Test Bank for Managerial Accounting 13th Edition by Hilton

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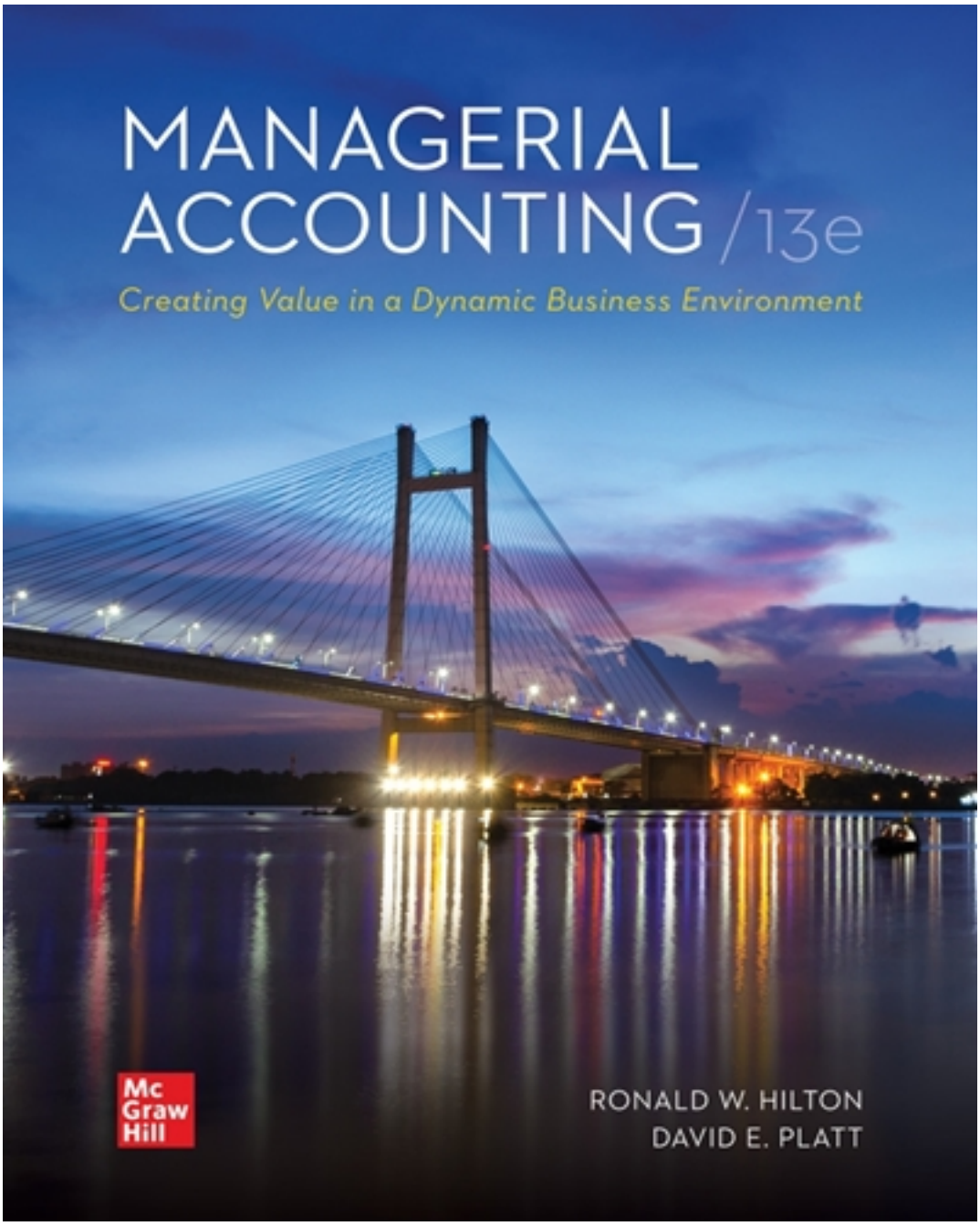

Test Bank

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CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) An important first step in studying managerial accounting is to create a framework for thinking about the various types of costs incurred by organizations and how those costs are actively managed.
   - ◎ true
   - ◎ false

2) Different cost concepts and classifications are used for different purposes.
   - ◎ true
   - ◎ false

3) Inventoriable costs are expensed when incurred.
   - ◎ true
   - ◎ false

4) A suitable cost driver for the amount of direct materials used is the number of direct labor hours worked.
   - ◎ true
   - ◎ false

5) The higher the correlation between the cost and the cost driver, the more accurate will be the resulting understanding of cost behavior.
   - ◎ true
   - ◎ false

6) As activity changes, total variable cost increases or decreases proportionately with the activity change, but unit variable cost remains the same.
   - ◎ true
   - ◎ false

7) There are three standard categories of manufacturing processes.
   - ◎ true
   - ◎ false

8) A job shop is generally associated with high production volume.
   - ◎ true
   - ◎ false

9) Manufacturing costs are classified into four categories.
   - ◎ true
   - ◎ false

10) Costs that a manager can influence significantly are classified as uncontrollable costs.
   - ◎ true
   - ◎ false

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MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

11) Which of the following equations is used to calculate cost of goods sold during the period?
   A) Beginning finished goods + cost of goods manufactured − sunk costs
   B) Beginning finished goods − cost of goods manufactured + ending finished goods
   C) Beginning finished goods − cost of goods manufactured − ending finished goods
   D) Beginning finished goods + cost of goods manufactured + ending finished goods
   E) Beginning finished goods + cost of goods manufactured − ending finished goods

12) Which of the following is the total cost of direct material, direct labor, and manufacturing overhead transferred from work-in-process inventory to finished-goods inventory?
   A) Raw materials
   B) Cost of goods manufactured
   C) Selling and administrative expenses
   D) Indirect materials
   E) Indirect labor

13) Which of the following is another term for product cost?
   A) Period cost
   B) Fixed cost
   C) Sunk cost
   D) Inventoriable cost
   E) Service cost

14) Finished goods inventory is ordinarily held for sale by what kind of company?
   A) Manufacturing company
   B) Lawn mowing company
   C) CPA firm
   D) Service Company
   E) None of these answers are correct

15) Which of the following are always period costs on any type of company's income statement?
   A) Indirect materials
   B) Selling and administrative costs
   C) Direct materials
   D) Direct labor
   E) Overhead

16) As the activity level increases, which of the following occur?
   A) Total fixed cost changes and unit fixed cost remains constant
   B) Total fixed cost remains constant, but unit fixed cost increases
   C) Total fixed cost and unit fixed cost remains constant
   D) Total fixed cost remains constant, but unit fixed cost declines
   E) None of these answers are correct

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17) Which of the following is a cost that is **not** directly traceable to a particular cost object?
A) Direct materials
B) Direct labor
C) Indirect cost
D) Fixed cost
E) Mixed cost

18) Which of the following is a component of manufacturing overhead?
A) Selling and administrative expenses
B) Operating expenses
C) Direct materials
D) Indirect labor
E) Direct labor

19) Out-of-pocket costs are defined as the following:
A) the costs of developing new products and services.
B) the cost incurred when a resource (asset) is used up for the purpose of generating revenue.
C) the benefit that is sacrificed when the choice of one action precludes taking an alternative course of action.
D) material that is consumed in the manufacturing process.
E) None of these answers are correct.

20) Which of the following is irrelevant to all future decisions?
A) Opportunity costs
B) Variable costs
C) Sunk costs
D) Mixed costs
E) Fixed costs

21) Which of the following statements is true?
A) The word "cost" has the same meaning in all situations in which it is used
B) Cost data, once classified and recorded for a specific application, are appropriate for use in any application
C) Different cost concepts and classifications are used for different purposes
D) All organizations incur the same types of costs
E) Costs incurred in one year are always meaningful in the following year

22) At the most basic level, a cost may be defined as a(n):
A) long-term asset.
B) data classified for a specific application.
C) sacrifice made to achieve a particular purpose.
D) useful information for planning.
E) suggestion for improvement.

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23) Cost data that are classified and recorded in a particular way for one purpose may be inappropriate for another use. For example, which of the following costs would not be a reasonable measure of a plant manager's performance?
A) Net income compared to other plants
B) Comparison of current period performance costs to planned performance costs of the plant
C) The increase or decrease in depreciation costs for the plant and its equipment
D) Penalty costs during each period for orders not completed on time by the plant
E) Bonuses earned by plant workers for on-time production

24) Cost data that are classified and recorded in a particular way for one purpose may be inappropriate for another use. For example, costs that would likely be noncontrollable by a department supervisor include
A) labor used in department production.
B) materials used in department production.
C) insurance on the plant where the department is housed.
D) overtime pay earned by workers in the department.
E) bonuses earned by department workers for on-time production.

25) Research and development costs are classified as:
A) product costs.
B) period costs.
C) inventoriable costs.
D) cost of goods sold.
E) labor costs.

26) Product costs are:
A) expensed when incurred.
B) inventoried.
C) treated in the same manner as period costs.
D) treated in the same manner as advertising costs.
E) subtracted from cost of goods sold.

27) Which of the following is a product cost?
A) Circuitry used in producing hard drives
B) Monthly advertising in the newspaper
C) The salary of the vice president-finance
D) Sales commissions
E) Research costs for new router development

28) Which of the following would **not** be classified as a product cost?
A) Direct materials
B) Direct labor
C) Indirect materials
D) Insurance on a manufacturing plant
E) Sales bonuses for meeting quota sales

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29) The accounting records of Dixon Company revealed the following costs: direct materials used, $260,000; direct labor, $435,000; manufacturing overhead, $376,000; and selling and administrative expenses, $220,000. Dixon's product costs total:
A) $1,071,000.
B) $851,000.
C) $915,000.
D) $1,291,000.
E) None of the answers is correct.

30) The accounting records of Dixon Company revealed the following costs: direct materials used, $250,000; direct labor, $425,000; manufacturing overhead, $375,000; and selling and administrative expenses, $220,000. Dixon's product costs total:
A) $1,050,000.
B) $830,000.
C) $895,000.
D) $1,270,000.
E) None of the answers is correct.

31) Costs that are expensed when incurred are called:
A) product costs.
B) direct costs.
C) inventoriable costs.
D) period costs.
E) indirect costs.

32) Which of the following is a period cost?
A) Direct material
B) Advertising expense
C) Indirect labor
D) Miscellaneous supplies used in production activities
E) Factory foreman salary for the motor production line

33) Which of the following is **not** a period cost?
A) Legal costs
B) Public relations costs
C) Sales commissions
D) Wages of assembly-line workers
E) The salary of a company's chief financial officer (CFO)

34) Mayfly LLC's accounting records noted the following costs: Sales commissions, $67,000; plant supervision, $200,000; and administrative expenses, $189,000. Mayfly's period costs total:
A) $256,000.
B) $456,000.
C) $389,000.
D) $267,000.
E) $189,000.

35) Mayfly LLC's accounting records noted the following costs: Sales commissions, $65,000; plant supervision, $190,000; and administrative expenses, $185,000. Mayfly's period costs total:
A) $250,000.
B) $440,000.
C) $375,000.
D) $255,000.
E) $185,000.

36) Recently XYZ Company computed total product costs of $597,000 and total period costs of $470,000, excluding $39,000 of sales commissions that were overlooked. On the basis of this information, XYZ's income statement should reveal operating expenses of:
A) $39,000.
B) $470,000.
C) $509,000.
D) $597,000.
E) $636,000.

37) Recently XYZ Company computed total product costs of $567,000 and total period costs of $420,000, excluding $35,000 of sales commissions that were overlooked. On the basis of this information, XYZ's income statement should reveal operating expenses of:
A) $35,000.
B) $420,000.
C) $455,000.
D) $567,000.
E) $602,000.

38) Which of the following would **not** be a period cost?
A) Sales salaries
B) Sales commissions
C) Tamper-proof packaging
D) Legal costs
E) Accounting costs

39) Which of the following entities would most likely have raw materials, work in process, and finished goods?
A) A petroleum refiner
B) A national department store
C) A carpet cleaning company
D) A regional airline
E) A state university

40) Selling and administrative expenses would likely appear on the balance sheet of:
A) a clothing store.
B) a computer manufacturer.
C) a television network.
D) all of these firms.
E) none of these firms.

41) Which of the following inventories would a discount retailer report as an asset?
A) Raw materials
B) Work in process
C) Finished goods
D) Merchandise inventory
E) All of the answers are correct

42) Which of the following inventories would a company ordinarily hold for sale?
A) Raw materials
B) Work in process
C) Finished goods
D) Raw materials and finished goods
E) Work in process and finished goods

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43) Ford Motor Company produces cars and trucks. Which type of production process is most likely used by Ford?
A) Batch
B) Job Shop
C) Continuous Flow
D) Assembly
E) None of these answers is correct

44) Which of the four items listed below is **not** a type of production process?
A) Batch
B) Job Shop
C) Continuous Flow
D) Job Flow
E) Assembly

45) Which type of production process is ideal for a low production volume and one-of-a-kind products?
A) Batch
B) Continuous Flow
C) Job Shop
D) Assembly
E) Direct assembly

46) Which type of production process is likely used for custom premium yachts?
A) Batch
B) Continuous Flow
C) Job Shop
D) Assembly
E) Direct assembly

47) Comet Computer Company, a manufacturer of computers, purchases computer parts such as computer chips, hard drives, and displays, and then assembles these parts into a variety of non-customized devices, such as laptops, and desktop computers. Comet's products are available in a limited regional distribution. Which type of production process is most likely used by Comet Computer Company?
A) Batch
B) Continuous Flow
C) Job Shop
D) Assembly
E) None of these answers is correct

48) Which type of production process is likely used by a paint manufacturer to produce paint?
A) Batch
B) Continuous Flow
C) Job Shop
D) Assembly
E) Direct assembly

49) Which of the following would **not** be classified as direct materials by a company that makes automobiles?
A) Wheel lubricant
B) Tires
C) Interior leather
D) CD player
E) Sheet metal used in the automobile's body

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50) Which of the following employees of a commercial printer/publisher would be classified as direct labor?
A) Book binder
B) Plant security guard
C) Sales representative
D) Plant supervisor
E) Payroll supervisor

51) Guaranteed Appliance Company produces washers and dryers in an assembly-line process. Recnt labor costs included the following: corporate executives, $565,000; assembly-line workers, $192,000; security guards, $56,000; and plant supervisor, $142,000. The total of Guaranteed's direct labor cost was:
A) $142,000.
B) $192,000.
C) $198,000.
D) $248,000.
E) $813,000.

52) Guaranteed Appliance Company produces washers and dryers in an assembly-line process. Recnt labor costs included the following: corporate executives, $500,000; assembly-line workers, $180,000; security guards, $45,000; and plant supervisor, $110,000. The total of Guaranteed's direct labor cost was:
A) $110,000.
B) $180,000.
C) $155,000.
D) $235,000.
E) $735,000.

53) Which of the following employees would **not** be classified as indirect labor?
A) Plant Custodian
B) Salesperson
C) An employee that packs products for shipment
D) Plant security guard
E) A line employee that produces parts for chairs using a saw and template

54) Depreciation of factory equipment would be classified as:
A) operating cost.
B) "other" cost.
C) manufacturing overhead.
D) period cost.
E) administrative cost.

55) Which of the following costs is **not** a component of manufacturing overhead?
A) Indirect materials
B) Factory utilities
C) Factory equipment
D) Indirect labor
E) Property taxes on the manufacturing plant

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56) The accounting records of Comacho Company revealed the following costs, among others:

Factory insurance	$ 39,000
Raw material used	263,000
Customer entertainment	16,000
Indirect labor	47,000
Depreciation on salespersons' cars	29,000
Production equipment rental costs	79,000

Costs that would be considered in the calculation of manufacturing overhead total:

A) $165,000.
B) $194,000.
C) $210,000.
D) $473,000.
E) None of the answers is correct.

57) The accounting records of Comacho Company revealed the following costs, among others:

Factory insurance	$ 32,000
Raw material used	256,000
Customer entertainment	15,000
Indirect labor	45,000
Depreciation on salespersons' cars	22,000
Production equipment rental costs	72,000

Costs that would be considered in the calculation of manufacturing overhead total:

A) $149,000.
B) $171,000.
C) $186,000.
D) $442,000.
E) None of the answers is correct.

58) Cost of goods manufactured for the year were $860,000. Beginning work-in-process inventory was $40,000. Ending work-in-process was $60,000. If the beginning finished goods inventory was $400,000 and the ending finished goods inventory was $990,000 what was the cost of goods sold for the year?

A) $230,000.
B) $270,000.
C) $460,000.
D) $1,240,000.
E) None of these answers is correct.

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59) Which of the following statements is correct?
A) Overtime premiums should be treated as a component of manufacturing overhead
B) Overtime premiums should be treated as a component of direct labor
C) Idle time should be treated as a component of direct labor
D) Idle time should be accounted for as a special type of loss
E) Overtime premiums should be treated as a component of direct labor and idle time should be treated as a component of direct labor

60) Conversion costs are:
A) direct material, direct labor, and manufacturing overhead.
B) direct material and direct labor.
C) direct labor and manufacturing overhead.
D) prime costs.
E) period costs.

61) Prime costs are comprised of:
A) direct materials and manufacturing overhead.
B) direct labor and manufacturing overhead.
C) direct materials, direct labor, and manufacturing overhead.
D) direct materials and direct labor.
E) direct materials and indirect materials.

62) The costs of direct materials are classified as:
A) conversion cost, manufacturing cost, and prime cost.
B) prime cost.
C) manufacturing cost and prime cost.
D) conversion cost.
E) manufacturing cost.

63) What would the cost of fire insurance for a manufacturing plant generally be categorized as?
A) Prime cost
B) Direct material cost
C) Period cost
D) Direct labor cost
E) Product cost

64) Conversion costs do not include:
A) depreciation.
B) direct materials.
C) indirect labor.
D) indirect materials.
E) direct labor.

65) How should a company that manufactures automobiles classify its partially completed vehicles?
A) Supplies
B) Raw materials inventory
C) Finished goods inventory
D) Cost of goods manufactured
E) Work-in-process inventory

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66) Which of the following statements is true?
A) Product costs affect only the balance sheet
B) Product costs affect only the income statement
C) Period costs affect only the balance sheet
D) Neither product costs nor period costs affect the Statement of Retained Earnings. This can also be a true statement if the period costs were prepaid (i.e., prepaid advertising, depreciation)
E) Product costs eventually affect both the balance sheet and the income statement

67) In a manufacturing company, the cost of goods completed during the period would include which of the following elements?
A) Raw materials used
B) Beginning finished goods inventory
C) Marketing costs
D) Depreciation of delivery trucks
E) All of the answers are correct

68) Which of the following equations is used to calculate cost of goods sold during the period?
A) Beginning finished goods + cost of goods manufactured + ending finished goods
B) Beginning finished goods − ending finished goods
C) Beginning finished goods + cost of goods manufactured
D) Beginning finished goods + cost of goods manufactured − ending finished goods
E) Beginning finished goods + ending finished goods − cost of goods manufactured

69) Work-in-process inventory is composed of:
A) direct material and direct labor.
B) direct labor and manufacturing overhead.
C) direct material and manufacturing overhead.
D) direct material, direct labor, and manufacturing overhead.
E) direct material only.

70) If the beginning monthly balance of materials inventory was $37,000, the ending balance was $39,500, and $257,800 of materials were used, the cost of materials purchased during the month is:
A) $255,300.
B) $257,800.
C) $260,300.
D) $297,300.
E) None of these answer choices is correct.

71) Beginning in July, Harrison Industries had finished-goods inventory of $55,000. The finished-goods inventory at the end of July was $71,000 and the cost of goods sold during the month was $132,000. The cost of goods manufactured during July was:
A) $126,000.
B) $132,000.
C) $116,000.
D) $148,000.
E) None of the answers is correct.

72) Beginning in July, Harrison Industries had finished-goods inventory of $48,000. The finished-goods inventory at the end of July was $56,000 and the cost of goods sold during the month was $125,000. The cost of goods manufactured during July was:
A) $104,000.
B) $125,000.
C) $117,000.
D) $133,000.
E) None of the answers is correct.

73) Texas Plating Company reported a cost of goods manufactured of $526,000, with the firm's year-end balance sheet revealing work in process and finished goods of $81,000 and $140,000, respectively. If supplemental information disclosed raw materials used in production of $91,000, direct labor of $148,000, and manufacturing overhead of $249,000, the company's beginning work in process must have been:
A) $119,000.
B) $43,000.
C) $46,000.
D) $407,000.
E) None of the answers is correct.

74) Texas Plating Company reported a cost of goods manufactured of $520,000, with the firm's year-end balance sheet revealing work in process and finished goods of $70,000 and $134,000, respectively. If supplemental information disclosed raw materials used in production of $80,000, direct labor of $140,000, and manufacturing overhead of $240,000, the company's beginning work in process must have been:
A) $130,000.
B) $10,000.
C) $66,000.
D) $390,000.
E) None of the answers is correct.

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75) The accounting records of Falcon Company revealed the following information:

Raw materials used	$ 85,000
Direct labor	150,000
Manufacturing overhead	385,000
Work-in-process inventory, 1/1	75,000
Finished-goods inventory, 1/1	214,000
Work-in-process inventory, 12/31	101,000
Finished-goods inventory, 12/31	165,000

Falcon's cost of goods manufactured is:

A) $594,000.
B) $597,000.
C) $643,000.
D) $646,000.
E) None of the answers is correct.

76) The accounting records of Falcon Company revealed the following information:

Raw materials used	$ 60,000
Direct labor	125,000
Manufacturing overhead	360,000
Work-in-process inventory, 1/1	50,000
Finished-goods inventory, 1/1	189,000
Work-in-process inventory, 12/31	76,000
Finished-goods inventory, 12/31	140,000

Falcon's cost of goods manufactured is:

A) $519,000.
B) $522,000.
C) $568,000.
D) $571,000.
E) None of the answers is correct.

77) The accounting records of Stingray Company revealed the following information:

Total manufacturing costs	$ 740,000
Work-in-process inventory, 1/1	77,000
Finished-goods inventory, 1/1	167,000
Work-in-process inventory, 12/31	99,000
Finished-goods inventory, 12/31	144,000

Stingray's cost of goods sold is:

A) $718,000.
B) $739,000.
C) $741,000.
D) $763,000.
E) None of the answers is correct.

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78) The accounting records of Stingray Company revealed the following information:

Total manufacturing costs	$ 530,000
Work-in-process inventory, 1/1	56,000
Finished-goods inventory, 1/1	146,000
Work-in-process inventory, 12/31	78,000
Finished-goods inventory, 12/31	123,000

Stingray's cost of goods sold is:

A) $508,000.
B) $529,000.
C) $531,000.
D) $553,000.
E) None of the answers is correct.

79) The accounting records of Upton Company revealed the following information:

Cost of goods manufactured	$ 779,000
Work-in-process inventory, 1/1	83,000
Finished-goods inventory, 1/1	150,000
Work-in-process inventory, 12/31	74,000
Finished-goods inventory, 12/31	183,000

Upton's cost of goods sold is:

A) $746,000.
B) $755,000.
C) $803,000.
D) $812,000.
E) None of the answers is correct.

80) The accounting records of Upton Company revealed the following information:

Cost of goods manufactured	$ 754,000
Work-in-process inventory, 1/1	58,000
Finished-goods inventory, 1/1	125,000
Work-in-process inventory, 12/31	49,000
Finished-goods inventory, 12/31	158,000

Upton's cost of goods sold is:

A) $721,000.
B) $730,000.
C) $778,000.
D) $787,000.
E) None of the answers is correct.

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81) For the year just ended, Porter Corporation's manufacturing costs (raw materials used, direct labor, and manufacturing overhead) totaled $1,600,000. Beginning and ending work-in-process inventories were $70,000 and $100,000, respectively. Porter's balance sheet also revealed respective beginning and ending finished-goods inventories of $260,000 and $190,000. On the basis of this information, how much would the company report as cost of goods manufactured (CGM) and cost of goods sold (CGS)?

A) CGM, $1,530,000; CGS, $1,560,000.
B) CGM, $1,570,000; CGS, $1,640,000.
C) CGM, $1,630,000; CGS, $1,560,000.
D) CGM, $1,670,000; CGS, $1,640,000.
E) None of the answers is correct.

82) For the year just ended, Porter Corporation's manufacturing costs (raw materials used, direct labor, and manufacturing overhead) totaled $1,500,000. Beginning and ending work-in-process inventories were $60,000 and $90,000, respectively. Porter's balance sheet also revealed respective beginning and ending finished-goods inventories of $250,000 and $180,000. On the basis of this information, how much would the company report as cost of goods manufactured (CGM) and cost of goods sold (CGS)?

A) CGM, $1,430,000; CGS, $1,460,000.
B) CGM, $1,470,000; CGS, $1,540,000.
C) CGM, $1,530,000; CGS, $1,460,000.
D) CGM, $1,570,000; CGS, $1,540,000.
E) None of the answers is correct.

83) Jamison Supplies has a cost of goods manufactured for the year of $860,000. Beginning work-in-process inventory was $50,000 and ending work-in-process was $60,000. If Jamison’s beginning finished goods inventory was $500,000 and the ending finished goods inventory was $990,000, what was the company’s cost of goods sold for the year?

A) $360,000.
B) $370,000.
C) $490,000.
D) $1,350,000.
E) None of the answers is correct.

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84) Rainier Industries has Raw materials inventory on January 1, 20x8 of $34,200 and Raw materials inventory on December 31, 20x8 of $28,400. If purchases of raw materials were $152,000 during the year, what was the amount of raw materials used during the year?
A) $146,200.
B) $157,800.
C) $152,000.
D) $163,600.
E) None of the answers is correct.

85) Rainier Industries has Raw materials inventory on January 1, 20x8 of $32,500 and Raw materials inventory on December 31, 20x8 of $26,700. If purchases of raw materials were $135,000 during the year, what was the amount of raw materials used during the year?
A) $129,200.
B) $140,800.
C) $135,000.
D) $146,600.
E) None of the answers is correct.

86) Rainier Industries has Raw materials inventory on January 1, 20x8 of $33,500 and Raw materials inventory on December 31, 20x8 of $27,700. If raw materials used during the year were $145,000 what was the amount of raw materials purchased during the year?
A) $139,200.
B) $150,800.
C) $145,000.
D) $156,600.
E) None of the answers is correct.

87) Rainier Industries has Raw materials inventory on January 1, 20x8 of $32,500 and Raw materials inventory on December 31, 20x8 of $26,700. If raw materials used during the year were $135,000 what was the amount of raw materials purchased during the year?
A) $129,200.
B) $140,800.
C) $135,000.
D) $146,600.
E) None of the answers is correct.

88) Compton Incorporated has a beginning materials inventory balance for May of $27,500, and an ending balance for May of $28,750. Materials used during the month were $128,900. As a result, what is the cost of materials purchased during the month?
A) $101,400.
B) $127,650.
C) $130,150.
D) $157,650.
E) None of the answers is correct.

89) Beckett Industries has the following beginning and ending inventories for the month of April.

	April 1	April 30
Direct materials	$ 67,000	$ 62,000
Work-in-process	145,000	171,000
Finished goods	85,000	78,000

Production data for the month of April is:

Direct labor	$ 200,000
Actual overhead	132,000
Direct materials purchased	163,000
Transportation in	4,000
Purchase Returns and Allowances	2,000

Beckett uses one overhead control account and charges overhead to production at 70% of direct labor cost. The company does not formally recognize over- or underapplied overhead until year-end.

What was the cost of the materials used by Beckett in April?

A) $370,000.
B) $170,000.
C) $363,000.
D) $168,000.
E) None of the answers is correct.

90) Beckett Industries has the following beginning and ending inventories for the month of April.

	April 1	April 30
Direct materials	$ 67,000	$ 62,000
Work-in-process	145,000	171,000
Finished goods	85,000	78,000

Production data for the month of April is:

Direct labor	$ 200,000
Actual overhead	132,000
Direct materials purchased	163,000
Transportation in	4,000
Purchase Returns and Allowances	2,000

Beckett uses one overhead control account and charges overhead to production at 70% of direct labor cost. The company does not formally recognize over- or underapplied overhead until year-end.

What is Beckett's total manufacturing cost for April?

A) $502,000.
B) $503,000.
C) $363,000.
D) $510,000.
E) None of the answers is correct.

91) Beckett Industries has the following beginning and ending inventories for the month of April.

	April 1	April 30
Direct materials	$ 67,000	$ 62,000
Work-in-process	145,000	171,000
Finished goods	85,000	78,000

Production data for the month of April is:

Direct labor	$ 200,000
Actual overhead	132,000
Direct materials purchased	163,000
Transportation in	4,000
Purchase Returns and Allowances	2,000

Beckett uses one overhead control account and charges overhead to production at 70% of direct labor cost. The company does not formally recognize over- or underapplied overhead until year-end.

What is Beckett's cost of goods transferred to finished goods inventory for April?

A) $469,000.
B) $477,000.
C) $495,000.
D) $484,000.
E) None of the answers is correct.

92) Beckett Industries has the following beginning and ending inventories for the month of April.

	April 1	April 30
Direct materials	$ 67,000	$ 62,000
Work-in-process	145,000	171,000
Finished goods	85,000	78,000

Production data for the month of April is:

Direct labor	$ 200,000
Actual overhead	132,000
Direct materials purchased	163,000
Transportation in	4,000
Purchase Returns and Allowances	2,000

Beckett uses one overhead control account and charges overhead to production at 70% of direct labor cost. The company does not formally recognize over- or underapplied overhead until year-end.

What is Beckett's cost of goods sold for April?

A) $476,000.
B) $484,000.
C) $491,000.
D) $502,000.
E) None of the answers is correct.

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93) Peyton Manufacturing has the following data:

Work-in-process inventory, January 1, 20x8	$ 54,000
Work-in-process inventory, December 31, 20x8	59,500
Conversion costs during the year	426,000

If direct materials used during the year were $146,000, what was cost of goods manufactured?

A) $566,500.
B) $151,500.
C) $561,000.
D) $420,500.
E) None of the answers is correct.

94) Peyton Manufacturing has the following data:

Work-in-process inventory, January 1, 20x8	$ 43,000
Work-in-process inventory, December 31, 20x8	48,500
Conversion costs during the year	415,000

If direct materials used during the year were $135,000, what was cost of goods manufactured?

A) $140,500.
B) $539,000.
C) $409,500.
D) $544,500.
E) None of the answers is correct.

95) Peyton Manufacturing has the following data:

Work-in-process inventory, January 1, 20x8	$ 43,000
Work-in-process inventory, December 31, 20x8	48,500
Conversion costs during the year	415,000

If the cost of goods manufactured for the year was $565,000, what was the amount of direct materials used during the year?

A) $155,500.
B) $140,500.
C) $150,000.
D) $145,500.
E) None of the answers is correct.

96) Peyton Manufacturing has the following data:

Work-in-process inventory, January 1, 20x8	$ 43,000
Work-in-process inventory, December 31, 20x8	48,500
Conversion costs during the year	415,000

If the cost of goods manufactured for the year was $565,000, what was the amount of direct materials used during the year?

A) $155,500.
B) $140,500.
C) $150,000.
D) $145,500.
E) None of the answers is correct.

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97) Dorsett Technologies had beginning finished goods inventory of $31,100 and ending finished goods inventory of $25,900. If the cost of goods manufactured for the year was $403,000, what was the cost of goods sold for the year?
A) $413,400.
B) $403,000.
C) $408,200.
D) $418,600.
E) None of the answers is correct.

98) Dorsett Technologies had beginning finished goods inventory of $29,300 and ending finished goods inventory of $24,100. If the cost of goods manufactured for the year was $385,000, what was the cost of goods sold for the year?
A) $395,400.
B) $385,000.
C) $390,200.
D) $400,600.
E) None of the answers is correct.

99) Dorsett Technologies had beginning finished goods inventory of $31,100 and ending finished goods inventory of $25,900. If the cost of goods sold for the year was $431,100, what was the cost of goods manufactured for the year?
A) $403,900.
B) $425,900.
C) $420,700.
D) $431,100.
E) None of the answers is correct.

100) Dorsett Technologies had beginning finished goods inventory of $29,300 and ending finished goods inventory of $24,100. If the cost of goods sold for the year was $427,500, what was the cost of goods manufactured for the year?
A) $402,100.
B) $422,300.
C) $417,100.
D) $427,500.
E) None of the answers is correct.

101) Amaz-a-nation reported the following data for the year just ended: sales revenue, $1,820,000; cost of goods sold, $910,000; cost of goods manufactured, $566,000; and selling and administrative expenses, $179,000. Amaz-a-nation's gross margin would be:
A) $1,089,000.
B) $1,254,000.
C) $1,075,000.
D) $523,000.
E) $910,000.

102) Amaz-a-nation reported the following data for the year just ended: sales revenue, $1,750,000; cost of goods sold, $980,000; cost of goods manufactured, $560,000; and selling and administrative expenses, $170,000. Amaz-a-nation’s gross margin would be:
A) $940,000.
B) $1,190,000.
C) $1,020,000.
D) $380,000.
E) $770,000.

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103) Tempest Enterprises began operations on January 1, 20x1, with all of its activities conducted from a single facility. Building depreciation should be allocated as follows: selling activities, 20%; administrative activities, 35%; and manufacturing activities, 45%. If Tempest sold 80% of 20x1 production during that year, what percentage of the depreciation would appear (either directly or indirectly) on the 20x1 income statement?

A) 36%.
B) 45%.
C) 55%.
D) 91%.
E) 100%.

104) Tempest Enterprises began operations on January 1, 20x1, with all of its activities conducted from a single facility. Building depreciation should be allocated as follows: selling activities, 20%; administrative activities, 35%; and manufacturing activities, 45%. If Tempest sold 60% of 20x1 production during that year, what percentage of the depreciation would appear (either directly or indirectly) on the 20x1 income statement?

A) 27%.
B) 45%.
C) 55%.
D) 82%.
E) 100%.

105) An employee accidentally overstated the year's advertising expense by $86,000. Which of the following correctly depicts the effect of this error?

A) Cost of goods manufactured will be overstated by $86,000
B) Cost of goods sold will be overstated by $86,000
C) Both cost of goods manufactured and cost of goods sold will be overstated by $86,000
D) Cost of goods sold will be overstated by $86,000, and cost of goods manufactured will be understated by $86,000
E) None of the answers is correct

106) An employee accidentally overstated the year's advertising expense by $50,000. Which of the following correctly depicts the effect of this error?

A) Cost of goods manufactured will be overstated by $50,000
B) Cost of goods sold will be overstated by $50,000
C) Both cost of goods manufactured and cost of goods sold will be overstated by $50,000
D) Cost of goods sold will be overstated by $50,000, and cost of goods manufactured will be understated by $50,000
E) None of the answers is correct

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107) Which of the following would likely be a suitable cost driver for the amount of direct materials used?
A) The number of units sold
B) The number of direct labor hours worked
C) The number of machine hours worked
D) The number of units produced
E) The number of employees working in the factory

108) The choices below show five costs of Garfield Industries and a possible driver for each cost. Which of these choices likely contains an inappropriate cost driver?
A) Manufacturing overhead incurred in a heavily automated facility; direct labor hours
B) Sales commissions; gross sales revenue
C) Gasoline consumed; number of miles driven
D) Building maintenance cost; building square footage
E) Human resources department cost; number of employees

109) What is the primary trade-off that an accountant must consider when deciding whether to identify cost drivers?
A) Will the cost driver identification provide different costs for different purposes?
B) Is the cost/benefit of the process reasonable for more accurate cost behavior obtained?
C) Will the cost relationships be too complex to understand?
D) Will material-related drivers be more accurate than labor-related drivers?
E) There is no trade-off to consider when using cost drivers.

110) Variable costs are costs that:
A) vary inversely with changes in activity.
B) vary directly with changes in activity.
C) remain constant as activity changes.
D) decrease on a per-unit basis as activity increases.
E) increase on a per-unit basis as activity increases.

111) As activity decreases, unit variable cost:
A) increases proportionately with activity.
B) decreases proportionately with activity.
C) remains constant.
D) increases by a fixed amount.
E) decreases by a fixed amount.

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112) As activity increases, unit variable cost:
- A) increases proportionately with activity.
- B) decreases proportionately with activity.
- C) remains constant.
- D) increases by a fixed amount.
- E) decreases by a fixed amount.

113) Which of the following is **not** an example of a variable cost?
- A) Straight-line depreciation on a machine that has a five-year service life
- B) Wages of manufacturing workers whose pay is based on hours worked
- C) Tires used in the production of tractors
- D) Aluminum used to make patio furniture
- E) Commissions paid to sales personnel

114) Fixed costs are costs that:
- A) vary directly with changes in activity.
- B) vary inversely with changes in activity.
- C) remain constant on a per-unit basis.
- D) remain constant as activity changes.
- E) increase on a per-unit basis as activity increases.

115) The fixed cost per unit:
- A) will increase as activity increases.
- B) will decrease as activity decreases.
- C) will decrease as activity remains constant.
- D) will remain constant.
- E) will increase as activity decreases and will decrease as activity increases.

116) Which of the following is an example of a fixed cost?
- A) Paper used in the manufacture of textbooks
- B) Property taxes paid by a firm to a large city
- C) The wages of part-time workers who are paid $8 per hour
- D) Gasoline consumed by salespersons' cars
- E) Surgical supplies used in a hospital's operating room

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117) Which of the following is a true statement about cost behavior:
- A) variable costs are constant on a per-unit basis and change in total as activity changes.
- B) fixed costs are constant on a per-unit basis and change in total as activity changes.
- C) fixed costs are constant on a per-unit basis and constant in total as activity changes.
- D) variable costs change on a per-unit basis and change in total as activity changes.
- E) variable costs are constant on a per-unit basis and are constant in total as activity changes.

118) Which of the following is a true statement about cost behavior:
- A) variable costs change on a per-unit basis and change in total as activity changes.
- B) fixed costs are constant on a per-unit basis and change in total as activity changes.
- C) fixed costs are constant on a per-unit basis and are constant in total as activity changes.
- D) fixed costs change on a per-unit basis and are constant in total as activity changes.
- E) variable costs are constant on a per-unit basis and are constant in total as activity changes.

119) The relevant range for Maxco Industries is 32,000 to 38,000 units of product. The variable costs per unit are $28 when a company produces 34,000 units of product. What are the variable costs per unit when 36,000 units are produced?
- A) $26.50.
- B) $27.00.
- C) $27.50.
- D) $28.00.
- E) None of the answers is correct.

120) The relevant range for Maxco Industries is 10,000 to 16,000 units of product. The variable costs per unit are $6 when a company produces 12,000 units of product. What are the variable costs per unit when 14,000 units are produced?
- A) $4.50.
- B) $5.00.
- C) $5.50.
- D) $6.00.
- E) None of the answers is correct.

121) The fixed costs per unit are $14 when a company produces 14,000 units of product. What are the fixed costs per unit when 12,000 units are produced?
- A) $16.33.
- B) $14.00.
- C) $12.00.
- D) $5.76.
- E) $10.33.

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122) The fixed costs per unit are $10 when a company produces 10,000 units of product. What are the fixed costs per unit when 8,000 units are produced?
A) $12.50.
B) $10.00.
C) $8.00.
D) $6.50.
E) $5.50.

123) Total costs are $260,000 when 20,000 units are produced; of this amount, variable costs are $78,000. What are the total costs when 24,000 units are produced?
A) $275,600.
B) $296,400.
C) $312,000.
D) Total costs cannot be calculated based on the information presented.
E) None of the answers is correct.

124) Total costs are $180,000 when 10,000 units are produced; of this amount, variable costs are $64,000. What are the total costs when 13,000 units are produced?
A) $199,200.
B) $214,800.
C) $234,000.
D) Total costs cannot be calculated based on the information presented.
E) None of the answers is correct.

125) When 16,000 units are produced, variable costs are $41 per unit and total costs are $740,000. What are the total costs when 20,000 units are produced?
A) $740,000.
B) $904,000.
C) $845,000.
D) Total costs cannot be calculated based on the information presented.
E) None of the answers is correct.

126) When 5,000 units are produced, variable costs are $35 per unit and total costs are $200,000. What are the total costs when 8,000 units are produced?
A) $200,000.
B) $305,000.
C) $240,000.
D) Total costs cannot be calculated based on the information presented.
E) None of the answers is correct.

127) How would a 5% sales commission paid to sales personnel be classified in a manufacturing company?
A) Fixed, period cost
B) Fixed, product cost
C) Variable, period cost
D) Variable, product cost
E) Direct labor, product cost

128) Which of the following would **not** be characterized as a cost object?
A) A vehicle manufactured by an automobile manufacturer
B) A large city's fire department
C) A fast food restaurant located in a Midwest town
D) A regional airline flight from Atlanta to Miami
E) All of these are examples of cost objects

129) Costs that can be easily traced to a specific department are called:
A) direct costs.
B) indirect costs.
C) product costs.
D) manufacturing costs.
E) processing costs.

130) Which of the following would **not** be considered a direct cost with respect to the service department of a new car dealership?
A) Wages of repair technicians
B) Property taxes paid by the dealership
C) Repair parts consumed
D) Salary of the department manager
E) Depreciation on new equipment used to analyze engine problems

131) Indirect costs:
A) can be traced to a cost object.
B) cannot be traced to a particular cost object.
C) are not important.
D) are always variable costs.
E) may be indirect with respect to theme park but direct with respect to one of its major attractions or rides.

132) Which two terms below best describe the wages paid to security guards that monitor a factory 24 hours a day?
A) Variable cost and direct cost
B) Fixed cost and direct cost
C) Variable cost and indirect cost
D) Fixed cost and indirect cost
E) Value-added cost and direct cost

133) Which one of the following costs would **not** be considered an indirect cost of serving a customer at a fast food restaurant?
A) The cost of the hamburger patty in the burger the customer orders
B) The wages of the employee who cleans the tables
C) The cost of heating and lighting the kitchen
D) The salary of the restaurant's manager
E) The steam cleaning service for the grill vent

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134) The salary that is sacrificed by a college student who pursues a degree full time is a(n):
A) sunk cost.
B) out-of-pocket cost.
C) opportunity cost.
D) differential cost.
E) marginal cost.

135) The tuition that will be paid next semester by a college student who pursues a degree is a(n):
A) sunk cost.
B) out-of-pocket cost.
C) indirect cost.
D) average cost.
E) marginal cost.

136) The sum of costs necessary to affect a one-unit increase in the activity level is a(n):
A) differential cost.
B) opportunity cost.
C) marginal cost.
D) sunk cost.
E) none of the answers is correct.

137) Which of the following costs should be ignored when choosing among alternatives?
A) Opportunity costs
B) Sunk costs
C) Out-of-pocket costs
D) Differential costs
E) None of the answers is correct

138) If the total cost of alternative A is $60,000 and the total cost of alternative B is $34,000, then $26,000 is termed the:
A) opportunity cost.
B) average cost.
C) sunk cost.
D) out-of-pocket cost.
E) differential cost.

139) If the total cost of alternative A is $50,000 and the total cost of alternative B is $34,000, then $16,000 is termed the:
A) opportunity cost.
B) average cost.
C) sunk cost.
D) out-of-pocket cost.
E) differential cost.

140) Play Time is a nursery school for pre-kindergarten children. The school has determined that the following biweekly revenues and costs occur at different levels of enrollment:

Number of Students Enrolled	Total Revenue	Total Costs
10	$ 3,200	$ 2,200
15	4,200	2,800
16	4,400	3,080
20	5,200	3,630
21	5,400	3,705

The marginal cost when the twenty-first student enrolls in the school is:
A) $75.
B) $140.
C) $200.
D) $3,555.
E) $3,705.

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141) Play Time is a nursery school for pre-kindergarten children. The school has determined that the following biweekly revenues and costs occur at different levels of enrollment:

Number of Students Enrolled	Total Revenue	Total Costs
10	$ 3,000	$ 2,100
15	4,500	2,700
16	4,800	2,800
20	6,000	3,200
21	6,300	3,255

The marginal cost when the twenty-first student enrolls in the school is:

A) $55.
B) $155.
C) $300.
D) $3,045.
E) $3,255.

142) Play Time is a nursery school for pre-kindergarten children. The school has determined that the following biweekly revenues and costs occur at different levels of enrollment:

Number of Students Enrolled	Total Revenue	Total Costs
15	$ 3,000	$ 2,100
20	4,000	2,650
21	4,200	2,730
25	5,000	3,230
26	5,200	3,300

The average cost per student when 21 students enroll in the school is:

A) $80.
B) $133.
C) $130.
D) $200.
E) $500.

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143) Play Time is a nursery school for pre-kindergarten children. The school has determined that the following biweekly revenues and costs occur at different levels of enrollment:

Number of Students Enrolled	Total Revenue	Total Costs
10	$ 3,000	$ 2,100
15	4,500	2,700
16	4,800	2,800
20	6,000	3,200
21	6,300	3,255

The average cost per student when 16 students enroll in the school is:

A) $100.
B) $125.
C) $175.
D) $300.
E) $400.

144) The costs that follow all have applicability for a manufacturing enterprise. Which of the choices correctly identifies the costs applicable for a service provider?

A) Period cost and uncontrollable cost
B) Period cost and opportunity cost
C) Period cost, uncontrollable cost, and opportunity cost
D) Uncontrollable cost and opportunity cost
E) Uncontrollable cost

145) You have been asked to work an extra day and will receive $150. However, you already bought a discounted ticket to a theme park for $37 and figure that you will spend an additional $50 at the park. What is the sunk cost if you decide to work?

A) $150.
B) $107.
C) $87.
D) $37.
E) None of the answers is correct.

146) Your brother is trying to sell his bicycle for $200. He refuses to lose more than $50 on the sale because it originally cost him $229 when he purchased it two years ago. Which of the following would be his sunk cost?

A) $50.
B) $200.
C) $229.
D) $179.
E) None of the answers is correct.

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ESSAY. Write your answer in the space provided or on a separate sheet of paper.

147) Gisano's Pizza operates a restaurant that serves double-decker pizzas. The table below shows the cost incurred during a month when 900 pizzas were served.

	Number of Pizzas Served		
	800	900	1,000
Total costs:			
Fixed costs	A	$ 9,900	C
Variable costs	B	8,100	D
Total costs	E	$ 18,000	F
Cost per pizza:			
Fixed cost	G	H	I
Variable cost	J	K	L
Total cost per pizza	M	N	O

Required: Fill in the missing amounts, labeled A through O, in the table above. **Note: Round cost per unit to two decimal places.**

148) Travon and Tony (T & T) Enterprises has a single facility that it uses for manufacturing, sales, and administrative activities. Should the company's building depreciation charge be expensed in its entirety or is a different accounting procedure appropriate? Explain.

149) Manufacturers have established a cost classification called product costs. Define the term "product cost" and note where these costs appear in the financial statements. Be specific.

150) Briefly explain the four types of production processes in terms of products and volume. Then give examples of each type.

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151) Consider the three firms that follow: (1) a regional airline, (2) an automobile manufacturer, and (3) a discount retail store. These firms, examples of service providers, manufacturers, and merchandisers, tend to have different characteristics with respect to costs and financial-statement disclosures.
Required: Determine which of the preceding firms (1, 2, and/or 3) would likely:

A. Disclose operating expenses on the income statement.
B. Have product costs.
C. Have period costs.
D. Disclose cost of goods sold on the income statement.
E. Have no meaningful investment in inventory.
F. Maintain raw-material, work-in-process, and finished-goods inventories.
G. Have variable and fixed costs.

152) Colton Manufacturing produces small electric engines.
Required: Identify the following costs as direct materials (DM), direct labor (DL), manufacturing overhead (MOH), or a period cost (PC). Also indicate whether the cost is variable (V) or fixed (F) with respect to behavior.

A. Commissions paid to salespeople
B. Straight-line depreciation on the factory building
C. Salary of the plant supervisor
D. Wages of the assembly-line workers
E. Machine lubricant used in production activities
F. Engine casings used in production activities
G. Advertising placed in trade journals
H. Lease payments for the president's automobile
I. Property taxes paid on the factory facilities

153) Consider the following items:

1. Tomatoes used in the manufacture of ketchup
2. Administrative salaries of executives employed by a regional airline
3. Wages of assembly-line workers at an automobile manufacturing plant
4. Marketing expenditures of the major league baseball club
5. Commissions paid to the salespeople working for a soft drink company
6. Straight-line depreciation on manufacturing equipment owned by a computer manufacturer
7. Shipping charges incurred by office supplies retailer on out-going orders
8. Speakers used in a consumer electronics company's home-theater systems
9. Insurance costs related to a cosmetics manufacturing plant

Required: Complete the table that follows and classify each of the costs listed as (1) a product or period cost and (2) a variable or fixed cost by placing an "X" in the appropriate column.

	Product or Period Cost		Variable or Fixed Cost	
Item	Product	Period	Variable	Fixed
A				
B				
C				
D				
E				
F				
G				
H				
I				

154) The following selected costs were extracted from the accounting records of Louisiana Machining (LAM):

1. Direct materials used in production
2. Wages of machine operators
3. Factory utilities
4. Sales commissions
5. Salary of LAM's president
6. Factory depreciation
7. Wages of plant security guards
8. Uncollectible accounts expense
9. Machine lubricant used in production
10. cost of goods manufactured.
11. manufacturing overhead.
12. total period costs.
13. total conversion costs.
14. total direct costs of LAM's credit and collections department.
15. LAM's inventory cost.

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155) The income statements and balance sheets of service, retailing, and manufacturing businesses tend to differ.

Required:

A. Which of these businesses will disclose a cost-of-goods-sold figure on the income statement? Why?

B. Briefly describe the difference between a retailing firm and a manufacturer's disclosure of inventories on the balance sheet.

156) Consider the following cost items:

1. Sales commissions earned by a company's sales force.
2. Raw materials purchased during the period.
3. Current year's depreciation on a firm's manufacturing facilities.
4. Year-end completed production of a carpet manufacturer.
5. The cost of products sold to customers of an apparel store.
6. Wages earned by machine operators in a manufacturing plant.
7. Income taxes incurred by an airline.
8. Marketing costs of an electronics manufacturer.
9. Indirect labor costs incurred by a manufacturer of office equipment.

B. Evaluate the costs just cited and determine whether the associated dollar amounts would appear on the firm's balance sheet, income statement, or schedule of cost of goods manufactured.

C. What major asset will normally be insignificant for service enterprises and relatively substantial for retailers, wholesalers, and manufacturers? Briefly discuss.

D. Briefly explain the similarity and difference between the merchandise inventory of a retailer and the finished-goods inventory of a manufacturer.

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157) Briefly define and discuss the terms in each of the pairs that follow.

1. Direct and indirect costs
2. Direct materials and indirect materials
3. Manufacturing overhead and direct labor

158) The following selected information was extracted from the 20x3 accounting records of Farrina Products:

Raw materials used	$ 284,000
Direct labor	178,000
Indirect labor	35,000
Selling and administrative salaries	250,000
Building depreciation*	330,000
Other selling and administrative expenses	80,000
Other factory costs	620,000

*Seventy percent of the company's building was devoted to production activities; the remaining 30% was used for selling and administrative functions.

Farrina's beginning and ending work-in-process inventories amounted to $306,000 and $245,000, respectively. The company's beginning and ending finished-goods inventories were $450,000 and $440,000, respectively.

Required:

1. Calculate Farrina's manufacturing overhead for the year.
2. Calculate Farrina's cost of goods manufactured.
3. Compute Farrina's cost of goods sold.

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159) Miao Manufacturing, which began operations on January 1 of the current year, produces an industrial scraper that sells for $325 per unit. Information related to the current year's activities follows.

Number of scrapers produced	20,000
Number of scrapers sold	17,000
Variable costs per unit:	
Direct materials	$ 25
Direct labor	35
Manufacturing overhead	60
Annual fixed costs:	
Manufacturing overhead	$ 400,000
Selling and administrative	140,000

Miao carries its finished-goods inventory at the average unit cost of production. There was no work in process at year-end.

Required:

A. Compute the company's average unit cost of production.
B. Determine the cost of the December 31 finished-goods inventory.
C. Compute the company's cost of goods sold.
D. If next year's production increases to 23,000 units and general cost behavior patterns do not change, what is the likely effect on: 1. The direct-labor cost of $35 per unit? Why? 2. The fixed manufacturing overhead cost of $400,000? Why?

160) Portland Manufacturing had the following data for the period just ended:

Work in process, January 1	$ 21,000
Work in process, December 31	40,000
Finished goods, January 1	70,000
Finished goods, December 31	61,000
Direct materials used	126,000
Direct labor	260,000
Factory depreciation	80,000
Sales	945,000
Advertising expense	52,000
Factory utilities	27,000
Indirect materials	19,000
Indirect labor	35,000

Required:

A. Calculate Portland’s cost of goods manufactured.
B. Calculate Portland’s cost of goods sold.

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161) Frontline Industries has the following beginning and ending inventories for the month of June.

	June 1	June 30
Direct materials	$ 80,000	$ 72,000
Work-in-process	140,000	181,000
Finished goods	85,000	75,000

Production data for the month of June is:

Direct labor	$ 110,000
Actual overhead	72,000
Direct materials purchased	153,000
Transportation in	6,000
Purchase Returns and Allowances	3,000

Frontline uses one overhead control account and charges overhead to production at 70% of direct labor cost. The company does not formally recognize over- or underapplied overhead until year-end.

a. What was the cost of the materials used by Frontline in June?
b. What is Frontline's total manufacturing cost for June?
c. What is Frontline's cost of goods transferred to finished goods inventory for June?
d. What is Frontline's cost of goods sold for June?

162) Tao Company had the following inventory balances at the beginning and end of the year:

	January 1	December 31
Raw material	$ 50,000	$ 35,000
Work in process	130,000	170,000
Finished goods	280,000	255,000

During the year, the company purchased $100,000 of raw material and incurred $340,000 of direct labor costs. Other data: manufacturing overhead incurred, $450,000; sales, $1,560,000; selling and administrative expenses, $90,000; income tax rate, 30%.

Required:

A. Calculate cost of goods manufactured.
B. Calculate cost of goods sold.
C. Determine Tao's net income.

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163) The selected amounts that follow were taken from Hawk Corporation's accounting records:

Raw materials used	$ 27,000
Direct labor	35,000
Total manufacturing costs	104,000
Work-in-process inventory, January 1	19,000
Cost of Goods Manufactured	100,000
Cost of goods available for sale	175,000
Finished goods inventory, December 31	60,000
Sales revenue	300,000
Selling and administrative expenses	125,000
Income tax expense	18,000

Required: Compute the following:

A. Manufacturing overhead.
B. Work-in-process inventory, 12/31.
C. Finished-goods inventory, 1/1.
D. Cost of goods sold.
E. Gross margin.
F. Net income.

164) The Enrique Company recorded the following transactions for February 20x1:

	Materials	**Work in Process**	**Finished Goods**
Purchases	$ 100,000		
Beginning inventory	18,000	$ 8,000	$ E
Ending inventory	A	30,000	30,000
Direct materials used		90,000	
Direct labor		B	
Manufacturing overhead (includes indirect materials used of $10,000)		115,000	
Transferred to finished goods		C	
Cost of goods sold			D

Sales were $560,000, with sales prices determined by adding a 40% markup to the firm's manufacturing cost. The total cost of direct materials used, direct labor, and manufacturing overhead during the month was $285,000.
Note: The materials account includes both direct materials and indirect materials.
Required: Calculate the missing values.

165) Sylvia Corporation sold 12,500 units of its single product during the year, reporting a cost of goods sold that totaled $250,000. A review of the company's accounting records disclosed the following information:

Cost of goods sold as a percentage of sales revenue	40%
Finished goods, January 1	$ 87,000
Work-in-process, December 31	55,000
Cost of Goods Manufactured	241,000
Raw materials used	40,000
Direct labor	74,000
Manufacturing overhead	122,000
Selling and administrative expenses	310,000

Sylvia is subject to a 30% income tax rate.

Required:

A. Determine the selling price per unit.
B. Management established a goal at the beginning of the year to reduce the company's investment in finished-goods inventory and work-in-process inventory. Anal yze cost of goods sold and determine if management's goal was achieved with respect to finished-goods inventory. Show computations. Analyze the firm's manufacturing costs and determine if management's goal was achieved with respect to work-in-process inventory. Show computations.

C. Anal yze cost of goods sold and determine if management's goal was achieved with respect to finished-goods inventory. Show computations.
D. Analyze the firm's manufacturing costs and determine if management's goal was achieved with respect to work-in-process inventory. Show computations.
1. Anal yze cost of goods sold and determine if management's goal was achieved with respect to finished-goods inventory. Show computations.
2. Analyze the firm's manufacturing costs and determine if management's goal was achieved with respect to work-in-process inventory. Show computations.

166) Why are cost drivers in the airline industry considered so complex?

167) Hernandez Systems began business on January 1 of the current year, producing a single product that is popular with home builders. Demand was very strong, allowing the company to sell its entire manufacturing output of 80,000 units. The following unit costs were incurred:

Manufacturing costs:	
Direct materials	$ 15
Direct labor	8
Variable overhead	11
Fixed overhead	6
Selling and administrative costs:	
Variable	5
Fixed	2

Hernandez anticipates an increase in productive output to 100,000 units and sales of 95,000 units in the next accounting period. The company uses appropriate drivers to determine cost behavior and estimates.

Required:

A. Assuming that present cost behavior patterns continue, compute the total expected costs in the upcoming accounting period.
B. Jan Compton is about to prepare a graph that shows the unit cost behavior for variable selling and administrative cost. If the graph's horizontal axis is volume and the vertical axis is dollars, briefly describe what Compton’s graph should look like.

C. Determine whether the following costs are variable or fixed in terms of behavior: Yearly lease payments for a state-of-the-art cutting machine. A fee paid to a consultant who provided advice about quality issues. The fee was based on the number of consulting hours provided. Cost of an awards dinner for "star" salespeople.
D. Yearly lease payments for a state-of-the-art cutting machine.
E. A fee paid to a consultant who provided advice about quality issues. The fee was based on the number of consulting hours provided.
F. Cost of an awards dinner for "star" salespeople.
1. Yearly lease payments for a state-of-the-art cutting machine.
2. A fee paid to a consultant who provided advice about quality issues. The fee was based on the number of consulting hours provided.
3. Cost of an awards dinner for "star" salespeople.

168) Sebastian Muffler, Incorporated operates an automobile service facility. The table below shows the cost incurred during a month when 500 mufflers were replaced.

	Number of Muffler Replacements		
	400	500	600
Total costs:			
Fixed costs	A	$ 9,000	C
Variable costs	B	6,000	D
Total costs	E	$ 15,000	F
Cost per muffler replacement:			
Fixed cost	G	H	I
Variable cost	J	K	L
Total cost per muffler replacement	M	N	O

Required: Fill in the missing amounts, labeled A through O, in the table above. **Note: Round cost per unit to two decimal places.**

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169) In discussing the operation of her automobile, Dr. Lawson once observed that gasoline is a fixed cost because the cost per gallon is relatively stable. Insurance, on the other hand, is a variable cost because the cost per mile varies inversely with the number of miles driven. Comment on the Dr. Lawson's observation.

170) The following terms are used to describe various economic characteristics of costs:

Opportunity cost	Differential cost
Out-of-pocket cost	Marginal cost
Sunk cost	Average cost

Required: Choose one of the preceding terms to characterize each of the amounts described below. Each term may be used only once.

A. The cost of including one extra child in a day-care center.
B. The cost of merchandise inventory purchased five years ago. The goods are now obsolete.
C. The cost of feeding 300 children in a public school cafeteria is $450 per day, or $1.50 per child per day. What economic term describes this $1.50 cost?
D. The management of a high-rise office building uses 3,000 square feet of space in the building for its own administrative functions. This space could be rented for $30,000. What economic term describes this $30,000 of lost rental revenue?
E. The cost of building an automated assembly line in a factory is $700,000; a manually operated assembly line would cost $250,000. What economic term is used to describe the $450,000 variation between these two amounts?

F. Refer to the preceding question and assume that the firm is currently building the assembly line for $700,000. What economic term is used to describe the $700,000 construction cost?

171) Describe the economic characteristics of sunk costs and opportunity costs, and explain the impact that these costs may have on decisions.

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Answer Key

Test name: Chapter 02

1) TRUE
2) TRUE
3) FALSE
4) FALSE
5) TRUE
6) TRUE
7) FALSE
8) FALSE
9) FALSE
10) FALSE
11) E
This is the equation used to calculate cost of goods sold during the period.

12) B
Total cost of direct material, direct labor, and manufacturing overhead that is transferred from WIP to finished goods is called cost of goods manufactured.

13) D
Inventoriable cost is another term for product cost.

14) A
It is true that finished goods inventory is held for sale by a manufacturing company.

15) B
It is true that selling and administrative costs are period costs on any type of company's income statement.

16) D
Fixed cost per unit changes inversely with changes in activity levels.

17) C
An indirect cost is not directly traceable to a particular cost object.

18) D
Indirect labor is a component of manufacturing overhead.

19) E
Out of pocket costs are costs incurred that require the expenditure of cash or other assets.

20) C
It is true that sunk costs are irrelevant to all future decisions.

21) C
It is true that different cost concepts and classifications are used for different purposes.

22) C
At the most basic level, a cost may be defined as the sacrifice made to achieve a particular purpose, usually measured by the resources expended or given up.

23) C
The increase or decrease in depreciation cost would not be a reasonable performance measure.

24) C
Insurance for the plant is likely a noncontrollable cost by the department supervisor.

25) B

Research and development costs are classified as period costs.

26) B
Product costs are inventoried.

27) A
Circuitry used in manufacturing hard drives is a product cost.

28) E
Sales bonuses are not product costs.

29) A
Product costs = Direct materials used + Direct labor + Manufacturing overhead = $260,000 + $435,000 + $376,000 = $1,071,000

30) A
Product costs = Direct materials used + Direct labor + Manufacturing overhead = $250,000 + $425,000 + $375,000 = $1,050,000

31) D
Period costs are expensed when incurred.

32) B
Advertising expense is a period cost.

33) D
The wages of assembly line workers are not period costs.

34) A
Period costs = Sales commissions + Administrative expenses = $67,000 + $189,000 = $256,000.

35) A
Period costs = Sales commissions + Administrative expenses = $65,000 + $185,000 = $250,000.

36) C
Operating expenses = Period costs + Excluded sales commissions = $470,000 + $39,000 = $509,000

37) C
Operating expenses = Period costs + Excluded sales commissions = $420,000 + $35,000 = $455,000

38) C
Tamper-proof packaging would not be a period cost.

39) A
A petroleum refiner would be most likely to have these three inventories.

40) E
All the expenses are found on the income statement, not the balance sheet.

41) D
Retailers purchase their merchandise inventories from wholesalers, who get the inventory from manufacturers.

42) C
Inventories held for sale by manufacturers are finished goods.

43) D
Ford most likely uses an Assembly production process for few major products, low diversity and high volume.

44) D

Job flow is not a type of production process.

45) C
One-of-a-kind products are ideally made in a job shop process.

46) C
Custom yachts are most likely produced by a job shop process.

47) A
Comet would most likely use a batch process for multiple products at low volume.

48) B
Continuous flow would likely be used to make paint.

49) A
Wheel lubricant would not be classified as direct materials, but instead as indirect materials.

50) A
A book binder would be classified as direct labor.

51) B
$192,000; the only direct labor is that associated with the actual production on the assembly line.

52) B
$180,000; the only direct labor is that associated with the actual production on the assembly line.

53) E
A line employee that produces parts for chairs using a saw and template would be direct labor since this employee is involved in making the product.

54) C
Depreciation is classified as manufacturing overhead.

55) C
Factory equipment is not a component of manufacturing overhead.

56) A
Manufacturing Overhead Costs = Factory insurance + Indirect labor + Production equipment rental costs = $39,000 + $47,000 + $79,000 = $165,000

57) A
Manufacturing Overhead Costs = Factory insurance + Indirect labor + Production equipment rental costs = $32,000 + $45,000 + $72,000 = $149,000

58) B
$400,000 + $860,000 – $990,000 = $270,000.

59) A
Overtime premiums should be treated as a component of manufacturing overhead.

60) C
Direct labor and manufacturing overhead are used to convert materials and are therefore called conversion costs.

61) D

Prime costs are composed of direct materials and direct labor.

62) C
Direct materials are not included in conversion costs but are included in manufacturing and prime costs.

63) E
Fire insurance costs would be product costs since they are associated with the manufacturing plant.

64) B
Conversion costs would not include direct materials.

65) E
Partially complete vehicles would be considered work-in-process inventory.

66) E
Product costs eventually affect both the balance sheet and the income statement.

67) A
Cost of goods completed during the period would include raw materials used.

68) D
The equation to calculate cost of goods sold during the period is: Beginning finished goods + cost of goods manufactured − ending finished goods.

69) D
Direct material, direct labor, and manufacturing overhead make up work-in-process inventory.

70) C
Materials purchased = $257,800 + $39,500 − $37,000 = $260,300.

71) D
Cost of goods manufactured in July = (Ending finished goods − Beginning finished goods) + Cost of goods sold ($71,000 − $55,000) + $132,000 = $148,000.

72) D
Cost of goods manufactured in July = (Ending finished goods − Beginning finished goods) + Cost of goods sold ($56,000 − $48,000) + $125,000 = $133,000.

73) A
Ending Work-in-Process + Cost of goods manufactured − Raw materials − Direct labor − Manufacturing Overhead = Beginning Work-in-Process
$81,000 + $526,000 − $91,000 − $148,000 − $249,000 = $119,000.

74) A
Ending Work-in-Process + Cost of goods manufactured − Raw materials − Direct labor − Manufacturing Overhead = Beginning Work-in-Process
$70,000 + $520,000 − $80,000 − $140,000 − $240,000 = $130,000.

75) A
Cost of goods manufactured = [Raw materials + Direct labor + Manufacturing Overhead] − Change in WIP = [$85,000 + $150,000 + $385,000] − ($101,000 − $75,000) = $594,000

76) A

Cost of goods manufactured = [Raw materials + Direct labor + Manufacturing Overhead] − Change in WIP = [$60,000 + $125,000 + $360,000] − ($76,000 − $50,000) = $519,000

77) C
Cost of Goods sold = Total manufacturing costs − (Change in WIP) + (Change in Finished Goods) = $740,000 − ($99,000 − $77,000) + ($167,000 − $144,000) = $741,000

78) C
Cost of Goods sold = Total manufacturing costs − (Change in WIP) + (Change in Finished Goods) = $530,000 − ($78,000 − $56,000) + ($146,000 − $123,000) = $531,000

79) A
Cost of Goods Sold = Cost of goods manufactured − change in Finished Goods = $779,000 − ($183,000 − $150,000) = $746,000.

80) A
Cost of Goods Sold = Cost of goods manufactured − change in Finished Goods = $754,000 − ($158,000 − $125,000) = $721,000.

81) B
Cost of Goods Manufactured = Product cost during year − change in WIP = $1,600,000 − ($100,000 − $70,000) = $1,570,000; Cost of goods sold = Product costs for year − change in WIP + Change in Finished goods = [$1,600,000 − ($100,000 − $70,000)] + ($260,000 − $190,000) = $1,640,000.

82) B
Cost of Goods Manufactured = Product cost during year − change in WIP = $1,500,000 − ($90,000 − $60,000) = $1,470,000; Cost of goods sold = Product costs for year − change in WIP + Change in Finished goods = [$1,500,000 − ($90,000 − $60,000)] + ($250,000 − $180,000) = $1,540,000.

83) B
Cost of goods sold=beginning finished goods + Cost of goods manufactured − ending finished goods inventory = $500,000 + $860,000 − $990,000 = $370,000.

84) B
Raw materials used during the year = Purchased raw materials + (change in Raw material balances) = $152,000 + ($34,200 − $28,400) = $157,800.

85) B
Raw materials used during the year = Purchased raw materials + (change in Raw material balances) = $135,000 + ($32,500 − $26,700) = $140,800.

86) A
Raw materials purchased = Raw materials used − (change in Raw material balances) = $145,000 − ($33,500 − $27,700) = $139,200.

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87) A
Raw materials purchased = Raw materials used − (change in Raw material balances) = $135,000 − ($32,500 − $26,700) = $129,200.

88) C
Raw materials purchased = Raw materials used − (change in Raw material balances) = $128,900 − ($27,500 − $28,750) = $130,150.

89) B
Beginning Inventory + Purchases + Transportation in -Purchase Returns = Materials Avail for Use − Ending Inventory = Materials used = $67,000 + $163,000 + $4,000 − $2,000 = $232,000 − $62,000 = $170,000

90) D
Materials used + Direct Labor + Overhead Applied = $170,000 + $200,000 + (70% × $200,000) = $510,000.

91) D
Materials used + Direct Labor + Overhead Applied = $170,000 + $200,000 + (70% × $200,000) = $510,000.

Total manufacturing costs + WIP Beginning Inventory − WIP Ending Inventory = $510,000 + $145,000 − $171,000 = $484,000.

92) C
Materials used + Direct Labor + Overhead Applied = $170,000 + $200,000 + (70% × $200,000) = $510,000.
Total manufacturing costs + WIP Beginning Inventory − WIP Ending Inventory = $510,000 + $145,000 − $171,000 = $484,000.
Beginning Finished + COGM = Goods Avail for Sale − Ending Finished = COGS = $85,000 + $484,000 = $569,000 − $78,000 = $491,000.

93) A
Cost of goods manufactured = Conversion costs + Direct materials used − (change in WIP balances) = $426,000 + $146,000 − ($59,500 − $54,000) = $566,500.

94) D
Cost of goods manufactured = Conversion costs + Direct materials used − (change in WIP balances) = $415,000 + $135,000 − ($48,500 − $43,000) = $544,500.

95) A
Direct materials used during the Year = Cost of Goods Manufactured − Conversion costs + (Change in WIP balances) = $565,000 − $415,000 + ($48,500 − $43,000) = $155,500.

96) A
Direct materials used during the Year = Cost of Goods Manufactured − Conversion costs + (Change in WIP balances) = $565,000 − $415,000 + ($48,500 − $43,000) = $155,500.

97) C

Cost of Goods sold = Cost of Goods manufactured + Change in Finished goods balances = $403,000 + ($31,100 − $25,900) = $408,200.

98) C
Cost of Goods sold = Cost of Goods manufactured + Change in Finished goods balances = $385,000 + ($29,300 − $24,100) = $390,200.

99) B
Cost of goods manufactured − Change in Finished Goods Balances = $431,100 − ($31,100 − $25,900) = $425,900.

100) B
Cost of goods manufactured − Change in Finished Goods Balances = $427,500 − ($29,300 − $24,100) = $422,300.

101) E
Gross margin = Sales − cost of goods sold = $1,820,000 − $910,000 = $910,000.

102) E
Gross margin = Sales − cost of goods sold = $1,750,000 − $980,000 = $770,000.

103) D
Depreciation percentage = Selling activities + administrative activities + the part of manufacturing activities that were sold = 20% + 35% + (45% × 80%) = 91%.

104) D
Depreciation percentage = Selling activities + administrative activities + the part of manufacturing activities that were sold = 20% + 35% + (45% × 60%) = 82%.

105) E
None of these answer choices correctly depicts the correct effect of this error, since product costs do not include advertising expenses.

106) E
None of these answer choices correctly depicts the correct effect of this error, since product costs do not include advertising expenses.

107) D
The number of units produced is a suitable cost driver for direct materials.

108) A
Manufacturing overhead in a heavily automated facility would be inaccurately paired with direct labor hours as a cost driver.

109) B
Cost/benefit is the primary trade-off used when deciding whether to identify cost drivers.

110) B
It is true that variable costs are costs that vary directly with changes in activity.

111) C
As activity decreases, unit variable cost remains constant.

112) C

As activity increases, unit variable cost remains constant.

113) A
Straight-line depreciation on a machine is not an example of a variable cost.

114) D
It is true that fixed costs remain constant as activity changes.

115) E
The fixed cost per unit will increase as activity decreases and will decrease as activity increases.

116) B
Property taxes are an example of fixed costs.

117) A
Variable costs are constant on a per-unit basis and they change in total as activity changes.

118) D
It is true that fixed costs change on a per-unit basis and are constant in total as activity changes.

119) D
The variable costs per unit are $28 per unit for 34,000 units of product and $28 per unit for 36,000 units as long as both are within the relevant range.

120) D
The variable costs per unit are $6 per unit for 12,000 units of product and $6 per unit for 14,000 units as long as both are within the relevant range.

121) A
Fixed costs per unit = Total fixed costs based on 14,000 units ÷ new level of 12,000 units = ($14 × 14,000) ÷ 12,000 = $16.33 per unit.

122) A
Fixed costs per unit = Total fixed costs based on 10,000 units ÷ new level of 8,000 units = ($10 × 10,000) ÷ 8,000 = $12.50 per unit.

123) A
Variable cost per unit = $78,000 ÷ 20,000 = $3.90; Fixed costs = $260,000 − $78,000 = $182,000; Total costs = (24,000 × $3.90) + $182,000 = $275,600.

124) A
Variable cost per unit = $64,000 ÷ 10,000 = $6.40; Fixed costs = $180,000 − $64,000 = $116,000; Total costs = (13,000 × $6.40) + $116,000 = $199,200.

125) B
Total costs = Variable costs for 20,000 units + Fixed costs (or total costs − variable costs) = ($41 × 20,000) + [$740,000 − ($41 × 16,000)] = $904,000.

126) B
Total costs = Variable costs for 8,000 units + Fixed costs (or total costs − variable costs) = ($35 × 8,000) + [$200,000 − ($35 × 5,000)] = $305,000.

127) C
A sales commission would be a variable, period cost.

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128) E
All of the examples listed are cost objects.

129) A
Costs that can be easily traced to a specific department are called direct costs.

130) B
Property taxes are not considered to be a direct cost.

131) B
It is true that indirect costs cannot be traced to a particular cost object.

132) D
Fixed and indirect are two terms to describe the security guard wages at a factory.

133) A
The cost of a hamburger patty would be a direct cost.

134) C
The salary sacrificed is an opportunity cost.

135) B
The tuition paid would be out-of-pocket costs.

136) C
A one-unit increase in activity level is known as marginal cost.

137) B
Costs that should be ignored when choosing among alternatives are sunk costs.

138) E
The difference between alternative A and alternative B total costs is the differential cost.

139) E
The difference between alternative A and alternative B total costs is the differential cost.

140) A
Difference between costs for 21 and 20 students: $3,705 − $3,630 = $75.

141) A
Difference between costs for 21 and 20 students: $3,255 − $3,200 = $55.

142) C
Cost for 21 students ÷ 21 students = $2,730 ÷ 21 = $130 average cost.

143) C
Cost for 16 students ÷ 16 students = $2,800 ÷ 16 = $175 average cost.

144) C
Period, uncontrollable, and opportunity costs are all applicable to a service provider.

145) D
The sunk cost is that of the ticket that you will not use.

146) C
The sunk cost is that amount paid for the bicycle 2 years ago.

147) Essay

	Number of Pizzas Served		
	800	900	1,000
Total costs:			
Fixed costs	$ 9,900	$ 9,900	$ 9,900
Variable costs	7,200	8,100	9,000
Total costs	$ 17,100	$ 18,000	$ 18,900
Cost per pizza:			
Fixed cost	$ 12.375	$ 11.000	$ 9.90
Variable cost	9.000	9.00	9.00
Total cost per pizza	$ 21.375	$ 20.000	$ 18.900

Explanatory notes:
A and C each equal $9,900, since fixed costs do not vary with activity.
J, K, and L each equal $9 ($8,100 ÷ 900), since variable cost per pizza remains constant.
B equals $7,200 (800 × $9)
D equals $9,000 (1,000 × $9)
G equals $12.375 ($9,900 ÷ 800)
H equals $11.00 ($9,900 ÷ 900)
I equals $9.90 ($9,900 ÷ 1,000)

148) Essay

The company's depreciation charge is, in part, a period cost and, in part, a product cost. The portion that relates to selling and administrative activities should be expensed when incurred. In contrast, the portion that relates to manufacturing should be attached to the goods produced, with the costs now inventoried on the balance sheet.

149) Essay
Product costs are costs that relate to the manufacturing process and consist of direct materials, direct labor, and manufacturing overhead. Simply stated, these are costs incurred to make a product.
Product costs are attached to the units produced (i.e., work in process) and, thus, inventoried on the balance sheet. These costs are later charged to finished goods when the goods are completed. Another transfer occurs when the finished units are sold, with the costs now transferred to cost of goods sold on the income statement.

150) Essay

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The four types of production processes are as follows:

1. Job shop: Low production volume; little standardization; one-of-a-kind products. Examples include custom home construction, feature film production, and ship building.
2. Batch: Multiple products; low volume. Examples include construction equipment, tractor trailers, and cabin cruisers.
3. Assembly: A few major products; higher volume. Examples include kitchen appliances and automobile assembly.
4. Continuous flow: High production volume; highly standardized commodity products. Examples include food processing, textiles, lumber, and chemicals.

151) Essay

B. 1, 2, 3
C. 2, 3
D. 1, 2, 3
E. 2, 3
F. 1
G. 2
H. 1, 2, 3

152) Essay

I. PC, V
J. MOH, F
K. MOH, F
L. DL, V
M. MOH, V
N. DM, V
O. PC, F
P. PC, F
Q. MOH, F

153) Essay

	Product or Period Cost		Variable or Fixed Cost	
Item	Product	Period	Variable	Fixed
A	X		X	
B		X		X
C	X		X	
D		X		X
E		X	X	
F	X			X
G		X	X	
H	X		X	
I	X			X

154) Essay

R. 1, 2, 3, 6, 7, 9
S. 3, 6, 7, 9
T. 4, 5, 8
U. 2, 3, 6, 7, 9
V. 8
W. 1, 2, 3, 6, 7, 9

155) Essay

X. Retailers and manufacturers will disclose a cost-of-goods-sold figure because both of these entities sell goods. Service businesses, in contrast, do not, given that such firms provide services.
Y. A retailer will typically disclose inventories as a one-line item entitled merchandise inventories. Manufacturers, on the other hand, carry three different types of inventories: raw materials, work in process, and finished goods.

156) Essay

Z. Income statement Schedule of cost of goods manufactured Schedule of cost of goods manufactured Balance sheet Income statement Schedule of cost of goods manufactured Income statement Income statement Schedule of cost of goods manufactured
AA. Income statement
BB. Schedule of cost of goods manufactured
CC. Schedule of cost of goods manufactured
DD. Balance sheet
EE. Income statement
FF. Schedule of cost of goods manufactured
GG. Income statement
HH. Income statement
II. Schedule of cost of goods manufactured
1. Income statement
2. Schedule of cost of goods manufactured
3. Schedule of cost of goods manufactured
4. Balance sheet
5. Income statement
6. Schedule of cost of goods manufactured
7. Income statement
8. Income statement
9. Schedule of cost of goods manufactured

157) Essay

JJ. Direct costs are logically and practically related (i.e., easily traceable) to a particular cost object. An indirect cost, on the other hand, is not. Whether a cost is direct or indirect depends on the cost object under consideration. A cost may be easily traceable to a company, for example, but not easily traced to a department of that firm.

KK. Direct materials form an integral part of the finished product and, at the same time, are easily traced to that product. Indirect materials, which are part of manufacturing overhead, generally do not meet these guidelines. Note, though, that some indirect material may be easily traced to the product (e.g., five squirts of wood glue in a piece of furniture) but it may be too costly to do so.

LL. Manufacturing overhead consists of indirect materials, indirect labor, plant depreciation, factory utilities, and other factory-related costs. This cost component reflects all manufacturing costs other than direct materials and direct labor. Direct labor, in contrast, consists of wages of those employees who work directly on the goods in production (machine operators, assembly-line workers, and so forth).

158) Essay

The answers include:

MM. Manufacturing overhead = $35,000 + ($330,000 × 0.7) + $620,000 = $886,000

NN. Cost of goods manufactured = $306,000 + $1,348,000 ($284,000 + $178,000 + $886,000) = $1,654,000 − $245,000 = $1,409,000

OO. Cost of goods sold = $450,000 + $1,409,000 = $1,859,000 − $440,000 = $1,419,000

159) Essay

Managerial Accounting Edition 13 by Hilton

Fixed manufacturing overhead per unit:	
($400,000 ÷ 20,000) scrapers produced =	$ 20
Average manufacturing unit cost:	
Direct materials	$ 25
Direct labor	35
Variable manufacturing overhead	60
Fixed manufacturing overhead	20
Average unit cost	$ 140
Production (units)	20,000
Sales (units)	17,000
Ending finished-goods inventory (units)	3,000

Finished Goods, January 1	$ -------
Add: Cost of Goods Manufactured (20,000 × $140)	2,800,000
Cost of goods available for sale	$ 2,800,000
Deduct: Finished Goods, December 31	420,000
Cost of goods sold	$ 2,380,000

160) Essay

Direct material used	$ 126,000
Direct labor	260,000
Manufacturing overhead:	
Factory Depreciation	80,000
Factory Utilities	27,000
Indirect materials	19,000
Indirect labor	35,000
Total manufacturing costs	$ 547,000
Add: Work in process, January 1	21,000
	$ 568,000
Deduct: Work in process, December 31	40,000
Cost of goods Manufactured	$ 528,000

Finished Goods, January 1	$ 70,000
Add: Cost of Goods Manufactured	528,000
Cost of goods available for sale	$ 598,000
Finished Goods, December 31	61,000
Cost of goods sold	$ 537,000

161) Essay

Materials used:

Beginning Materials Inventory	$ 80,000
Plus purchases	153,000
Plus transportation in	6,000
Less purchase returns	(3,000)
Materials available for use	$ 236,000
Less ending materials inventory	(72,000)
Materials used	$ 164,000

Beginning finished goods inventory	$ 85,000
Plus: Cost of goods Manufactured	310,000
Goods available for sale	$ 395,000
Less: Ending finished goods inventory	(75,000)
Cost of Goods Sold	$ 320,000

Direct materials used:		
Raw materials, January 1	$ 50,000	
Add: Purchases	100,000	
Raw materials available for use	$ 150,000	
Deduct: Raw material, December 31	35,000	
Raw material used		$ 115,000
Direct labor		340,000
Manufacturing overhead		450,000
Total manufacturing costs		$ 905,000
Add: Work in process, January 1		130,000
		$ 1,035,000
Deduct: Work in process, December 31		170,000
Cost of goods manufactured		$ 865,000
Finished Goods, January 1	$ 280,000	
Add: Cost of Goods Manufactured	865,000	

162) Essay

Cost of goods available for sale	$ 1,145,000
Finished Goods, December 31	255,000
Cost of goods sold	$ 890,000
Sales Revenue	$ 1,560,000
Less: Cost of goods sold	890,000
Gross Margin	$ 670,000
Less: Selling and administrative expenses	90,000
Income before income taxes	580,000
Income tax expense ($580,000 × 30%)	174,000
Net income	$ 406,000

Total manufacturing costs		$ 104,000
Less: Raw materials used	$ 27,000	
Direct labor	35,000	62,000
Manufacturing overhead		$ 42,000

Total manufacturing costs	$ 104,000
Add: WIP inventory, 1/1	19,000
	$ 123,000
Less: Cost of goods manufactured	100,000
WIP inventory, 12/31	$ 23,000

Cost of goods available for sale	$ 175,000
Less: Cost of goods manufactured	100,000
Finished goods inventory, 1/1	$ 75,000
Cost of goods available for sale	$ 175,000
Less: Finished goods inventory, 12/31	60,000
Cost of goods sold	$ 115,000
Sales Revenue	$ 300,000
Less: Cost of goods sold	115,000

163) Essay

Gross margin	$ 185,000	
Gross margin		$ 185,000
Less: Selling and administrative expenses	$ 125,000	
Income tax expense	18,000	143,000
Net income		$ 42,000

164) Essay

Item A.

Beginning materials	$ 18,000
Add: Purchases	100,000
Less: Direct materials used	(90,000)
Less: Indirect materials used	(10,000)
Ending materials	$ 18,000

Item B.

Total production costs	$ 285,000
Less: Direct materials used	(90,000)
Less: Manufacturing overhead	(115,000)
Direct labor	$ 80,000

Item C.

Beginning work in process	$ 8,000
Add: Total production costs	285,000
Less: Ending work in process	(20,000)
Transferred to finished goods	$ 273,000

Item D.

Sales	$ 560,000
Divided by rate	÷ 140%
Cost of goods sold	$ 400,000

Item E.

Ending finished goods	$ 30,000
Add: Cost of goods sold	400,000

Less: Transferred to finished goods	(273,000)
Beginning finished goods	$ 157,000

165) Essay

Let X = sales revenue
0.4X = $250,000
X = $625,000
Sales revenue ($625,000) ÷ units sold (12,500) = $50 selling price

1. Cost of goods sold:	
Finished goods, January 1	$ 87,000
Add: Cost of goods manufactured	241,000
Cost of good available for sale	$ 328,000
Deduct: Finished goods, December 31	???????
Cost of goods sold	$ 250,000

Ending finished-goods inventory totals $78,000 ($328,000 – $250,000), which means that inventory was reduced by $9,000 ($87,000 – $78,000) and management was successful in achieving its goal.

2. Cost of goods manufactured:	
Raw materials used	$ 40,000
Direct labor	74,000
Manufacturing overhead	122,000
Total manufacturing costs	$ 236,000
Add: Work in process, January 1	????????
	$????????
Deduct: Work in process, December 31	55,000

Cost of Goods manufactured	$ 241,000
Sales Revenue	$ 625,000
Less: Cost of Goods sold	250,000
Gross Margin	$ 375,000
Less: Selling and administrative expenses	310,000
Income before taxes	$ 65,000
Income tax expense ($65,000 × 30%)	19,500
Net income	$ 45,500

166) Essay

Cost drivers are considered so complex in the airline industry because they can depend upon the distance flown by an airplane and the passenger load factor in addition to factors that cannot be controlled by the airline, like regulatory staffing rules, airport efficiency, and the weather.

167) Essay

Direct materials (100,000 × $15)	$ 1,500,000
Direct labor (100,000 × $8)	800,000
Variable overhead (100,000 × $11)	1,100,000
Fixed overhead (80,000 × $6)	480,000
Variable selling and administrative (95,000 × $5)	475,000
Fixed selling and administrative (80,000 × $2)	160,000
Total costs	$ 4,515,000

1. Fixed
2. Variable
3. Variable

168) Essay

	Number of Muffler Replacements		
	400	500	600
Total costs:			
Fixed costs	$ 9,000	$ 9,000	$ 9,000
Variable costs	4,800	6,000	7,200
Total costs	$ 13,800	$ 15,000	$ 16,200
Cost per muffler replacement:			
Fixed cost	$ 22.50	$ 18.00	$ 15.00
Variable cost	12.00	12.00	12.00
Total cost per muffler replacement	$ 34.50	$ 30.00	$ 27.00

Explanatory notes:
A and C each equal $9,000, since fixed costs do not vary with activity.
J, K, and L each equal $12 ($6,000 ÷ 500), since variable cost per replacement remains constant.
B equals $4,800 (400 × $12)
D equals $7,200 (600 × $12)
G equals $22.50 ($9,000 ÷ 400)
H equals $18.00 ($9,000 ÷ 500)
I equals $15.00 ($9,000 ÷ 600)

169) Essay

Dr. Lawson's observations are incorrect, as gasoline is a variable cost and insurance is a fixed cost. Gasoline cost will increase with the number of miles driven, whereas insurance outlays will remain the same. The doctor seems to have confused the "total" perspective, as defined by accountants, with the notion of per-unit cost behavior.

170) Essay

PP. Marginal cost
QQ. Sunk cost
RR. Average cost
SS. Opportunity cost
TT. Differential cost
UU. Out-of-pocket cost

171) Essay

Sunk costs have already been incurred. They are part of history and cannot be altered. Therefore, sunk costs are not relevant for any current or future management decision. Opportunity costs, in contrast, are relevant for current and future decisions. Such costs are defined as the net benefits from a decision alternative that was not selected—that is, the benefits were sacrificed to pursue another option.