for example, manufacturing vs. service) is:

- A. current assets.
- B. current liabilities.
- C. investments.
- D. equity.

Answer: A LO: 2-5 Diff: 2 EOC: E2-25

2.5-8 Which of the following would be on the income statement of a service company?

- A. Factory equipment depreciation
- B. Cost of goods manufactured
- C. Cost of goods sold
- D. Revenue

Answer: D LO: 2-5 Diff: 2 EOC: E2-29

2.5-9 Which of the following would be on the income statement of a retailer?

- A. Value of inventory
- B. Cost of goods sold
- C. Accounts payable
- D. Accounts receivable

Answer: B LO: 2-5 Diff: 1 EOC: E2-29

2.5-10 Which of the following costs would appear on the income statements for both a merchandiser and manufacturer?

- A. Cost of goods manufactured
- B. Direct labor incurred
- C. Direct materials used
- D. Operating expenses

Answer: D LO: 2-5 Diff: 2 EOC: E2-26

- 2.5-11 A merchandiser's purchases are equivalent to a manufacturer's:
- A. cost of goods manufactured.
 - B. cost of goods sold.
 - C. raw materials inventory.
 - D. work in process inventory.

Answer: A LO: 2-5 Diff: 2 EOC: E2-27

- 2.5-12 Bright Toy Company's operating activities for the year are listed below. They sold 10,000 units this year.

Purchases	\$126,000
Selling/admin expenses	90,000
Beginning inventory	14,000
Ending inventory	10,000
Sales revenue	250,000

What is the cost of goods available for sale?

- A. \$104,000
- B. \$126,000
- C. \$130,000
- D. \$140,000

Answer: D LO: 2-5 Diff: 2 EOC: P2-36A

- 2.5-13 Bright Toy Company's operating activities for the year are listed below. They sold 10,000 units this year.

Purchases	\$126,000
Selling/admin expenses	90,000
Beginning inventory	14,000
Ending inventory	10,000
Sales revenue	250,000

What is the cost of goods sold for the year?

- A. \$104,000
- B. \$124,000
- C. \$130,000
- D. \$140,000

Answer: C LO: 2-5 Diff: 2 EOC: P2-36A

2.5-14 Bright Toy Company's operating activities for the year are listed below. They sold 10,000 units this year.

Purchases	\$126,000
Selling/admin expenses	90,000
Beginning inventory	14,000
Ending inventory	10,000
Sales revenue	250,000

What is the gross profit for the year?

- A. \$120,000
- B. \$130,000
- C. \$136,000
- D. \$140,000

Answer: A LO: 2-5 Diff: 3 EOC: P2-36A

2.5-15 Which of the following, in addition to cost of goods manufactured, is needed to compute the cost of goods sold for a manufacturer?

- A. Beginning WIP less ending WIP
- B. Ending WIP less beginning WIP
- C. Beginning finished goods less ending finished goods
- D. Ending finished goods less beginning finished goods

Answer: C LO: 2-5 Diff: 2 EOC: E2-28

2.5-16 For a manufacturer, _____ is equal to beginning work in process?

- A. cost of goods manufactured + ending WIP – manufacturing costs incurred in the period
- B. cost of goods manufactured – ending WIP + manufacturing costs incurred in the period
- C. ending WIP + manufacturing costs incurred in the period
- D. manufacturing costs incurred in the period – ending WIP

Answer: A LO: 2-5 Diff: 3 EOC: E2-28

2.5-17 ABC Company reports the following data for 2007, its first year of operation.

Cost of goods manufactured	\$440,000
WIP inventory, ending	130,000
Direct materials used	115,000
Manufacturing overhead	160,000
Finished goods inventory, ending	75,000

What are the total manufacturing costs for the year?

- A. \$570,000
- B. \$300,000
- C. \$190,000
- D. \$160,000

Answer: A LO: 2-5 Diff: 3 EOC: E2-28

2.5-18 ABC Company reports the following data for 2007, its first year of operation.

Cost of goods manufactured	\$440,000
WIP inventory, ending	130,000
Direct materials used	115,000
Manufacturing overhead	160,000
Finished goods inventory, ending	75,000

What is the cost of goods sold?

- A. \$480,000
- B. \$365,000
- C. \$340,000
- D. \$240,000

Answer: B LO: 2-5 Diff: 3 EOC: E2-28

2.5-19 Direct labor for a company was \$126,000; manufacturing overhead was \$359,000; and direct materials were \$271,000. Conversion costs for a cost of goods manufactured statement are:

- A. \$126,000.
- B. \$397,000.
- C. \$485,000.
- D. \$630,000.

Answer: C LO: 2-5 Diff: 2 EOC: E2-28

2.6-1 Differential cost is the difference in cost between two alternatives.

Answer: True LO: 2-6 Diff: 1 EOC: S2-17

2.6-2 Decision making is guided only by differential costs.

Answer: False LO: 2-6 Diff: 2 EOC: S2-17

2.6-3 Irrelevant factors should be considered when making decisions.

Answer: False LO: 2-6 Diff: 1 EOC: S2-17

2.6-4 You are trying to decide whether or not to sell back your accounting textbook at the end of the class. The cost you paid for the book is relevant to your decision.

Answer: False LO: 2-6 Diff: 2 EOC: E2-31

2.6-5 Sunk costs are a major part of the decision making process.

Answer: False LO: 2-6 Diff: 1 EOC: E2-31

2.6-6 _____ information is that which differs between alternatives and can affect the future.

- A. Historical
- B. Irrelevant
- C. Predictable
- D. Relevant

Answer: D LO: 2-6 Diff: 1 EOC: E2-31

2.6-7 Which of the following represents a sunk cost?

- A. A historical cost that is never relevant
- B. A historical cost that is always relevant
- C. An outlay expected to be incurred in the future
- D. A cost that is relevant to any decision

Answer: A LO: 2-6 Diff: 2 EOC: E2-31

2.6-8 The difference in cost between two alternatives is called a(n) _____ cost.

- A. sunk
- B. imported
- C. differential
- D. alternative

Answer: C LO: 2-6 Diff: 2 EOC: E2-31

2.6-9 When deciding to buy a new computer, all of the following should be considered EXCEPT for the:

- A. cost of the new computer.
- B. cost of the old computer.
- C. games that come with the new computer.
- D. warranty on the new computer.

Answer: B LO: 2-6 Diff: 2 EOC: E2-31

- 2.6-10 When making a decision to buy a new computer, all of the following should be considered EXCEPT for:
- A. differential costs.
 - B. relevant costs.
 - C. qualitative characteristics.
 - D. sunk costs.

Answer: D LO: 2-6 Diff: 2 EOC: E2-31

- 2.7-1 Fixed costs stay constant in total over a wide range of activity levels.

Answer: True LO: 2-7 Diff: 1 EOC: E2-33

- 2.7-2 All costs contain both a fixed and a variable part.

Answer: False LO: 2-7 Diff: 2 EOC: E2-33

- 2.7-3 The total cost of a product equals the total fixed costs plus the average variable costs.

Answer: False LO: 2-7 Diff: 2 EOC: E2-34

- 2.7-4 A marginal cost is the cost of making one more unit of a product.

Answer: True LO: 2-7 Diff: 2 EOC: E2-34

- 2.7-5 Average variable costs:

- A. remain the same as production decreases.
- B. remain the same as production increases.
- C. go down as production decreases.
- D. remain the same no matter if production increases or decreases.

Answer: D LO: 2-7 Diff: 1 EOC: P2-39A

- 2.7-6 The cost of making one more unit is called:

- A. marginal cost.
- B. unit cost.
- C. variable cost.
- D. none of the above

Answer: A LO: 2-7 Diff: 2 EOC: P2-39A

- 2.7-7 Sun Co. plans to make 10,000 lawn mowers at its plant. Fixed costs are \$1,000,000 and variable costs are \$500 per lawn mower. What is the average cost per lawn mower?

- A. \$600
- B. \$500
- C. \$100
- D. None of the above

Answer: A LO: 2-7 Diff: 2 EOC: P2-39A

- 2.7-8 A(n) _____ cost is one whose total amount changes in direct proportion to a change in volume.
- A. fixed
 - B. irrelevant
 - C. mixed
 - D. variable

Answer: D LO: 2-7 Diff: 1 EOC: P2-39A

- 2.7-9 Which of the following is an example of a fixed cost for a manufacturer?
- A. Salary of plant manager
 - B. Sales commissions
 - C. Direct materials
 - D. Delivery costs

Answer: A LO: 2-7 Diff: 1 EOC: P2-39A

- 2.7-10 Which of the following describes the way in which variable costs per unit behave?
- A. They will decrease as production increases.
 - B. They will increase as production decreases.
 - C. They will remain the same throughout production levels.
 - D. They will decrease as production decreases.

Answer: C LO: 2-7 Diff: 2 EOC: P2-39A

- 2.7-11 Which of the following describes the way in which total variable costs behave?
- A. They remain the same throughout production levels.
 - B. They will decrease as production decreases.
 - C. They will decrease as production increases.
 - D. They will increase as production decreases.

Answer: B LO: 2-7 Diff: 2 EOC: P2-39A

- 2.7-12 Which of the following describes the way in which total fixed costs behave?
- A. They will remain the same throughout production levels.
 - B. They will decrease as production decreases.
 - C. They will decrease as production increases.
 - D. They will increase as production decreases.

Answer: A LO: 2-7 Diff: 2 EOC: P2-390A

- 2.7-13 Which of the following describes the way fixed costs per unit behave?
- A. They will remain the same throughout production levels.
 - B. They will decrease as production decreases.
 - C. They will increase as production increases.
 - D. They will increase as production decreases.

Answer: D LO: 2-7 Diff: 2 EOC: P2-39A

2.7-14 Variable costs:

- A. are fixed in total as production levels change.
- B. are fixed per unit and vary in total as productions levels change.
- C. decrease per unit as production volume increases.
- D. vary per unit of output as production levels change.

Answer: B LO: 2-7 Diff: 2 EOC: P2-39A