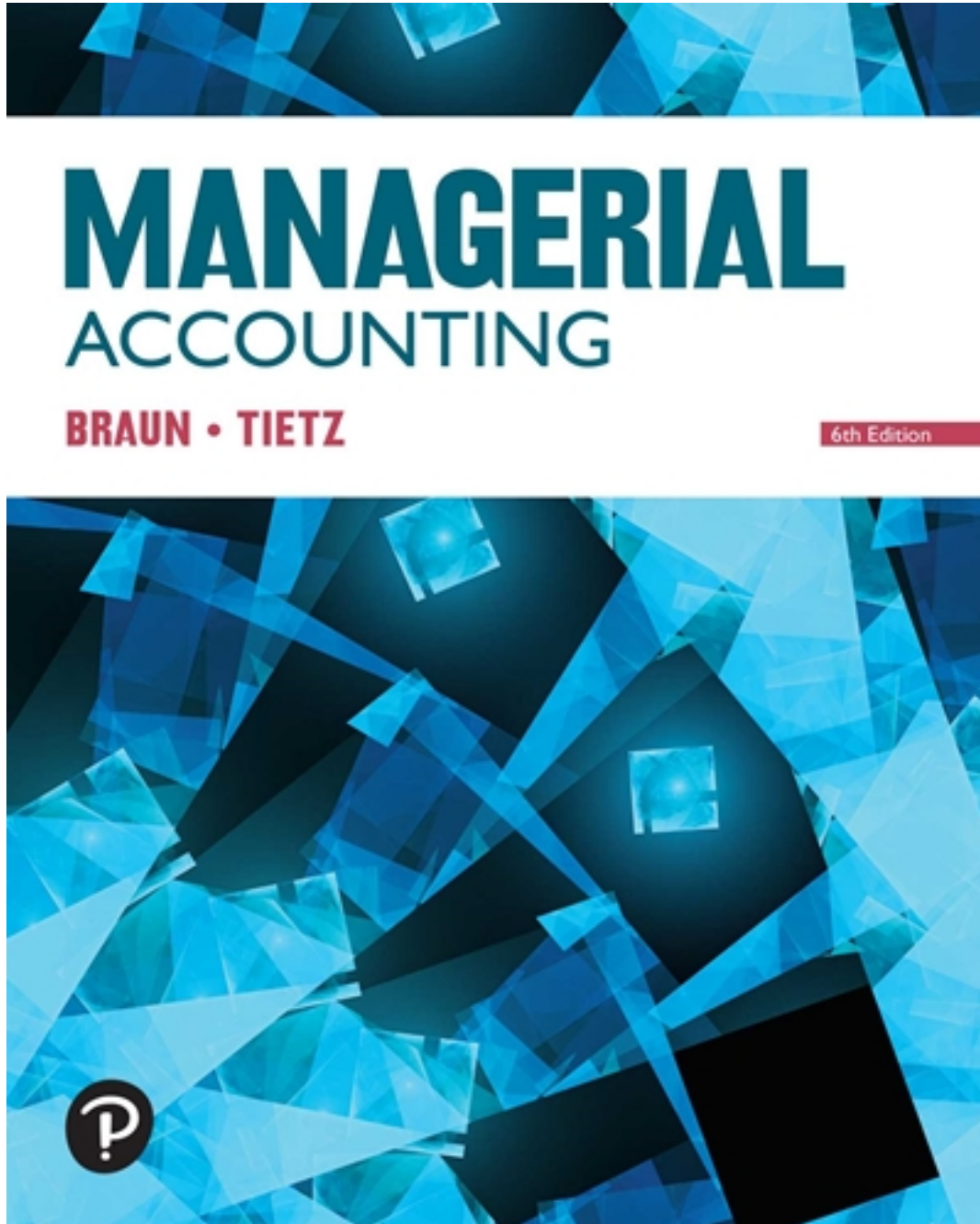


# Test Bank for Managerial Accounting 6th Edition by Braun

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# Test Bank

***Managerial Accounting, 6e (Braun et al.)***

**Chapter 2 Building Blocks of Managerial Accounting**

**2.1 Distinguish among service, merchandising, and manufacturing companies**

1) Service companies must carry a large amount of inventory to meet consumer demand.

Answer: FALSE

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

2) Manufacturing companies usually have three types of inventory.

Answer: TRUE

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

3) Retailers sell their products to consumers.

Answer: TRUE

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

4) Merchandising companies include both wholesalers and retailers.

Answer: TRUE

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

5) All companies have the same types of inventories.

Answer: FALSE

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

6) Only manufacturing companies have finished goods inventory.

Answer: TRUE

Diff: 2

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

7) Which of the following types of companies has raw materials, work in process and finished goods inventory?

A) Retailers

B) Manufacturers

C) Wholesalers

D) Service companies

Answer: B

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

8) Which type of company makes up the largest sector of the United States economy?

A) Manufacturers

B) Merchandising

C) Wholesalers

D) Service companies

Answer: D

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

9) The balance sheet of a service company has

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

Answer: B

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

10) Schlabilg & Associates, a public accounting firm that provides business consulting to a consumer, is what type of company?

- A) Manufacturer
- B) Retailer
- C) Service
- D) Wholesaler

Answer: C

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

11) Jiffy Lube, an automotive maintenance company, is primarily what type of company?

- A) Manufacturer
- B) Retailer
- C) Wholesaler
- D) Service

Answer: D

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

12) Among other products, Nabisco makes Oreo cookies. Which type of company is Nabisco?

- A) Service
- B) Manufacturer
- C) Retailer
- D) Wholesaler

Answer: B

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

13) Which type of company typically produces its own inventory?

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

Answer: A

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

14) Before these materials are used to manufacture its cars, Toyota classifies steel, glass, and plastic as

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

Answer: A

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

15) Before these materials are used to manufacture cabinets, a woodworker classifies lumber, paint, and glue as

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

Answer: C

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

16) Macy's (the department store chain) classifies its clothing held for sale as

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

Answer: A

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

17) American Eagle Outfitters classifies the denim jeans on the shelves at its retail locations as

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

Answer: C

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

18) How would Chevrolet classify its partially completed vehicles?

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

Answer: C

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

19) Which of the following is a characteristic of a service company?

- A) Service companies make a product.
- B) Service companies have a single category of inventory.
- C) Service companies generally have no tangible products to sell.
- D) Service companies transform raw materials into finished goods.

Answer: C

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

20) A snow removal business would be classified as a

- A) manufacturing company.
- B) merchandising company.
- C) simple company.
- D) service company.

Answer: D

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

21) An accounting firm would be classified as a

- A) manufacturing company.
- B) merchandising company.
- C) simple company.
- D) service company.

Answer: D

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

22) Toshiba Corporation makes computer chips. Toshiba Corporation would be classified as a

- A) merchandising company.
- B) manufacturing company.
- C) service company.
- D) simple company.

Answer: B

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

23) Which type of company has three categories of inventory?

- A) A manufacturing company
- B) A merchandising company
- C) A service company
- D) All of these companies

Answer: A

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



24) A \_\_\_\_\_ company's balance sheet reports just one inventory called "Inventory."

- A) service
- B) merchandising
- C) manufacturing
- D) All of these types of companies

Answer: B

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

25) All of the following items would be found in raw materials inventory for a furniture manufacturer **except**

- A) wood.
- B) fabric.
- C) steel framing.
- D) assembly worker wages.

Answer: D

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

26) Which of the following items could be found in work in process inventory at a candy bar manufacturer?

- A) Candy bars made but not coated in chocolate
- B) Cocoa products to make candy bars
- C) Sugar products to make candy bars
- D) Candy bars completed but not yet sold

Answer: A

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

27) Enter the letter of the type of each company category on the line in front of each statement. Letters may be used more than once or not at all.

- A. service company
- B. merchandising company
- C. manufacturing company

\_\_\_\_\_ generally has no or minimal inventory  
\_\_\_\_\_ has three types of inventory  
\_\_\_\_\_ has one class of inventory only  
\_\_\_\_\_ Ford Motor Company is an example of this company category  
\_\_\_\_\_ Walmart is an example of this company category

Answer: A, C, B, C, B

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

28) On the line in front of each statement, enter the letter corresponding to the term that best fits that statement. You may use a letter more than once and some letters may not be used at all.

A.	Raw materials inventory	E.	Work in process inventory
B.	Service companies	F.	Manufacturing companies
C.	Merchandise inventory	G.	Merchandising companies
D.	Finished goods inventory		

- \_\_\_\_\_ has a single category of inventory  
 \_\_\_\_\_ resells products previously purchased ready-made from a supplier  
 \_\_\_\_\_ produces its own inventory  
 \_\_\_\_\_ transforms raw materials into a new finished product  
 \_\_\_\_\_ completed goods that have not been sold  
 \_\_\_\_\_ partially completed items of manufacturers  
 \_\_\_\_\_ steel, glass, tires, upholstery, and fabric that Toyota uses to manufacture products

Answer:

- G has a single category of inventory  
 G resells products previously purchased ready-made from a supplier  
 F produces its own inventory  
 F transforms raw materials into a new finished product  
 D completed goods that have not been sold  
 E partially completed items of manufacturers  
 A steel, glass, tires, upholstery, and fabric that Toyota uses to manufacture products

Diff: 2

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

29) Describe service, merchandising, and manufacturing companies.

Answer: Service companies sell intangible services such as insurance, consulting, banking, and health care. They usually do not have inventory or cost of goods sold accounts, although some service companies will have a small amount of supplies inventory which is used for their own use and not for sale to customers. Merchandising companies resell tangible products they purchase from suppliers. Merchandisers have inventory. Manufacturing companies use labor, plant and equipment to convert raw materials into finished products that they sell to other companies. The three types of inventory include: raw materials inventory, work in process inventory, and finished goods inventory.

Diff: 2

LO: 2-1

EOC: S2-1; S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

30) Explain the difference between raw materials inventory, work in process inventory, and finished goods inventory.

Answer: Raw materials inventory includes all materials used to make a product including materials that become a part of the product as well as other physical materials used in a plant such as machine lubricants and janitorial supplies. Work in process inventory includes goods that are in the middle of the manufacturing process; however, the product is not complete. Finished goods inventory includes completed goods that have not yet been sold to a consumer or group in the marketplace.

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

31) Describe a company that has some elements of all three types of companies. It is part service company, part manufacturer, and part merchandiser.

Answer: Many restaurants fall into this category because most restaurants are a service company since they serve hungry customers. A restaurant is also considered a manufacturer if the restaurant converts raw ingredients into finished meals. A restaurant is also considered a merchandise company if the restaurant sells ready-to-serve bottles of beer and wine to consumers and groups in the marketplace. Outback Steakhouse is an example of a restaurant that is categorized as a service company, a merchandise company, and a manufacturing company.

Diff: 2

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

32) Explain the type of inventory that is characteristic at a service company.

Answer: Service firms do not have inventory costs because services cannot be produced today and stored to sell to a consumer later. They do not generally have inventory; however, some service providers do carry a minimal amount of supply inventory used for internal operations, and it is not sold to generate a profit.

Diff: 2

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

## 2.2 Describe the value chain and its elements

1) Controlling costs across the whole value chain often requires a trade-off between the individual elements of the value chain.

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

2) 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

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

3) The activities in the value chain must take place in a specific order.

Answer: FALSE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

4) The value chain concept helps companies control costs over the value chain as a whole.

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

5) Research and development is needed to improve products and to design new products.

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

6) Receipt of materials is part of the firm's value chain.

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

7) A company's distribution system is an important part of the value chain.

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

8) Which of the following value chain elements is associated with the costs of shipping inventory to the customer in a merchandising company?

A) Design

B) Distribution

C) Production and Purchases

D) Customer Service

Answer: B

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

9) All of the following are part of a company's value chain **except**

- A) design.
- B) distribution.
- C) administration.
- D) marketing.

Answer: C

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

10) Which of the following activities is **not** included in the value chain?

- A) Reporting
- B) Design
- C) Production
- D) Customer service

Answer: A

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

11) All of the following activities are included in the value chain **except**

- A) customer service.
- B) design.
- C) safety.
- D) production.

Answer: C

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

- 12) The value chain is used by  
A) service, manufacturing, and merchandising businesses.  
B) only service and manufacturing businesses.  
C) only service and merchandising businesses.  
D) only manufacturing and merchandising businesses.

Answer: A

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

- 13) Collectively, all costs such as distribution, marketing, and design are part of  
A) downstream activities.  
B) fixed costs.  
C) the value chain.  
D) manufacturing costs.

Answer: C

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

- 14) What is the promotion of products and services known as?  
A) Customer service  
B) Marketing  
C) Distribution  
D) Design

Answer: B

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



15) All of the following relate to part of the value chain for a clothing company **except**

- A) cost of advertising new products.
- B) administrative costs.
- C) cost of shipping products to retailers.
- D) salaries of clothing designers.

Answer: B

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

16) Which element of the value chain would depreciation on a factory be classified as?

- A) Design
- B) Distribution
- C) Research and development
- D) Production

Answer: D

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

17) Testing ways to increase the strength of your product would be classified as which element of the value chain?

- A) Design
- B) Distribution
- C) Production
- D) Research and development

Answer: D

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

18) Which element of the value chain would a technical support hotline for customers be considered?

- A) Design
- B) Customer service
- C) Distribution
- D) Marketing

Answer: B

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

19) Advertising expenses would be considered which element of the value chain?

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

Answer: B

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

20) The costs associated with reengineering machinery and its location within the factory to increase efficiency would be considered which element of the value chain?

- A) Customer service
- B) Marketing
- C) Research and development
- D) Design

Answer: D

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

21) The costs incurred to transport merchandise to a company's retail store would be considered to be what element of the value chain?

- A) Marketing
- B) Customer service
- C) Production or purchases
- D) Research and development

Answer: C

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

22) Sweet Southern Tea provided the following expense information for May:

Assembly-line workers' wages	\$72,300
Caps for tea bottles	3,400
Reconfiguring the assembly line	125,700
Customer support hotline	10,200
Delivery expenses	20,600
Depreciation on factory equipment	75,000
Plastic bottles to package tea	52,000
Salaries of salespeople	63,400
Salaries of research scientists	70,000
Customer toll-free order line	6,500

What is the total cost of research and development of the value chain?

- A) \$73,600
- B) \$70,000
- C) \$55,700
- D) \$195,700

Answer: B

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

23) Sweet Southern Tea provided the following expense information for May:

Assembly-line workers' wages	\$72,700
Caps for tea bottles	3,900
Reconfiguring the assembly line	125,700
Customer support hotline	10,500
Delivery expenses	20,400
Depreciation on factory equipment	75,800
Plastic bottles to package tea	52,000
Salaries of salespeople	63,600
Salaries of research scientists	70,500
Customer toll-free order line	6,900

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

- A) \$502,000
- B) \$204,400
- C) \$235,300
- D) \$333,100

Answer: B

Explanation: Calculations:  $\$72,700 + 3,900 + 75,800 + 52,000 = \$204,400$

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

24) Sweet Southern Tea provided the following expense information for May:

Assembly-line workers' wages	\$72,000
Caps for tea bottles	3,400
Reconfiguring the assembly line	125,200
Customer support hotline	10,500
Delivery expenses	20,300
Depreciation on factory equipment	75,800
Plastic bottles to package tea	52,400
Salaries of salespeople	63,800
Salaries of research scientists	70,100
Customer toll-free order line	6,400

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

- A) \$267,300
- B) \$189,000
- C) \$197,200
- D) \$125,200

Answer: D

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

25) Sweet Southern Tea provided the following expense information for May:

Assembly-line workers' wages	\$72,400
Caps for tea bottles	3,100
Reconfiguring the assembly line	125,800
Customer support hotline	10,500
Delivery expenses	20,500
Depreciation on factory equipment	75,900
Plastic bottles to package tea	52,800
Salaries of salespeople	63,200
Salaries of research scientists	70,600
Customer toll-free order line	6,500

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

- A) \$218,700
- B) \$23,600
- C) \$20,500
- D) \$152,600

Answer: C

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

26) Sweet Southern Tea provided the following expense information for May:

Assembly-line workers' wages	\$72,800
Caps for tea bottles	3,200
Reconfiguring the assembly line	125,000
Customer support hotline	10,500
Delivery expenses	20,600
Depreciation on factory equipment	75,800
Plastic bottles to package tea	52,100
Salaries of salespeople	63,200
Salaries of research scientists	70,300
Customer toll-free order line	6,200

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

- A) \$69,400
- B) \$188,200
- C) \$197,600
- D) \$267,900

Answer: A

Explanation: Calculations:  $\$63,200 + 6,200 = \$69,400$

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

27) Sweet Southern Tea provided the following expense information for May:

Assembly-line workers' wages	\$72,800
Caps for tea bottles	3,400
Reconfiguring the assembly line	125,500
Customer support hotline	10,400
Delivery expenses	20,300
Depreciation on factory equipment	75,600
Plastic bottles to package tea	52,600
Salaries of salespeople	63,800
Salaries of research scientists	70,900
Customer toll-free order line	6,100

What is the total cost for the customer service category of the value chain?

A) \$83,700

B) \$16,500

C) \$74,200

D) \$10,400

Answer: D

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



28) Bert's Bottles provided the following expense information for July:

Assembly-line workers' wages	\$56,100
Depreciation on factory equipment	\$35,800
Caps for bottles	\$3,500
Plastic bottles	\$52,000
Reconfiguring the assembly line	\$123,200
Salaries of salespeople	\$63,700
Customer support hotline	\$12,300
Salaries of research scientists	\$65,500
Delivery expenses	\$40,300
Customer toll-free order line	\$8,100

What is the total cost of research and development?

- A) \$57,700
- B) \$77,800
- C) \$65,500
- D) \$188,700

Answer: C

Diff: 21

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

29) Bert's Bottles provided the following expense information for July:

Assembly-line workers' wages	\$56,800
Depreciation on factory equipment	\$35,900
Caps for bottles	\$3,100
Plastic bottles	\$52,000
Reconfiguring the assembly line	\$123,200
Salaries of salespeople	\$63,600
Customer support hotline	\$12,200
Salaries of research scientists	\$65,800
Delivery expenses	\$40,500
Customer toll-free order line	\$8,400

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

A) \$461,500

B) \$309,300

C) \$149,300

D) \$147,800

Answer: D

Explanation: Calculations:  $\$56,800 + \$35,900 + \$3,100 + \$52,000 = \$147,800$

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

30) Bert's Bottles provided the following expense information for July:

Assembly-line workers' wages	\$56,000
Depreciation on factory equipment	\$35,700
Caps for bottles	\$3,700
Plastic bottles	\$52,900
Reconfiguring the assembly line	\$123,900
Salaries of salespeople	\$63,900
Customer support hotline	\$12,100
Salaries of research scientists	\$65,800
Delivery expenses	\$40,200
Customer toll-free order line	\$8,000

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

- A) \$245,700
- B) \$187,800
- C) \$179,900
- D) \$123,900

Answer: D

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

31) Bert's Bottles provided the following expense information for July:

Assembly-line workers' wages	\$56,300
Depreciation on factory equipment	\$35,700
Caps for bottles	\$3,600
Plastic bottles	\$52,300
Reconfiguring the assembly line	\$123,300
Salaries of salespeople	\$63,800
Customer support hotline	\$12,900
Salaries of research scientists	\$65,000
Delivery expenses	\$40,200
Customer toll-free order line	\$8,500

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

- A) \$40,200
- B) \$43,800
- C) \$219,800
- D) \$173,200

Answer: A

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

32) Bert's Bottles provided the following expense information for July:

Assembly-line workers' wages	\$56,000
Depreciation on factory equipment	\$35,200
Caps for bottles	\$3,100
Plastic bottles	\$52,700
Reconfiguring the assembly line	\$123,700
Salaries of salespeople	\$63,000
Customer support hotline	\$12,100
Salaries of research scientists	\$65,600
Delivery expenses	\$40,800
Customer toll-free order line	\$8,300

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

- A) \$71,300
- B) \$180,800
- C) \$186,700
- D) \$245,800

Answer: A

Explanation: Calculations:  $\$63,000 + \$8,300 = \$71,300$

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

33) Bert's Bottles provided the following expense information for July:

Assembly-line workers' wages	\$56,200
Depreciation on factory equipment	\$35,500
Caps for bottles	\$3,400
Plastic bottles	\$52,900
Reconfiguring the assembly line	\$123,200
Salaries of salespeople	\$63,800
Customer support hotline	\$12,500
Salaries of research scientists	\$65,500
Delivery expenses	\$40,700
Customer toll-free order line	\$8,200

What is the total cost for the customer service category of the value chain?

A) \$61,400

B) \$12,500

C) \$20,700

D) \$76,300

Answer: B

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

34) Irresistible Lemonade Company processes fresh lemonade. The company has the following expenses for July:

Depreciation expense on bottling machines	\$63,800
Glass juice bottles	\$60,100
Commissions for salespeople	\$30,700
Salaries of nutrition researchers	\$75,800
Costs of maintaining website used for customer orders	\$4,200
Wages of factory workers	\$75,600
Freshness seals/caps for juice bottles	\$3,200
Reconfiguring the factory layout	\$122,700
Customer help line	\$5,500
Costs of refrigerated trucks used to deliver juice	\$25,700

What is the total cost for the research and development category of the value chain?

- A) \$75,800
- B) \$81,300
- C) \$46,900
- D) \$198,500

Answer: A

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

35) Irresistible Lemonade Company processes fresh lemonade. The company has the following expenses for July:

Depreciation expense on bottling machines	\$63,800
Glass juice bottles	\$60,600
Commissions for salespeople	\$30,100
Salaries of nutrition researchers	\$75,900
Costs of maintaining website used for customer orders	\$4,500
Wages of factory workers	\$75,400
Freshness seals/caps for juice bottles	\$3,100
Reconfiguring the factory layout	\$122,500
Customer help line	\$5,600
Costs of refrigerated trucks used to deliver juice	\$25,200

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

A) \$466,700

B) \$60,600

C) \$305,000

D) \$202,900

Answer: D

Explanation: Calculations:  $\$75,400 + 3,100 + 63,800 + 60,600 = \$202,900$

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



36) Irresistible Lemonade Company processes fresh lemonade. The company has the following expenses for July:

Depreciation expense on bottling machines	\$63,800
Glass juice bottles	\$60,400
Commissions for salespeople	\$30,500
Salaries of nutrition researchers	\$75,600
Costs of maintaining website used for customer orders	\$4,800
Wages of factory workers	\$75,100
Freshness seals/caps for juice bottles	\$3,400
Reconfiguring the factory layout	\$122,800
Customer help line	\$5,300
Costs of refrigerated trucks used to deliver juice	\$25,300

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

- A) \$122,800
- B) \$197,900
- C) \$153,300
- D) \$273,500

Answer: A

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

37) Irresistible Lemonade Company processes fresh lemonade. The company has the following expenses for July:

Depreciation expense on bottling machines	\$63,200
Glass juice bottles	\$60,100
Commissions for salespeople	\$30,800
Salaries of nutrition researchers	\$75,400
Costs of maintaining website used for customer orders	\$4,900
Wages of factory workers	\$75,500
Freshness seals/caps for juice bottles	\$3,900
Reconfiguring the factory layout	\$122,700
Customer help line	\$5,300
Costs of refrigerated trucks used to deliver juice	\$25,100

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

- A) \$29,000
- B) \$25,100
- C) \$223,300
- D) \$152,700

Answer: B

Explanation: 25,100

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

38) Irresistible Lemonade Company processes fresh lemonade. The company has the following expenses for July:

Depreciation expense on bottling machines	\$63,500
Glass juice bottles	\$60,600
Commissions for salespeople	\$30,400
Salaries of nutrition researchers	\$75,900
Costs of maintaining website used for customer orders	\$4,100
Wages of factory workers	\$75,600
Freshness seals/caps for juice bottles	\$3,100
Reconfiguring the factory layout	\$122,400
Customer help line	\$5,300
Costs of refrigerated trucks used to deliver juice	\$25,800

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

A) \$275,300

B) \$34,500

C) \$152,800

D) \$199,700

Answer: B

Explanation: Calculations:  $\$30,400 + \$4,100 = \$34,500$

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

39) Lucas Family Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

Wages of factory workers	\$75,600
Freshness seals/caps for juice bottles	\$3,200
Reconfiguring the factory layout	\$102,200
Customer help line	\$2,400
Costs of refrigerated trucks used to deliver juice	\$17,000
Depreciation expense on bottling machines	\$63,900
Glass juice bottles	\$54,100
Commissions for salespeople	\$27,000
Salaries of nutrition researchers	\$89,200
Costs of maintaining website used for customer orders	\$4,300

What is the total cost for the customer service category of the value chain?

- A) \$2,400
- B) \$33,700
- C) \$80,900
- D) \$9,900

Answer: A

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

40) Delivery expenses are charged to which of the following areas?

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

Answer: A

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

41) A product support hotline would be considered

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

Answer: D

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

42) Place the value chain elements in the correct order by numbering them from 1 to 6.

- \_\_\_\_\_ Design
- \_\_\_\_\_ Customer Service
- \_\_\_\_\_ Marketing
- \_\_\_\_\_ Research and Development
- \_\_\_\_\_ Distribution
- \_\_\_\_\_ Production or Purchases

Answer: 2, 6, 4, 1, 5, 3

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

43) Place the letter for the appropriate value chain activity on the line in front of each item. Letters may be used more than once or not at all. Assume a manufacturer.

A.	research and development	D.	marketing
B.	design	E.	distribution
C.	production or purchases	F.	customer service

\_\_\_\_\_ depreciation expense on equipment in factory

\_\_\_\_\_ delivery expense

\_\_\_\_\_ toll free line for customer orders

\_\_\_\_\_ customer support hot line

\_\_\_\_\_ assembly line workers' wages

Answer: C, E, D, F, C

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

44) Name and briefly describe the activities that make up the value chain.

Answer: The value chain consists of research and development, design, production or purchase, marketing, distribution, and customer service. Research and development refers to researching and developing new or improved products or services and the processes used to produce them. Design involves the detailed engineering of products and services and the processes used to produce them. Production or purchases refers to the resources used to produce a product or service or to purchase finished merchandise intended for resale. Marketing is the promotion and advertising of products or services. Distribution is the delivery of products or services to customers and customer service provides support for customers after the sale of the product or service.

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

45) Classify each of the following business costs into one of the six value chain elements.

- A. cost of a commercial during a TV program
- B. cost of shipping goods to customers
- C. costs associated with repairing products under warranty
- D. costs of developing a new product
- E. cost of making a prototype of a new product
- F. cost of labor for machine operator in factory

Answer:

- A. marketing
- B. distribution
- C. customer service
- D. research and development
- E. design
- F. production

Diff: 3

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

### 2.3 Distinguish between direct and indirect costs

1) The total cost of a cost object can only include the direct costs that are directly traced to that cost object.

Answer: FALSE

Diff: 2

LO: 2-3

EOC: S2-5

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

2) If a company wants to determine a product's cost, it must assign both direct and indirect costs.

Answer: TRUE

Diff: 2

LO: 2-3; 2-4

EOC: S2-5

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

3) Costs can be either direct or indirect, depending upon the cost object.

Answer: TRUE

Diff: 1

LO: 2-3

EOC: S2-5

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

4) Direct costs can be traced to specific units.

Answer: TRUE

Diff: 1

LO: 2-3

EOC: S2-5

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

5) Indirect costs cannot be traced to the cost objects, so they are allocated.

Answer: TRUE

Diff: 1

LO: 2-3

EOC: S2-5

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

6) Direct costs for one cost object will always be direct costs for any cost object.

Answer: FALSE

Diff: 2

LO: 2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

7) An indirect cost for one cost object can be a direct cost for a different cost object.

Answer: TRUE

Diff: 2

LO: 2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



8) Which of the following is **not** an example of an indirect cost incurred in manufacturing automobiles?

- A) Plant supervisor salary
- B) Machinery depreciation in the factory
- C) Plant utilities
- D) Cost of the automobile engines

Answer: D

Diff: 2

LO: 2-3

EOC: S2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

9) A factory janitor's wages would be classified as \_\_\_\_\_ when determining the cost of a manufactured product.

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

Answer: A

Diff: 1

LO: 2-3; 2-4

EOC: S2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

10) A salesperson's salary would be classified as \_\_\_\_\_ when determining the cost of a manufactured product.

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

Answer: B

Diff: 1

LO: 2-3; 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

11) The cost of lighting the factory would be classified as \_\_\_\_\_ when determining the cost of a manufactured product.

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

Answer: A

Diff: 1

LO: 2-3; 2-4

EOC: S2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

12) Which of the following would **not** be considered a direct cost of a mattress and box spring?

- A) Fabric
- B) Lumber
- C) Glue
- D) Steel

Answer: C

Diff: 1

LO: 2-3

EOC: S2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

13) All of the following would be considered a direct material for a kitchen cabinet **except**

- A) wood.
- B) stain.
- C) sandpaper.
- D) hinges.

Answer: C

Diff: 1

LO: 2-3

EOC: S2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

14) If the Ford Focus is the cost object, classify each of the following costs as indirect or direct, respectively: property taxes for the manufacturing plant, engines for the cars, and janitor wages for the factory.

- A) Indirect, direct, and indirect
- B) Indirect, direct, and direct
- C) All are indirect.
- D) All are direct.

Answer: A

Diff: 1

LO: 2-3

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

15) If a frozen pizza plant is the cost object, classify each of the following costs as direct or indirect, respectively: pizza ingredients, cafeteria workers wages, and janitorial supplies.

- A) Direct, indirect, and indirect
- B) Direct, indirect, and direct
- C) All are direct.
- D) All are indirect.

Answer: C

Diff: 1

LO: 2-3

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

16) Classify each of the following costs as direct or indirect as it relates to one Best Buy retail location: CFO salary, that Best Buy's sales associates, that Best Buy's property insurance, and the legal department for Best Buy.

- A) Direct, indirect, indirect, and direct
- B) Indirect, direct, direct, and indirect
- C) All are indirect.
- D) All are direct.

Answer: B

Diff: 1

LO: 2-3

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

## 2.4 Identify product costs and period costs

1) An example of direct labor would be which of the following?

- A) Salary of a production manager
- B) Salary of the vice-president of operations
- C) Wages of factory security
- D) Wages of assembly line personnel

Answer: D

Diff: 1

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

2) Which of the following is an example of direct labor?

- A) Wages of a managerial accountant
- B) Wages of a machine operator
- C) Salary of the vice-president of operations
- D) Wages of the CFO

Answer: B

Diff: 1

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

3) Which statement describes direct materials in a manufacturing setting?

- A) Direct materials are used to determine total manufacturing overhead.
- B) Direct materials are used to determine total product costs.
- C) Direct materials cannot be separately and conveniently traced.
- D) Direct materials do not become part of the finished product.

Answer: B

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

4) Which of the following is an example of indirect labor in a manufacturing plant?

- A) Chief financial officer
- B) Machine operators
- C) Salespersons
- D) Plant managers

Answer: D

Diff: 1

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

5) Which of the following are classified as manufacturing overhead?

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

Answer: A

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

6) Which of the following is an example of manufacturing overhead expense in a factory?

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

Answer: C

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

7) Prime costs consist of

- A) direct materials and direct labor.
- B) direct labor and manufacturing overhead.
- C) direct materials and manufacturing overhead.
- D) direct materials, direct labor and manufacturing overhead.

Answer: A

Diff: 1

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

8) Conversion costs consist of

- A) direct materials and direct labor.
- B) direct labor and manufacturing overhead.
- C) direct materials and manufacturing overhead.
- D) direct materials, direct labor and manufacturing overhead.

Answer: B

Diff: 1

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

9) Custom Creations Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	\$ 9,700
Depreciation on factory equipment	16,300
Factory supervisor salary	50,600
Sales commissions	23,300
Lubricants used in factory equipment	3,200
Insurance costs for factory	21,600
Wages paid to maintenance workers	115,400
Fabric used to upholster furniture	10,800
Freight-in (on raw materials)	3,300
Costs of delivery to customers	9,800
Wages paid to assembly-line workers	115,100
Lumber used to build product	82,400
Utilities in factory	54,800
Utilities in sales office	26,700

Prime costs for Custom Creations Furniture Company totaled

- A) \$93,200.
- B) \$208,300.
- C) \$211,600.
- D) \$377,600.

Answer: C

Explanation: Calculations:  $\$3,300 + 10,800 + 115,100 + 82,400 = \$211,600$

Diff: 2

LO: 2-3; 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

10) Custom Creations Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	\$ 9,400
Depreciation on factory equipment	16,800
Factory supervisor salary	50,000
Sales commissions	23,300
Lubricants used in factory equipment	3,000
Insurance costs for factory	21,800
Wages paid to maintenance workers	115,300
Fabric used to upholster furniture	10,900
Freight-in (on raw materials)	3,400
Costs of delivery to customers	9,200
Wages paid to assembly-line workers	115,800
Lumber used to build product	82,100
Utilities in factory	54,600
Utilities in sales office	26,800

Conversion costs for Custom Creations Furniture Company totaled

- A) \$377,300.
- B) \$212,200.
- C) \$467,300.
- D) \$197,600.

Answer: A

Explanation: Calculations:  $\$16,800 + 50,000 + 3,000 + 21,800 + 115,300 + 115,800 + 54,600 = \$377,300$

Diff: 2

LO: 2-3; 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



11) Custom Creations Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	\$ 9,100
Depreciation on factory equipment	16,700
Factory supervisor salary	50,800
Sales commissions	23,600
Lubricants used in factory equipment	3,600
Insurance costs for factory	21,900
Wages paid to maintenance workers	115,600
Fabric used to upholster furniture	10,300
Freight-in (on raw materials)	3,700
Costs of delivery to customers	9,700
Wages paid to assembly-line workers	115,500
Lumber used to build product	82,300
Utilities in factory	54,700
Utilities in sales office	26,800

Direct material costs for Custom Creations Furniture Company totaled

- A) \$82,300.
- B) \$10,300.
- C) \$96,300.
- D) \$92,600.

Answer: C

Explanation: Calculations:  $\$10,300 + 3,700 + 82,300 = \$96,300$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

12) Custom Creations Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	\$ 9,800
Depreciation on factory equipment	16,900
Factory supervisor salary	50,700
Sales commissions	23,900
Lubricants used in factory equipment	3,400
Insurance costs for factory	21,900
Wages paid to maintenance workers	115,600
Fabric used to upholster furniture	10,100
Freight-in (on raw materials)	3,100
Costs of delivery to customers	9,700
Wages paid to assembly-line workers	115,000
Lumber used to build product	82,600
Utilities in factory	54,300
Utilities in sales office	26,700

Direct labor costs for Custom Creations Furniture Company totaled

- A) \$305,200.
- B) \$115,600.
- C) \$115,000.
- D) \$281,300.

Answer: C

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

13) Custom Creations Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	\$ 9,800
Depreciation on factory equipment	16,000
Factory supervisor salary	50,000
Sales commissions	23,400
Lubricants used in factory equipment	3,500
Insurance costs for factory	21,300
Wages paid to maintenance workers	115,200
Fabric used to upholster furniture	10,600
Freight-in (on raw materials)	3,500
Costs of delivery to customers	9,200
Wages paid to assembly-line workers	115,600
Lumber used to build product	82,000
Utilities in factory	54,400
Utilities in sales office	26,000

Manufacturing overhead costs for Custom Creations Furniture Company totaled

- A) \$130,500.
- B) \$260,400.
- C) \$235,600.
- D) \$323,100.

Answer: B

Explanation: Calculations:  $\$16,000 + \$50,000 + \$3,500 + \$21,300 + \$115,200 + \$54,400 = \$260,400$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

14) Custom Creations Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	\$ 9,800
Depreciation on factory equipment	16,800
Factory supervisor salary	50,400
Sales commissions	23,700
Lubricants used in factory equipment	3,000
Insurance costs for factory	21,900
Wages paid to maintenance workers	115,700
Fabric used to upholster furniture	10,300
Freight-in (on raw materials)	3,100
Costs of delivery to customers	9,700
Wages paid to assembly-line workers	115,600
Lumber used to build product	82,900
Utilities in factory	54,700
Utilities in sales office	26,100

Product costs for Custom Creations Furniture Company totaled

- A) \$474,400.
- B) \$449,400.
- C) \$375,200.
- D) \$491,000.

Answer: A

Explanation: Calculations:  $\$16,800 + 50,400 + 3,000 + 21,900 + 115,700 + 10,300 + 3,100 + 115,600 + 82,900 + 54,700 = \$474,400$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

15) Ultra Trail Running Company manufactures trail running shoes at its Wyoming factory. Some of its costs from the past year include:

Wages paid to maintenance workers	\$60,200
Fabric used to make shoe	\$80,900
Wages paid to assembly-line workers	\$100,900
Carbon rubber used to construct the sole of the shoe	\$15,700
Sales commissions	\$7,400
Insurance costs for factory	\$21,400
Freight-in (on raw materials)	\$3,500
Utilities in factory	\$12,900
Factory supervisor salary	\$60,500
Depreciation on factory equipment	\$18,200
Utilities in sales office	\$26,500
Costs of delivery to customers	\$8,000
Depreciation on sales office	\$1,600
Lubricants used in factory equipment	\$700

Prime costs for Ultra Trail Running Company totaled

- A) \$201,000.
- B) \$96,600.
- C) \$197,500.
- D) \$242,700.

Answer: A

Explanation: Calculations:  $\$15,700 + \$80,900 + \$3,500 + \$100,900 = \$201,000$ .

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

16) Ultra Trail Running Company manufactures trail running shoes at its Wyoming factory. Some of its costs from the past year include:

Wages paid to maintenance workers	\$60,600
Fabric used to make the shoe	\$80,700
Wages paid to assembly-line workers	\$100,200
Carbon rubber used to construct the sole of the shoe	\$15,700
Sales commissions	\$7,300
Insurance costs for factory	\$21,900
Freight-in (on raw materials)	\$3,400
Utilities in factory	\$12,900
Factory supervisor salary	\$60,200
Depreciation on factory equipment	\$18,100
Utilities in sales office	\$26,600
Costs of delivery to customers	\$8,700
Depreciation on sales office	\$1,500
Lubricants used in factory equipment	\$400

Conversion costs for Ultra Trail Running Company totaled

- A) \$200,000.
- B) \$370,300.
- C) \$176,500.
- D) \$274,300.

Answer: D

Explanation: Calculations:  $\$18,100 + \$60,600 + \$400 + \$21,900 + \$60,200 + \$12,900 + \$100,200 = \$274,300$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

17) Ultra Trail Running Company manufactures trail running shoes at its Wyoming factory. Some of its costs from the past year include:

Wages paid to maintenance workers	\$60,400
Fabric used to make the shoe	\$80,600
Wages paid to assembly-line workers	\$100,400
Carbon rubber used to construct the sole of the shoe	\$15,600
Sales commissions	\$7,600
Insurance costs for factory	\$21,700
Freight-in (on raw materials)	\$3,400
Utilities in factory	\$12,700
Factory supervisor salary	\$60,000
Depreciation on factory equipment	\$18,600
Utilities in sales office	\$26,800
Costs of delivery to customers	\$8,500
Depreciation on sales office	\$1,900
Lubricants used in factory equipment	\$800

Direct material costs for Ultra Trail Running Company totaled

- A) \$15,600.
- B) \$99,600.
- C) \$96,200.
- D) \$80,600.

Answer: B

Explanation: Calculations:  $\$80,600 + 3,400 + 15,600 = \$99,600$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

18) Ultra Trail Running Company manufactures trail running shoes at its Wyoming factory. Some of its costs from the past year include:

Wages paid to maintenance workers	\$60,000
Fabric used to make the shoe	\$80,600
Wages paid to assembly-line workers	\$100,000
Carbon rubber used to construct the sole of the shoe	\$15,400
Sales commissions	\$7,300
Insurance costs for factory	\$21,500
Freight-in (on raw materials)	\$3,300
Utilities in factory	\$12,800
Factory supervisor salary	\$60,200
Depreciation on factory equipment	\$18,200
Utilities in sales office	\$26,900
Costs of delivery to customers	\$8,800
Depreciation on sales office	\$1,900
Lubricants used in factory equipment	\$300

Direct labor costs for Ultra Trail Running Company totaled

- A) \$227,500.
- B) \$220,200.
- C) \$100,000.
- D) \$60,200.

Answer: C

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



19) Ultra Trail Running Company manufactures trail running shoes at its Wyoming factory. Some of its costs from the past year include:

Wages paid to factory maintenance workers	\$60,500
Fabric used to make the shoe	\$80,300
Wages paid to assembly-line workers	\$100,300
Carbon rubber used to construct the sole of the shoe	\$15,800
Sales commissions	\$7,500
Insurance costs for factory	\$21,300
Freight-in (on raw materials)	\$3,000
Utilities in factory	\$12,700
Factory supervisor salary	\$60,300
Depreciation on factory equipment	\$18,600
Utilities in sales office	\$26,800
Costs of delivery to customers	\$8,700
Depreciation on sales office	\$1,700
Lubricants used in factory equipment	\$700

Manufacturing overhead costs for Ultra Trail Running Company totaled

- A) \$174,100.
- B) \$80,600.
- C) \$152,100.
- D) \$221,800.

Answer: A

Explanation: Calculations:  $\$18,600 + 60,500 + 700 + 21,300 + 60,300 + 12,700 = \$174,100$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

20) Use the correct number to designate each item below. Assume each item is for a manufacturer.

1. direct materials
2. period costs
3. manufacturing overhead
4. direct labor

- A) \_\_\_\_\_ rent expense on factory building  
B) \_\_\_\_\_ sales supplies used  
C) \_\_\_\_\_ factory supplies used  
D) \_\_\_\_\_ indirect materials used  
E) \_\_\_\_\_ wages of assembly line personnel  
F) \_\_\_\_\_ cost of primary material used to make product  
G) \_\_\_\_\_ depreciation expense on office equipment  
H) \_\_\_\_\_ rent expense on office facilities  
I) \_\_\_\_\_ insurance expired on factory equipment  
J) \_\_\_\_\_ utilities incurred in the office  
K) \_\_\_\_\_ advertising expense  
L) \_\_\_\_\_ taxes paid on factory building

Answer: A) 3, B) 2, C) 3, D) 3, E) 4, F) 1, G) 2, H) 2, I) 3, J) 2, K) 2, L) 3

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

21) Differentiate between:

- A. direct materials versus indirect materials
- B. direct labor versus indirect labor

Answer: Student responses will vary but should include the following points:

A. Direct materials must become a physical part of the finished product and their costs must be separate and traceable through the manufacturing process to specific units of the finished product. Examples for a furniture manufacturer include wood, leather, steel, etc. Indirect materials become part of the finished product, but their minor costs cannot conveniently be traced directly to individual units of the finished products. They are included as part of manufacturing overhead. Examples for a furniture manufacturer include thread, glue, snaps, etc.

B. Direct labor cost is the compensation of employees who physically convert raw materials into the company's products and whose efforts can be traced directly to specific units of finished goods. Examples of direct material at a furniture manufacturer include machine operators and assemblers. Indirect labor is factory labor that is difficult to trace to individual units of specific products. Instead, the cost is included in manufacturing overhead. Examples of indirect labor at a furniture manufacturer include costs for forklift operators, janitors, and plant managers.

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

22) Indirect manufacturing costs should be included in manufacturing overhead.

Answer: TRUE

Diff: 1

LO: 2-4

EOC: S2-7

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

23) A product cost could be the cost of the marketing and distribution of a product.

Answer: FALSE

Diff: 2

LO: 2-4

EOC: S2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

24) Product costs consist of manufacturing overhead, direct labor and direct materials.

Answer: TRUE

Diff: 1

LO: 2-4

EOC: S2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

25) Indirect materials, indirect labor, and indirect manufacturing costs are what type of product cost?

A) Direct labor

B) Direct materials

C) Manufacturing overhead

D) Prime costs

Answer: C

Diff: 1

LO: 2-4

EOC: S2-7

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

26) Which of the following would **not** be considered a product cost of a manufacturer?

A) Direct labor

B) Direct materials

C) Manufacturing overhead

D) Freight out

Answer: D

Diff: 2

LO: 2-4

EOC: S2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

27) Period costs are

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

Answer: A

Diff: 1

LO: 2-4

EOC: S2-6

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

28) All of the following are period costs **except**

- A) distribution expenses.
- B) direct labor expenses.
- C) marketing expenses.
- D) research and development expenses.

Answer: B

Diff: 1

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

29) Product costs for a manufactured product include

- A) the costs of direct materials, direct labor and manufacturing overhead.
- B) marketing and research and development costs.
- C) the costs of direct materials and direct labor only.
- D) none of the above

Answer: A

Diff: 1

LO: 2-4

EOC: S2-6

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

30) 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 in the period incurred
- D) As operating expenses on the income statement for a previous period

Answer: C

Diff: 2

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

31) Which of the following types of cost include **all of the costs** associated with production of a product?

- A) Product
- B) Direct
- C) Period
- D) Indirect

Answer: A

Diff: 2

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

32) Manufacturing overhead costs for a product include

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

Answer: C

Diff: 2

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

33) When do product costs become expenses?

- A) When direct materials are purchased
- B) When the manufacturing process begins
- C) When the manufacturing process is completed
- D) When the product is sold

Answer: D

Diff: 2

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

34) Indirect materials and indirect labor are \_\_\_\_\_ for a manufactured product.

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

Answer: C

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

35) Manufacturers consider selling and administrative costs to be

- A) period costs.
- B) conversion costs.
- C) product costs.
- D) prime costs.

Answer: A

Diff: 2

LO: 2-4

EOC: S2-6

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

36) Which of the following is an example of a period cost when manufacturing products?

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

Answer: B

Diff: 1

LO: 2-4

EOC: S2-6

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

37) Which of the following is an example of a product cost when manufacturing products?

- A) Depreciation on administrative office equipment
- B) Depreciation on retail building
- C) Sales salaries and commissions
- D) Depreciation on factory equipment

Answer: D

Diff: 2

LO: 2-4

EOC: S2-6

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

38) When manufacturing products, direct labor and direct materials are classified as

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

Answer: B

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



39) Certain materials used in a manufacturing plant cannot be traced to a specific unit. What are these materials called?

- A) General materials
- B) Direct materials
- C) Indirect materials
- D) Finished materials

Answer: C

Diff: 2

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

40) Rent on a factory building would be considered to be a \_\_\_\_\_ cost.

- A) product
- B) period
- C) direct
- D) none of the above

Answer: A

Diff: 2

LO: 2-4

EOC: S2-6

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

41) The \_\_\_\_\_ element in the value chain would contain product costs for a manufacturer.

- A) research and development
- B) production
- C) design
- D) distribution

Answer: B

Diff: 2

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

42) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	\$ 9,700
Depreciation on factory equipment	16,100
Factory supervisor salary	50,300
Sales commissions	23,600
Lubricants used in factory equipment	3,700
Insurance costs for factory	21,800
Wages paid to maintenance workers	115,400
Fabric used to upholster furniture	10,600
Freight-in (on raw materials)	3,400
Costs of delivery to customers	9,300
Wages paid to assembly-line workers	115,100
Lumber used to build product	82,100
Utilities in factory	54,400
Utilities in sales office	26,100

Period costs for Country Furniture Company totaled

- A) \$42,600.
- B) \$129,900.
- C) \$45,100.
- D) \$68,700.

Answer: D

Explanation: Calculations:  $\$9,700 + 23,600 + 9,300 + 26,100 = \$68,700$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

43) Wooden Shed Company manufactures custom wooden sheds. Some of its costs from the past year include:

Wages paid to maintenance workers	\$60,200
Lumber used to build the product	\$80,900
Wages paid to assembly-line workers	\$100,800
Shingles used for the roof	\$15,800
Sales commissions	\$7,700
Insurance costs for factory	\$21,900
Freight-in (on raw materials)	\$3,400
Utilities in factory	\$12,400
Factory supervisor salary	\$60,900
Depreciation on factory equipment	\$18,600
Utilities in sales office	\$26,100
Costs of delivery to customers	\$8,100
Depreciation on sales office	\$1,200
Lubricants used in factory equipment	\$700

Product costs for Wooden Shed Company totaled

- A) \$280,700.
- B) \$350,300.
- C) \$375,600.
- D) \$372,800.

Answer: C

Explanation: Calculations:  $\$18,600 + 60,200 + 700 + 21,900 + 12,400 + 60,900 + 80,900 + 3,400 + 100,800 + 15,800 = \$375,600$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

44) Wooden Shed Company manufactures custom wooden sheds. Some of its costs from the past year include:

Wages paid to maintenance workers	\$60,800
Lumber used to build the product	\$80,000
Wages paid to assembly-line workers	\$100,700
Shingles used for the roof	\$15,400
Sales commissions	\$7,600
Insurance costs for factory	\$21,000
Freight-in (on raw materials)	\$3,000
Utilities in factory	\$12,900
Factory supervisor salary	\$60,700
Depreciation on factory equipment	\$18,300
Utilities in sales office	\$26,200
Costs of delivery to customers	\$8,000
Depreciation on sales office	\$1,500
Lubricants used in factory equipment	\$400

Period costs for Wooden Shed Company totaled

- A) \$43,300.
- B) \$35,700.
- C) \$17,100.
- D) \$66,500.

Answer: A

Explanation: Calculations:  $\$1,500 + \$7,600 + \$8,000 + \$26,200 = \$43,300$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

45) Winner's Sporting Equipment manufactures sporting goods. Selected costs from the past year include:

Plastics used to make products	\$151,700
Heating and lighting costs for factory	\$65,300
Factory janitor wages	\$67,200
Costs of shipping to customers	\$12,000
Lubricants used in factory equipment	\$3,000
Lighting costs for sales office	\$20,200
Depreciation on factory equipment	\$23,200
Office supplies for sales office	\$7,000
Insurance costs for factory	\$14,000
Maintenance worker wages	\$99,500
Freight-in (on plastics)	\$7,700
Aluminum used to make products	\$175,900
Assembly-line worker wages	\$142,000
Salaries of salespeople	\$75,000

Product costs for Winner's Sporting Equipment totaled

- A) \$727,800.
- B) \$749,500.
- C) \$618,800.
- D) \$742,300.

Answer: B

Explanation: Calculations:  $\$23,200 + 67,200 + 3,000 + 14,000 + 99,500 + 151,700 + 7,700 + 142,000 + 175,900 + 65,300 = \$749,500$

Diff: 3

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

46) Winner's Sporting Equipment manufactures sporting goods. Selected costs from the past year include:

Plastics used to make products	\$151,000
Heating and lighting costs for factory	\$65,700
Factory janitor wages	\$67,400
Costs of shipping to customers	\$11,000
Lubricants used in factory equipment	\$2,200
Lighting costs for sales office	\$20,900
Depreciation on factory equipment	\$24,000
Office supplies for sales office	\$6,200
Insurance costs for factory	\$13,100
Maintenance worker wages	\$99,100
Freight-in (on plastics)	\$7,700
Aluminum used to make products	\$175,000
Assembly-line worker wages	\$142,000
Salaries of salespeople	\$74,000

Period costs for Winner's Sporting Equipment totaled

- A) \$95,140.
- B) \$91,200.
- C) \$190,800.
- D) \$112,100.

Answer: D

Explanation: Calculations:  $\$11,000 + 20,900 + 6,200 + 74,000 = \$112,100$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

47) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

Rubber used to make the product	\$35,000
Gel used to make the product	24,000
Fabric used to make the product	25,000
Lubricants used in the factory equipment	2,200
Glue used to make the product	850
Wages paid to maintenance workers in the factory	4,000
Wages paid to assembly line workers	10,000
Wages paid to factory supervisor	8,000
Wages paid to CFO	25,000
Depreciation on factory equipment	27,250
Depreciation on the accounting department's computers	3,000
Depreciation on the sales force vehicles	5,700
Utilities for factory	4,400
Cost of shipping to customers	10,000
Property tax on factory equipment	1,000
Property insurance for the factory	1,600
Cardboard material to box each pair of shoes	6,250
Commissions paid to sales force	7,000
Office supplies for accounting department	250
Janitorial supplies for the factory	665

What are the total period costs for Happy Feet Running Company for the month?

A) \$50,950

B) \$40,950

C) \$84,815

D) \$78,065

Answer: A

Explanation:  $\$25,000 + \$3,000 + \$5,700 + \$10,000 + \$7,000 + \$250 = \$50,950$

Diff: 3

LO: 2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

48) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

Rubber used to make the product	\$37,000
Gel used to make the product	19,000
Fabric used to make the product	29,000
Lubricants used in the factory equipment	1,500
Glue used to make the product	850
Wages paid to maintenance workers in the factory	6,500
Wages paid to assembly line workers	10,000
Wages paid to factory supervisor	8,000
Wages paid to CFO	25,000
Depreciation on factory equipment	22,250
Depreciation on the accounting department's computers	3,000
Depreciation on the sales force vehicles	5,200
Utilities for factory	4,500
Cost of shipping to customers	5,000
Property tax on factory equipment	1,000
Property insurance for the factory	1,700
Cardboard material to box each pair of shoes	6,250
Commissions paid to sales force	7,900
Office supplies for accounting department	250
Janitorial supplies for the factory	625

What is the total manufacturing overhead for Happy Feet Running Company for the month?

A) \$52,175

B) \$46,925

C) \$44,225

D) \$64,425

Answer: B

Explanation:  $\$1,500 + \$850 + \$6,500 + \$8,000 + \$22,250 + \$4,500 + \$1,000 + \$1,700 + \$625 = \$46,925$

Diff: 3

LO: 2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



49) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

Rubber used to make the product	\$35,000
Gel used to make the product	15,000
Fabric used to make the product	31,000
Lubricants used in the factory equipment	1,800
Glue used to make the product	850
Wages paid to maintenance workers in the factory	3,000
Wages paid to assembly line workers	10,000
Wages paid to factory supervisor	6,500
Wages paid to CFO	25,000
Depreciation on factory equipment	22,250
Depreciation on the accounting department's computers	3,000
Depreciation on the sales force vehicles	5,600
Utilities for factory	3,500
Cost of shipping to customers	6,000
Property tax on factory equipment	1,000
Property insurance for the factory	1,500
Cardboard material to box each pair of shoes	6,250
Commissions paid to sales force	7,100
Office supplies for accounting department	250
Janitorial supplies for the factory	695

What is the total direct materials cost for Happy Feet Running Company for the month?

- A) \$66,000
- B) \$89,900
- C) \$81,000
- D) \$87,250

Answer: D

Explanation:  $\$35,000 + \$15,000 + \$31,000 + \$6,250 = \$87,250$

Diff: 3

LO: 2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

50) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

Rubber used to make the product	\$44,000
Gel used to make the product	16,000
Fabric used to make the product	26,000
Lubricants used in the factory equipment	2,000
Glue used to make the product	850
Wages paid to maintenance workers in the factory	4,000
Wages paid to assembly line workers	10,000
Wages paid to factory supervisor	7,500
Wages paid to CFO	25,000
Depreciation on factory equipment	17,250
Depreciation on the accounting department's computers	3,000
Depreciation on the sales force vehicles	5,400
Utilities for factory	4,300
Cost of shipping to customers	8,000
Property tax on factory equipment	1,000
Property insurance for the factory	1,200
Cardboard material to box each pair of shoes	6,250
Commissions paid to sales force	7,600
Office supplies for accounting department	250
Janitorial supplies for the factory	625

What is the total for direct labor cost for Happy Feet Running Company for the month?

- A) \$15,400
- B) \$42,500
- C) \$51,900
- D) \$10,000

Answer: D

Diff: 2

LO: 2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

51) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

Rubber used to make the product	\$37,000
Gel used to make the product	17,000
Fabric used to make the product	27,000
Lubricants used in the factory equipment	1,700
Glue used to make the product	850
Wages paid to maintenance workers in the factory	4,500
Wages paid to assembly line workers	10,000
Wages paid to factory supervisor	7,000
Wages paid to CFO	25,000
Depreciation on factory equipment	27,250
Depreciation on the accounting department's computers	3,000
Depreciation on the sales force vehicles	6,000
Utilities for factory	4,200
Cost of shipping to customers	12,000
Property tax on factory equipment	1,000
Property insurance for the factory	1,400
Cardboard material to box each pair of shoes	6,250
Commissions paid to sales force	7,100
Office supplies for accounting department	250
Janitorial supplies for the factory	655

What are prime costs for Happy Feet Running Company for the month?

- A) \$133,250
- B) \$124,250
- C) \$97,250
- D) \$91,000

Answer: C

Explanation: DM:  $\$37,000 + \$17,000 + \$27,000 + \$6,250 = \$91,000$  DL:  $\$10,000$  so  $\$91,000 + \$10,000 = \$97,250$

Diff: 3

LO: 2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

52) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

Rubber used to make the product	\$41,000
Gel used to make the product	17,000
Fabric used to make the product	34,000
Lubricants used in the factory equipment	2,200
Glue used to make the product	850
Wages paid to maintenance workers in the factory	7,500
Wages paid to assembly line workers	10,000
Wages paid to factory supervisor	9,500
Wages paid to CFO	25,000
Depreciation on factory equipment	27,250
Depreciation on the accounting department's computers	3,000
Depreciation on the sales force vehicles	5,500
Utilities for factory	4,100
Cost of shipping to customers	4,000
Property tax on factory equipment	1,000
Property insurance for the factory	1,500
Cardboard material to box each pair of shoes	6,250
Commissions paid to sales force	7,900
Office supplies for accounting department	250
Janitorial supplies for the factory	685

What are conversion costs for Happy Feet Running Company for the month?

- A) \$101,650
- B) \$68,835
- C) \$64,585
- D) \$89,585

Answer: C

Explanation: DL: \$10,000 MOH: \$2,200 + \$850 + \$7,500 + \$9,500 + \$27,250 + \$4,100 + \$1,000 + \$1,500 + \$685 = \$54,585. DL \$10,000 + MOH\$54,585 = \$64,585

Diff: 3

LO: 2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

53) ABC Company makes wooden furniture. Identify each of the following as either a product cost or a period cost. If it is a product cost, classify it as direct materials, direct labor, or manufacturing overhead.

- A. \_\_\_\_\_ Insurance on the plant building
- B. \_\_\_\_\_ Cost of shipping the furniture to the customers
- C. \_\_\_\_\_ Assembly line workers' wages
- D. \_\_\_\_\_ Depreciation on plant equipment
- E. \_\_\_\_\_ Salesmen's salaries
- F. \_\_\_\_\_ Cost of various types of wood
- G. \_\_\_\_\_ Insurance on delivery trucks
- H. \_\_\_\_\_ Plant forklift operator's salary

Answer:

- A. Product cost, manufacturing overhead
- B. Period cost
- C. Product cost, direct labor
- D. Product cost, manufacturing overhead
- E. Period cost
- F. Product cost, direct materials
- G. Period cost
- H. Product cost, manufacturing overhead

Diff: 3

LO: 2-4

EOC: S2-7

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

54) Indicate whether each of the following costs is a product cost or a period cost. Assume it is for a manufacturer.

- A. \_\_\_\_\_ direct materials used in factory
- B. \_\_\_\_\_ factory utilities
- C. \_\_\_\_\_ salespersons' commissions
- D. \_\_\_\_\_ salary of plant manager
- E. \_\_\_\_\_ indirect materials used in factory
- F. \_\_\_\_\_ depreciation expense on store equipment
- G. \_\_\_\_\_ indirect labor incurred in factory
- H. \_\_\_\_\_ advertising expense
- I. \_\_\_\_\_ direct labor incurred in factory
- J. \_\_\_\_\_ factory machinery repairs and maintenance
- K. \_\_\_\_\_ depreciation expense on factory machinery
- L. \_\_\_\_\_ supplies used in store
- M. \_\_\_\_\_ plant insurance expired

Answer:

- A. product
- B. product
- C. period
- D. product
- E. product
- F. period
- G. product
- H. period
- I. product
- J. product
- K. product
- L. period
- M. product

Diff: 2

LO: 2-4

EOC: S2-6

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

55) Direct labor for a company was \$145,600; manufacturing overhead was \$300,100; and direct materials were \$270,500. Conversion costs would total

- A) \$570,600.
- B) \$716,200.
- C) \$416,100.
- D) \$445,700.

Answer: D

Explanation: Calculations:  $\$300,100 + \$145,600 = \$445,700$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

56) Direct materials for a company were \$500,900; manufacturing overhead was \$251,000; and direct labor was \$770,100. Conversion costs would total

- A) \$1,021,100.
- B) \$1,271,000.
- C) \$1,522,000.
- D) \$751,900.

Answer: A

Explanation: Calculations:  $\$770,100 + \$251,000 = \$1,021,100$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

57) Direct labor for a company was \$145,200; manufacturing overhead was \$300,200; and direct materials were \$270,800. Prime costs would total

- A) \$716,200.
- B) \$445,400.
- C) \$416,000.
- D) \$571,000.

Answer: C

Explanation: Calculations:  $\$145,200 + \$270,800 = \$416,000$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

58) Direct materials for a company were \$500,800; manufacturing overhead was \$250,600; and direct labor was \$770,700. Prime costs would total

- A) \$1,021,300.
- B) \$1,271,500.
- C) \$1,522,100.
- D) \$751,400.

Answer: B

Explanation: Calculations:  $\$500,800 + \$770,700 = \$1,271,500$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

59) Product costs include all of the following **except**

- A) direct materials used.
- B) cleaning products for the factory.
- C) assembly line workers.
- D) advertising.

Answer: D

Diff: 1

LO: 2-4

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

60) Which of the following would **not** be considered period costs?

- A) Depreciation of factory equipment
- B) Utilities of retail location
- C) Depreciation on sales force vehicles
- D) Property insurance on corporate headquarters

Answer: A

Diff: 1

LO: 2-4

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



61) Manufacturing overhead includes

- A) direct materials, direct labor, and factory overhead.
- B) only indirect materials and indirect labor.
- C) indirect materials, indirect labor, and all other indirect costs related to the manufacturing facility.
- D) only labor, both direct and indirect.

Answer: C

Diff: 1

LO: 2-4

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

62) An example of a period cost would be the

- A) salary of the CEO.
- B) materials purchased to manufacture the product.
- C) salary to the factory supervisor.
- D) property insurance paid for the manufacturing facility.

Answer: A

Diff: 1

LO: 2-4

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

63) Period costs are generally also known as

- A) factory overhead.
- B) prime costs.
- C) annual expenses.
- D) operating expenses.

Answer: D

Diff: 1

LO: 2-4

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

64) Pink Ribbon Shoppe, a clothing retailer, had the following total costs as grouped by value chain element:

Research and development	\$53,500
Design	\$17,100
Purchases	\$72,800
Marketing	\$42,200
Distribution	\$58,100
Customer service	\$35,700

What were the company's period costs?

A) \$206,600

B) \$279,400

C) \$100,300

D) \$136,000

Answer: A

Explanation: Calculations:  $\$53,500 + 17,100 + 42,200 + 58,100 + 35,700 = \$206,600$

Diff: 2

LO: 2-4

EOC: E2-18A; E2-30B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

65) The following average cost per unit is calculated when the company produces and sells 50,000 units:

	Average Cost Per Unit @ 50,000 units
Direct Materials	\$8.50
Direct Labor	\$12.00
Variable MOH	\$2.25
Fixed MOH	\$1.00
Variable Selling & Administrative Expenses	\$0.75
Fixed Selling & Administrative Expenses	\$0.50

Based on the above average cost per unit, answer the following questions:

1. What is the total product cost at 40,000 units?
2. What is the total MOH at 45,000 units?

Answer:

1. What is the total product cost at 40,000 units? **\$960,000**

DM is a variable cost =  $\$8.50 \times 40,000 \text{ units} = \$340,000$

DL is a variable costs =  $\$12.00 \times 40,000 \text{ units} = \$480,000$

Variable MOH =  $\$2.25 \times 40,000 \text{ units} = \$90,000$

All variable costs remain constant on per unit basis so take per unit and multiply by units produced.

Fixed costs remain constant in total so the per unit will change when activity changes. At 50,000 units the fixed MOH was \$1.00 so total fixed cost is  $\$1.00 \times 50,000 \text{ units} = \$50,000$  and this won't change if they produce more or less than 50,000 units; however, the fixed MOH per unit WILL change when activity goes up and down.

2. What is the total MOH at 45,000 units? **\$151,250**

VMOH =  $\$2.25 \times 45,000 \text{ units} = \$101,250$

FMOH (see note above about fixed MOH) =  $\$50,000$

Diff: 3

LO: 2-4

AACSB: Application of knowledge

2.5 Prepare the income statement for service, merchandising, and manufacturing companies

1) Product costs and period costs receive similar treatment when presented in the financial statements.

Answer: FALSE

Diff: 1

LO: 2-5

EOC: S2-12

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

2) The income statement of manufacturing companies is more complex than that of service or merchandising companies.

Answer: TRUE

Diff: 1

LO: 2-5

EOC: S2-11

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

3) The financial statements of a merchandiser are more complex than those of a manufacturer.

Answer: FALSE

Diff: 1

LO: 2-5

EOC: E2-22A

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

4) Service companies have the most complex accounting with regard to the income statement.

Answer: FALSE

Diff: 1

LO: 2-5

EOC: E2-22A

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

5) Cost of goods sold is a major expense of service companies.

Answer: FALSE

Diff: 1

LO: 2-5

EOC: E2-22A

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

6) The schedule of cost of goods manufactured is prepared before the income statement for a manufacturing company.

Answer: TRUE

Diff: 1

LO: 2-5

EOC: E2-25A

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

7) Which of the following items is **not** used when calculating the cost of goods manufactured?

A) Direct materials used

B) Direct labor

C) Salesperson salaries

D) Manufacturing overhead

Answer: C

Diff: 2

LO: 2-5

EOC: E2-24A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

8) Before operating income can be determined for a manufacturer, which of the following is calculated?

A) Cost of goods available for sale

B) Cost of goods sold

C) Cost of goods manufactured

D) All of the above

Answer: D

Diff: 2

LO: 2-5

EOC: E2-24A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

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

Answer: B

Diff: 2

LO: 2-5

EOC: E2-22A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

10) The balance sheet of a service company would include which of the following?

- A) Factory equipment depreciation
- B) Cost of goods manufactured
- C) Accounts receivable
- D) Cost of goods sold

Answer: C

Diff: 1

LO: 2-5

EOC: E2-22A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

11) The income statement of a retailer would include which of the following?

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

Answer: A

Diff: 1

LO: 2-5

EOC: E2-23A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

12) The income statements for **both** a merchandiser and manufacturer would include which of the following?

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

Answer: A

Diff: 1

LO: 2-5

EOC: E2-23A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

13) A merchandiser's purchases are equivalent to a manufacturer's

- A) cost of goods sold.
- B) cost of goods manufactured.
- C) raw materials inventory.
- D) work in process inventory.

Answer: B

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

14) Tooty Fruity Beverage Company's operating activities for the year are listed below.

Purchases	\$140,200
Operating expenses	80,100
Beginning inventory	12,800
Ending inventory	18,000
Sales revenue	301,000

What is the cost of goods available for sale?

- A) \$140,200
- B) \$153,000
- C) \$80,100
- D) \$135,000

Answer: B

Explanation: Calculations: Beginning Inventory \$12,800 + Purchases \$140,200 = Cost of Goods Available for Sale = \$153,000

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

15) Tooty Fruity Beverage Company's operating activities for the year are listed below.

Purchases	\$140,200
Operating expenses	80,300
Beginning inventory	12,300
Ending inventory	18,100
Sales revenue	300,600

What is the cost of goods sold for the year?

- A) \$152,500
- B) \$134,400
- C) \$140,200
- D) \$80,300

Answer: B

Explanation: Calculations: Beginning Inventory \$12,300 + Purchases \$140,200 = Goods Available for Sale \$152,500 - Ending Inventory \$18,100 = \$134,400

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.



16) Tooty Fruity Beverage Company's operating activities for the year are listed below.

Purchases	\$140,100
Operating expenses	81,000
Beginning inventory	12,300
Ending inventory	18,500
Sales revenue	301,000

What is the gross profit for the year?

- A) \$160,900
- B) \$301,000
- C) \$81,000
- D) \$167,100

Answer: D

Explanation: Calculations: Beg Inv \$12,300 + Purchases \$140,100 = Goods available \$152,400 - ending inventory \$18,500 = Cost of Goods Sold \$133,900. Now Sales \$301,000 - CGS \$133,900 = Gross Profit \$167,100

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

17) Muddy Paws Dog Toy Company's operating activities for the year are listed below.

Beginning inventory	\$1,000,100
Ending inventory	\$350,500
Purchases	\$751,000
Sales revenue	\$1,500,900
Operating expenses	\$700,700

What is the cost of goods available for sale?

- A) \$1,400,600
- B) \$749,900
- C) \$50,300
- D) \$1,751,100

Answer: D

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

18) Muddy Paws Dog Toy Company's operating activities for the year are listed below.

Beginning inventory	\$1,000,300
Ending inventory	\$350,800
Purchases	\$750,200
Sales revenue	\$1,500,100
Operating expenses	\$700,200

What is the cost of goods sold for the year?

- A) \$1,399,700
- B) \$749,900
- C) \$50,000
- D) \$1,750,500

Answer: A

Explanation: Calculations: Beginning Inventory \$1,000,300 + Purchases \$750,200 = Goods Available \$1,750,500 - Ending Inventory \$350,800 = \$1,399,700

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

19) Muddy Paws Dog Toy Company's operating activities for the year are listed below.

Beginning inventory	\$1,000,800
Ending inventory	\$350,000
Purchases	\$750,900
Sales revenue	\$1,500,500
Operating expenses	\$700,900

What is the gross profit for the year?

- A) \$50,000
- B) \$749,600
- C) \$1,500,500
- D) \$98,800

Answer: D

Explanation: Calculations: Beginning Inventory \$1,000,800 + Purchases \$750,900 = Goods Available \$1,751,700 - Ending Inventory \$350,000 = CGS \$1,401,700. Now Sales 1,500,500 - CGS \$1,401,700 = Gross Profit \$98,800

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

20) Fun Science Toys' operating activities for the year are listed below.

Purchases	\$174,000
Operating expenses	62,200
Beginning inventory	27,000
Ending inventory	37,600
Sales revenue	333,500

What is the cost of goods available for sale?

- A) \$163,400
- B) \$201,000
- C) \$97,300
- D) \$174,000

Answer: B

Explanation: Calculations:  $\$27,000 + \$174,000 = \$201,000$

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

21) Fun Science Toys' operating activities for the year are listed below.

Purchases	\$174,700
Operating expenses	62,800
Beginning inventory	27,800
Ending inventory	37,900
Sales revenue	333,900

What is the cost of goods sold for the year?

- A) \$202,500
- B) \$164,600
- C) \$174,700
- D) \$96,400

Answer: B

Explanation: Calculations:  $\$27,800 + \$174,700 = \$202,500 - \$37,900 = \$164,600$

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

22) Fun Science Toys' operating activities for the year are listed below.

Purchases	\$174,300
Operating expenses	62,700
Beginning inventory	27,000
Ending inventory	37,300
Sales revenue	333,000

What is the gross profit for the year?

- A) \$158,700
- B) \$333,000
- C) \$96,000
- D) \$169,000

Answer: D

Explanation: Calculations:  $\$27,000 + \$174,300 = \$201,300 - \$37,300 = \$164,000$ . Then  $\$333,000 - \$164,000 = \$169,000$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

23) In addition to cost of goods manufactured, which of the following is needed to compute the cost of goods sold for a manufacturer?

- A) Beginning work in process inventory less ending work in process inventory
- B) Ending work in process inventory less beginning work in process inventory
- C) Ending finished goods
- D) Beginning finished goods inventory less ending finished goods inventory

Answer: D

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

- 24) For a manufacturer, beginning work in process would be equal to
- A) manufacturing costs incurred in the period - ending work in process inventory.
  - B) cost of goods manufactured - ending work in process inventory + manufacturing costs incurred in the period.
  - C) ending work in process inventory + manufacturing costs incurred in the period.
  - D) cost of goods manufactured + ending work in process inventory - manufacturing costs incurred in the period.

Answer: D

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

- 25) Wanda's Wand Company reports the following data for its first year of operation.

Work in process inventory, beginning	0
Work in process inventory, ending	140,200
Direct materials used	110,100
Direct Labor	136,000
Manufacturing overhead	185,800
Finished goods inventory, beginning	0
Finished goods inventory, ending	90,300

What are the total manufacturing costs to account for?

- A) \$201,400
- B) \$246,100
- C) \$431,900
- D) \$136,000

Answer: C

Explanation: Calculations:  $\$110,100 + \$136,000 + \$185,800 = \$431,900$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

26) Wanda's Wand Company reports the following data for its first year of operation.

Cost of goods manufactured	\$455,700
Work in process inventory, beginning	0
Work in process inventory, ending	140,700
Direct materials used	110,900
Direct Labor	139,000
Manufacturing overhead	185,400
Finished goods inventory, beginning	0
Finished goods inventory, ending	90,100

What is the cost of goods sold?

- A) \$365,600
- B) \$455,700
- C) \$752,000
- D) \$521,200

Answer: A

Explanation: Calculations:  $\$455,700 - 90,100 = \$365,600$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

27) Youngstown Rubber reports the following data for its first year of operation.

Direct materials used	\$710,400
Direct Labor	350,000
Cost of goods manufactured	1,030,700
Finished goods inventory, ending	191,000
Finished goods inventory, beginning	0
Manufacturing overhead	100,700
Work in process inventory, beginning	0
Work in process inventory, ending	130,400

What are the total manufacturing costs to account for?

A) \$1,520,400

B) \$1,161,100

C) \$1,841,800

D) \$839,700

Answer: B

Explanation: Calculations:

$\$710,400 + \$350,000 + \$100,700 = \$1,161,100$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

28) Youngstown Rubber reports the following data for its first year of operation.

Direct materials used	\$710,400
Cost of goods manufactured	1,031,200
Direct Labor	350,000
Finished goods inventory, ending	191,000
Manufacturing overhead	100,800
Finished goods inventory, beginning	0
Work in process inventory, beginning	0
Work in process inventory, ending	130,000

What is the cost of goods sold?

A) \$1,031,200

B) \$811,000

C) \$840,200

D) \$1,842,400

Answer: C

Explanation: Calculations:  $\$1,031,200 - 191,000 = \$840,200$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.



29) Fit Apparel Company reports the following data for its first year of operation.

Work in process inventory, beginning	0
Work in process inventory, ending	90,400
Direct materials used	85,500
Direct Labor	60,000
Manufacturing overhead	100,200
Finished goods inventory, beginning	0
Finished goods inventory, ending	70,500

What are the total manufacturing costs to account for?

A) \$185,700

B) \$336,100

C) \$245,700

D) \$155,300

Answer: C

Explanation: Calculations:

$\$85,500 + \$60,000 + \$100,200 = \$245,700$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

30) Fit Apparel Company reports the following data for its first year of operation.

Cost of goods manufactured	\$155,600
Work in process inventory, beginning	0
Work in process inventory, ending	90,500
Direct materials used	85,800
Direct Labor	60,000
Manufacturing overhead	100,300
Finished goods inventory, beginning	0
Finished goods inventory, ending	70,900

What is the cost of goods sold?

A) \$155,600

B) \$341,700

C) \$84,700

D) \$160,300

Answer: C

Explanation: Calculations:  $\$155,600 - 70,900 = \$84,700$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

31) Blazing Bike reports the following data for its first year of operation.

Work in process inventory, beginning	\$0
Work in process inventory, ending	50,500
Manufacturing overhead	25,000
Direct materials used	7,700
Direct Labor	60,000
Finished goods inventory, beginning	0
Finished goods inventory, ending	20,900
Cost of goods manufactured	42,200

What are the total manufacturing costs to account for?

- A) \$3,500
- B) \$92,700
- C) \$42,200
- D) \$74,900

Answer: B

Explanation: Calculations:  $\$7,700 + \$60,000 + \$25,000 = \$92,700$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

32) Blazing Bike reports the following data for its first year of operation.

Work in process inventory, beginning	\$0
Work in process inventory, ending	50,100
Manufacturing overhead	25,700
Direct materials used	7,500
Direct Labor	60,000
Finished goods inventory, beginning	0
Finished goods inventory, ending	20,800
Cost of goods manufactured	43,100

What is the cost of goods sold?

A) \$22,300

B) \$43,100

C) \$76,300

D) \$72,400

Answer: A

Explanation: Calculations:  $\$43,100 - 20,800 = \$22,300$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

33) Page's sells books. The following information summarizes the company's operating expenses for the year:

Purchases	\$105,500
Operating expenses	\$53,600
Beginning merchandise inventory	\$14,500
Ending merchandise inventory	\$11,500
Sales revenue	\$170,300

What is cost of goods available for sale?

A) \$117,000

B) \$64,800

C) \$120,000

D) \$102,500

Answer: C

Explanation: Calculations:  $\$105,500 + \$14,500 = \$120,000$

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

34) Page's sells books. The following information summarizes the company's operating expenses for the year:

Cost of goods sold	\$105,300
Salaries and wages	\$53,500
Rent and utilities	\$14,600
Marketing	\$11,700
Sales revenues	\$192,000

What is operating income?

- A) \$21,500
- B) \$102,400
- C) \$112,200
- D) \$6,900

Answer: D

Explanation: Calculations:

$\$192,000 - \$105,300 = \$86,700$  gross profit

Operating Expenses:  $\$53,500 + \$14,600 + \$11,700 = \$79,800$  Total Operating Expenses

Operating Income:  $86,700 - 79,800 = \$6,900$  Operating Income

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

35) The Seashell Factory sells beach goods to tourists. The following information summarizes the company's operating expenses for the year:

Cost of goods sold	\$109,000
Marketing	\$1,700
Rent and utilities	\$13,100
Salaries and wages	\$12,300
Sales revenues	\$170,000

What is gross profit?

- A) \$61,000
- B) \$33,900
- C) \$142,900
- D) \$88,100

Answer: A

Explanation: Calculations:  $\$170,000 - \$109,000 = \$61,000$  Gross profit

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

36) Paper Clip Company sells office supplies. The following information summarizes the company's operating activities for the year:

Utilities for the store	\$ 9,800
Sales commissions	10,700
Sales revenue	164,100
Purchases of merchandise	85,700
January 1 inventory	27,200
Rent for store	13,600
December 31 inventory	23,000

What is cost of goods sold?

- A) \$85,700
- B) \$89,900
- C) \$108,700
- D) \$112,900

Answer: B

Explanation: Calculations:  $\$27,200 + 85,700 = 112,900 - \$23,000 = \$89,900$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

37) Paper Clip Company sells office supplies. The following information summarizes the company's operating activities for the year:

Utilities for the store	\$ 9,800
Sales commissions	10,100
Sales revenue	164,000
Purchases of merchandise	89,800
January 1 inventory	28,000
Rent for store	14,200
December 31 inventory	23,300

What is operating income?

- A) \$153,900
- B) \$57,400
- C) \$35,400
- D) \$38,200

Answer: C

Explanation: Calculations:  $\$164,000 - (\$28,000 + \$89,800 - \$23,300 = \$94,500) = \$69,500 - \$9,800 - \$10,100 - \$14,200 = \$35,400$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.



38) Paper Clip Company sells office supplies. The following information summarizes the company's operating activities for the year:

Utilities for the store	\$ 9,500
Sales commissions	10,300
Sales revenue	164,400
Purchases of merchandise	89,800
January 1 inventory	27,900
Rent for store	14,300
December 31 inventory	23,400

What is gross profit?

- A) \$70,100
- B) \$40,900
- C) \$85,400
- D) \$57,500

Answer: A

Explanation: Calculations:  $\$164,400 - (\$89,800 + \$27,900 - \$23,400 = \$94,300) = \$70,100$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

39) Paper Clip Company sells office supplies. The following information summarizes the company's operating activities for the year:

Utilities for the store	\$ 10,100
Sales commissions	10,200
Sales revenue	164,900
Purchases of merchandise	89,400
January 1 inventory	27,000
Rent for store	14,200
December 31 inventory	23,100

What are total operating expenses?

A) \$34,500

B) \$20,300

C) \$24,400

D) \$24,300

Answer: A

Explanation: Calculations:  $\$10,100 + \$10,200 + \$14,200 = \$34,500$

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

40) Company X sells widgets. The following information summarizes the company's operating activities for the year:

Beginning inventory	\$7,800
Sales revenue	\$25,900
Sales commissions	\$900
Rent for office	\$2,300
Utilities for the office	\$1,800
Purchases	\$6,400
Ending inventory	\$5,200

What is cost of goods sold?

A) \$10,500

B) \$6,400

C) \$9,000

D) \$14,200

Answer: C

Explanation: Calculations:  $\$7,800 + 6,400 = 14,200 - \$5,200 = \$9,000$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

41) Company X sells widgets. The following information summarizes the company's operating activities for the year:

Beginning inventory	\$7,600
Sales revenue	\$25,000
Sales commissions	\$300
Rent for office	\$2,400
Utilities for the office	\$1,500
Purchases	\$6,200
Ending inventory	\$5,800

What is operating income?

A) \$12,800

B) \$23,500

C) \$15,500

D) \$15,200

Answer: A

Explanation: Calculations:  $\$25,000 - \$8,000 = \$17,000 - \$1,500 - \$300 - \$2,400 = \$12,800$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

42) Company X sells widgets. The following information summarizes the company's operating activities for the year:

Beginning inventory	\$7,900
Sales revenue	\$25,200
Sales commissions	\$400
Rent for office	\$2,200
Utilities for the office	\$1,200
Purchases	\$6,900
Ending inventory	\$5,200

What is gross profit?

A) \$14,400

B) \$21,600

C) \$15,600

D) \$11,800

Answer: C

Explanation:  $25,200 - (7,900 + 6,900 - 5,200) = 15,600$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

43) Company X sells widgets. The following information summarizes the company's operating activities for the year:

Beginning inventory	\$7,100
Sales revenue	\$25,300
Sales commissions	\$800
Rent for office	\$2,700
Utilities for the office	\$1,400
Purchases	\$6,900
Ending inventory	\$5,700

What are total operating expenses?

- A) \$3,500
- B) \$2,200
- C) \$4,100
- D) \$4,900

Answer: D

Explanation: Calculations:  $\$800 + 2,700 + 1,400 = \$4,900$

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

44) Greenscape, Inc. sells lawn decor. Selected financial information for the most recent year follows.

Beginning merchandise inventory on January 1 was \$33,400.

Ending merchandise inventory on December 31 was \$35,200.

Purchases during the year were \$92,800.

Selling and administrative expenses were \$75,900.

Sales for year were \$262,200.

What was cost of goods sold?

- A) \$161,400
- B) \$94,600
- C) \$91,000
- D) \$93,500

Answer: C

Explanation: Calculations:  $\$92,800 + \$33,400 = \$126,200 - \$35,200 = \$91,000$

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

45) Greenscape, Inc. sells lawn decor. Selected financial information for the most recent year follows.

Beginning merchandise inventory on January 1 was \$33,300.  
Ending merchandise inventory on December 31 was \$35,400.  
Purchases during the year were \$92,500.  
Selling and administrative expenses were \$75,900.  
Sales for year were \$262,500.

What was gross profit?

- A) \$151,200
- B) \$170,000
- C) \$186,600
- D) \$172,100

Answer: D

Explanation: Calculations:  $\$92,500 + \$33,300 = \$125,800 - \$35,400 = \$90,400$ .

Next,  $\$262,500 - \$90,400 = \$172,100$

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

46) Greenscape, Inc. sells lawn decor. Selected financial information for the most recent year is as follows:

Beginning merchandise inventory on January 1 was \$33,900.  
Ending merchandise inventory on December 31 was \$36,000.  
Purchases during the year were \$92,600.  
Selling and administrative expenses were \$75,500.  
Sales for year were \$263,000.

What was operating income for the year?

- A) \$90,500
- B) \$97,000
- C) \$94,900
- D) \$92,800

Answer: B

Explanation: Calculations:  $\$92,600 + \$33,900 = \$126,500 - \$36,000 = \$90,500$ .

Next,  $\$263,000 - \$90,500 = \$172,500 - \$75,500 = \$97,000$

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

47) Greenscape, Inc. sells lawn decor to consumers in the marketplace. The managerial accountant reported the following financial information that reflects the 20XX data:

Beginning merchandise inventory on January 1:	\$234,000
Ending merchandise inventory on December 31:	\$135,200
Purchases:	\$952,400
Selling and administrative expenses:	\$175,700
Sales revenue for the year:	\$2,262,800
Cost of goods sold:	\$1,051,200
Salary and wage expenses:	\$250,300
Rent and utility expenses:	\$75,100

Compute the operating income.

- A) \$710,500
- B) \$124,000
- C) \$184,100
- D) \$83,500

Answer: A

Explanation: Calculations:

Gross Profit:  $\$2,262,800 - \$1,051,200 = \$1,211,600$

Less Operating Expenses:  $\$1,211,600 - \$250,300 - \$75,100 - \$175,700 = \$710,500$  Operating Income

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.



48) Selected financial information for Shadyside Manufacturing is presented in the following table (000s omitted).

Sales revenue	\$5,000
Purchases of direct materials	\$480
Direct labor	\$510
Manufacturing overhead	\$690
Operating expenses	\$680
Beginning raw materials inventory	\$260
Ending raw materials inventory	\$180
Beginning work in process inventory	\$360
Ending work in process inventory	\$450
Beginning finished goods inventory	\$300
Ending finished goods inventory	\$230

What was the cost of direct materials used?

- A) \$740
- B) \$440
- C) \$560
- D) \$480

Answer: C

Explanation: Calculations:  $\$260 + \$480 = \$740 - \$180 = 560$

Diff: 2

LO: 2-5

EOC: E2-24A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

49) Selected financial information for Shadyside Manufacturing is presented in the following table (000s omitted).

Sales revenue	\$4,800
Purchases of direct materials	\$400
Direct labor	\$470
Manufacturing overhead	\$700
Operating expenses	\$710
Beginning raw materials inventory	\$240
Ending raw materials inventory	\$230
Beginning work in process inventory	\$400
Ending work in process inventory	\$490
Beginning finished goods inventory	\$310
Ending finished goods inventory	\$280

What was the cost of goods manufactured?

- A) \$1,670
- B) \$1,390
- C) \$1,490
- D) \$1,580

Answer: C

Explanation: Calculations:  $\$240 + \$400 - \$230 = \$410$  Direct Materials Used

$\$400 + \$410 + \$470 + \$700 = \$1,980 - \$490 = \$1,490$

Diff: 3

LO: 2-5

EOC: E2-24A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

50) Selected financial information for Shadyside Manufacturing is presented in the following table (000s omitted).

Sales revenue	\$4,800
Purchases of direct materials	\$490
Direct labor	\$520
Manufacturing overhead	\$700
Operating expenses	\$730
Beginning raw materials inventory	\$220
Ending raw materials inventory	\$280
Beginning work in process inventory	\$360
Ending work in process inventory	\$500
Beginning finished goods inventory	\$260
Ending finished goods inventory	\$200

What was cost of goods sold?

- A) \$1,570
- B) \$1,450
- C) \$1,640
- D) \$980

Answer: A

Explanation: Calculations

Cost of Goods Manufactured:  $\$360 + \$520 + \$700 + \$430 = \$2,010 - \$500 = \$1,510$

Cost of Goods Sold  $\$260 + \$1,510 = \$1,770 - \$200 = \$1,570$

Diff: 3

LO: 2-5

EOC: E2-24A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

51) Selected financial information for Shadyside Manufacturing is presented in the following table (000s omitted).

Sales revenue	\$4,800
Purchases of direct materials	\$400
Direct labor	\$550
Manufacturing overhead	\$700
Operating expenses	\$670
Beginning raw materials inventory	\$220
Ending raw materials inventory	\$250
Beginning work in process inventory	\$410
Ending work in process inventory	\$500
Beginning finished goods inventory	\$330
Ending finished goods inventory	\$240

What was operating income?

- A) \$2,840
- B) \$4,800
- C) \$4,130
- D) \$2,510

Answer: D

Explanation: Calculations:  $\$4,800 - \$1,620 = \$3,180 - \$670 = \$2,510$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

52) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

Beginning raw materials inventory	\$490
Ending raw materials inventory	\$280
Direct labor	\$250
Operating expenses	\$660
Purchases of direct materials	\$500
Beginning work in process inventory	\$350
Ending work in process inventory	\$640
Sales revenue	\$5,000
Manufacturing overhead	\$750
Beginning finished goods inventory	\$270
Ending finished goods inventory	\$300

What was the cost of direct materials used?

- A) \$990
- B) \$710
- C) \$210
- D) \$500

Answer: B

Explanation: Calculations:  $\$490 + \$500 = \$990 - \$280 = \$710$

Diff: 2

LO: 2-5

EOC: E2-24A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

53) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

Beginning raw materials inventory	\$490
Ending raw materials inventory	\$180
Direct labor	\$350
Operating expenses	\$750
Purchases of direct materials	\$470
Beginning work in process inventory	\$370
Ending work in process inventory	\$620
Sales revenue	\$4,800
Manufacturing overhead	\$810
Beginning finished goods inventory	\$300
Ending finished goods inventory	\$280

What was cost of goods manufactured?

- A) \$1,990
- B) \$1,180
- C) \$1,790
- D) \$1,690

Answer: D

Explanation: Calculations:  $\$490 + 470 - 180 = \$780 + 370 + 350 + 810 - 620 = \$1,690$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

54) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

Beginning raw materials inventory	\$380
Ending raw materials inventory	\$280
Direct labor	\$250
Operating expenses	\$650
Purchases of direct materials	\$470
Beginning work in process inventory	\$410
Ending work in process inventory	\$670
Sales revenue	\$4,600
Manufacturing overhead	\$770
Beginning finished goods inventory	\$320
Ending finished goods inventory	\$290

What was cost of goods sold?

- A) \$1,180
- B) \$1,360
- C) \$770
- D) \$1,550

Answer: B

Explanation: Calculations:

Direct Materials:  $380 + \$470 = \$850 - \$280 = \$570$

COGM:  $\$410 + \$250 + \$570 + \$770 = \$2,000 - \$670 = \$1,330$

COGS:  $\$320 + \$1,330 = \$1,650 - \$290 = \$1,360$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

55) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

Beginning raw materials inventory	\$350
Ending raw materials inventory	\$210
Direct labor	\$300
Operating expenses	\$730
Purchases of direct materials	\$440
Beginning work in process inventory	\$420
Ending work in process inventory	\$610
Sales revenue	\$5,300
Manufacturing overhead	\$720
Beginning finished goods inventory	\$280
Ending finished goods inventory	\$270

What was operating income?

- A) \$4,610
- B) \$5,300
- C) \$3,940
- D) \$3,150

Answer: D

Explanation: Calculations:  $\$5,300 - 1,420 = 3,880 - 730 = \$3,150$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.



56) Selected information regarding a company's most recent quarter follows (all data in thousands).

Beginning work in process inventory	\$330
Cost of goods manufactured	\$690
Direct materials used	\$170
Direct labor	\$130
Ending work in process inventory	\$160

What was manufacturing overhead for the quarter?

- A) \$530
- B) \$220
- C) \$860
- D) \$160

Answer: B

Explanation: Calculations:  $\$690 + 160 = \$850 - 330 - 130 - 170 = \$220$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

57) Selected information regarding a company's most recent quarter follows (all data in thousands).

Direct labor	\$550
Beginning work in process inventory	\$350
Ending work in process inventory	\$330
Cost of goods manufactured	\$1,590
Manufacturing overhead	\$820

What was the cost of direct materials used for the quarter?

- A) \$200
- B) \$490
- C) \$1,610
- D) \$820

Answer: A

Explanation: Calculations:  $\$1,590 + 330 - 350 = 1,570 - 550 - 820 = \$200$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

58) Selected information regarding a company's most recent quarter follows (all data in thousands).

Operating expenses	\$630
Gross profit	\$2,440
Sales revenue	\$3,100
Ending finished goods inventory	\$270
Cost of goods manufactured	\$1,620

What was cost of goods sold?

- A) \$1,260
- B) \$660
- C) \$990
- D) \$850

Answer: B

Explanation: Calculations:  $\$3,100 - 2,440 = \$660$

Diff: 2

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

59) Selected information regarding a company's most recent quarter follows (all data in thousands).

Operating expenses	\$710
Gross profit	\$2,460
Sales revenue	\$4,090
Ending finished goods inventory	\$300
Cost of goods manufactured	\$1,260

What was the beginning finished goods inventory?

- A) \$2,120
- B) \$550
- C) \$670
- D) \$850

Answer: C

Explanation: Calculations:  $\$4,090 - 2,460 = 1,630 + 300 = 1,930 - 1,260 = \$670$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

60) Selected information regarding a company's most recent quarter follows (all data in thousands).

Sales revenue	\$4,010
Beginning raw materials inventory	\$250
Direct materials used	\$460
Purchases of direct materials	\$390
Direct labor	\$530
Manufacturing overhead	\$640

What was the ending raw materials inventory?

- A) \$460
- B) \$780
- C) \$180
- D) \$850

Answer: C

Explanation: Calculations:  $\$250 + 390 = 640 - 460 = \$180$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

61) Selected information regarding a company's most recent quarter follows (all data in thousands).

Ending work in process inventory	\$680
Cost of goods manufactured	\$820
Direct labor	\$400
Direct materials used	\$260
Beginning work in process inventory	\$390

What was manufacturing overhead for the quarter?

- A) \$160
- B) \$530
- C) \$660
- D) \$450

Answer: D

Explanation: Calculations:  $\$820 + 680 = 1,500 - 390 - 400 - 260 = \$450$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

62) Selected information regarding a company's most recent quarter follows (all data in thousands).

Ending work in process inventory	\$480
Manufacturing overhead	\$890
Cost of goods manufactured	\$1,440
Beginning work in process inventory	\$360
Direct labor	\$500

What was the cost of direct materials used for the quarter?

- A) \$1,010
- B) \$1,320
- C) \$530
- D) \$170

Answer: D

Explanation: Calculations:  $\$1,440 + 480 - 360 = 1,560 - 500 - 890 = \$170$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

63) Selected information regarding a company's most recent quarter follows (all data in thousands).

Cost of goods manufactured	\$1,660
Gross profit	\$3,050
Operating expenses	\$540
Ending finished goods inventory	\$360
Sales revenue	\$4,080

What was cost of goods sold?

- A) \$1,120
- B) \$1,880
- C) \$2,560
- D) \$1,030

Answer: D

Explanation: Calculations:  $\$4,080 - 3,050 = \$1,030$

Diff: 2

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

64) Selected information regarding a company's most recent quarter follows (all data in thousands).

Cost of goods manufactured	\$1,570
Gross profit	\$2,610
Operating expenses	\$4,040
Ending finished goods inventory	\$440
Sales revenue	\$6,080

What was the beginning finished goods inventory?

- A) \$2,340
- B) \$470
- C) \$600
- D) \$2,470

Answer: A

Explanation: Calculations:  $\$6,080 - 2,610 = \$3,470 + 440 = 3,910 - 1,570 = \$2,340$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

65) Selected information regarding a company's most recent quarter follows (all data in thousands).

Purchases of direct materials	\$330
Sales revenue	\$3,530
Manufacturing overhead	\$490
Direct materials used	\$350
Direct labor	\$250
Beginning raw materials inventory	\$210

What was the ending raw materials inventory?

- A) \$680
- B) \$350
- C) \$190
- D) \$230

Answer: C

Explanation: Calculations:  $\$210 + 330 = 540 - 350 = \$190$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

- 66) Gross profit is calculated by
- A) subtracting cost of goods sold from sales.
  - B) adding sales to operating expenses.
  - C) subtracting operating expenses from sales.
  - D) adding profit to sales.

Answer: A

Diff: 1

LO: 2-5

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

- 67) Sales minus cost of goods sold equals gross profit.

Answer: TRUE

Diff: 1

LO: 2-5

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

- 68) Cost of goods manufactured reflects

- A) goods sold during the period.
- B) goods completed during the period.
- C) goods still in the factory at the end of the period.
- D) goods not yet started at the end of the period.

Answer: B

Diff: 2

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

- 69) Direct materials used reflects

- A) materials used to package the finished product for distribution/shipping to the customers.
- B) all materials used throughout the company including but not limited to office materials, shipping materials, all raw materials, etc.
- C) materials directly traced to the finished product that are requisitioned into the factory to be used in production.
- D) materials acquired for use in production but that have not been requisitioned by the production supervisor yet.

Answer: C

Diff: 2

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

70) Direct materials used is the same thing as raw materials purchased.

Answer: FALSE

Diff: 1

LO: 2-5

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

71) Zoolander Inc. manufacturers high end fashion accessories and has provided the following data for the latest quarter ended March 31st:

Beginning Inventory for Raw Materials	\$69,000
Ending Inventory for Raw Materials	\$46,600
Beginning Inventory for Work in Process	\$83,000
Ending Inventory for Work in Process	\$102,000
Beginning Inventory for Finished Goods	\$51,000
Ending Inventory for Finished Goods	\$56,000
Purchases of Raw Materials	\$44,000
Wags paid to assembly line workers	\$125,000
Wages paid to factory supervisor	\$34,000
Property insurance paid on factory	\$5,300
Utilities for the factory	\$9,000
Indirect materials used in production	\$3,100
Sales Revenue	\$525,000
General & Administrative Expenses	\$135,000

Calculate direct materials used for Zoolander Inc.'s first quarter.

A) \$66,400

B) \$44,000

C) \$21,600

D) \$31,000

Answer: A

Explanation: Beg Inv. RM \$69,000 + Purchases \$44,000 - End Inv. RM \$46,600 = DM Used \$66,400

Diff: 3

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

72) Zoolander Inc. manufacturers high end fashion accessories and has provided the following data for the latest quarter ended March 31st:

Beginning Inventory for Raw Materials	\$65,000
Ending Inventory for Raw Materials	\$54,600
Beginning Inventory for Work in Process	\$88,000
Ending Inventory for Work in Process	\$94,000
Beginning Inventory for Finished Goods	\$51,000
Ending Inventory for Finished Goods	\$56,000
Purchases of Raw Materials	\$41,000
Wages paid to assembly line workers	\$117,000
Wages paid to factory supervisor	\$25,000
Property insurance paid on factory	\$5,300
Utilities for the factory	\$9,400
Indirect materials used in production	\$3,600
Sales Revenue	\$525,000
General & Administrative Expenses	\$135,000

Calculate cost of goods manufactured for Zoolander Inc.'s first quarter.

- A) \$202,100
- B) \$205,700
- C) \$195,300
- D) \$330,300

Answer: B

Explanation: Beg Inv. RM \$65,000 + Purchases \$41,000 - End Inv. RM \$54,600 = DM Used \$51,400

Beg. Inv. WIP \$88,000 + DM Used \$51,400 + DL \$117,000 + MOH (\$25,000 + \$5,300 + \$9,400 + \$3,600) - End. Inv. WIP \$94,000 = \$205,700 CGM

Diff: 3

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.



73) Zoolander Inc. manufacturers high end fashion accessories and has provided the following data for the latest quarter ended March 31st:

Beginning Inventory for Raw Materials	\$70,000
Ending Inventory for Raw Materials	\$46,600
Beginning Inventory for Work in Process	\$83,000
Ending Inventory for Work in Process	\$101,000
Beginning Inventory for Finished Goods	\$45,000
Ending Inventory for Finished Goods	\$52,000
Purchases of Raw Materials	\$46,000
Wages paid to assembly line workers	\$122,000
Wages paid to factory supervisor	\$34,000
Property insurance paid on factory	\$5,100
Utilities for the factory	\$9,900
Indirect materials used in production	\$3,300
Sales Revenue	\$525,000
General & Administrative Expenses	\$135,000

Calculate cost of goods sold for Zoolander Inc.'s first quarter.

- A) \$208,300
- B) \$15,600
- C) -\$800
- D) \$190,300

Answer: B

Explanation: Beg Inv. RM \$70,000 + Purchases \$46,000 - End Inv. RM \$46,600 = DM Used \$69,400

Beg. Inv. WIP \$83,000 + DM Used \$69,400 + DL \$122,000 + MOH (\$34,000 + \$5,100 + \$9,900 + \$3,300) - End. Inv. WIP \$101,000 = \$22,600 CGM

Beg. Inv. FG \$45,000 + CGM \$22,600 - End. Inv. FG \$52,000 = CGS \$15,600

Diff: 3

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

74) Zoolander Inc. manufactures high end fashion accessories and has provided the following data for the latest quarter ended March 31st:

Cost of Goods Manufactured	\$201,300
Cost of Goods Sold	\$163,750
Property insurance paid on factory	\$4,800
Utilities for the factory	\$9,800
Indirect materials used in production	\$3,600
Sales Revenue	\$658,000
Operating Expenses	\$210,000

Calculate gross profit for Zoolander Inc.'s first quarter.

A) \$284,250

B) \$448,000

C) \$456,700

D) \$494,250

Answer: D

Explanation: Sales Revenue \$658,000 - CGS \$163,750 = GP \$494,250

Diff: 2

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

75) Zoolander Inc. manufactures high end fashion accessories and has provided the following data for the latest quarter ended March 31st:

Cost of Goods Manufactured	\$198,300
Cost of Goods Sold	\$165,750
Property insurance paid on factory	\$4,600
Utilities for the factory	\$9,300
Indirect materials used in production	\$3,300
Sales Revenue	\$652,000
Operating Expenses	\$209,000

Calculate operating income for Zoolander Inc.'s first quarter.

- A) \$277,250
- B) \$443,000
- C) \$453,700
- D) \$486,250

Answer: A

Explanation: Sales Revenue \$652,000 - CGS \$165,750 = GP \$486,250 - Operating Expenses \$209,000 = \$277,250

Diff: 3

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

76) The main difference between the current assets on the balance sheet of a service company and a manufacturer is that a manufacturer has

- A) inventory and a service company does not.
- B) cost of goods sold and a service company does not.
- C) accounts receivable and a service company does not.
- D) accounts payable and a service company does not.

Answer: A

Diff: 1

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

77) Use the appropriate letter(s) to indicate if the following costs would be found on the income statement of a

- A. service company.
- B. merchandising company.
- C. manufacturing company.

You may use more than one letter for each answer.

_____	Revenue
_____	Salaries expense
_____	Customer service expense
_____	Cost of goods manufactured
_____	Cost of goods sold

Answer:

A, B, C	Revenue
A, B, C	Salaries expense
A, B, C	Customer service expense
C	Cost of goods manufactured
B, C	Cost of goods sold

Diff: 2

LO: 2-5

EOC: E2-22A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

78) Compute the missing amounts.

	East Company	West Company
Sales	\$300,000	(D)
Cost of Goods Sold		
Beginning Inventory	(A)	65,000
Purchases and Freight-In	119,000	(E)
Cost of goods available for sale	(B)	192,000
Ending inventory	5,000	3,000
Cost of goods sold	115,000	(F)
Gross Margin	185,000	124,000
Selling and Administrative Expenses	(C)	90,000
Operating Income	32,000	(G)

Answer:

(A)  $120,000 - 119,000 = 1,000$

(B)  $115,000 + 5,000 = 120,000$

(C)  $185,000 - 32,000 = 153,000$

(D)  $124,000 + 189,000 = 313,000$

(E)  $192,000 - 65,000 = 127,000$

(F)  $192,000 - 3,000 = 189,000$

(G)  $124,000 - 90,000 = 34,000$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

79) Kitch Company sells collectibles. The following information summarizes Kitch Company's operating activities for the most recent year:

Merchandise inventory, beginning	\$12,000
Merchandise inventory, ending	6,000
Purchases	97,000
Operating expenses	62,000
Sales revenue	195,000

Required: Prepare an income statement for the most recent year.

Answer:

Kitch Company  
Income Statement  
Year Ended December 31

Sales revenue		\$ 195,000
Cost of goods sold:		
Beginning inventory	\$ 12,000	
Purchases	97,000	
Cost of good available for sale	109,000	
Ending inventory	6,000	
Cost of goods sold:		103,000
Gross profit		\$ 92,000
Selling and administrative expenses		62,000
Operating Income		\$ 30,000

Diff: 3

LO: 2-5

EOC: E2-23A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

80) Swirzoff Company sells office supplies. The following information summarizes Swirzoff's operating activities for the past year:

Utilities for store	7,000
Rent for store	6,500
Sales commissions	2,500
Purchases of merchandise	65,000
Inventory, ending	21,500
Inventory, beginning	28,000
Sales revenue	120,000

Required: Prepare an income statement for Swirzoff Company, a merchandiser, for the year ended December 31.

Answer:

Swirzoff Company  
Income Statement  
Year Ended December 31

Sales revenue		\$ 120,000
Cost of goods sold:		
Beginning inventory	\$ 28,000	
Purchases of merchandise	65,000	
Cost of goods available for sale	93,000	
Ending inventory	21,500	
Cost of goods sold:		71,500
Gross profit		\$ 48,500
Operating expenses:		
Utilities expense	\$ 7,000	
Rent expense	6,500	
Sales commissions expense	2,500	16,000
Operating income		\$ 32,500

Diff: 3

LO: 2-5

EOC: E2-23A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

81) North Pacific Company used \$65,000 of direct materials and incurred \$43,000 of direct labor costs during the most recent year. Indirect labor amounted to \$1,700 while indirect materials used totaled \$1,800. Other operating costs pertaining to the factory included utilities of \$4,300; maintenance of \$6,800; supplies of \$1,500; depreciation expense of \$8,900; and property taxes of \$2,400. There was no beginning or ending finished goods inventory, but work in process inventory began the year with a \$6,400 balance and ended the year with a \$7,800 balance.

Required: Prepare a schedule of cost of goods manufactured for North Pacific Company for the year ended December 31.

Answer:

North Pacific Company  
Schedule of Cost of Goods Manufactured  
Year Ended December 31

Beginning work in process inventory			\$ 6,400
Add:			
Direct materials used		\$65,000	
Direct labor		43,000	
Manufacturing overhead:			
Indirect labor	\$ 1,700		
Indirect materials	1,800		
Utilities	4,300		
Maintenance	6,800		
Supplies	1,500		
Depreciation expense	8,900		
Property taxes	2,400	27,400	
Total manufacturing costs incurred during the year			135,400
Total manufacturing costs to account for			141,800
Less: Ending work in process inventory			(7,800)
Cost of goods manufactured			<u>134,000</u>

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.



82) The following amounts were taken from the general ledger of the Excellent Manufacturing Company. Compute the cost of goods manufactured and the cost of goods sold for the company for the year.

Raw materials inventory — beg. of year	\$52,000	Depreciation — plant & equipment	\$28,000
Raw materials inventory — end of year	46,000	Repairs and maintenance — plant	4,000
Work in process inv. — beg. of year	110,000	Insurance on plant	12,000
Work in process inv. — end of year	85,000	General and administration exp.	29,000
Finished goods inv. — beg. of year	26,000	Indirect labor	27,000
Finished goods inv. — end of year	54,000	Direct labor	178,000
Purchase of direct materials	37,000	Marketing expenses	62,000

Answer:

Excellent Manufacturing Company  
Schedule of Cost of Goods Manufactured

Beginning work in process inventory			\$110,000
Add: Direct materials used			
Beginning raw materials inventory	\$ 52,000		
Purchase of direct materials	37,000		
Available for use	89,000		
Ending raw materials inventory	(46,000)	\$ 43,000	
Direct labor		178,000	
Manufacturing overhead:			
Indirect lab	27,000		
Insurance on plant	12,000		
Depreciation — plant & equipment	28,000		
Repairs and maintenance — plant	4,000	71,000	
Total manufacturing costs incurred during the year			292,000
Total manufacturing costs to account for			402,800
Less: Ending work in process inventory			(85,000)
Cost of goods manufactured			317,000

Excellent Manufacturing Company  
Schedule of Cost of Goods Sold

	\$
Beginning finished goods inventory	26,000
Cost of goods manufactured*	317,000
Cost of goods available for sale	343,000
Ending finished goods inventory	(54,000)
Cost of goods sold	\$ 289,000

\*From schedule of cost of goods manufactured

Diff: 3

LO: 2-5

EOC: E2-24A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

83) Lighthouse Merchandise Group is a global operation that sells lighthouse merchandise to consumers and groups in the marketplace. The managerial accountant reported the following information:

Lighthouse Merchandise Group  
Income Statement  
Month Ended October 31, 20XX

Sales Revenue		\$1,000,000
<b>Cost of goods sold:</b>		
Beginning inventory	\$ 25,000	
Purchases and freight-In	\$250 ,000	
Cost of good available for sale	?	
Ending inventory	(75,000)	
<b>Cost of goods sold</b>	?	

Compute the cost of goods available for sale at Lighthouse Merchandise Group. What is the cost of goods sold?

Answer: To compute the cost of goods available for sale:  $\$25,000 + \$250,000 = \$275,000$

Cost of Goods Sold:  $\$275,000 - \$75,000 = \$200,000$

Diff: 2

LO: 2-5

EOC: S-10

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

## 2.6 Describe costs that are relevant and irrelevant for decision making

1) Over the long-term, all costs are uncontrollable.

Answer: FALSE

Diff: 1

LO: 2-6

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

2) Differential cost is the difference in cost between two alternatives.

Answer: TRUE

Diff: 1

LO: 2-6

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

3) Decision making is guided only by differential costs.

Answer: FALSE

Diff: 2

LO: 2-6

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

4) Irrelevant factors should **not** be considered when making decisions.

Answer: TRUE

Diff: 1

LO: 2-6

EOC: S2-14

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

5) 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 not relevant to your decision.

Answer: TRUE

Diff: 2

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

6) Sunk costs are irrelevant to the decision making process.

Answer: TRUE

Diff: 1

LO: 2-6

EOC: S2-14

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

7) Costs that remain the same among alternatives are

A) sunk costs.

B) irrelevant costs.

C) controllable costs.

D) uncontrollable costs.

Answer: B

Diff: 1

LO: 2-6

EOC: S2-14

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

8) Which of the following types of information differs between alternatives and can affect the future?

A) Historical

B) Irrelevant

C) Relevant

D) Predictable

Answer: C

Diff: 1

LO: 2-6

EOC: S2-14

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

9) Which of the following represents a sunk cost?

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

Answer: B

Diff: 2

LO: 2-6

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

10) Subtracting the costs of one alternative from the costs of the other alternative would be called the \_\_\_\_\_ cost.

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

Answer: D

Diff: 2

LO: 2-6

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

11) 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

Diff: 2

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

12) When making a decision to buy a new computer, all of the following should be considered **except**

- A) differential costs.
- B) relevant costs.
- C) qualitative characteristics.
- D) sunk costs.

Answer: D

Diff: 2

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

13) A company is deciding whether to purchase production equipment that can produce units more quickly than the current equipment. Which of the following costs would be relevant to its decision?

- A) The cost of the new equipment
- B) The salary of the factory manager
- C) The cost of raw materials
- D) The original purchase price of the current machinery

Answer: A

Diff: 1

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

14) A company is deciding whether to purchase production equipment that can produce units more quickly than the current equipment. Which of the following costs would be relevant to its decision?

- A) The original purchase price of the current machinery
- B) The additional labor required to run the new equipment
- C) The accumulative repairs costs of the current machinery over the years
- D) The cost of raw materials

Answer: B

Diff: 1

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

15) A restaurant is facing a decision about whether it should bake its own apple pies or whether it should continue to purchase the pies from a local bakery. Which of the following costs would be relevant to its decision?

- A) The salary of the restaurant manager
- B) The price the restaurant sells the apple pies for
- C) The purchase price of the apple pies purchased from the local bakery
- D) The original purchase price of the current machinery

Answer: C

Diff: 1

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

16) A company is deciding whether to purchase hybrid cars for its salespeople or gasoline-engine cars. All of the following costs would be relevant to its decision **except**

- A) the total estimated cost of gas to be used by each vehicle.
- B) the purchase price of the hybrid model.
- C) the book value of the current fleet of sales vehicles.
- D) the purchase price of the gasoline-engine model.

Answer: C

Diff: 1

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

17) An example of a controllable cost is

- A) property taxes.
- B) advertising.
- C) depreciation on headquarters building.
- D) property insurance.

Answer: B

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

18) An example of an uncontrollable cost is

- A) property taxes.
- B) property insurance.
- C) depreciation on factory equipment.
- D) all of the above.

Answer: D

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

19) Controllable costs are those costs that the management has immediate control over such as depreciation on factory equipment.

Answer: FALSE

Diff: 2

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

20) Controllable costs include all the following **except**

- A) employee development.
- B) research and development.
- C) real estate taxes of the corporate headquarters building.
- D) advertising.

Answer: C

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

21) A relevant cost in determining whether to take the train to Phoenix or fly to Phoenix would be

- A) the cost of a house sitter for your pets.
- B) the cost of the plane ticket.
- C) the cost of the hotel room in Phoenix.
- D) the cost of the rental car in Phoenix.

Answer: B

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



22) A \_\_\_\_\_ cost is always irrelevant.

- A) conversion
- B) differential
- C) sunk
- D) manufacturing

Answer: C

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

23) An example of a sunk cost is

- A) the purchase price of new equipment being considered for purchase.
- B) maintenance costs of new equipment.
- C) the cost of installation of the new equipment.
- D) the purchase price of the old equipment.

Answer: D

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

24) Chilton Corporation is analyzing its controllable costs to see where it can save money. Which of the following costs should it ignore during this analysis?

- A) Employee development
- B) Factory property insurance
- C) Employee bonuses
- D) Advertising

Answer: B

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

25) Stallard Corporation is analyzing its controllable costs to see where it can save money in the coming year. All of the following costs **except** \_\_\_\_\_ should be analyzed.

- A) factory real estate taxes
- B) charitable contributions
- C) paid internship program
- D) employee raises

Answer: A

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

26) Factory property taxes, factory property insurance, and depreciation on current equipment are all examples of uncontrollable costs.

Answer: TRUE

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

27) Label each item below as relevant or irrelevant in making a decision.

- A. \_\_\_\_\_ cost of insurance on a new vehicle when evaluating purchase of new vehicle
- B. \_\_\_\_\_ cost of roof repair made on rental property last year when evaluating sale of rental property
- C. \_\_\_\_\_ original cost of old equipment that is being evaluated for replacement
- D. \_\_\_\_\_ cost of new equipment that is under evaluation to replace used equipment
- E. \_\_\_\_\_ accumulated depreciation on old equipment being evaluated for replacement
- F. \_\_\_\_\_ cost of previous year's insurance policy on old equipment being evaluated for replacement

Answer:

- A. relevant
- B. irrelevant
- C. irrelevant
- D. relevant
- E. irrelevant
- F. irrelevant

Diff: 2

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

28) Differentiate between relevant and irrelevant costs and give an example using both.

Answer: When making a decision, those costs that differ between alternatives are relevant costs. Costs that do not differ between alternatives are irrelevant. For example, when deciding to buy a new car, the cost of the cars under consideration is relevant as is the insurance cost for each car. If they both have the same fuel economy ratings, then the cost of gasoline is irrelevant to the decision.

Diff: 2

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

29) On the line in front of each statement, enter the letter corresponding to the term that best fits that statement. You may use a letter more than once and some letters may not be used at all.

A.	Direct costs	F.	Variable costs
B.	Marginal cost	G.	Indirect cost
C.	Average cost	H.	Sunk cost
D.	Conversion costs	I.	Differential cost
E.	Prime costs		

\_\_\_\_\_ The combination of direct materials and direct labor.

\_\_\_\_\_ Costs that change in total in direct proportion to changes in volume.

\_\_\_\_\_ A cost that relates to the cost object but cannot be traced to it.

\_\_\_\_\_ A cost that has already been incurred.

Answer: E, F, G, H

Diff: 2

LO: 2-6

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

30) Sally wants to purchase a new sofa because she purchased a new home at the beach. Sally visited two stores and she narrowed down her choices to a red sofa and a blue sofa. Sally owns pets so she considers the cost of insurance to insure each sofa. Sally compiled the following data and she realizes that the sales tax to purchase the sofa is 10% in her state.

	Red Sofa	Blue Sofa
Price	\$8,000	\$8,400
Insurance	\$950	\$350

Which sofa should Sally purchase? What costs are relevant in her decision? Why?

Answer:

	Red Sofa	Blue Sofa	Differential Cost
Price	\$8,000	\$8,400	(\$400)
<b>Sales Tax (10%)</b>	\$800	\$840	(\$40)
<b>Insurance</b>	\$950	\$350	\$600
<b>Total Relevant Cost</b>	\$9,750	\$9,590	\$160

Which sofa should Sally purchase? Why?

Answer: Sally should purchase the blue sofa. The costs that are relevant in her decision include the price of the sofa, the taxes, and the cost of the insurance to insure the sofa. Although the cost and taxes associated with the blue sofa are higher, the cost to purchase insurance on the blue sofa is more cost effective compared to the red sofa.

Diff: 3

LO: 2-6

EOC: P2-45A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

2.7 Classify costs as fixed or variable and calculate total and average costs at different volumes

1) Variable costs per unit decrease as production volume increases.

Answer: FALSE

Diff: 1

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

2) Fixed costs vary in total over a wide range of activity levels.

Answer: FALSE

Diff: 1

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

3) All costs contain both a fixed and a variable portion.

Answer: FALSE

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

4) The total cost of a product equals the total fixed costs plus the total variable costs.

Answer: TRUE

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

5) A marginal cost is the cost of making one more unit of a product.

Answer: TRUE

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

6) To forecast total costs at a given level of production, management would use which of the following calculations?

A) Average cost  $\times$  total units predicted

B) Total fixed cost  $\times$  total units predicted

C) Total fixed cost + (variable cost per unit  $\times$  total units predicted)

D) Total fixed cost + variable cost per unit

Answer: C

Diff: 1

LO: 2-7

EOC: E2-29A

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

7) Average variable costs

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

Answer: C

Diff: 1

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

8) What is the cost of making one more unit called?

- A) Unit cost
- B) Marginal cost
- C) Variable cost
- D) None of the above

Answer: B

Diff: 1

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

9) Farming Supply Company plans to make 19,000 tractors at its plant. Fixed costs are \$570,000 and variable costs are \$210 per tractor. What is the average cost per tractor?

- A) \$210
- B) \$2,714
- C) \$240
- D) \$30

Answer: C

Explanation: Calculations:  $(\$570,000 + (\$210 \times 19,000))/19,000 = \$240$

Diff: 1

LO: 2-7

EOC: E2-47B

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

10) A(n) \_\_\_\_\_ cost is one whose total amount changes in direct proportion to a change in volume.

- A) fixed
- B) irrelevant
- C) variable
- D) mixed

Answer: C

Diff: 1

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

11) An example of a fixed cost for a manufacturer would be which of the following?

- A) Sales commissions
- B) Salary of plant manager
- C) Direct materials
- D) Delivery costs

Answer: B

Diff: 1

LO: 2-7

EOC: S2-16

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

12) Which of the following is an example of a fixed cost for a manufacturer?

- A) Income Taxes
- B) Machine Repair Expense
- C) Fire Insurance on buildings
- D) Delivery Fuel Expense

Answer: C

Diff: 1

LO: 2-7

EOC: S2-16

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

13) How do variable costs per unit behave?

- A) They decrease as production increases.
- B) They increase as production decreases.
- C) They decrease as production decreases.
- D) They remain the same throughout production levels within the relevant range.

Answer: D

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

14) How do total variable costs behave?

- A) They decrease as production decreases.
- B) They remain the same throughout production levels within the relevant range.
- C) They decrease as production increases.
- D) They increase as production decreases.

Answer: A

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

15) Which of the following describes the way in which total fixed costs behave?

- A) They will decrease as production increases.
- B) They will decrease as production decreases.
- C) They will remain the same throughout production levels within the relevant range.
- D) They will increase as production decreases.

Answer: C

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

16) How do fixed costs per unit behave?

- A) They remain the same throughout production levels within the relevant range.
- B) They decrease as production decreases.
- C) They increase as production decreases.
- D) They increase as production increases.

Answer: C

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.



17) Variable costs

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

Answer: A

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

18) A company has monthly fixed costs of \$115,500. The variable costs are \$5.00 per unit. If the sales price of a unit is \$15.00 and we sell 7,700 units, the company's average fixed costs per unit will be

- A) \$10.00 per unit.
- B) \$5.00 per unit.
- C) \$20.00 per unit.
- D) \$15.00 per unit.

Answer: D

Explanation: Calculations:  $115,500 / 7,700 = 15$

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

19) A company has monthly fixed costs of \$110,500. The variable costs are \$3.00 per unit. If the sales price of a unit is \$9.00 and we sell 8,500 units, the company's total variable costs will be

- A) \$110,500.
- B) \$25,500.
- C) \$76,500.
- D) \$51,000.

Answer: B

Explanation: Calculations:  $8,500 \times \$3.00 = \$25,500$

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

20) A company has monthly fixed costs of \$93,500. The variable costs are \$6.00 per unit. If the sales price of a unit is \$10.00 and we sell 8,500 units, the total sales revenue will be

- A) \$34,000.
- B) \$93,500.
- C) \$85,000.
- D) \$93,474.

Answer: C

Explanation: Calculations:  $\$10.00 \times 8,500 = \$85,000$

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

21) Roscoe's Toys has monthly fixed costs of \$84,000, while its variable costs are \$4.20 per unit. If the sales price of a unit is \$14.50 and Roscoe's Toys sell 14,000 units, the company's average fixed cost per unit will be (Round your answer to the nearest cent.)

- A) \$6.00 per unit.
- B) \$10.20 per unit.
- C) \$4.20 per unit.
- D) \$10.30 per unit.

Answer: A

Explanation: Calculations:  $84,000 / 14,000 = \$6.00$

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

22) Roscoe's Toys has monthly fixed costs of \$81,000, while its variable costs are \$4.10 per unit. If the sales price of a unit is \$14.25 and Roscoe's Toys sell 15,000 units, the company's total variable costs will be

- A) \$152,250.
- B) \$61,500.
- C) \$213,750.
- D) \$81,000.

Answer: B

Explanation: Calculations:  $\$4.10 \times 15,000 = \$61,500$

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

23) Roscoe's Toys has monthly fixed costs of \$82,500, while its variable costs are \$4.00 per unit. If the sales price of a unit is \$15.50 and Roscoe's Toys sell 15,000 units, the company's total sales revenue will be

- A) \$172,500.
- B) \$232,500.
- C) \$82,500.
- D) \$210,000.

Answer: B

Explanation: Calculations:  $15,000 \times \$15.50 = \$232,500$

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

24) A company has fixed costs of \$60,000 per month. If sales double from 6,000 to 12,000 units during the month, fixed costs in total will

- A) double.
- B) remain the same.
- C) be cut in half.
- D) be none of the above.

Answer: B

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

25) A company produces toy airplanes at a variable cost of \$26 per toy. If 7,010 toys are produced at a total variable cost of \$182,260, the total variable cost at 4,510 toys will be

- A) \$182,260.
- B) \$65,000.
- C) \$117,260.
- D) \$299,520.

Answer: C

Explanation: Calculations:  $\$26 \times 4,510 = \$117,260$

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

26) Wayside Corporation produces blenders. Its total fixed costs are \$30,000. Its variable costs are \$55.00 per blender. As production of blenders increases (within the relevant range), fixed costs will

- A) stay the same per unit.
- B) decrease as production increases.
- C) decrease per unit as production increases.
- D) increase as production decreases.

Answer: C

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

27) A company's total costs are calculated by

- A) subtracting total fixed costs from total variable costs.
- B) subtracting total variable costs from total fixed costs.
- C) subtracting total fixed costs and total variable costs from sales.
- D) adding total fixed costs to total variable costs.

Answer: D

Diff: 1

LO: 2-7

EOC: E2-41B

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

28) Marginal cost is essentially variable cost because fixed costs do not change in total.

Answer: TRUE

Diff: 2

LO: 2-7

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

29) Bazzar Inc. has fixed costs of \$1,200,000 when it produces 400,000 units. Its total variable costs are \$200,000. When Bazzar Inc. produces 500,000 units which is within the relevant range, fixed costs will be

- A) \$1,200,000.
- B) \$1,500,000.
- C) \$250,000.
- D) \$1,750,000.

Answer: A

Explanation: Fixed costs do not change in total.

Diff: 2

LO: 2-7

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

- 30) Bazzar Inc. has fixed costs of \$640,000 when it produces 300,000 units. Its total variable costs are \$150,000. When Bazzar Inc. produces 480,000 units, its variable cost per unit will be
- A) \$2.13.
  - B) \$0.31.
  - C) \$2.63.
  - D) \$0.50.

Answer: D

Explanation:  $\$150,000 / 300,000 \text{ units} = \$0.50 \text{ per unit}$

Diff: 2

LO: 2-7

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

- 31) Bazzar Inc. has fixed costs of \$700,000 when it produces 350,000 units. Its total variable costs are \$140,000. When Bazzar Inc. produces 480,000 units, its total variable cost per unit will be
- A) \$139,200.
  - B) \$203,000.
  - C) \$192,000.
  - D) \$140,000.

Answer: C

Explanation:  $\$140,000 / 350,000 \text{ units} = \$0.40 \text{ per unit} \times 480,000 \text{ units} = \$192,000$

Diff: 2

LO: 2-7

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

- 32) How do fixed costs react in total and on a per unit basis?
- A) Fixed costs remain constant in total and decrease per unit as production increases.
  - B) Fixed costs remain constant in total and on a per unit basis as production increases.
  - C) Fixed costs increase in total as production increases and remain constant on a per unit basis.
  - D) Fixed costs increase in total and on a per unit basis.

Answer: A

Diff: 2

LO: 2-7

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

- 33) Average cost can be used to calculate total cost at a new level of production.

Answer: FALSE

Diff: 1

LO: 2-7

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

34) Which of the following costs would be considered variable?

- A) Direct materials
- B) Sales commission
- C) Hourly wages of employees
- D) All of the above

Answer: D

Diff: 1

LO: 2-7

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

35) An example of a fixed cost would be

- A) rent.
- B) direct materials.
- C) hourly wages.
- D) sales commission.

Answer: A

Diff: 1

LO: 2-7

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

36) All of the following are considered fixed costs **except**

- A) property taxes.
- B) property insurance.
- C) tires used in production of cars.
- D) rent on the factory storage for finished goods.

Answer: C

Diff: 1

LO: 2-7

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

37) All of the following are considered variable costs **except**

- A) cost of sugar used to produce chocolate candy bars.
- B) salary of the factory supervisor.
- C) shipping costs of an online retailer.
- D) cost of chicken nuggets used at a fast food chain.

Answer: B

Diff: 1

LO: 2-7

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

38) On the line in front of each statement, enter the letter corresponding to the term that best fits that statement. You may use a letter more than once and some letters may not be used at all.

A.	Direct costs	E.	Variable costs
B.	Marginal cost	F.	Indirect cost
C.	Average cost	G.	Sunk cost
D.	Conversion costs	H.	Differential cost

- \_\_\_\_\_ The total cost divided by the total volume.  
 \_\_\_\_\_ The difference in cost between two alternative courses of action.  
 \_\_\_\_\_ The combination of direct labor and manufacturing overhead costs.  
 \_\_\_\_\_ The cost of producing one more unit.  
 \_\_\_\_\_ Costs that can be traced to the cost object.

Answer: C, H, D, B, A

Diff: 2

LO: 2-7

EOC: E2-29A

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

39) Differentiate between fixed and variable costs and give an example of each.

Answer: Fixed costs stay constant in total over a wide range of activity levels. For instance, the rent on a factory is the same whether 1,000 or 10,000 products are produced each month.

Variable costs change in total in direct proportion to changes in volume. If the variable cost of producing one item is \$1, and if 10,000 units are produced, the cost will be \$10,000. If only 1,000 units are produced, the cost will be only \$1,000.

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

40) Getting to school for your 8 a.m. class doesn't leave much time for breakfast, and you are quite hungry by the time class ends. It is a long walk to the cafeteria, the lines are long once you get there, and you find yourself having to decide between having breakfast and getting to your next class on time. Many of your friends have expressed the same problem. The administration has agreed to let you set up a table just outside the building where you will sell various snacks for \$1 each. You have agreed to pay the administration \$400 per month and salaries to your friends to run the business will be another \$400 per month. It will cost you 60 cents each to buy the pre-packaged snacks. You believe you can sell 2,500 snack packs per month.

- a. What are the total fixed costs per month?
- b. What are the total variable costs per month?
- c. What is the fixed cost per snack pack?
- d. What is the variable cost per snack pack?
- e. What is the average cost per snack pack?
- f. What is the average profit margin per snack pack?
- g. Based on your analysis, should you start the snack pack business?

Answer:

- a. \$800 ( $\$400 + \$400$ )
- b. \$1,500 ( $60 \text{ cents} \times 2,500 \text{ snack packs}$ )
- c. 32 cents ( $\$800/2,500 \text{ snack packs}$ )
- d. 60 cents (given in the problem)
- e. \$.92
- f. \$0.08 ( $\$1 - 60 \text{ cents} - 32 \text{ cents}$ )
- g. Yes, I will make 8 cents per snack pack and, if I sell 2,500, I will make a profit of \$200.

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

41) How are average cost and marginal cost computed?

Answer: The average cost is the total cost divided by the number of units produced. Marginal cost is the cost of making one more unit.

Diff: 1

LO: 2-7

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.



42) B's Barbecue manufactures barbecue equipment for consumers and businesses in the marketplace. The managerial accountant at B's Barbecue reported the following data:

B's Barbecue

Period Ending December 31, 20XX

	4,200,0
Manufacturing costs	00
Units manufactured	60,000
Beginning inventory	0

Note: 45,200 units sold during year at \$250 per unit

What is the average manufacturing cost per unit at B's Barbecue? (Round your answer to the nearest cent.)

- A) \$70.00
- B) \$80.00
- C) \$87.00
- D) \$97.00
- E) \$107.00

Answer: A

Explanation: The average manufacturing cost per unit is \$70.00.  $\$4,200,000 / 60,000 = \$70.00$ .

Diff: 3

LO: 2-7

EOC: E2-41B

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

43) B's Barbecue reported the following information:

B's Barbecue

Period Ending December 31, 20XX

	4,800,0
Manufacturing costs	00
Units manufactured	64,000
Beginning inventory	0

Note: 45,300 units sold during year at \$270 per unit

What is the amount of ending finished goods inventory for the period ending December 31, 20XX?

A) \$1,382,500

B) \$1,392,500

C) \$1,402,500

D) \$1,412,500

E) \$1,422,500

Answer: C

Explanation:  $64,000 \text{ units} - 45,300 \text{ units} = 18,700 \text{ units} \times \$75 \text{ per unit} = \$1,402,500$

Diff: 3

LO: 2-7

EOC: P2-43A

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

44) Stacy's Manufacturing Company manufactures parts to accommodate the needs of bicycle shops. The managerial accountant reported the following data:

Stacy's Manufacturing

Manufacturing costs	\$2,250,000
Units manufactured	50,000
Beginning inventory	0
NOTE: 30,000 units sold during year at \$200 per unit	

Compute the average manufacturing cost per unit. What is the amount of ending finished goods inventory?

Answer: The average manufacturing cost per unit:  $\$2,250,000 / 50,000 = \$45.00$ .

The amount of finished goods inventory:  $50,000 \text{ units} - 30,000 = 20,000 \text{ units} \times \$45 = \$900,000$

Diff: 3

LO: 2-7

EOC: P2-43A

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

45) Fill in the following chart:

	Total @ 1,500 units sold	Per Unit @ 1,500 units sold	Total @ 3,000 units sold	Per Unit @ 3,000 units sold
Variable Costs	\$37,500			
Fixed Costs			\$50,000	
Total Costs				

Answer:

	Total @ 1,500 units sold	Per Unit @ 1,500 units sold	Total @ 3,000 units sold	Per Unit @ 3,000 units sold
Variable Costs	\$37,500	<b>\$25.00</b>	<b>\$75,000</b>	<b>\$25.00</b>
Fixed Costs	<b>\$50,000</b>	<b>\$33.33</b>	\$50,000	<b>\$16.67</b>
Total Costs	<b>\$87,500</b>	<b>\$58.33</b>	<b>\$125,000</b>	<b>\$41.67</b>

Diff: 3

LO: 2-7

AACSB: Application of knowledge

46) Fill in the following chart:

	Total @ 1,600 units sold	Per Unit @ 1,600 units sold	Total @ 12,000 units sold	Per Unit @ 12,000 units sold
Variable Costs				
Fixed Costs	\$200,000			
Total Costs	\$500,000			

Answer:

	Total @ 1,600 units sold	Per Unit @ 1,600 units sold	Total @ 12,000 units sold	Per Unit @ 12,000 units sold
Variable Costs	<b>\$300,000</b>	<b>\$18.75</b>	<b>\$225,000</b>	<b>\$18.75</b>
Fixed Costs	\$200,000	<b>\$12.50</b>	<b>\$200,000</b>	<b>\$16.67</b>
Total Costs	\$500,000	<b>\$31.25</b>	<b>\$425,000</b>	<b>\$35.42</b>

Diff: 3

LO: 2-7

AACSB: Application of knowledge

47) The following average cost per unit is calculated when the company produces and sells 50,000 units:

	Average Cost Per Unit @ 50,000 units
Direct Materials	\$8.50
Direct Labor	\$12.00
Variable MOH	\$2.25
Fixed MOH	\$1.00
Variable Selling & Administrative Expenses	\$0.75
Fixed Selling & Administrative Expenses	\$0.50

Based on the above average cost per unit, answer the following questions:

1. What is the total Variable MOH at 55,000 units?
2. What is the average fixed MOH at 55,000 units?
3. What is the average variable cost per unit at 55,000 units?

Answer:

1. What is the total Variable MOH at 55,000 units? **\$123,750**

$$\text{VMOH} = \$2.25 \times 55,000 \text{ units} = \$123,750$$

2. What is the average fixed MOH at 55,000 units? **\$0.91**

$$\text{FMOH doesn't change in total so } \$50,000 (\$1.00 \times 50,000 \text{ units}) \text{ spread over } 55,000 \text{ units} \\ = \$50,000 / 55,000 \text{ units} = \$0.91$$

3. What is the average variable cost per unit at 55,000 units? **\$23.50**

Variable cost per unit doesn't change so add up all variable cost per unit:

DM \$8.50

DL \$12.00

VMOH \$2.25

VS&A \$0.75

Diff: 3

LO: 2-7

AACSB: Reflective thinking

## 2.8 Analyze revenue, cost, and inventory data using data analytic tools

1) Sorting data provides a way for managers to view only a subset of the data based on one or more criteria.

Answer: FALSE

Diff: 1

LO: 2-8

AACSB: Reflective thinking

2) Filtering data provides a way for managers to view only a subset of the data based on one or more criteria.

Answer: TRUE

Diff: 1

LO: 2-8

AACSB: Reflective thinking

3) Data can only be sorted or filtered but never both.

Answer: FALSE

Diff: 1

LO: 2-8

AACSB: Reflective thinking

4) An Excel table is a data analytic tool that allows managers to easily sort and filter data records.

Answer: TRUE

Diff: 1

LO: 2-8

AACSB: Reflective thinking

5) Placing data records in a specific order based on some criteria per the manager's request is an example of:

A) filtering.

B) sorting.

C) inserting.

D) costing.

Answer: B

Diff: 1

LO: 2-8

AACSB: Reflective thinking

6) Viewing a subset of data based on one or more criteria is known as:

A) filtering.

B) sorting.

C) inserting.

D) tabling.

Answer: A

Diff: 1

LO: 2-8

AACSB: Reflective thinking

7) The data analytic tool discussed that is used to summarize large data sets in order to sort and filter data discussed in this chapter is:

A) Excel formulas.

B) Word tables.

C) Excel tables.

D) Power Point bar graph.

Answer: C

Diff: 1

LO: 2-8

AACSB: Reflective thinking

8) When one is converting a data set to an Excel table, the user:

- A) clicks on Data on the ribbon then click on the Table icon.
- B) clicks on Insert on the ribbon then selects the Table icon.
- C) clicks on Draw on the ribbon then selects Insert and finally selects the Table icon.
- D) clicks on Insert on the ribbon then selects Draw to finally select the Table icon.

Answer: B

Diff: 1

LO: 2-8

AACSB: Reflective thinking

9) Describe the steps to create, filter, and sort an Excel table including summary statistics.

Answer: (may vary in wording but the steps are as follows:)

Step 1: Create a column heading for your data set such as date, product, and customer name.

Also include your data set in an excel format.

Step 2: Convert the data set to an Excel table by clicking on any cell in the data set, go to Insert on the ribbon, click the "Table" icon.

Step 3: Specify the data range in the dialogue box that opens by referencing the upper left cell in the range to the bottom right cell in the range.

Step 4: Add a summary statistic by selecting the first blank cell at the bottom of the column of data you want to summarize. On the "Home" tab, click on the "AutoSum" icon and choose the desired summary statistic then click enter.

Diff: 2

LO: 2-8

AACSB: Application of knowledge