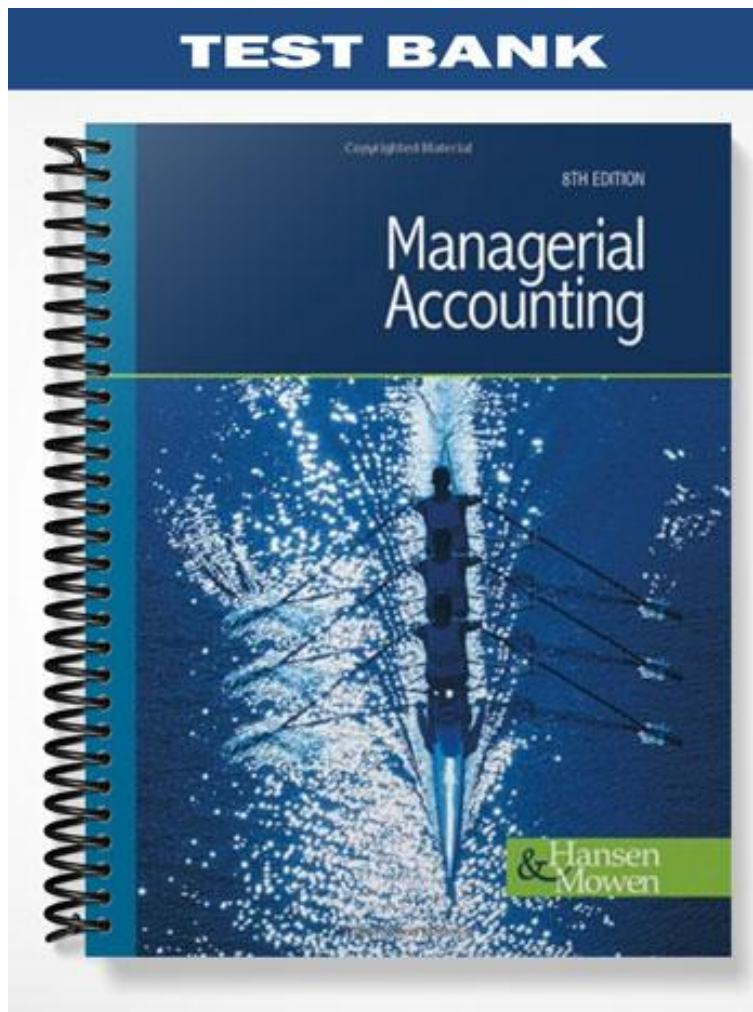


TEST BANK



Chapter 2

Basic Management Accounting Concepts

MULTIPLE CHOICE

1. TEK, Inc., is considering whether to replace a production machine with a newer model of the same machine. If TEK keeps the old machine, the trade-in value of the old machine is an example of a(n)
- sunk cost
 - opportunity cost
 - avoidable cost
 - imputed cost

ANS: B DIF: 2 REF: p. 035
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

2. Harry has just received his bachelor's degree and is considering two alternatives. (1) He could obtain an entry-level accounting position paying \$30,000 per year. (2) He could obtain his master's degree with one more year of study and work part-time for \$8,000 per year. Harry's opportunity cost associated with obtaining his master's degree is
- \$-0-
 - \$22,000
 - \$30,000
 - \$38,000

ANS: C DIF: 3 REF: p. 035
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

3. What is the term used to describe costs that are used up when generating revenue?
- losses
 - assets
 - expenses
 - liabilities

ANS: C DIF: 2 REF: p. 035
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

4. Expenses are
- the cash paid for goods and services used by a firm
 - cash and cash-equivalent values sacrificed when one alternative is chosen in place of another alternative
 - costs used up in the production of revenues
 - liabilities incurred when payment is delayed

ANS: C DIF: 1 REF: p. 035
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

5. Manor Company manufactures beauty products. The president approached the accountant because he was concerned about the profitability of each product. To best evaluate the profitability of each product, the accountant will use which of the following as the cost object?
- department
 - projects
 - customers
 - activities

ANS: D DIF: 2 REF: p. 035
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

6. In recent years, which of the following has emerged as an important cost object?
- manufacturing departments
 - activities
 - products
 - line operations

ANS: B DIF: 1 REF: p. 035
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

7. Which of the following would **NOT** be considered a “cost object?”
- activities
 - customers
 - departments
 - all of the above are cost objects

ANS: D DIF: 1 REF: p. 035
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

8. Why are accurate cost assignments important?
- accurate cost assignments can reduce erroneous decisions and bad evaluations
 - accurate cost assignments produce relevant financial statements
 - accurate cost assignments ensure that the firm produces adequate net income in a given accounting period
 - accurate cost assignments minimize income taxes paid by the firm

ANS: A DIF: 1 REF: p. 036
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

9. Direct costs
- can be assigned to cost objects in an economically feasible way
 - are typically assigned to cost objects using a cause-and-effect relationship
 - result in more accurate cost assignments
 - do all of the above

ANS: D DIF: 2 REF: p. 037
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

10. Which of the following statements is true concerning indirect costs?
- Indirect costs can be assigned to cost objects in an economically feasible way.
 - Indirect costs are typically assigned to cost objects using a cause-and-effect relationship.
 - Indirect costs cannot be accurately traced to a cost object.
 - Indirect costs are easily traced to a cost object.

ANS: C DIF: 1 REF: p. 037
 OBJ: 1 NAT: AACSB Analytic | IMA Cost management

11. Mulholland Company manufactures various wooden furniture products. If the cost object is a product, such as a chair, what costs would be considered direct?
- manufacturing supervisor's salary
 - depreciation on the factory building
 - salary of the worker that glues the legs to the seat of the chair
 - insurance on the factory

ANS: C DIF: 2 REF: p. 037
 OBJ: 1 NAT: AACSB Analytic | IMA Cost management

12. How are costs traced?
- Costs are traced by identifying all transactions that create a certain account balance.
 - Costs are traced by assigning costs to cost objects using observable measures of resources consumed.
 - Costs are traced by determining the external origin of a given cost.
 - Costs are traced by following costs as they flow through the accounting system.

ANS: B DIF: 1 REF: p. 037
 OBJ: 1 NAT: AACSB Analytic | IMA Cost management

13. Which of the following costs would **NOT** be directly traceable to the manufacture of an automobile?
- the cost of the engine
 - the cost of the tires
 - the cost of lubricants
 - the cost of the steering column

ANS: C DIF: 3 REF: p. 037
 OBJ: 1 NAT: AACSB Analytic | IMA Cost management

14. Which of the following costs would be classified as an indirect cost in the manufacturing of custom built dining tables?
- the cost of the table base
 - the cost of the table legs
 - the cost of the person assembling the table
 - the cost of the rent on the manufacturing facility

ANS: D DIF: 3 REF: p. 037
 OBJ: 1 NAT: AACSB Analytic | IMA Cost management

15. The Phone Store is a nationwide retailer of electronic equipment related to wireless communications. Management is particularly interested in the Ivy Road Store in Anytown, Pennsylvania. You are an accountant examining the costs in the store. Which of the following statements is true?
- If the Ivy Road Store is the cost object, then the cost of heating the Ivy Road Store is a direct cost.
 - If the Ivy Road Store is the cost object, then the cost of heating the Ivy Road Store is an indirect cost.
 - If the Ivy Road Store is the cost object, then the cost of the Ivy Road Store's manager is an indirect cost.
 - If the Ivy Road Store is the cost object, then the cost of the merchandise in that store is an indirect cost.

ANS: A DIF: 3 REF: p. 037
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

16. Dr. Walter Dental maintains a dental practice in Hometown, New Jersey. He is the only dentist in the office. The rest of the office staff consists of two assistants, a hygienist, and a receptionist. Which of the following statements is true?
- If the dental practice is the cost object, the cost of the hygienist is an indirect cost.
 - If a patient is the cost object, the cost of the receptionist is a direct cost.
 - If the dental practice is the cost object, the cost of Novocain is a direct cost.
 - If a patient is the cost object, the cost of heating the office is a direct cost.

ANS: C DIF: 3 REF: p. 037
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

17. Which statement below is true of direct tracing?
- Direct tracing is most often accomplished through physical observation.
 - Direct tracing uses both resource tracing and activity tracing.
 - Direct tracing reduces the overall accuracy of cost assignment.
 - Direct tracing does all of the above.

ANS: A DIF: 3 REF: p. 037
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

18. Which is the most appropriate method to use to assign indirect costs to cost objects when there is no cause/effect relationship?
- direct tracing
 - driver tracing
 - allocation
 - all of the above

ANS: C DIF: 1 REF: p. 038
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

19. Why are indirect costs usually allocated rather than traced to cost objects?
- Allocation is required by external reporting requirements.
 - Overall accuracy is improved by allocation.
 - No causal relationship exists between indirect costs and the cost object.
 - Allocation is more convenient than tracing.

ANS: C DIF: 1 REF: p. 038
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

20. Which of the following lists the most-to-least accurate method of cost assignment?
- direct tracing, driver tracing, allocation
 - driver tracing, direct tracing, allocation
 - allocation, direct tracing, driver tracing
 - allocation, driver tracing, direct tracing

ANS: A DIF: 2 REF: p. 037-039
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

21. Welway Manufacturing Company manufactures three products and is interested in determining the most accurate cost of each product. Which cost assignment method should be used to allocate the cost of equipment depreciation in manufacturing the products?
- direct tracing
 - driver tracing
 - allocation
 - none of the above

ANS: B DIF: 3 REF: p. 037-038
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

22. Welway Manufacturing Company manufactures three products and is interested in determining the most accurate cost of each product. Which cost assignment method should be used to allocate the cost of the salary of the production manager?
- direct tracing
 - driver tracing
 - allocation
 - none of the above

ANS: C DIF: 3 REF: p. 037-038
OBJ: 1 NAT: AACSB Analytic | IMA Cost management

23. Which cost assignment method would you use to assign prime costs to a product?
- direct tracing
 - driver tracing
 - allocation
 - none of the above

ANS: A DIF: 3 REF: p. 037 | p. 038 | p. 043
OBJ: 1 | 2 NAT: AACSB Analytic | IMA Cost management

24. Unlike tangible products, services have the characteristic of intangibility. This means that services
- have value only in the mind of the consumer
 - cannot be experienced sensually by the consumer before purchase
 - may lose their value over time
 - all of the above

ANS: B DIF: 1 REF: p. 040
OBJ: 2 NAT: AACSB Analytic | IMA Global business

25. Unlike tangible products, services have the characteristic of inseparability. This means that
- the buyer and the seller must be in direct contact
 - a buyer cannot purchase a portion of the service
 - the service is identified with a particular provider
 - all of the above

ANS: A DIF: 1 REF: p. 040
OBJ: 2 NAT: AACSB Analytic | IMA Global business

26. Unlike tangible products, services have the characteristic of perishability. This means that services
- may lose their value over time
 - may lose their value due to improper conservation
 - cannot be stored for future use
 - none of the above

ANS: C DIF: 1 REF: p. 040
OBJ: 2 NAT: AACSB Analytic | IMA Global business

27. Unlike tangible projects, services have the characteristic of heterogeneity. This means that
- there are many different services which could be used to fulfill a consumer's perceived need
 - all services are approximately similar
 - there is a greater variety of providers from whom consumers can purchase services
 - there is a greater likelihood of variation in the service

ANS: D DIF: 1 REF: p. 040
OBJ: 2 NAT: AACSB Analytic | IMA Global business

28. Which of the following statements is true concerning manufacturing companies?
- Manufacturing companies provide services.
 - Manufacturing companies buy and resell merchandise inventory.
 - Manufacturing companies transform Direct materials into finished products.
 - Manufacturing companies do none of the above.

ANS: C DIF: 1 REF: p. 041
OBJ: 2 NAT: AACSB Analytic | IMA Global business

29. Blockbuster Video (a chain of video rental stores) is an example of which of the following entities?
- a manufacturer
 - a merchandiser
 - a service company
 - none of the above

ANS: C DIF: 3 REF: p. 041
OBJ: 2 NAT: AACSB Analytic | IMA Global business

30. Ford Motor Company is an example of which of the following types of entities?
- a manufacturer
 - a merchandiser
 - a service company
 - none of the above

ANS: A DIF: 3 REF: p. 041
OBJ: 2 NAT: AACSB Analytic | IMA Global business

31. Classify the activity of handling direct materials according to its value-chain category.
- developing
 - designing
 - producing
 - distributing

ANS: C DIF: 3 REF: p. 041
OBJ: 2 NAT: AACSB Analytic | IMA Global business

32. Classify the activity of shipping orders according to its value-chain category.
- designing
 - producing
 - distributing
 - marketing

ANS: C DIF: 3 REF: p. 041
OBJ: 2 NAT: AACSB Analytic | IMA Global business

33. Classify the activity of advertising according to its value-chain category.
- designing
 - producing
 - distributing
 - marketing

ANS: D DIF: 3 REF: p. 041
OBJ: 2 NAT: AACSB Analytic | IMA Global business

34. Classify the activity of customer service according to its value-chain category.
- developing
 - servicing
 - distributing
 - marketing

ANS: B DIF: 3 REF: p. 041
OBJ: 2 NAT: AACSB Analytic | IMA Global business

35. Which of the following definitions of product cost would probably be used to evaluate the long-term profitability of a firm?
- value-chain product cost
 - operating product cost
 - traditional product cost
 - opportunity product cost

ANS: A DIF: 3 REF: p. 041-042
OBJ: 2 NAT: AACSB Analytic | IMA Cost management

36. Which of the following definitions of product cost would probably be used to evaluate the short-term profitability of a firm?
- value-chain product cost
 - operating product cost
 - traditional product cost
 - opportunity product cost

ANS: B DIF: 3 REF: p. 041-042
OBJ: 2 NAT: AACSB Analytic | IMA Cost management

37. Which of the following definitions of product cost would probably be used for external financial reporting?
- value-chain product cost
 - operating product cost
 - traditional product cost
 - opportunity product cost

ANS: C DIF: 3 REF: p. 041-042
OBJ: 2 NAT: AACSB Analytic | IMA Cost management

38. Production costs for external reporting purposes are further functionally classified as
- tangible and intangible costs
 - production and nonproduction costs
 - prime and conversion costs
 - selling and administrative costs

ANS: B DIF: 1 REF: p. 042
OBJ: 2 NAT: AACSB Analytic | IMA Cost management

39. The wood in an oak desk is an example of which of the following?
- direct materials
 - indirect materials
 - direct labor
 - indirect labor

ANS: A DIF: 2 REF: p. 042
OBJ: 2 NAT: AACSB Analytic | IMA Cost management

40. The grease used to maintain the production equipment in working order is an example of which of the following?
- direct material
 - indirect material
 - direct labor
 - indirect labor

ANS: B DIF: 2 REF: p. 042
OBJ: 2 NAT: AACSB Analytic | IMA Cost management

41. The salaries of the production supervisors would be an example of which of the following?
- direct materials
 - indirect materials
 - direct labor
 - indirect labor

ANS: D DIF: 2 REF: p. 042-043
OBJ: 2 NAT: AACSB Analytic | IMA Cost management

42. The wages of a production equipment operator would be classified as which of the following?
- direct materials
 - direct labor
 - manufacturing overhead
 - selling and administrative costs

ANS: B DIF: 2 REF: p. 042-043
OBJ: 2 NAT: AACSB Analytic | IMA Cost management

43. Which of the following is a product cost?
- advertising expenditures
 - insurance on the office buildings
 - depreciation of the salesmen's cars
 - depreciation of the production facilities

ANS: D DIF: 3 REF: p. 042-043
OBJ: 2 NAT: AACSB Analytic | IMA Cost management

44. All of the following are product costs **EXCEPT**
- direct materials
 - direct labor
 - manufacturing overhead
 - selling and administrative costs
 - none of the above

ANS: D DIF: 2 REF: p. 042-043
OBJ: 2 NAT: AACSB Analytic | IMA Cost management

45. The insurance on the company's corporate office would be an example of which of the following?
- direct materials
 - direct labor
 - manufacturing overhead
 - selling and administrative costs

ANS: D DIF: 3 REF: p. 043
OBJ: 2 NAT: AACSB Analytic | IMA Cost management

46. The salary of the vice-president of finance would be classified as which of the following?
- direct materials
 - direct labor
 - manufacturing overhead
 - selling and administrative costs

ANS: D DIF: 3 REF: p. 043
OBJ: 2 NAT: AACSB Analytic | IMA Cost management

47. Which of the following is a period cost?
- the production supervisor's salary
 - direct labor
 - property taxes on the office building
 - property taxes on the production facilities

ANS: C DIF: 3 REF: p. 043
OBJ: 2 NAT: AACSB Analytic | IMA Cost management

48. Which of the following would be classified as a period cost?
- direct materials used to build a house
 - the supervisor's salary on the production line
 - the depreciation on the machines used to sew jeans
 - the salary of the administrative assistant in an insurance office

ANS: D DIF: 3 REF: p. 043
OBJ: 2 NAT: AACSB Analytic | IMA Cost management

49. Which of the following would make up prime costs?
- direct materials and direct labor
 - direct labor and manufacturing overhead
 - direct materials and manufacturing overhead
 - fixed and variable costs

ANS: A DIF: 3 REF: p. 043
 OBJ: 2 NAT: AACSB Analytic | IMA Cost management

50. Which of the following make up conversion costs?
- direct materials and direct labor
 - direct labor and manufacturing overhead
 - direct materials and manufacturing overhead
 - fixed and variable costs

ANS: B DIF: 3 REF: p. 043
 OBJ: 2 NAT: AACSB Analytic | IMA Cost management

The Norfolk Company reported the following information at the end of the current year:

Indirect labor	\$40,000	Direct materials	\$50,000
Selling expenses	\$15,000	Sales revenue	\$200,000
Rent on factory	\$25,000	Factory utilities	\$10,000
Depreciation	\$10,000	Direct labor	\$45,000
Administrative expenses	\$30,000	Property taxes on factory	\$5,000

51. Refer to the Norfolk Company. Calculate Manufacturing Overhead cost.
- \$50,000
 - \$80,000
 - \$90,000
 - \$140,000

ANS: C

SUPPORTING CALCULATIONS:

Indirect labor	\$40,000
Rent on factory	\$25,000
Depreciation	\$10,000
Factory utilities	\$10,000
Property taxes	<u>\$ 5,000</u>
Total	\$90,000

ANS: DIF: 3 REF: p. 043 OBJ: 2
 NAT: AACSB Analytic | IMA Cost management

52. Refer to the Norfolk Company. Calculate total manufacturing costs.
- \$95,000
 - \$145,000
 - \$175,000
 - \$185,000

ANS: D

SUPPORTING CALCULATIONS:

Direct Materials	\$ 50,000
Direct Labor	\$ 45,000
Manufacturing Overhead	<u>\$ 90,000</u>
Total	\$185,000

ANS: DIF: 3 REF: p. 045 OBJ: 3
 NAT: AACSB Analytic | IMA Cost management

53. Refer to the Norfolk Company. Calculate prime costs.
- \$45,000
 - \$50,000
 - \$95,000
 - \$135,000

ANS: C

SUPPORTING CALCULATIONS:

Direct Materials	\$50,000
Direct Labor	<u>\$45,000</u>
Total	\$95,000

ANS: DIF: 3 REF: p. 043 OBJ: 2
 NAT: AACSB Analytic | IMA Cost management

54. Refer to the Norfolk Company. Calculate conversion costs.
- \$90,000
 - \$130,000
 - \$135,000
 - \$140,000

ANS: C

SUPPORTING CALCULATIONS:

Direct Labor	\$ 45,000
Manufacturing Overhead	<u>\$ 90,000</u>
Total	\$135,000

ANS: DIF: 3 REF: p. 043 OBJ: 2
 NAT: AACSB Analytic | IMA Cost management

55. Refer to the Norfolk Company. Calculate period costs.
- a. \$15,000
 - b. \$30,000
 - c. \$45,000
 - d. \$55,000

ANS: C

SUPPORTING CALCULATIONS:

Selling Expense	\$15,000
Admin. Expense	<u>\$30,000</u>
Total	\$45,000

ANS: DIF: 3 REF: p. 043 OBJ: 2
 NAT: AACSB Analytic | IMA Cost management

56. Costs that are expensed as incurred are known as
- a. direct costs
 - b. indirect costs
 - c. product costs
 - d. period costs

ANS: D DIF: 3 REF: p. 043-044
 OBJ: 2 NAT: AACSB Analytic | IMA Cost management

57. Missar Company's direct labor cost is 40 percent of its prime cost and 25 percent of its conversion cost. If manufacturing overhead was \$150,000 during the month of May, the direct materials cost for the month of May was
- a. \$90,000
 - b. \$75,000
 - c. \$125,000
 - d. cannot be determined with the information given

ANS: B

SUPPORTING CALCULATIONS:

Total conversion cost:	$\$150,000 / .75 = \$200,000$
Direct labor cost:	$\$200,000 \times .25 = \$50,000$
Total prime cost:	$\$50,000 / .40 = \$125,000$
Total materials cost:	$\$125,000 \times .60 = \underline{\underline{\$75,000}}$

ANS: DIF: 3 REF: p. 043-045 OBJ: 2 | 3
 NAT: AACSB Analytic | IMA Cost management

Figure 2-1

The Pritchert Company recorded the following manufacturing costs in the accounting period just ended:

Direct materials	\$20,000
Direct labor	40,000
Manufacturing overhead	50,000
Selling and administrative costs	24,000

58. Refer to Figure 2-1. Calculate Pritchert Company's total conversion cost.
- \$50,000
 - \$90,000
 - \$56,000
 - \$124,000

ANS: B

SUPPORTING CALCULATIONS:

Direct labor	\$40,000
Manufacturing overhead	<u>50,000</u>
	<u>\$90,000</u>

ANS: DIF: 3 REF: p. 043 OBJ: 2
NAT: AACSB Analytic | IMA Cost management

59. Refer to Figure 2-1. Calculate Pritchert Company's total manufacturing cost.
- \$110,000
 - \$134,000
 - \$90,000
 - \$70,000

ANS: A

SUPPORTING CALCULATIONS:

Direct material	\$20,000
Direct labor	40,000
Manufacturing overhead	50,000
	<u>\$110,000</u>

ANS: DIF: 3 REF: p. 043 OBJ: 2
NAT: AACSB Analytic | IMA Cost management

60. Refer to Figure 2-1. Calculate Pritchert Company's prime costs.
- \$60,000
 - \$70,000
 - \$76,000
 - \$124,000

ANS: A

SUPPORTING CALCULATIONS:

Direct materials	\$20,000
Direct labor	<u>40,000</u>
	<u>\$60,000</u>

ANS: DIF: 3 REF: p. 043 OBJ: 2
NAT: AACSB Analytic | IMA Cost management

61. When do product costs become expenses?
- when the product is purchased
 - when the product is manufactured
 - when the product is inventoried
 - when the product is sold

ANS: D DIF: 1 REF: p. 044
OBJ: 3 NAT: AACSB Analytic | IMA External financial reporting

62. What is the term used to describe the cost of goods finished during the period?
- cost of goods sold
 - cost of goods manufactured
 - total manufacturing costs
 - manufacturing overhead

ANS: B DIF: 1 REF: p. 044
OBJ: 3 NAT: AACSB Analytic | IMA External financial reporting

Figure 2-2

Cost of goods manufactured	\$470,000
Beginning work in process	60,000
Beginning finished goods inventory	105,000
Direct materials	75,000
Direct labor	160,000
Manufacturing overhead	215,000
Cost of goods sold	445,000

63. Refer to Figure 2-2. The cost of ending work in process would be
- a. \$40,000
 - b. \$45,000
 - c. \$105,000
 - d. \$130,000

ANS: A

SUPPORTING CALCULATIONS:

Direct materials	\$ 75,000
Direct labor	160,000
Manufacturing overhead	<u>215,000</u>
Total manufacturing costs added	\$450,000
Add: Beginning work in process	<u>60,000</u>
Total manufacturing costs	\$510,000
Less: Ending work in process	<u> X</u>
Cost of goods manufactured	<u>\$470,000</u>

$$\text{Ending work-in-process} = \$510,000 - \$470,000 = \underline{\$40,000}$$

DIF: 3 REF: p. 045 OBJ: 3
 NAT: AACSB Analytic | IMA External financial reporting

64. Refer to Figure 2-2. The cost of ending finished goods inventory would be
- a. \$40,000
 - b. \$45,000
 - c. \$105,000
 - d. \$130,000

ANS: D

SUPPORTING CALCULATIONS:

Beginning finished goods inventory	\$105,000
Add: Cost of goods manufactured	<u>470,000</u>
Cost of goods available for sale	\$575,000
Less: Ending finished goods inventory	<u> X</u>
Cost of goods sold	<u>\$445,000</u>

$$\text{Ending finished goods inventory} = \$575,000 - \$445,000 = \underline{\$130,000}$$

DIF: 2 REF: p. 045 OBJ: 3
 NAT: AACSB Analytic | IMA External financial reporting

Figure 2-3

Sales	\$340,000
Direct materials inventory, 1/1	20,000
Direct materials inventory, 12/31	5,500
Direct materials purchases	95,000
Direct labor	52,500
Manufacturing overhead	49,500
Selling and administrative expenses	55,000
Cost of goods manufactured	?
Cost of goods sold	?
Work in process, 1/1	26,000
Work in process, 12/31	32,500
Finished goods inventory, 1/1	40,000
Finished goods inventory, 12/31	60,000
Income before income taxes	?

65. Refer to Figure 2-3. Income before taxes would be
- \$340,000
 - \$155,000
 - \$100,000
 - \$128,500

ANS: C

SUPPORTING CALCULATIONS:

Cost of Goods Manufactured:

Direct materials:

Beginning inventory	\$ 20,000	
Add: purchases	<u>95,000</u>	
Materials available	\$115,000	
Less: Ending inventory	<u>5,500</u>	
Direct materials used		\$109,500

Direct labor		52,500
Manufacturing overhead		<u>49,500</u>
Total manufacturing costs added		\$211,500
Add: Beginning work in process		<u>26,000</u>
Total manufacturing costs		\$237,500
Less: Ending work in process		<u>32,500</u>
Cost of goods manufactured		<u>\$205,000</u>

Cost of Goods Sold:

Beginning finished goods inventory		\$ 40,000
Add: cost of goods manufactured		<u>205,000</u>
Cost of goods available for sale		\$245,000
Less: Ending finished goods inventory		<u>(60,000)</u>
Cost of Goods Sold		<u>\$185,000</u>

Sales		\$340,000
Less: Cost of goods sold		<u>185,000</u>
Gross margin		\$155,000
Less: Selling and administrative expenses		<u>55,000</u>
Income before income taxes		<u>\$100,000</u>

ANS: DIF: 3 REF: p. 045 OBJ: 3

NAT: AACSB Analytic | IMA External financial reporting

66. Refer to Figure 2-3. The cost of goods manufactured would be
- \$245,000
 - \$211,500
 - \$205,000
 - \$185,000

ANS: C

SUPPORTING CALCULATIONS:

Cost of goods manufactured:

Direct materials:

Beginning inventory	\$ 20,000	
Add: Purchases	<u>95,000</u>	
Materials available	\$115,000	
Less: Ending inventory	<u>5,500</u>	
Direct materials used		\$109,500
Direct labor		52,500
Manufacturing overhead		<u>49,500</u>
Total manufacturing costs added		\$211,500
Add: Beginning work in process		<u>26,000</u>
Total manufacturing costs		\$237,500
Less: Ending work in process		<u>32,500</u>
Cost of goods manufactured		<u>\$205,000</u>

ANS: DIF: 2 REF: p. 045 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

67. Refer to Figure 2-3. The cost of goods sold would be
- \$245,000
 - \$211,500
 - \$205,000
 - \$185,000

ANS: D

SUPPORTING CALCULATIONS:

Cost of goods sold:

Beginning finished goods inventory	\$ 40,000
Add: Cost of goods manufactured	<u>205,000</u>
Cost of goods available for sale	\$245,000
Less: Ending finished goods inventory	<u>60,000</u>
Cost of goods sold	<u>\$185,000</u>

ANS: DIF: 2 REF: p. 045 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

Figure 2-4

Cost of goods sold	\$150,000
Direct materials	22,000
Direct labor	48,000
Manufacturing overhead	90,000
Beginning finished goods inventory	30,000
Beginning work in process	16,000
Cost of goods manufactured	164,000

68. Refer to Figure 2-4. The cost of ending work in process would be

- a. \$44,000
- b. \$30,000
- c. \$14,000
- d. \$12,000

ANS: D

SUPPORTING CALCULATIONS:

Direct materials	\$ 22,000
Direct labor	48,000
Manufacturing overhead	<u>90,000</u>
Total manufacturing costs added	\$160,000
Add: Beginning work in process	<u>16,000</u>
Total manufacturing costs	\$176,000
Less: Ending work in process	<u> X</u>
Cost of goods manufactured	<u>\$164,000</u>

Ending work in process = \$176,000 - \$164,000 = \$12,000

ANS: DIF: 3 REF: p. 045 OBJ: 3

NAT: AACSB Analytic | IMA External financial reporting

69. Refer to Figure 2-4. The cost of ending finished goods inventory would be

- a. \$44,000
- b. \$30,000
- c. \$14,000
- d. \$12,000

ANS: A

SUPPORTING CALCULATIONS:

Beginning finished goods inventory	\$ 30,000
Add: Cost of goods manufactured	<u>164,000</u>
Cost of goods available for sale	\$194,000
Less: Ending finished goods inventory	<u> X</u>
Cost of goods sold	<u>\$150,000</u>

Ending finished goods inventory = \$194,000 - \$150,000 = \$44,000

ANS: DIF: 3 REF: p. 045 OBJ: 3

NAT: AACSB Analytic | IMA External financial reporting

70. At 60,000 units of production, the Habanero Company expects costs to be as follows:

Direct materials	\$144,000
Direct labor	60,000
Depreciation of factory	25,000
Depreciation of production equipment	20,000
Production supervisor's salary	12,000
Supplies	6,000
Indirect labor	9,000
Electricity	12,000

The Habanero Company's total manufacturing cost added per unit at 60,000 units would be

- \$3.40
- \$3.85
- \$2.25
- \$4.80

ANS: D

SUPPORTING CALCULATIONS:

Direct materials	\$144,000
Direct labor	60,000
Depreciation of factory	25,000
Depreciation of production equipment	20,000
Production supervisor's salary	12,000
Supplies	6,000
Indirect labor	9,000
Electricity	<u>12,000</u>
Total manufacturing costs added	<u>\$288,000</u>

\$288,000/60,000 units = \$4.80 per unit

ANS: DIF: 2 REF: p. 045 OBJ: 3

NAT: AACSB Analytic | IMA External financial reporting

Figure 2-5

Sales	\$447,500
Direct materials inventory, 1/1	32,500
Direct materials inventory, 12/31	20,000
Direct materials purchased	120,000
Direct labor	65,000
Manufacturing overhead	89,500
Selling and administrative expenses	72,500
Cost of goods manufactured	?
Cost of goods sold	?
Work in process, 1/1	55,000
Work in process, 12/31	62,000
Finished goods inventory, 1/1	65,000
Finished goods inventory, 12/31	22,500
Income before income taxes	?

71. Refer to Figure 2-5. The cost of goods sold would be

- a. \$72,500
- b. \$280,000
- c. \$322,500
- d. \$345,000

ANS: C

SUPPORTING CALCULATIONS:

Cost of goods manufactured:

Direct materials:

Beginning inventory	\$ 32,500	
Add: Purchases	<u>120,000</u>	
Materials available	\$152,500	
Less: Ending inventory	<u>20,000</u>	
Direct materials used		\$132,500
Direct labor		65,000
Manufacturing overhead		<u>89,500</u>
Total manufacturing costs added		\$287,000
Add: Beginning work in process		<u>55,000</u>
Total manufacturing costs		\$342,000
Less: Ending work in process		<u>62,000</u>
Cost of goods manufactured		<u>\$280,000</u>

Cost of goods sold:

Beginning finished goods inventory	\$ 65,000
Add: Cost of goods manufactured	<u>280,000</u>
Cost of goods available for sale	\$345,000
Less: Ending finished goods inventory	<u>22,500</u>
Cost of goods sold	<u>\$322,500</u>

ANS: DIF: 3 REF: p. 045 OBJ: 3

NAT: AACSB Analytic | IMA External financial reporting

72. Refer to Figure 2-5. Income before income taxes would be
- \$52,500
 - \$125,000
 - \$160,000
 - \$167,500

ANS: A

SUPPORTING CALCULATIONS:

Sales	\$447,500
Less: Cost of goods sold	<u>322,500</u>
Gross margin	\$125,000
Less: Selling and administrative expenses	<u>72,500</u>
Income before income taxes	<u>\$ 52,500</u>

ANS: DIF: 2 REF: p. 045 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

73. Refer to Figure 2-5. The cost of goods manufactured would be
- \$237,500
 - \$280,000
 - \$322,500
 - \$345,000

ANS: B

SUPPORTING CALCULATIONS:

Cost of goods manufactured:	
Direct materials:	
Beginning inventory	\$ 32,500
Add: Purchases	<u>120,000</u>
Materials available	\$152,500
Less: Ending inventory	<u>20,000</u>
Direct materials used	\$132,500
Direct labor	65,000
Manufacturing overhead	<u>89,500</u>
Total manufacturing costs added	\$287,000
Add: Beginning work in process	<u>55,000</u>
Total manufacturing costs	\$342,000
Less: Ending work in process	<u>62,000</u>
Cost of goods manufactured	<u>\$280,000</u>

ANS: DIF: 2 REF: p. 045 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

74. In which account would you find minerals such as coal or iron ore that are used in manufacturing a product?
- direct materials inventory
 - work in process
 - finished goods inventory
 - cost of goods sold

ANS: A DIF: 3 REF: p. 042 | p. 045
OBJ: 2 | 3 NAT: AACSB Analytic | IMA External financial reporting

75. If cost of goods manufactured is greater than total manufacturing costs added, then which of the following is true?
- direct materials inventory increased during the period
 - direct materials inventory decreased during the period
 - finished goods inventory increased during the period
 - work in process decreased during the period

ANS: D DIF: 3 REF: p. 045
OBJ: 3 NAT: AACSB Analytic | IMA External financial reporting

76. The IDA Company's cost of goods manufactured is greater than cost of goods sold. What does this mean?
- finished goods inventory increased during the period
 - finished goods inventory decreased during the period
 - work in process increased during the period
 - gross margin increased from last period

ANS: A DIF: 3 REF: p. 045
OBJ: 3 NAT: AACSB Analytic | IMA External financial reporting

77. The Fallon Company's beginning balance of direct materials for April was \$12,000. During the month of April, \$124,000 of direct materials were purchased. The bookkeeper left on April 30 without recording the amount of direct materials used during the month of April. If direct materials inventory on April 30 was \$25,000, what was the cost of direct materials used during the month?
- \$137,000
 - \$136,000
 - \$111,000
 - cannot be determined with the information given

ANS: C
SUPPORTING CALCULATIONS:

$$\$12,000 + \$124,000 - \$25,000 = \underline{\$111,000}$$

ANS: DIF: 2 REF: p. 045 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

78. The following information is provided for the Holland Company for the current year:

Beginning work in process	\$150,000
Ending work in process	70,000
Direct labor	160,000
Direct materials	120,000
Manufacturing overhead	200,000

The cost of goods manufactured for the current year would be

- a. \$600,000
- b. \$560,000
- c. \$540,000
- d. \$480,000

ANS: B

SUPPORTING CALCULATIONS:

Direct materials	\$120,000
Direct labor	160,000
Manufacturing overhead	<u>200,000</u>
Total manufacturing costs added	\$480,000
Add: Beginning work in process	<u>150,000</u>
Total manufacturing costs	\$630,000
Less: Ending work in process	<u>70,000</u>
Cost of goods manufactured	<u>\$560,000</u>

ANS: DIF: 2 REF: p. 045 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

79. Horton Company manufactured goods costing \$800,000. Additional information is as follows:

Beginning work in process	\$100,000
Ending work in process	80,000
Beginning finished goods inventory	25,000
Ending finished goods inventory	50,000

Horton's cost of goods sold was

- a. \$800,000
- b. \$775,000
- c. \$820,000
- d. \$805,000

ANS: B

SUPPORTING CALCULATIONS:

Beginning finished goods inventory	\$ 25,000
Add: Cost of goods manufactured	<u>800,000</u>
Cost of goods available for sale	\$825,000
Less: Ending finished goods inventory	<u>50,000</u>
Cost of goods sold	<u>\$775,000</u>

ANS: DIF: 2 REF: p. 045 OBJ: 3

NAT: AACSB Analytic | IMA External financial reporting

80. The past year's sales were \$540,000 for the Max Company. The gross margin for the same year was \$155,000 and cost of goods manufactured was \$350,000. If beginning finished goods inventory was \$50,000, ending finished goods inventory must have been

- a. \$385,000
- b. \$35,000
- c. \$50,000
- d. \$15,000

ANS: D

SUPPORTING CALCULATIONS:

Cost of goods sold: $\$540,000 - \$155,000 = \$385,000$

$\$50,000 + \$350,000 - \$385,000 = \underline{\$15,000}$

ANS: DIF: 3 REF: p. 045 OBJ: 3

NAT: AACSB Analytic | IMA External financial reporting

81. The following information is available for the current year for Sven's Brokerage Services:

Sales	\$661,000
Beginning work in process	7,000
Ending work in process	6,000
Direct labor	100,000
Direct materials	30,000
Overhead	150,000
Selling expenses	80,000
Administrative expenses	120,000

What is Sven's income before income taxes for the year?

- a. \$180,000
- b. \$182,000
- c. \$380,000
- d. \$382,000

ANS: A

SUPPORTING CALCULATIONS:

Sales		\$661,000
Less cost of services sold:		
Direct materials	\$ 30,000	
Direct labor	100,000	
Overhead	<u>150,000</u>	
Total current service costs	\$280,000	
Add: Beginning work in process	<u>7,000</u>	
Total	\$287,000	
Less: Ending work in process	<u>6,000</u>	
Cost of services sold		<u>281,000</u>
Gross margin		\$380,000
Less operating expenses:		
Selling expenses	\$ 80,000	
Administrative expenses	<u>120,000</u>	<u>200,000</u>
Income before income taxes		<u>\$180,000</u>

ANS: DIF: 2 REF: p. 045 OBJ: 3

NAT: AACSB Analytic | IMA External financial reporting

82. If direct materials inventory increased during the month by \$4,000 and direct materials placed in production were \$155,000, how much direct materials were purchased during the month?
- \$159,000
 - \$151,000
 - \$155,000
 - cannot be determined with the information given

ANS: A

SUPPORTING CALCULATIONS:

$$\begin{aligned} \$0 - + \text{direct materials purchased} - \$4,000 &= \$155,000 \\ \text{direct materials purchased} &= \underline{\$159,000} \end{aligned}$$

ANS: DIF: 3 REF: p. 045 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

83. The following information is provided for Drew Company:

Direct materials	\$ 55,000
Direct labor	115,000
Manufacturing overhead	210,000
Beginning work in process	70,000
Ending work in process	30,000

The cost of goods manufactured would be

- \$340,000
- \$380,000
- \$420,000
- \$480,000

ANS: C

SUPPORTING CALCULATIONS:

Direct materials	\$ 55,000
Direct labor	115,000
Manufacturing overhead	<u>210,000</u>
Total manufacturing costs added	\$380,000
Add: Beginning work in process	<u>70,000</u>
Total manufacturing costs	\$450,000
Less: Ending work in process	<u>30,000</u>
Cost of goods manufactured	<u>\$420,000</u>

ANS: DIF: 2 REF: p. 045 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

84. Goods that are ready for sale include which of the following?
- a. Direct materials inventory
 - b. work in process
 - c. finished goods inventory
 - d. cost of goods sold

ANS: C DIF: 3 REF: p. 046
OBJ: 3 NAT: AACSB Analytic | IMA Cost management

85. Goods that have been started but are not complete are considered classified as which of the following?
- a. direct materials inventory
 - b. work in process
 - c. finished goods inventory
 - d. cost of goods sold

ANS: B DIF: 1 REF: p. 046
OBJ: 3 NAT: AACSB Analytic | IMA External financial reporting

86. Which of the following is **NOT** used in the computation of cost of services sold?
- a. finished goods inventory
 - b. direct materials
 - c. work in process
 - d. direct labor

ANS: A DIF: 1 REF: p. 046
OBJ: 3 NAT: AACSB Analytic | IMA External financial reporting

87. Inventory consisting of partially completed units at the end of the year is called
- a. direct materials inventory
 - b. finished goods inventory
 - c. work in process
 - d. indirect materials inventory

ANS: C DIF: 1 REF: p. 046
OBJ: 3 NAT: AACSB Analytic | IMA External financial reporting

88. Blitz CPA firm has provided the following information for its client for the current year:

Beginning work in process	\$ 5,000
Ending work in process	10,000
Direct labor	80,000
Direct materials	40,000
Overhead	100,000

What is the cost of services sold?

- a. \$200,000
- b. \$215,000
- c. \$220,000
- d. \$225,000

ANS: B

SUPPORTING CALCULATIONS:

Direct materials	\$ 40,000
Direct labor	80,000
Overhead	<u>100,000</u>
Total current service costs	\$220,000
Add: Beginning work in process	<u>5,000</u>
Total	\$225,000
Less: Ending work in process	<u>10,000</u>
Cost of services sold	<u>\$215,000</u>

ANS: DIF: 3 REF: p. 046-047 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

89. The following current-year information is available for Petersen's marketing consulting firm:

Beginning work in process	\$ 1,000
Ending work in process	1,500
Direct labor	75,000
Direct materials	20,500
Overhead	90,000

What is the cost of services sold?

- a. \$186,000
- b. \$185,500
- c. \$185,000
- d. \$165,000

ANS: C

SUPPORTING CALCULATIONS:

Direct materials	\$ 20,500
Direct labor	75,000
Overhead	<u>90,000</u>
Total current service costs	\$185,500
Add: Beginning work in process	<u>1,000</u>
Total	\$186,500
Less: Ending work in process	<u>1,500</u>
Cost of services sold	<u>\$185,000</u>

ANS: DIF: 3 REF: p. 046-047 OBJ: 3
 NAT: AACSB Analytic | IMA External financial reporting

90. The following current-year information is available for Petersen's marketing consulting firm:

Sales	\$500,000
Beginning work in process	1,000
Ending work in process	1,500
Direct labor	75,000
Direct materials	20,500
Overhead	90,000
Selling expenses	20,000
Administrative expenses	65,000

What is Petersen's income before income taxes for the year?

- \$316,000
- \$315,000
- \$229,000
- \$230,000

ANS: D

SUPPORTING CALCULATIONS:

Sales		\$500,000
Less expenses:		
Cost of services sold:		
Beginning work in process	\$ 1,000	
Service costs added:		
Direct materials	20,500	
Direct labor	75,000	
Overhead	<u>90,000</u>	
Total	\$186,500	
Less: Ending work in process	<u>1,500</u>	
Cost of services sold		<u>185,000</u>
Gross margin		\$315,000
Less operating expenses:		
Selling expenses	\$ 20,000	
Administrative expenses	<u>65,000</u>	<u>85,000</u>
Income before income taxes		<u><u>\$230,000</u></u>

ANS: DIF: 3 REF: p. 046-047 OBJ: 3

NAT: AACSB Analytic | IMA External financial reporting

91. The following information is available for the current year for Sven's Brokerage Services:

Beginning work in process	\$ 7,000
Ending work in process	6,000
Direct labor	100,000
Direct materials	30,000
Overhead	150,000

What is the cost of services sold?

- a. \$281,000
- b. \$280,000
- c. \$279,000
- d. \$260,000

ANS: A

SUPPORTING CALCULATIONS:

Direct materials	\$ 30,000
Direct labor	100,000
Overhead	<u>150,000</u>
Total current service costs	\$280,000
Add: Beginning work in process	<u>7,000</u>
Total	\$287,000
Less: Ending work in process	<u>6,000</u>
Cost of services sold	<u>\$281,000</u>

ANS: DIF: 3 REF: p. 046-047 OBJ: 3

NAT: AACSB Analytic | IMA Information management

92. In comparing functional-based management (FBM) and activity-based management (ABM) accounting systems, functions are usually grouped into organizational units, while activities with a common objective are grouped to form

- a. activity clusters
- b. processes
- c. departments
- d. none of the above

ANS: B DIF: 1 REF: p. 047

OBJ: 4 NAT: AACSB Analytic | IMA Information management

93. Driver tracing in a functional-based management accounting system uses the following drivers:

- a. batch drivers
- b. resource drivers
- c. production drivers
- d. both a and c

ANS: C DIF: 1 REF: p. 047

OBJ: 4 NAT: AACSB Analytic | IMA Information management

94. In the activity-based management model, the process view consists of all of the following EXCEPT
- functions
 - performance analysis
 - activities
 - driver analysis

ANS: A DIF: 2 REF: p. 048
OBJ: 4 NAT: AACSB Analytic | IMA Cost management

95. Which of the following statements is a characteristic of FBM (functional based management) systems?
- FBM systems provide broad and flexible product costing.
 - FBM systems maximize individual unit performance.
 - FBM systems focus on managing activities.
 - More than one of these is a characteristic of ABM systems.

ANS: B DIF: 2 REF: p. 048-050
OBJ: 4 NAT: AACSB Analytic | IMA Information management

96. In a functional based costing model, product costing is ordinarily satisfied by assigning costs to
- finished goods inventories
 - cost of goods sold
 - work in process inventories
 - all of the above

ANS: D DIF: 2 REF: p. 049
OBJ: 4 NAT: AACSB Analytic | IMA Cost management

97. The emerging consensus about the best way to control costs is
- to focus solely on costs
 - the management of activities, not costs
 - the management of resources, not costs
 - to focus on performance analysis

ANS: B DIF: 2 REF: p. 049
OBJ: 4 NAT: AACSB Analytic | IMA Cost management

98. Which of the following statements is a characteristic of ABM (Activity based management) systems?
- ABM systems provide broad and flexible product costing.
 - ABM systems maximize individual unit performance.
 - ABM systems focus on managing costs.
 - More than one of these is a characteristic of ABM systems.

ANS: A DIF: 2 REF: p. 049-050
OBJ: 4 NAT: AACSB Analytic | IMA Information management

99. In comparing functional-based costing (FBC) with activity-based costing (ABC), which of the following is true?

- | <u>FBC</u> | <u>ABC</u> |
|-------------------------|----------------------|
| a. tracing-intensive | allocation-intensive |
| b. tracing-intensive | tracing-intensive |
| c. allocation-intensive | tracing-intensive |
| d. allocation-intensive | allocation-intensive |

ANS: C DIF: 1 REF: p. 050
OBJ: 4 NAT: AACSB Analytic | IMA Information management

100. Both functional-based costing (FBC) and activity-based costing (ABC) use direct tracing and driver tracing; however, ABC uses

- a. driver tracing more than FBC
- b. driver tracing less than FBC
- c. unit-based drivers rather than nonunit-based drivers
- d. none of the above

ANS: A DIF: 2 REF: p. 050
OBJ: 4 NAT: AACSB Analytic | IMA Information management

101. Which of the following statements is true regarding a functional based management system?

- a. Functional based systems utilize both unit and non-unit based drivers.
- b. Functional based systems are allocation intensive.
- c. Functional based systems focus on managing activities.
- d. Functional based systems provide broad and flexible product costing.

ANS: B DIF: 2 REF: p. 050
OBJ: 4 NAT: AACSB Analytic | IMA Information management

102. Which of the following statements is true regarding an ABM (Activity based management) system?

- a. Activity-based cost assignments emphasize tracing over allocation.
- b. Activity-based cost assignments are based on unit-level drivers alone.
- c. Activity-based cost assignments yield less accurate results than functional-based cost assignments.
- d. Activity-based cost assignments focus on managing costs.

ANS: A DIF: 2 REF: p. 050
OBJ: 4 NAT: AACSB Analytic | IMA Information management

PROBLEM

1. During 2007, Gateway, Inc., produced and sold 50,000 units for \$15 each. Costs for 2004 were as follows:

Cost of goods manufactured	\$400,000
Beginning finished goods inventory	20,000
Ending finished goods inventory	35,000
Beginning work in process	60,000
Ending work in process	58,000
Sales commissions	40,000
Sales supervisors' salaries	30,000
Depreciation on factory equipment	45,000
Administrative expenses	12,500
Indirect materials	22,500

Required:

Prepare an income statement for Gateway, Inc.

ANS:

GATEWAY, INC.
INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2004

Sales (50,000 × \$15)		\$750,000
Less cost of goods sold:		
Beginning finished goods inventory	\$ 20,000	
Add: Cost of goods manufactured	<u>400,000</u>	
Cost of goods available for sale	\$420,000	
Less: Ending finished goods inventory	<u>35,000</u>	<u>385,000</u>
Gross margin		\$365,000
Less operating expenses:		
Selling expenses	\$ 70,000	
Administrative expenses	<u>12,500</u>	<u>82,500</u>
Income before income taxes		<u><u>\$282,500</u></u>

ANS: DIF: 3 REF: p. 044 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

2. Cluck & Company had the following beginning and ending inventories for the current year:

	<u>Beginning</u>	<u>Ending</u>
Direct materials	\$120,000	\$150,000
Work in process	175,000	165,000
Finished goods	95,000	80,000

The following costs were incurred:

Purchase of direct materials	\$800,000
Direct labor cost	720,000
Manufacturing overhead	840,000

Required:

Prepare a statement of cost of goods manufactured.

ANS:

Cluck & Company
STATEMENT OF COST OF GOODS MANUFACTURED
For the year ended December 31, 2007

Direct materials:	
Beginning inventory	\$120,000
Add: Purchases	<u>800,000</u>
Materials available	\$920,000
Less: Ending inventory	<u>150,000</u>
Direct materials used	\$ 770,000
Direct labor	720,000
Manufacturing overhead	<u>840,000</u>
Total manufacturing costs added	\$2,330,000
Add: Beginning work in process	<u>175,000</u>
Total manufacturing costs	\$2,505,000
Less: Ending work in process	<u>165,000</u>
Cost of goods manufactured	<u>\$2,340,000</u>

ANS: DIF: 3 REF: p. 045 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

3. The following information has been extracted from the records of Haverhill Company:

Sales	\$400,000
Purchases of direct materials	70,000
Indirect labor	10,000
Indirect materials	4,000
Depreciation of factory equipment	15,000
Depreciation of factory buildings	11,000
Depreciation of administrative building	41,000
Marketing costs	25,000
Direct labor	180,000
Direct materials inventory, 12-31-07	14,000
Work in process, 1-1-07	31,000
Direct materials inventory, 1-1-07	10,000
Work in process, 12-31-07	23,000
Finished goods inventory, 1-1-07	49,000
Finished goods inventory, 12-31-07	44,000

Required:

- a. Prepare a statement of cost of goods manufactured.
- b. Prepare an income statement for the Haverhill Company for the year ending December 31, 2007.

ANS:

a.

HAVERHILL COMPANY
 STATEMENT OF COST OF GOODS MANUFACTURED
 FOR THE YEAR ENDED DECEMBER 31, 2007

Direct materials:		
Beginning inventory	\$10,000	
Add: Purchases	<u>70,000</u>	
Materials available	\$80,000	
Less: Ending inventory	<u>14,000</u>	
Direct materials used		\$ 66,000
Direct labor		180,000
Manufacturing overhead:		
Indirect labor	\$10,000	
Indirect materials	4,000	
Depreciation of factory equipment	15,000	
Depreciation of factory buildings	<u>11,000</u>	
Total manufacturing costs added		<u>\$286,000</u>
Add: Beginning work in process		<u>31,000</u>
Total manufacturing costs		\$317,000
Less: Ending work in process		<u>23,000</u>
Cost of goods manufactured		<u>\$294,000</u>

b. HAVERHILL COMPANY
INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2007

Sales		\$400,000
Less cost of goods sold:		
Beginning finished goods inventory	\$ 49,000	
Add: Cost of goods manufactured	<u>294,000</u>	
Cost of goods available for sale	\$343,000	
Less: Ending finished goods inventory	<u>44,000</u>	<u>299,000</u>
Gross margin		\$101,000
Less operating expenses:		
Selling expenses	\$ 25,000	
Administrative expenses	<u>41,000</u>	<u>66,000</u>
Income before income taxes		<u>\$ 35,000</u>

ANS: DIF: 3 REF: p. 045 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

4. The following information has been provided:

Sales	\$1,974,000
Direct materials inventory, 1/1	54,000
Direct materials inventory, 12/31	?
Direct materials purchased	206,000
Direct materials used in production	212,000
Direct labor	434,000
Manufacturing overhead	650,000
Selling and administrative expenses	300,000
Cost of goods manufactured	1,322,000
Cost of goods available for sale	1,420,000
Work in process, 1/1	156,000
Work in process, 12/31	?
Finished goods, 1/1	?
Finished goods, 12/31	116,000
Income before income taxes	370,000

Required:

Determine the following amounts:

- Direct materials inventory, 12/31
- Work in process, 12/31
- Finished goods, 1/1

ANS:

- a. Direct materials inventory, 12/31 = \$48,000
- b. Work in process, 12/31 = \$130,000
- c. Finished goods inventory = \$98,000

Sales					\$1,974,000
Cost of goods manufactured					
Beginning inventory	\$ 54,000				
Add: Purchases	<u>206,000</u>				
Materials available	\$260,000				
Less: Ending inventory	(a) <u>48,000</u>				
Direct materials used		\$ 212,000			
Direct labor		434,000			
Manufacturing overhead		<u>650,000</u>			
Total manufacturing costs added		\$1,296,000			
Add: Beginning work in process		<u>156,000</u>			
Total manufacturing costs		\$1,452,000			
Less: Ending work in process		(b) <u>130,000</u>			
Cost of goods manufactured		\$1,322,000			
Add: Beginning finished goods inventory		(c) <u>98,000</u>			
Cost of goods available for sale		\$1,420,000			
Less: Ending finished goods inv.		<u>116,000</u>			
					<u>1,304,000</u>
Gross margin					\$ 670,000
Selling and administrative costs					<u>300,000</u>
Income before income taxes					<u>\$ 370,000</u>

ANS: DIF: 3 REF: p. 045 OBJ: 3
 NAT: AACSB Analytic | IMA External financial reporting

5. Calvin and Company had the following beginning and ending inventories for the year 2007:

	<u>Beginning</u>	<u>Ending</u>
direct materials	\$ 48,000	\$ 70,000
Work in process	176,000	150,000
Finished goods	128,000	104,000

During 2007, the following costs were incurred:

Purchase of direct materials	\$240,000
Direct labor cost	360,000
Manufacturing overhead	640,000

Required:

Prepare a statement of cost of goods manufactured.

ANS:

CALVIN AND COMPANY
STATEMENT OF COST OF GOODS MANUFACTURED
FOR THE YEAR ENDED DECEMBER 31, 2007

Direct materials:	
Beginning inventory	\$ 48,000
Add: Purchases	<u>240,000</u>
Materials available	\$288,000
Less: Ending inventory	<u>70,000</u>
Direct materials used	\$ 218,000
Direct labor	360,000
Manufacturing overhead	<u>640,000</u>
Total manufacturing costs added	\$1,218,000
Add: Beginning work in process	<u>176,000</u>
Total manufacturing costs	\$1,394,000
Less: Ending work in process	<u>150,000</u>
Cost of goods manufactured	<u>\$1,244,000</u>

ANS: DIF: 3 REF: p. 045 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

6. The following information pertains to the Taylor Company for the year ending December 31, 2007:

Sales	1,000,000
Purchases of direct materials	220,000
Indirect labor	17,000
Indirect materials	10,000
Depreciation of factory equipment	40,000
Depreciation of factory buildings	35,000
Depreciation of administrative building	87,500
Marketing costs	145,000
Direct labor	173,500
Direct materials inventory, 1-1-07	33,000
Direct materials inventory, 12-31-07	28,500
Work in process, 1-1-07	53,500
Work in process, 12-31-07	41,500
Finished goods inventory, 1-1-07	121,500
Finished goods inventory, 12-31-07	96,000

Required:

- a. Prepare a statement of cost of goods manufactured.
- b. Prepare a functional income statement for the Taylor Company for the year ending December 31, 2007.

ANS:

a.

TAYLOR COMPANY
 STATEMENT OF COST OF GOODS MANUFACTURED
 FOR THE YEAR ENDED DECEMBER 31, 2007

Direct materials:		
Beginning inventory	\$ 33,000	
Add: Purchases	<u>220,000</u>	
Materials available	\$253,000	
Less: Ending inventory	<u>28,500</u>	
Direct materials used		\$224,500
Direct labor		173,500
Manufacturing overhead:		
Indirect labor	\$17,000	
Indirect materials	10,000	
Depreciation of factory equipment	40,000	
Depreciation of factory buildings	<u>35,000</u>	<u>102,000</u>
Total manufacturing costs added		\$500,000
Add: Beginning work in process		<u>53,500</u>
Total manufacturing costs		\$553,500
Less: Ending work in process		<u>41,500</u>
Cost of goods manufactured		<u>\$512,000</u>

b.

TAYLOR COMPANY
INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2007

Sales		\$1,000,000
Less cost of goods sold:		
Beginning finished goods inventory	\$121,500	
Add: Cost of goods manufactured	<u>512,000</u>	
Cost of goods available for sale	\$633,500	
Less: Ending finished goods inventory	<u>96,000</u>	<u>537,500</u>
Gross margin		\$ 462,500
Less operating expenses:		
Selling expenses	\$145,000	
Administrative expenses	<u>87,500</u>	<u>232,500</u>
Income before income taxes		<u>\$ 230,000</u>

ANS: DIF: 3 REF: p. 045 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

7. The following information has been provided:

Sales		\$?
Direct materials inventory, 1/1		8,000
Direct materials inventory, 12/31		12,000
Direct materials purchases		84,000
Direct labor		120,000
Direct materials used		80,000
Manufacturing overhead		160,000
Selling and administrative expenses		148,000
Cost of goods manufactured		350,000
Cost of goods available for sale		322,000
Cost of goods sold		332,000
Work in process, 1/1		24,000
Work in process, 12/31		?
Finished goods inventory, 1/1		?
Finished goods inventory, 12/31		70,000
Income before income taxes		100,000

Required:

Determine the following amounts:

- a. Sales
- b. Work in process, 12/31
- c. Finished goods inventory, 1/1
- d. Cost of goods available for sale

ANS:

- a. \$580,000
- b. \$34,000
- c. \$52,000
- d. \$402,000

Sales		(a)\$580,000
Cost of goods manufactured:		
Direct materials:		
Beginning inventory	\$ 8,000	
Add: Purchases	<u>84,000</u>	
Materials available	\$92,000	
Less: Ending inventory	<u>12,000</u>	
Direct materials used		\$ 80,000
Direct labor		120,000
Manufacturing overhead		<u>160,000</u>
Total manufacturing costs added		\$360,000
Add: Beginning work in process		<u>24,000</u>
Total manufacturing costs		\$384,000
Less: Ending work in process		<u>(b) 34,000</u>
Cost of goods manufactured		\$350,000
Add: Beginning finished goods inventory		<u>(c) 52,000</u>
Cost of goods available for sale		(d)\$402,000
Less: Ending finished goods inventory		<u>70,000</u>
Cost of goods sold		<u>332,000</u>
Gross margin		\$248,000
Selling and administrative expenses		<u>148,000</u>
Income before income taxes		<u>\$100,000</u>

ANS: DIF: 3 REF: p. 045 OBJ: 3
 NAT: AACSB Analytic | IMA External financial reporting

8. Madisen Consulting, Inc., experienced the following results in the current year (2007):

Sales	\$500,000
Beginning work in process	10,000
Ending work in process	20,000
Direct materials	50,000
Direct labor	100,000
Overhead	90,000
Selling expenses	50,000
Administrative expenses	70,000

Required:

Prepare an income statement for Madisen Consulting for the year 2007.

ANS:

MADISEN CONSULTING, INC.
INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2007

Sales		\$500,000
Less expenses:		
Cost of services sold:		
Beginning work in process	\$ 10,000	
Service costs added:		
Direct materials	\$ 50,000	
Direct labor	100,000	
Overhead	<u>90,000</u>	<u>240,000</u>
Total	\$250,000	
Less ending work in process	<u>20,000</u>	<u>230,000</u>
Gross margin		\$270,000
Less operating expenses:		
Selling expenses	\$ 50,000	
Administrative expenses	<u>70,000</u>	<u>120,000</u>
Income before income taxes		<u>\$150,000</u>

ANS: DIF: 3 REF: p. 047 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

9. Jansen CPA reported the following for 2007:

Sales	\$400,000
Beginning work in process	6,000
Ending work in process	8,000
Direct materials	30,000
Direct labor	90,000
Overhead	85,000
Selling expenses	10,000
Administrative expenses	27,000

Required:

Prepare an income statement for Jansen CPA.

ANS:

JANSEN CPA
INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2007

Sales		\$400,000
Less expenses:		
Cost of services sold:		
Beginning work in process	\$ 6,000	
Added service costs:		
Direct materials	\$30,000	
Direct labor	90,000	
Overhead	<u>85,000</u>	<u>205,000</u>
Total	\$211,000	
Less: Ending work in process	<u>8,000</u>	<u>203,000</u>
Gross margin		\$197,000
Less operating expenses:		
Selling expenses	\$10,000	
Administrative expenses	<u>27,000</u>	<u>37,000</u>
Income before income taxes		<u>\$160,000</u>

ANS: DIF: 3 REF: p. 046-047 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

ESSAY

1. Compare/contrast cost assignment and cost allocation. Be sure to include direct tracing and driver tracing in your discussion.

ANS:

Cost assignment refers to tracing costs to cost objects using direct tracing or driver tracing. Direct tracing is the process of identifying and assigning costs that are exclusively and physically associated with a cost object to that cost object. Driver tracing is the use of drivers to assign costs to cost objects. Drivers are factors that cause changes in resource usage and thus have a cause-and-effect relationship with the costs associated with a cost object.

Allocation is the assignment of indirect costs to cost objects. Since no causal relationship exists, allocating indirect costs is based on convenience or some assumed linkage.

ANS: DIF: 2 REF: p. 037-039 OBJ: 1
NAT: AACSB Analytic | IMA Cost management

2. Discuss how managerial product costing differs from product costing for financial reporting.

ANS:

Product costs used for external financial reporting and product costs for managerial uses can differ. For external financial reporting, product costs consist of direct materials, direct labor, and manufacturing overhead. Managerial product costing is the product cost information used by managers for planning and decision making. For internal managerial use different cost information is used for different purposes. For example, when pricing a product a manager needs to consider all costs, including selling and administrative costs. When pricing a one-time special order incremental costs might be used.

ANS: DIF: 3 REF: p. 041-045 OBJ: 2 | 3
NAT: AACSB Reflective thinking | IMA External financial reporting

3. Discuss how the cost of services sold differs from the cost of goods sold in a manufacturing firm.

ANS:

The cost of goods sold takes the cost of goods manufactured and adds the beginning finished goods inventory and subtracts the ending finished goods inventory. Services cannot inventory the product so there are no finished goods inventories. The cost of services sold consists of the costs to deliver the services: materials labor and overhead with adjustments for services in process.

ANS: DIF: 2 REF: p. 044-047 OBJ: 3
NAT: AACSB Analytic | IMA External financial reporting

4. As a manager, would you prefer a functional-based management (FBM) or an activity-based management (ABM) accounting system? Explain your choice.

ANS:

An ABM accounting system is tracing-intensive and uses both unit- and nonunit-based drivers to assign costs. This results in more accurate cost assignments and therefore increases the overall quality and relevance of the cost information provided. The focus of ABM is on managing activities, rather than costs. A further advantage of an ABM system is that it supports the goal of continuous improvement.

Disadvantages of an ABM accounting system include its additional complexity and its (possible) additional cost.

ANS: DIF: 3 REF: p. 047-050 OBJ: 4
NAT: AACSB Analytic | IMA Cost management

MATCHING

Determine whether each of the following statements relates to assigning costs

- a. direct tracing
 - b. driver tracing
 - c. allocation
1. cost assignment is done by physical association and observation
 2. cost assignment used when no causal relationship exists between the cost and the cost object
 3. cost assignment to a department the automobile traveling expenses of salesmen based on mileage
 4. cost assignment of company headquarter's costs to operating divisions
 5. cost assignment of wood cost in the production of podiums

- | | | |
|-----------|---|-----------------|
| 1. ANS: A | DIF: 2 | REF: p. 037-039 |
| OBJ: 1 | NAT: AACSB Analytic IMA Cost management | |
| 2. ANS: C | DIF: 2 | REF: p. 037-039 |
| OBJ: 1 | NAT: AACSB Analytic IMA Cost management | |
| 3. ANS: B | DIF: 2 | REF: p. 037-039 |
| OBJ: 1 | NAT: AACSB Analytic IMA Cost management | |
| 4. ANS: C | DIF: 3 | REF: p. 037-039 |
| OBJ: 1 | NAT: AACSB Analytic IMA Cost management | |
| 5. ANS: A | DIF: 3 | REF: p. 037-039 |
| OBJ: 1 | NAT: AACSB Analytic IMA Cost management | |

Determine whether each of the following statements relates to a functional-based management accounting system, an activity-based management accounting system or both.

- a. functional-based management accounting system.
 - b. activity-based management accounting system.
 - c. both functional-based and activity-based management accounting systems.
6. ABC Company uses direct labor hours to allocate the cost of indirect labor to various jobs in production.
 7. Ivy Corporation assigns set up costs using the number of machine set-ups necessary to manufacture different lines of greeting cards.
 8. Boise Company compares standard labor rates with actual labor rates paid assembly workers.
 9. Loblaw Manufacturing establishes a rate to be paid for direct materials, then ensures actual rates are in line.
 10. Dasaki Fabrics analyzes the cost of setting up sewing machines.
 11. The performance of the preparation department of Abe's Apple Corp. is evaluated using departmental measures.

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|------------|---|-----------------|
| 6. ANS: C | DIF: 3 | REF: p. 047-050 |
| OBJ: 4 | NAT: AACSB Analytic IMA Cost management | |
| 7. ANS: B | DIF: 3 | REF: p. 047-050 |
| OBJ: 4 | NAT: AACSB Analytic IMA Cost management | |
| 8. ANS: A | DIF: 3 | REF: p. 047-050 |
| OBJ: 4 | NAT: AACSB Analytic IMA Cost management | |
| 9. ANS: A | DIF: 3 | REF: p. 047-050 |
| OBJ: 4 | NAT: AACSB Analytic IMA Cost management | |
| 10. ANS: B | DIF: 3 | REF: p. 047-050 |
| OBJ: 4 | NAT: AACSB Analytic IMA Cost management | |
| 11. ANS: A | DIF: 3 | REF: p. 047-050 |
| OBJ: 4 | NAT: AACSB Analytic IMA Cost management | |

Match the appropriate management accounting system with the following list of characteristics.

- a. Functional Based Management Accounting System
- b. Activity Based Management Accounting System

12. Unit based drivers only
13. Tracing-intensive
14. Broad and flexible product costing
15. Focus on controlling costs
16. Systemwide performance maximization
17. Unit and nonunit based drivers
18. Maximization of individual unit performance
19. Narrow and rigid product costing

- | | | |
|------------|---|-----------------|
| 12. ANS: A | DIF: 3 | REF: p. 047-050 |
| OBJ: 4 | NAT: AACSB Analytic IMA Cost management | |
| 13. ANS: B | DIF: 3 | REF: p. 047-050 |
| OBJ: 4 | NAT: AACSB Analytic IMA Cost management | |
| 14. ANS: B | DIF: 3 | REF: p. 047-050 |
| OBJ: 4 | NAT: AACSB Analytic IMA Cost management | |
| 15. ANS: A | DIF: 3 | REF: p. 047-050 |
| OBJ: 4 | NAT: AACSB Analytic IMA Cost management | |
| 16. ANS: B | DIF: 3 | REF: p. 047-050 |
| OBJ: 4 | NAT: AACSB Analytic IMA Cost management | |
| 17. ANS: B | DIF: 3 | REF: p. 047-050 |
| OBJ: 4 | NAT: AACSB Analytic IMA Cost management | |
| 18. ANS: A | DIF: 3 | REF: p. 047-050 |
| OBJ: 4 | NAT: AACSB Analytic IMA Cost management | |
| 19. ANS: A | DIF: 3 | REF: p. 047-050 |
| OBJ: 4 | NAT: AACSB Analytic IMA Cost management | |