Test Bank for Managerial Accounting 17th Edition by Warren

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Managerial Accounting (17th)

ISBN 9798214040820 | Chapter 1: Introduction to Managerial Accounting

Total Questions: 185

Multiple Choice (99)

Q1. *[Multiple Choice]*

In order to be useful to managers, managerial accounting reports should possess which of the following characteristics?

- **a)** provide objective measures of past operations and subjective estimates about future decisions
- **b) all of these choices ✓ correct**
- **c)** be provided at any time management needs information
- **d)** be prepared to report information for any unit of the business to support decision making

Q2. *[Multiple Choice]*

Which of the following is the primary criterion for the preparation of managerial accounting reports?

- **a)** preparation of reports on a monthly basis
- **b) manager needs ✓ correct**
- **c)** timing of the reports
- **d)** cost of the reports

Q3. *[Multiple Choice]*

Which of the following is most associated with managerial accounting?

- **a)** must follow GAAP
- **b) may rely on estimates and forecasts ✓ correct**
- **c)** prepared for users outside the organization
- **d)** always reports on the entire entity

Q4. *[Multiple Choice]*

Which of the following is most associated with the preparation of financial accounting reports?

- **a)** can be prepared subjectively
- **b)** can be prepared only as needed by managers in the organization
- **c) must be prepared in accordance with GAAP ✓ correct**
- **d)** can be prepared for the entity or segment

Q5. *[Multiple Choice]*

Which of the following statements is false?

- **a) There is no overlap between financial and managerial accounting. ✓ correct**
- **b)** Managerial accounting sometimes relies on past information.
- **c)** Managerial accounting does not need to conform to GAAP.
- **d)** Financial accounting must conform to GAAP.

Q6. *[Multiple Choice]*

Managerial accounting reports are

- **a)** prepared according to GAAP
- **b) prepared according to management needs ✓ correct**
- **c)** prepared periodically only
- **d)** related to the entire business entity only

Q7. *[Multiple Choice]*
Which of the following individuals are charged with the responsibility of directing the day-to-day operations of a business?

a) investors
b) managers ✓ correct
c) shareholders
d) customers

Q8. *[Multiple Choice]*
Which of the following are basic functions of the management process?

a) supervising and directing
b) decision making and supervising
c) organizing and directing
d) strategic planning and control ✓ correct

Q9. *[Multiple Choice]*
Which of the following terms is used to describe the process by which managers monitor operations and compare actual and expected results?

a) measurement
b) control
c) evaluation ✓ correct
d) strategic planning

Q10. *[Multiple Choice]*
Accounting designed to meet the needs of decision makers inside the business is

a) general accounting
b) financial accounting
c) managerial accounting ✓ correct
d) external accounting

Q11. *[Multiple Choice]*
Which of the following terms is used to describe the process of developing the organization's long-term objectives?

a) control
b) strategic planning ✓ correct
c) measurement
d) evaluation

Q12. *[Multiple Choice]*
The primary goal of managerial accounting is to provide information to

a) investors
b) creditors
c) managers ✓ correct
d) external auditors

Q13. *[Multiple Choice]*
Which of the following is the primary guideline for preparing managerial accounting reports?

a) usefulness to management ✓ correct
b) cost of preparation
c) clarity
d) GAAP

Q14. *[Multiple Choice]*

Which of the following is a characteristic of useful managerial accounting reports?

a) accurate
b) all of these choices ✓ correct
c) historical and estimated data
d) prepared as needed

Q15. *[Multiple Choice]*

Managers use managerial accounting information for which of the following purposes?

a) all of these choices ✓ correct
b) to analyze the performance of a company's operations
c) to support strategic planning decisions
d) to determine the cost of manufacturing a product

Q16. *[Multiple Choice]*

Financial accountants would prepare which of the following reports?

a) performance report identifying amounts of scrap
b) control report comparing direct material usage over time
c) sales report targeting monthly sales and potential bonuses
d) annual report for external regulators such as the Securities and Exchange Commission ✓ correct

Q17. *[Multiple Choice]*

Which of the following would be least likely to be considered a managerial accounting report?

a) report to analyze potential efficiencies and savings for the purchase of new production equipment
b) schedule of total manufacturing costs incurred
c) statement of cost of goods manufactured
d) statement of stockholders' equity ✓ correct

Q18. *[Multiple Choice]*

Which of the following terms is used to describe the management process where managers develop and agree upon performance metrics that will help them determine how well the company is achieving its objectives?

a) control
b) strategic planning
c) measurement ✓ correct
d) evaluation

Q19. *[Multiple Choice]*

Compute conversion costs given the following data: direct materials, $347,500; direct labor, $196,300; manufacturing overhead, $187,900; and selling expenses, $45,290.

a) $543,800
b) $187,900
c) $731,700
d) $384,200 ✓ correct

Q20. *[Multiple Choice]*

Which of the following is false with regard to direct materials for a bakery?

a) Flour and sugar would probably be direct materials.
b) Eggs would probably be a direct material.
c) Oil to lubricate factory machines would be an indirect material.
d) Paper cupcake liners, that become part of the product, must be accounted for as direct materials. ✓ correct

Q21. *[Multiple Choice]*

The cost of a manufactured product generally consists of which of the following costs?

- **a)** direct materials cost andmanufacturingoverhead cost only
- **b)** direct labor cost andmanufacturingoverhead cost only
- **c) direct labor cost, direct materials cost, andmanufacturingoverhead cost ✓ correct**
- **d)** direct materials cost and direct labor cost only

Q22. *[Multiple Choice]*

Which of the following must be true in order for materials to be classified as direct materials?

- **a)** They must be considered to be both prime costs and conversion costs.
- **b)** They must be introduced into the process in both work in process inventories and finished goods inventories.
- **c)** They must be an integral part of the finished product but can be an insignificant portion of the total product cost.
- **d) They must be an integral part of the finished product and a significant portion of the total product cost. ✓ correct**

Q23. *[Multiple Choice]*

Which of the following is an example of direct materials cost for an automobile manufacturer?

- **a)** cost of oil lubricants for factory machinery
- **b)** cost of assembly worker wages
- **c)** salary of production supervisor
- **d) cost of interior upholstery ✓ correct**

Q24. *[Multiple Choice]*

A plant manager’s salary is a(n)

- **a)** direct cost and an indirect cost
- **b)** direct cost
- **c) indirect cost ✓ correct**
- **d)** period cost

Q25. *[Multiple Choice]*

If the cost of a direct material is a small portion of total production cost, it may be classified as part of

- **a)** direct labor cost
- **b)** selling and administrative costs
- **c)** miscellaneous costs
- **d) manufacturingoverhead cost ✓ correct**

Q26. *[Multiple Choice]*

The cost of wages paid to employees directly involved in the manufacturing process in converting materials into finished products is classified as

- **a)** manufacturingoverhead cost
- **b) direct labor cost ✓ correct**
- **c)** miscellaneous costs
- **d)** direct materials cost

Q27. *[Multiple Choice]*

Which of the following is an example of direct labor cost for a cell phone manufacturer?

- **a)** cost of oil lubricants for factory machinery
- **b) cost of assembly worker wages ✓ correct**
- **c)** salary of plant supervisor
- **d)** cost of phone components

Q28. [Multiple Choice]

Costs other than direct materials cost and direct labor cost incurred in the manufacturing process are classified as

- **a) manufacturingoverhead cost ✓ correct**
- **b)** miscellaneous expense
- **c)** product costs
- **d)** period cost

Q29. [Multiple Choice]

Which of the following is an example of amanufacturingoverhead cost?

- **a)** repair and maintenance cost on the administrative building
- **b) factory heating and lighting cost ✓ correct**
- **c)** insurance premiums on salespersons' automobiles
- **d)** president's salary

Q30. [Multiple Choice]

Period costs include

- **a)** current assets on the balance sheet
- **b)** current liabilities on the balance sheet
- **c)** operating costs that are shown on the income statement as cost of goods sold when products are sold
- **d) operating costs that are shown on the income statement in the period in which they are incurred ✓ correct**

Q31. [Multiple Choice]

Another term formanufacturingoverhead is

- **a)** surplus
- **b)** period cost
- **c)** supervisory cost
- **d) factory burden ✓ correct**

Q32. [Multiple Choice]

Which of the following costs are conversion costs?

- **a) direct labor cost andmanufacturingoverhead cost ✓ correct**
- **b)** direct materials cost and direct labor cost
- **c)** manufacturingoverhead cost
- **d)** direct materials cost andmanufacturingoverhead cost

Q33. [Multiple Choice]

Which of the following terms refers to the cost of changing direct materials into a finished manufactured product?

- **a)** manufacturingoverhead cost
- **b)** period cost
- **c) conversion cost ✓ correct**
- **d)** direct labor cost

Q34. [Multiple Choice]

Which of the following items would be classified as part ofmanufacturingoverhead?

- **a) all of these choices ✓ correct**
- **b)** amortization of manufacturing patents
- **c)** production supervisors' salaries
- **d)** factory supplies used

Q35. [Multiple Choice]

Which of the following is part ofmanufacturingoverhead cost?

- **a)** sales commissions
- **b) depreciation of factory equipment and machines ✓ correct**
- **c)** depreciation of sales-person's vehicle
- **d)** direct materials used

Q36. [Multiple Choice]

Which of the following manufacturing costs is an indirect cost of producing a product?

- **a) oil lubricants used for factory machinery ✓ correct**
- **b)** commissions for sales personnel
- **c)** hourly wages of an assembly worker
- **d)** memory chips for a microcomputer manufacturer

Q37. [Multiple Choice]

Which of the following would most likely be considered an indirect material by afurnituremanufacturer?

- **a)** Steel for a couch frame
- **b)** Upholstery fabric for a couch or chair
- **c) Glue for miscellaneous production needs ✓ correct**
- **d)** Lumber for a chair frame

Q38. [Multiple Choice]

Prime costs are

- **a)** direct materials andmanufacturingoverhead
- **b) direct materials and direct labor ✓ correct**
- **c)** direct labor andmanufacturingoverhead
- **d)** period costs andmanufacturingoverhead

Q39. [Multiple Choice]

A product cost is

- **a)** expensed in the period in which the product is manufactured
- **b)** shown with current liabilities on the balance sheet
- **c)** shown with operating expenses on the income statement
- **d) expensed in the period the product is sold ✓ correct**

Q40. [Multiple Choice]

Conversion costs are

- **a)** direct materials and direct labor
- **b)** direct materials andmanufacturingoverhead
- **c) manufacturingoverhead and direct labor ✓ correct**
- **d)** direct materials and indirect labor

Q41. [Multiple Choice]

Which of the following is an overhead cost?

- **a) plant janitor’s wages ✓ correct**
- **b)** direct labor wages
- **c)** machine operator wages
- **d)** salesperson's salary and commission

Q42. *[Multiple Choice]*
Darwin Company reports the following information:

Sales$76,500
Direct materials used7,300
Depreciation on factory equipment4,700
Indirect labor5,900
Direct labor10,500
Factory rent4,200
Factory utilities1,200
Sales salaries expense15,600
Office salaries expense8,900
Indirect materials1,200

Product costs are

- **a)** $24,500
- **b)** $30,300
- **c)** $29,200
- **d) $35,000 ✓ correct**

Q43. *[Multiple Choice]*
Product costs

- **a)** appear only on the balance sheet
- **b)** appear only on the income statement
- **c)** are expensed as costs are incurred for direct labor, direct materials, and manufacturingoverhead
- **d) appear on both the income statement and balance sheet ✓ correct**

Q44. *[Multiple Choice]*
Which of the following is a period cost?

- **a)** direct materials
- **b) sales salaries expense ✓ correct**
- **c)** direct labor
- **d)** manufacturingoverhead

Q45. *[Multiple Choice]*
Indirect labor and indirect materials are classified as

- **a) manufacturingoverhead and product costs ✓ correct**
- **b)** manufacturingoverhead and period costs
- **c)** operating costs and period costs
- **d)** operating costs and product costs

Q46. *[Multiple Choice]*
An example of a period cost is

- **a) advertising expense ✓ correct**
- **b)** indirect materials
- **c)** depreciation on factory equipment
- **d)** property taxes on plant facilities

Q47. *[Multiple Choice]*

Direct labor and direct materials are

- **a) product costs and expensed when the goods are sold ✓ correct**
- **b)** product costs and expensed when incurred
- **c)** period costs and expensed when incurred
- **d)** period costs and expensed when the goods are sold

Q48. *[Multiple Choice]*

Indirect costs incurred in a manufacturing environment that cannot be traced directly to a product are treated as

- **a)** period costs and expensed when incurred
- **b) product costs and expensed when the goods are sold ✓ correct**
- **c)** product costs and expensed when incurred
- **d)** period costs and expensed when the goods are sold

Q49. *[Multiple Choice]*

Rent expense on a factory building would be treated as a

- **a)** period cost
- **b) product cost ✓ correct**
- **c)** none of these choices
- **d)** direct materials cost

Q50. *[Multiple Choice]*

Insurance expense incurred on a factory building would be treated as a

- **a)** direct cost
- **b)** period cost
- **c) product cost ✓ correct**
- **d)** selling cost

Q51. *[Multiple Choice]*

Jensen Company reports the following:

Direct materials used$345,000
Direct labor incurred250,000
Manufacturing overhead incurred400,000
Operating expenses175,000

Using the provided information, Jensen Company's period costs are

- **a)** $345,000
- **b)** $250,000
- **c)** $400,000
- **d) $175,000 ✓ correct**

Q52. *[Multiple Choice]*

Jensen Company reports the following:

Direct materials used$345,000
Direct labor incurred250,000
Manufacturing overhead incurred400,000
Operating expenses175,000

Using the provided information, Jensen Company’s product costs are

- **a) $995,000 ✓ correct**
- **b)** $920,000
- **c)** $825,000
- **d)** $770,000

Q53. *[Multiple Choice]*

Which of the following is a prime cost?

- **a) wood used in furniture production ✓ correct**
- **b)** insurance on factory equipment
- **c)** salaries of production supervisors
- **d)** property tax on factory building

Q54. *[Multiple Choice]*

Manufacturingoverhead includes

- **a)** factory rent and direct labor
- **b)** direct materials and direct labor
- **c)** indirect materials and direct materials
- **d) indirect labor and indirect materials ✓ correct**

Q55. *[Multiple Choice]*

Darwin Company reports the following information:

Sales$76,500
Direct materials used7,300
Depreciation on factory equipment4,700
Indirect labor5,900
Direct labor10,500
Factory rent4,200
Factory utilities1,200
Sales salaries expense15,600
Office salaries expense8,900
Indirect materials1,200

Period costs are

- **a) $24,500 ✓ correct**
- **b)** $30,300
- **c)** $29,200
- **d)** $35,000

Q56. *[Multiple Choice]*
Which of the following is an example of direct labor?

a) maintenance personnel
b) janitorial personnel
c) machine operators ✓ correct
d) plant managers

Q57. *[Multiple Choice]*
A lawn mower manufacturer would classify wheels as which type of cost?

a) direct materials ✓ correct
b) direct labor
c) manufacturingoverhead
d) nonmanufacturing cost

Q58. *[Multiple Choice]*
A lawn mower manufacturer would classify grease for wheel axles as which type of cost?

a) direct materials
b) direct labor
c) manufacturingoverhead ✓ correct
d) nonmanufacturing cost

Q59. *[Multiple Choice]*
A cake factory would classify which of the following as both a prime cost and a conversion cost?

a) frosting
b) wages of the baker ✓ correct
c) sprinkles for the topping (considered an indirect material)
d) depreciation on oven

Q60. *[Multiple Choice]*
Which of the following is an indirect cost?

a) labor for maintenance of a machine used in the production process ✓ correct
b) administrative office equipment depreciation
c) salespersons' salaries
d) all of these choices

Q61. *[Multiple Choice]*
Which of the following is an indirect cost?

a) utilities on factory building
b) factory equipment depreciation
c) materials used in the production process that are not traceable to specific items
d) all of these choices ✓ correct

Q62. *[Multiple Choice]*
Which of the following ismanufacturingoverhead?

a) utilities on factory building
b) factory equipment depreciation
c) materials used in the production process that are not traceable to specific items
d) all of these choices ✓ correct

Q63. *[Multiple Choice]*
Which of the following ismanufacturingoverhead?

- **a)** supplies used by the sales force
- **b) indirect materials usedin the production process ✓ correct**
- **c)** wages of production assembly line personnel
- **d)** cost of primary material used to make a product

Q64. *[Multiple Choice]*
Which of the following is an administrative expense?

- **a)** advertising expense
- **b) rent on office facilities for a company’s accounting personnel ✓ correct**
- **c)** salespersons’ salaries
- **d)** sales supplies used

Q65. *[Multiple Choice]*
Which of the following would be a period cost for a cake factory?

- **a)** flour
- **b)** baker’s wages
- **c)** frosting
- **d) transportation out ✓ correct**

Q66. *[Multiple Choice]*
Which of the following is a period versus a product cost?

- **a)** direct materials used
- **b)** factory utilities
- **c) salespersons' commissions ✓ correct**
- **d)** salary of plant manager

Q67. *[Multiple Choice]*
Which of the following is a product versus a period cost?

- **a)** depreciation on a retail store’s equipment for displaying merchandise for sale
- **b) indirect materials used ✓ correct**
- **c)** salespersons' commissions
- **d)** advertising expense

Q68. *[Multiple Choice]*
Which of the following is both a prime cost and a conversion cost for Cupcake Company?

- **a)** frosting
- **b) baker’s wages ✓ correct**
- **c)** sprinkles for decoration (considered an indirect material)
- **d)** factory rent

Q69. *[Multiple Choice]*
Which of the following is a direct cost for Bartel Corporation, a producer of bar stools for restaurants?

- **a) wages for the bar stool assemblers ✓ correct**
- **b)** factory supervisor’s salary
- **c)** lubricants used on the bar stool manufacturing equipment
- **d)** glue used in the assembly of the bar stools

Q70. *[Multiple Choice]*

Which of the following is an indirect cost for Bartel Corporation, a producer of bar stools for restaurants?

- **a)** wages for the bar stool assemblers
- **b) factory supervisor's salary ✓ correct**
- **c)** wood and steel used in the bar stools
- **d)** leather used for seat cushions

Q71. *[Multiple Choice]*

Which of the following is a period cost for Bartow Corporation, a bicycle manufacturer?

- **a)** tires for the bicycles
- **b)** factory supervisor's salary
- **c)** electricity costs to run the factory
- **d) accountant salaries ✓ correct**

Q72. *[Multiple Choice]*

Which of the following accounts is reported on the income statement?

- **a)** Inventory
- **b)** Work in Process
- **c)** Finished Goods
- **d) Cost of Goods Sold ✓ correct**

Q73. *[Multiple Choice]*

Given the following data:

Cost of materials used	$45,000
Direct labor costs	48,000
Manufacturingoverhead	39,000
Work in process, beginning	28,000
Work in process, ending	18,000
Finished goods, beginning	28,000
Finished goods, ending	18,000

What is cost of goods sold?

- **a) $152,000 ✓ correct**
- **b)** $142,000
- **c)** $10,000
- **d)** $128,000

Q74. [Multiple Choice]

Given the following data:

Beginning raw materials inventory
$30,000

Materials purchased
65,000

Ending raw materials inventory
40,000

What is the amount of raw materials used?

- **a)** $5,000
- **b) $55,000 ✓ correct**
- **c)** $75,000
- **d)** $30,000

Q75. [Multiple Choice]

A company manufactured 50,000 units of a product at a cost of $450,000. It sold 45,000 units at $15 each. The gross profit is

- **a)** $750,000
- **b)** $240,000
- **c)** $600,000
- **d) $270,000 ✓ correct**

Q76. [Multiple Choice]

The following information is taken from the financial records of Gunner Manufacturing:

Cost of materials used	$45,000
Direct labor costs	48,000
Manufacturingoverhead	39,000
Work in process, beginning	18,000
Work in process, ending	28,000

What is the cost of goods manufactured?

- **a)** $178,000
- **b)** $132,000
- **c) $122,000 ✓ correct**
- **d)** $142,000

Q77. [Multiple Choice]

Goods that are partially completed by a manufacturer are

- **a)** merchandise inventory
- **b) work in process inventory ✓ correct**
- **c)** finished goods inventory
- **d)** materials inventory

Q78. *[Multiple Choice]*

The income statement for both a merchandiser and a manufacturer would include

- **a) operating expenses ✓ correct**
- **b)** direct materials
- **c)** direct labor incurred
- **d)** cost of goods manufactured

Q79. *[Multiple Choice]*

On the income statement of a manufacturing company, which of the following replaces net purchases when calculating cost of goods sold for a retail company?

- **a)** finished goods
- **b)** cost of merchandise available
- **c) cost of goods manufactured ✓ correct**
- **d)** work in process

Q80. *[Multiple Choice]*

Cost of goods sold for a manufacturer equals cost of goods manufactured plus

- **a)** beginning work in process inventoryminusending work in process inventory
- **b)** ending work in process inventoryminusbeginning work in process inventory
- **c) beginning finished goods inventoryminusending finished goods inventory ✓ correct**
- **d)** ending finished goods inventoryminusbeginning finished goods inventory

Q81. *[Multiple Choice]*

Given the following data:

Work in process, beginning$14,000
Work in process, ending20,000
Direct labor costs
4,000
Cost of goods manufactured8,000
Manufacturingoverhead8,000

Direct materials used is

- **a) $2,000 ✓ correct**
- **b)** $4,000
- **c)** $8,000
- **d)** $14,000

Q82. *[Multiple Choice]*

Cost of goods manufactured is equal to

- **a)** total manufacturing costs plus ending materials inventoryminusbeginning materials inventory
- **b)** cost of goods sold plus beginning work in process inventoryminusending work in process inventory
- **c)** total manufacturing costs plus ending work in process inventoryminusbeginning work in process inventory
- **d) total manufacturing costs plus beginning work in process inventoryminusending work in process inventory ✓ correct**

Q83. *[Multiple Choice]*

Finished goods inventory is reported on the

- **a)** income statement as a period cost
- **b)** balance sheet as a long-term asset
- **c) balance sheet as a current asset ✓ correct**
- **d)** income statement as revenue

Q84. *[Multiple Choice]*

Beginning work in process is equal to

- **a) cost of goods manufactured plus ending work in process minus manufacturing costs incurred during the current period ✓ correct**
- **b)** cost of goods manufactured minus ending work in process plus manufacturing costs incurred during the current period
- **c)** ending work in process plus manufacturing costs incurred during the current period
- **d)** manufacturing costs incurred during the current period minus ending work in process

Q85. *[Multiple Choice]*

Which of the following does not belong in the “Current assets” section of the balance sheet?

- **a) manufacturingoverhead ✓ correct**
- **b)** materials inventory
- **c)** finished goods inventory
- **d)** work in process inventory

Q86. *[Multiple Choice]*

Smith Company reports the following information:

Cost of goods manufactured$68,250
Direct materials used27,000
Direct labor incurred25,000
Work in process inventory, January 1
11,000

Manufacturingoverhead is 75% of the cost of direct labor. Work in process inventory on December 31 is

- **a)** $16,250
- **b)** $8,500
- **c)** $18,750
- **d) $13,500 ✓ correct**

Q87. *[Multiple Choice]*

At the beginning of the current year, Grant Company’s work in process inventory account had a balance of $30,000. During the year, $68,000 of direct materials were used in production, and $66,000 of direct labor costs were incurred. Manufacturing overhead for the year amounted to $90,000. Cost of goods manufactured is $230,000. The balance in work in process inventory on December 31 is

- **a) $24,000 ✓ correct**
- **b)** $44,000
- **c)** $66,000
- **d)** $36,000

Q88. *[Multiple Choice]*

A company used $35,000 of direct materials, incurred $73,000 in direct labor cost, and had $114,000 inmanufacturingoverhead costs during the period. If beginning and ending work in process inventories were $28,000 and $32,000, respectively, the cost of goods manufactured was

- **a) $218,000 ✓ correct**
- **b)** $226,000
- **c)** $190,000
- **d)** $222,000

Q89. [Multiple Choice]

Cost of goods manufactured during the year is $240,000, and work in process inventory on December 31 is $50,000. Work in process inventory during the year decreased by 60%. Total manufacturing costs incurred are

- **a)** $190,000
- **b) $165,000 ✓ correct**
- **c)** $290,000
- **d)** $315,000

Q90. [Multiple Choice]

Work in process inventory on December 31 of the current year is $44,000. Work in process inventory increased by 60% during the year. Cost of goods manufactured amounts to $275,000. The total manufacturing costs incurred in the current year are

- **a) $291,500 ✓ correct**
- **b)** $302,000
- **c)** $275,750
- **d)** $233,750

Q91. [Multiple Choice]

Work in process inventory on December 31 is $42,000. Work in process inventory decreased by 40% during the year. Total manufacturing costs incurred amount to $260,000. The cost of goods manufactured is

- **a)** $232,000
- **b)** $302,000
- **c) $288,000 ✓ correct**
- **d)** $190,000

Q92. [Multiple Choice]

Work in process inventory increased by $20,000 during the current year. Cost of goods manufactured was $180,000. Total manufacturing costs incurred are

- **a)** $198,000
- **b)** $160,000
- **c)** $189,000
- **d) $200,000 ✓ correct**

Q93. [Multiple Choice]

Which of the following is reported on the income statement of a manufacturing company?

- **a) cost of goods sold ✓ correct**
- **b)** materials
- **c)** work in process
- **d)** finished goods

Q94. [Multiple Choice]

A company sells goods for $150,000 that cost $54,000 to manufacture. Which of the following statements is true?

- **a)** The company will recognize sales on the balance sheet of $150,000.
- **b)** The company will recognize $96,000 in gross profit on the balance sheet.
- **c) The company will decrease finished goods by $54,000. ✓ correct**
- **d)** The company will increase finished goods by $54,000.

Q95. *[Multiple Choice]*

The cost of goods sold for Michaels Manufacturing in the current year was $233,000. The January 1 finished goods inventory balance was $31,600, and the December 31 finished goods inventory balance was $24,200. Cost of goods manufactured during the period was

- **a)** $233,000
- **b) $225,600 ✓ correct**
- **c)** $288,800
- **d)** $240,400

Q96. *[Multiple Choice]*

In the hotel industry, the occupancy rate is a measure of

- **a)** risk
- **b)** solvency
- **c)** profitability
- **d) utilization ✓ correct**

Q97. *[Multiple Choice]*

Nearly _____ of U.S. economic activity is represented by services.

- **a)** 40%
- **b)** 50%
- **c)** 60%
- **d) 80% ✓ correct**

Q98. *[Multiple Choice]*

SunnyRest Hotel has 300 rooms. During the month of March, it had 7,440 guests, each staying a single night. The occupancy rate for SunnyRest Hotel for the month of March was

- **a) 80% ✓ correct**
- **b)** 83%
- **c)** 98%
- **d)** 121%

Q99. *[Multiple Choice]*

ShadyPalms Hotel has 100 rooms. During the month of February, it had 500 guests, each staying 5 nights, and 10 guests, each staying 2 nights. The occupancy rate for ShadyPalms Hotel for the month of February (not a leap year) was

- **a)** 28%
- **b)** 84%
- **c) 90% ✓ correct**
- **d)** 111%

True/False (68)

Q100. *[True/False]*

Managerial accounting reports must be prepared according to generally accepted accounting principles.

- **a)** true
- **b) false ✓ correct**

Correct answer: False

Q101. *[True/False]*
Managerial accounting uses only past data in reports to aid management in the decision-making process.

a) true
b) false ✓ correct

Correct answer: False

Q102. *[True/False]*
Managerial accounting information includes both historical and estimated data.

a) true ✓ correct
b) false

Correct answer: True

Q103. *[True/False]*
Finance and accounting professionals often work within vertical business units and other horizontal departments, but they do not normally report directly to the heads of those business units or departments.

a) true ✓ correct
b) false

Correct answer: True

Q104. *[True/False]*
The philosophy of focusing on “unexpected” good or bad performance is called management by exception.

a) true ✓ correct
b) false

Correct answer: True

Q105. *[True/False]*
The functions reporting to the CFO sometimes are grouped together and referred to as*corporate finance*.

a) true ✓ correct
b) false

Correct answer: True

Q106. *[True/False]*
In smaller companies, the term*controller*may be used to refer to the chief financial officer.

a) true ✓ correct
b) false

Correct answer: True

Q107. *[True/False]*
The role of horizontals is to provide services, assistance, and advice to the various verticals and other horizontal departments.

a) true ✓ correct
b) false

Correct answer: True

Q108. *[True/False]*
Horizontals are departments within a company that are responsible for developing products.

a) true
b) false ✓ correct

Correct answer: False

Q109. [True/False]

While no two company structures are identical, most large companies are organized in terms of verticals and diagonals.

a) true
b) false ✓ correct

Correct answer: False

Q110. [True/False]

Verticals prepare their own income statements.

a) true ✓ correct
b) false

Correct answer: True

Q111. [True/False]

Managerial accounting reports are designed to meet the specific needs of a company’s management.

a) true ✓ correct
b) false

Correct answer: True

Q112. [True/False]

Strategic planning is the process of monitoring operating results and comparing actual results with the expected results.

a) true
b) false ✓ correct

Correct answer: False

Q113. [True/False]

Operational planning is the process of developing the company’s short-term objectives and actions needed to achieve the company’s long-term, strategic objectives.

a) true ✓ correct
b) false

Correct answer: True

Q114. [True/False]

Control is the process of choosing goals and deciding how to achieve them.

a) true
b) false ✓ correct

Correct answer: False

Q115. [True/False]

Evaluation is the process by which management monitors operations by comparing actual and expected results.

a) true ✓ correct
b) false

Correct answer: True

Q116. [True/False]

A major focus of managerial accounting is the development of costing information.

a) true ✓ correct
b) false

Correct answer: True

Q117. [True/False]
Managerial accounting information is for external users as well as company managers.

a) true
b) false ✓ correct

Correct answer: False

Q118. [True/False]
A report analyzing how many products need to be sold to cover operating costs is not typically a managerial accounting report.

a) true
b) false ✓ correct

Correct answer: False

Q119. [True/False]
A report analyzing the dollar savings of purchasing new equipment to speed up the production process is a managerial accounting report.

a) true ✓ correct
b) false

Correct answer: True

Q120. [True/False]
A performance report that identifies the amount of employee downtime is a financial accounting report.

a) true
b) false ✓ correct

Correct answer: False

Q121. [True/False]
Managerial accounting provides useful information to managers on product costs.

a) true ✓ correct
b) false

Correct answer: True

Q122. [True/False]
In a service company, the cost of services is accumulated and reported as inventory.

a) true
b) false ✓ correct

Correct answer: False

Q123. [True/False]
A costis a sacrifice made to obtain some benefit.

a) true ✓ correct
b) false

Correct answer: True

Q124. [True/False]
The cost of a manufactured product generally consists of direct materials cost, direct labor cost, and manufacturing overhead cost.

a) true ✓ correct
b) false

Correct answer: True

Q125. *[True/False]*

The cost of materials entering directly into the manufacturing process is classified as manufacturing overhead cost.

a) true

b) false ✓ correct

Correct answer: False

Q126. *[True/False]*

The cost of wages paid to employees directly involved in converting materials to finished product is classified as direct labor cost.

a) true ✓ correct

b) false

Correct answer: True

Q127. *[True/False]*

If the cost of employee wages is not a significant portion of the total product cost, the wages are classified as direct materials cost.

a) true

b) false ✓ correct

Correct answer: False

Q128. *[True/False]*

For a construction contractor, the wages of carpenters utilized in constructing a building would be classified as overhead cost.

a) true

b) false ✓ correct

Correct answer: False

Q129. *[True/False]*

For an automotive repair shop, the wages of mechanics working on the vehicles would be classified as direct labor cost.

a) true ✓ correct

b) false

Correct answer: True

Q130. *[True/False]*

Costs other than direct materials cost and direct labor cost incurred in the manufacturing process are classified as manufacturing overhead cost.

a) true ✓ correct

b) false

Correct answer: True

Q131. *[True/False]*

Depreciation on factory plant and equipment is an example ofmanufacturingoverhead cost.

a) true ✓ correct

b) false

Correct answer: True

Q132. [True/False]

The cost of oil used to lubricate factory machinery and equipment is an example of a direct materials cost.

a) true

b) false ✓ correct

Correct answer: False

Q133. [True/False]

If the cost of materials is not a significant portion of the total product cost, the materials may be classified as part ofmanufacturingoverhead cost.

a) true ✓ correct

b) false

Correct answer: True

Q134. [True/False]

Manufacturingoverhead cost is sometimes referred to as factory burden.

a) true ✓ correct

b) false

Correct answer: True

Q135. [True/False]

Conversion cost is the combination of direct labor cost andmanufacturingoverhead cost.

a) true ✓ correct

b) false

Correct answer: True

Q136. [True/False]

Conversion cost is the combination of direct materials cost andmanufacturingoverhead cost.

a) true

b) false ✓ correct

Correct answer: False

Q137. [True/False]

Manufacturingoverhead is an example of a product cost.

a) true ✓ correct

b) false

Correct answer: True

Q138. [True/False]

Direct labor costs are included in the conversion costs of a product.

a) true ✓ correct

b) false

Correct answer: True

Q139. [True/False]

The costs of materials and labor that cannot be traced directly to the finished product are classified as manufacturing overhead.

a) true ✓ correct

b) false

Correct answer: True

Q140. *[True/False]*

The costs of materials and labor that cannot be traced directly to the finished product are classified as cost of goods sold.

- **a)** true
- **b) false ✓ correct**

Correct answer: False

Q141. *[True/False]*

Indirect labor would be included in manufacturing overhead.

- **a) true ✓ correct**
- **b)** false

Correct answer: True

Q142. *[True/False]*

A cost object can be anything to which costs are assigned and will vary depending upon the decision-making needs of management.

- **a) true ✓ correct**
- **b)** false

Correct answer: True

Q143. *[True/False]*

Direct costs are identified with and can be traced to a cost object.

- **a) true ✓ correct**
- **b)** false

Correct answer: True

Q144. *[True/False]*

Indirect costs are identified with and can be traced to a cost object.

- **a)** true
- **b) false ✓ correct**

Correct answer: False

Q145. *[True/False]*

Period (nonmanufacturing) costs are classified into two categories: selling and administrative.

- **a) true ✓ correct**
- **b)** false

Correct answer: True

Q146. *[True/False]*

Prime costs are the combination of direct labor costs andmanufacturingoverhead costs.

- **a)** true
- **b) false ✓ correct**

Correct answer: False

Q147. *[True/False]*

Prime costs are the combination of direct materials and direct labor costs.

- **a) true ✓ correct**
- **b)** false

Correct answer: True

Q148. *[True/False]*

Conversion costs are the combination of direct labor, direct materials, andmanufacturingoverhead costs.

a) true

b) false ✓ correct

Correct answer: False

Q149. *[True/False]*

Manufacturers use machinery and labor to convert direct materials into finished products.

a) true ✓ correct

b) false

Correct answer: True

Q150. *[True/False]*

Period costs include direct materials and direct labor.

a) true

b) false ✓ correct

Correct answer: False

Q151. *[True/False]*

Period costs can be found on both the balance sheet and the income statement.

a) true

b) false ✓ correct

Correct answer: False

Q152. *[True/False]*

Product costs are not expensed until the product is sold.

a) true ✓ correct

b) false

Correct answer: True

Q153. *[True/False]*

The plant manager’s salary in a manufacturing business would be considered an indirect cost.

a) true ✓ correct

b) false

Correct answer: True

Q154. *[True/False]*

Operating expenses are product costs and are expensed when the product is sold.

a) true

b) false ✓ correct

Correct answer: False

Q155. *[True/False]*

Period costs are operating costs that are expensed in the period in which the goods are sold.

a) true

b) false ✓ correct

Correct answer: False

Q156. *[True/False]*
Manufacturingoverhead includes all manufacturing costs other than direct materials and direct labor.

- **a) true ✓ correct**
- **b)** false

Correct answer: True

Q157. *[True/False]*
Labor costs that are directly traceable to the product are part ofmanufacturingoverhead.

- **a)** true
- **b) false ✓ correct**

Correct answer: False

Q158. *[True/False]*
Product costs include direct labor and advertising expense.

- **a)** true
- **b) false ✓ correct**

Correct answer: False

Q159. *[True/False]*
Indirect labor and indirect materials would be part ofmanufacturingoverhead.

- **a) true ✓ correct**
- **b)** false

Correct answer: True

Q160. *[True/False]*
Prime costs consist ofmanufacturingoverhead and direct labor.

- **a)** true
- **b) false ✓ correct**

Correct answer: False

Q161. *[True/False]*
Conversion costs consist of product costs and period costs.

- **a)** true
- **b) false ✓ correct**

Correct answer: False

Q162. *[True/False]*
Prime costs consist of direct materials, indirect materials, and direct labor.

- **a)** true
- **b) false ✓ correct**

Correct answer: False

Q163. *[True/False]*
Only the value of the inventory that is sold will appear on the income statement.

- **a) true ✓ correct**
- **b)** false

Correct answer: True

Q164. *[True/False]*

On the balance sheet for a manufacturing business, the costs of direct materials, direct labor, andmanufacturingoverhead are categorized as either materials inventory, work in process inventory, or finished goods inventory.

a) true ✓ correct
b) false

Correct answer: True

Q165. *[True/False]*

The statement of cost of goods manufactured provides additional information to support the income statement for a manufacturing company.

a) true ✓ correct
b) false

Correct answer: True

Q166. *[True/False]*

Goods that are partway through the manufacturing process, but not yet complete, are referred to as materials inventory.

a) true
b) false ✓ correct

Correct answer: False

Q167. *[True/False]*

With regard to service companies, lower utilization rates are considered favorable, while higher utilization rates are considered unfavorable.

a) true
b) false ✓ correct

Correct answer: False

Short Response (15)

Q168. *[Short Response]*

Differentiate between financial and managerial accounting, addressing such issues as users, nature of information, guidelines for preparation, timeliness of reporting, and focus of reporting.

Suggested answer: *Managerial AccountingFinancial Accounting*
UsersManagementExternal users and company management
Nature of informationObjective and subjective
Objective
Guidelines for preparationPrepared according to management needsPrepared according to GAAP
Timeliness of reporting
Prepared at fixed intervals and on an as-needed basisPrepared at fixed intervals
Focus of reportingCompany as a whole or as a segmentCompany as a whole

Q169. *[Short Response]*

Differentiate between:

a. direct materials versus indirect materials

b. direct labor versus indirect labor

> ***Suggested answer:*** *a. Direct materials must become a physical part of the finished product, and their costs must be separately and conveniently traceable through the manufacturing process to finished goods inventory. Examples include wood, leather, steel, etc.*
>
> *Indirect materials become part of the finished product, but their minor costs cannot conveniently be traced directly to particular finished products. They are included as part ofmanufacturingoverhead.*
>
> *b. Direct labor cost is the compensation of employees who physically convert materials into the company's products and whose effort can be traced directly to finished goods inventory. Examples include machine operators and assemblers.*
>
> *Indirect labor is factory labor that is difficult to trace to specific products. Instead, the cost is included inmanufacturingoverhead. Examples include forklift operators, janitors, and plant managers.*

Q170. *[Short Response]*

Putney Company reports the following information:

Sales$76,500

Direct materials used7,300

Depreciation on factory equipment4,700

Indirect labor5,900

Direct labor10,500

Factory rent4,200

Factory utilities1,200

Sales salaries expense15,600

Office salaries expense8,900

Indirect materials1,200

Compute:

a. Product costs

b. Period costs

> ***Suggested answer:*** *a. Product Costs = $7,300 + $4,700 + $5,900 + $10,500 + $4,200 + $1,200 + $1,200 = $35,000*
>
> *b. Period Costs = $15,600 + $8,900 = $24,500*

Q171. *[Short Response]*

The following information is available for Carter Corporation:

1. Materials inventory decreased $4,000.
2. Materials inventory on December 31 was 50% of materials inventory on January 1.
3. Beginning work in process inventory was $145,000.
4. Ending finished goods inventory was $65,000.
5. Purchases of direct materials were $154,700.
6. Direct materials used were 2.5 times the cost of direct labor.
7. Total manufacturing costs incurred were $246,400, 80% of cost of goods manufactured and $156,000 less than cost of goods sold.

Compute:

a. Finished goods inventory on January 1
b. Work in process inventory on December 31
c. Direct labor incurred
d.Manufacturingoverhead incurred
e.Materials inventory on January 1
f. Materials inventory on December 31
g. Direct materials used

Suggested answer: *a. Cost of Goods Sold = $246,400 + $156,000 = $402,400*
Cost of Goods Manufactured = $246,400/0.80 = $308,000
Finished Goods Inventory on January 1 = $402,400 + $65,000 – $308,000 = $159,400

b. Work in Process Inventory on December 31
$246,400 + $145,000 – $308,000 = $83,400

c. Direct Labor Incurred = $158,700 ÷ 2.5 = $63,480

d.ManufacturingOverhead Incurred = $246,400 – $158,700 – $63,480 = $24,220

e. Materials Inventory on January 1:
X = January 1 Materials Inventory
$4,000 = 0.5X
X = $8,000

f. Materials Inventory on December 31 = $8,000 – $4,000 = $4,000

g. Direct Materials Used = $8,000 + $154,700 – $4,000 = $158,700

Q172. *[Short Response]*

Zoe Corporation has the following information for the month of March. Determine the (a) cost of goods manufactured and (b) cost of goods sold.

Cost of materials placed in production$69,000

Direct labor27,000

Manufacturingoverhead34,000

Work in process, March 115,000

Work in process, March 3119,500

Finished goods inventory, March 125,000

Finished goods inventory, March 3123,000

Suggested answer: *a.*
Beginning work in process inventory
$ 15,000

Direct materials
$69,000

Direct labor27,000

Manufacturingoverhead34,000

Total manufacturing costs incurred130,000

Total manufacturing costs$145,000

Ending work in process inventory
(19,500)

Cost of goods manufactured$125,500

b.
Finished goods inventory, March 1$ 25,000

Cost of goods manufactured125,500

Cost of finished goods available for sale$150,500

Finished goods inventory, March 31(23,000)

Cost of goods sold$127,500

Q173. *[Short Response]*
Sienna Company has the following information for January:

Cost of materials used in production$20,000
Direct labor15,000
Manufacturingoverhead24,000
Work in process inventory, January 12,900
Work in process inventory, January 313,500

Determine the cost of goods manufactured.

Suggested answer: *Beginning work in process inventory*
$ 2,900

Direct materials
$20,000

Direct labor15,000

Manufacturingoverhead24,000

Total manufacturing costs incurred59,000

Total manufacturing costs$61,900

Ending work in process inventory(3,500)

Cost of goods manufactured$58,400

Q174. *[Short Response]*
Magnus Industries has the following data:

Beginning raw materials inventory
$75,000

Materials purchased
40,000

Ending raw materials inventory
60,000

Determine the cost of raw materials used.

Suggested answer: *Raw Materials Used = $75,000 + $40,000 – $60,000 = $55,000*

Q175. *[Short Response]*
Watson Company has the following data:

Work in process, beginning$18,000
Work in process, ending25,000
Direct labor costs incurred5,000
Cost of goods manufactured9,000
Manufacturingoverhead7,000

Determine the amount of direct materials used.

Suggested answer: *Direct Materials Used = ($25,000 – $18,000 + $9,000) – ($7,000 + $5,000) = $4,000*

Q176. *[Short Response]*
Laramie Technologies had the following data:

Cost of materials used$50,000
Direct labor costs56,000
Manufacturingoverhead28,000
Work in process, beginning45,000
Work in process, ending32,000

Determine the cost of goods manufactured.

Suggested answer: *Cost of Goods Manufactured = $50,000 + $56,000 + $28,000 + ($45,000 – $32,000) = $147,000*

Q177. *[Short Response]*
Keeton Company had the following data:

Cost of materials used$60,000
Direct labor costs58,000
Manufacturingoverhead33,000
Work in process, beginning29,000
Work in process, ending18,000
Finished goods, beginning32,000
Finished goods, ending18,000

Determine the cost of goods sold.

Suggested answer: *Cost of Goods Sold = $60,000 + $58,000 + $33,000 + ($29,000 – $18,000) + ($32,000 – $18,000) = $176,000*

Q178. *[Short Response]*

Zoe Corporation has the following information for the month of March:

Purchases$ 92,000

Materials inventory, March 16,000

Materials inventory, March 318,000

Direct labor25,000

Manufacturingoverhead37,000

Work in process inventory, March 122,000

Work in process inventory, March 3123,500

Finished goods inventory, March 121,000

Finished goods inventory, March 3130,000

Sales257,000

Selling and administrative expenses79,000

Prepare (a) a statement of cost of goods manufactured, (b) an income statement for the month ended March 31, and (c) the "Inventory" section of the balance sheet.

Suggested answer: *a.*
Zoe Corporation

Statement of Cost of Goods Manufactured

For the Month Ended March 31

Beginning work in process inventory, March 1

$ 22,000

Direct materials:
Beginning materials inventory
$ 6,000

Purchases92,000

Cost of materials available for use$98,000

Ending materials inventory
(8,000)

Cost of direct materials used$90,000

Direct labor25,000

Manufacturingoverhead37,000

Total manufacturing costs incurred152,000

Total manufacturing costs$174,000

Ending work in process inventory
(23,500)

Cost of goods manufactured$150,500

b.
Zoe Corporation

Income Statement

For the Month Ended March 31

Sales$257,000

Cost of goods sold:
Beginning finished goods inventory
$ 21,000

Cost of goods manufactured150,500

Cost of finished goods available for sale$171,500

Ending finished goods inventory
(30,000)

Cost of goods sold(141,500)

Gross profit$115,500

Operating expenses:
Selling and administrative expenses(79,000)

Net income$ 36,500

c.
Inventory:
Finished goods$30,000
Work in process23,500

Materials8,000

Total inventory$61,500

Q179. *[Short Response]*

The following data (in thousands of dollars) have been taken from the accounting records of Rayburn Corporation for the current year.

Sales
$1,980

Selling expenses
280

Manufacturing overhead
460

Direct labor
400

Administrative expenses
300

Purchases of direct materials
240

Finished goods inventory, beginning
240

Finished goods inventory, ending
320

Direct materials inventory, beginning
80

Direct materials inventory, ending
140

Work in process inventory, beginning
140

Work in process inventory, ending
100

a. What was the cost of the direct materials used in production during the year?
b. What was the cost of goods manufactured for the year?
c. What was the cost of goods sold for the year?
d. What was the net income for the year?
Present all calculations in thousands of dollars.

Suggested answer:

a. The cost of the direct materials used in production during the year is determined as follows:

Direct materials inventory, beginning
$ 80

Purchases of direct materials
240

Direct materials inventory, ending
(140)

Direct materials used in production
$180

b. The cost of goods manufactured (finished) during the year is determined as follows:

Raw materials used in production
$ 180

Direct labor
400

Manufacturing overhead
460

Total manufacturing costs incurred
$1,040

Work in process inventory, beginning
140

Total manufacturing costs
$1,180

Work in process inventory, ending(100)
Cost of goods manufactured$1,080

c. The cost of goods sold for the year is determined as follows:

Finished goods inventory, beginning
$ 240

Cost of goods manufactured
1,080

Finished goods inventory, ending
(320)

Cost of goods sold
$1,000

d. Net income for the year is determined as follows:

Sales
$ 1,980

Cost of goods sold
(1,000)

Gross profit
$ 980

Operating expenses:

Administrative expenses
$300

Selling expenses
280
(580)

Net income
$ 400

Q180. *[Short Response]*

Allen Company used $71,000 of direct materials and incurred $37,000 of direct labor costs during the current year. Indirect labor amounted to $2,700, while indirect materials used totaled $1,600. Other operating costs pertaining to the factory included utilities of $3,100, maintenance of $4,500, supplies of $1,800, depreciation of $7,900, and property taxes of $2,600. There was no beginning or ending finished goods inventory, but work in process inventory began the year with a $5,500 balance and ended the year with a $7,500 balance.

Prepare a statement of cost of goods manufactured.

Suggested answer:

Allen Company
Statement of Cost of Goods Manufactured
For the Year Ended December 31
Beginning work in process inventory
$ 5,500
Direct materials
$71,000
Direct labor
37,000
Manufacturingoverhead:
Indirect labor$2,700
Indirect materials1,600
Utilities3,100
Maintenance4,500
Supplies1,800
Depreciation7,900
Property taxes2,60024,200
Total manufacturing costs incurred132,200
Total manufacturing costs$137,700
Ending work in process inventory
(7,500)
Cost of goods manufactured$130,200

Q181. *[Short Response]*

Davis Manufacturing Company had the following data:

January 1December 31
Accounts receivable$27,000$33,000
Materials inventory22,5006,000
Work in process inventory70,20048,000
Finished goods inventory3,00015,000

Collections on account were $625,000.
Cost of goods sold was 68% of sales.
Direct materials purchased amounted to $90,000.
Manufacturingoverhead was 300% of the cost of direct labor.

Compute:
a. Sales revenue (all sales were on account)
b. Cost of goods sold
c. Cost of goods manufactured
d. Direct materials used
e. Direct labor incurred
f.Manufacturingoverhead incurred

Suggested answer: *a. Sales Revenue = $33,000 + $625,000 – $27,000 = $631,000*

b. Cost of Goods Sold = $631,000 × 0.68 = $429,080

c. Cost of Goods Manufactured = $15,000 + $429,080 – $3,000 = $441,080

d.Direct Materials Used = $22,500 + $90,000 – $6,000 = $106,500

e. Direct Labor Incurred = $441,080 + $48,000 – $70,200 = $418,880 Total Manufacturing Costs Added
$418,880 – $106,500 = $312,380
$312,380 =ManufacturingOverhead + Direct Labor
Let X = Direct Labor
3X + X = $312,380
4X = $312,380
Direct Labor = $78,095

f.ManufacturingOverhead Incurred = $78,095 × 3 = $234,285

Q182. *[Short Response]*

Taylor Industries had a fire and some of its accounting records were destroyed. Available information is presented below for the year ended December 31.

Materials inventory, December 31
$ 15,000
Direct materials purchased28,000
Direct materials used22,900
Cost of goods manufactured135,000

Additional information:
Manufacturingoverhead is 150% of direct labor cost.
Finished goods inventory decreased by $18,000 during the year.
Work in process inventory increased by $12,000 during the year.

Determine:
a. Materials inventory, January 1
b. Direct labor cost
c.Manufacturingoverhead incurred
d. Cost of goods sold

Suggested answer: *a. Materials Inventory, January 1 = $15,000 + $22,900 – $28,000 = $9,900*

b. Direct Labor Cost = $135,000 + $12,000 = $147,000 Total Manufacturing Costs
$147,000 – $22,900 = $124,100 Direct Labor andManufacturingOverhead
Let X = Direct Labor Cost
X + 1.5X = $124,100
2.5X = $124,100
Direct Labor = $49,640

c.ManufacturingOverhead Incurred = $49,640 × 1.5 = $74,460

d. Cost of Goods Sold = $135,000 + $18,000 = $153,000

Essay (3)

Q183. *[Essay]*

What is strategic planning? How does it overlap with operational planning?

Suggested answer: *Strategic planning is developing long-term objectives for the company. For example, a company might set an objective of increasing its market share by developing new products or expanding into new markets. Strategic planning normally involves a time horizon of five to ten years. To achieve its long-term, strategic objectives, management sets a variety of short-term objectives and actions. The process of developing these short-term objectives and actions is often referred to as operational planning. For example, to develop new products, a company might increase its annual spending on research and development.*

Q184. *[Essay]*

Differentiate between verticals and horizontals.

> ***Suggested answer:*** *Verticals are sometimes referred to as business units, because they are often structured as separate businesses within the parent company. These verticals normally develop products that are sold directly to customers. Verticals prepare their own income statements, also referred to as profit and loss (P&L) statements, which report their ongoing performance and profitability.*
>
> *Horizontals are departments within a company that are not responsible for developing products. The role of horizontals is to provide services to the various verticals and other horizontals. As such, horizontals do not report profit and loss (P&L) statements. Marketing, Human Resources, Information Technology, Legal, Facilities, Accounting, and Finance are normally horizontal departments within a company.*

Q185. *[Essay]*

Differentiate between period and product costs and include examples of each type of cost.

> ***Suggested answer:*** *Period costs consist of selling and administrative expenses. Selling expenses are incurred in marketing the product and delivering the product to customers. Administrative expenses are incurred in managing the company and are not directly related to the manufacturing or selling functions. Selling expenses include advertising expenses, sales salaries expense, and commissions expense. Administrative expenses include office salaries expense, office supplies expense, and depreciation expense of the office building and equipment.*
>
> *Product costs consist of manufacturing costs: direct materials, direct labor, and manufacturing overhead. Direct materials are the materials that go into the production of the product. The direct materials for a bakery include flour, sugar, eggs, and shortening. Direct labor costs are the wages or salaries of the employees that are actually assembling the product. Manufacturing overhead would include the salaries of production supervisors, depreciation, insurance, and taxes on the manufacturing building and equipment.*