

Managerial Accounting, 4e (Whitecotton)

Chapter 1 Introduction to Managerial Accounting

1) Financial accounting information is generally used exclusively by internal parties such as managers.

Answer: FALSE

Explanation: Financial accounting information is used by external parties; managerial accounting information is used by internal business owners and managers.

Difficulty: 1 Easy

Topic: Comparison of financial and managerial accounting

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

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2) Financial accounting information is reported for the company as a whole.

Answer: TRUE

Explanation: Financial accounting information is provided at the company-wide level.

Difficulty: 1 Easy

Topic: Comparison of financial and managerial accounting

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

3) Managers must direct, lead and motivate during the implementation function.

Answer: TRUE

Explanation: Directing/leading involves putting the plan into action, and motivating others to work toward the plan's success, and it is a key part of putting a plan into action (implementation).

Difficulty: 1 Easy

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Remember

AACSB: Analytical Thinking

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4) Managers of small, private corporations use managerial accounting information whereas managers of large, public corporations use financial accounting information.

Answer: FALSE

Explanation: Managerial accounting information is used by managers in all types of organizations: large and small, public and private, profit and nonprofit.

Difficulty: 1 Easy

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Remember

AACSB: Analytical Thinking

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5) The Sarbanes-Oxley Act of 2002 places full responsibility on the board of directors for the accuracy of the reporting system.

Answer: FALSE

Explanation: SOX places more responsibility on all managers (not just accountants) for the accuracy of the reporting system. SOX also places additional responsibilities on the boards of directors and external auditors to reduce the opportunity for errors and fraud.

Difficulty: 2 Medium

Topic: Ethics and the Sarbanes-Oxley Act

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

6) The Sarbanes-Oxley Act of 2002 focuses on three factors that affect the accounting reporting environment: ethics, fraud, and managers.

Answer: FALSE

Explanation: The Sarbanes-Oxley Act of 2002 focuses on three factors that affect the accounting reporting environment: opportunity, incentives, and character.

Difficulty: 2 Medium

Topic: Ethics and the Sarbanes-Oxley Act

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

7) A sustainable business is one with the ability to meet the needs of today without sacrificing the ability of future generations to meet their own needs.

Answer: TRUE

Explanation: In the context of business "sustainability" means the ability to meet the needs of today without sacrificing the ability of future generations to meet their own needs.

Difficulty: 1 Easy

Topic: Sustainability Accounting

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Ethics

Accessibility: Keyboard Navigation

8) The term "Big data" refers to the volume, velocity and veracity of data.

Answer: FALSE

Explanation: Veracity is a synonym for accuracy, which is **not** one of the characteristics of big data. The 3 characteristics of "Big data" are volume, velocity, and variety

Difficulty: 1 Easy

Topic: Decision Analytics

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

9) Predictive analytics is the process of recommending a course of action based upon meaningful patterns and insights from collected data.

Answer: FALSE

Explanation: Prescriptive analytics, not predictive analytics, recommends courses of action

Difficulty: 1 Easy

Topic: Decision Analytics

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

10) Descriptive analytics uses patterns and insights from collected data to show what has happened.

Answer: TRUE

Explanation: Descriptive analytics describes what has happened.

Difficulty: 1 Easy

Topic: Decision Analytics

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

11) An opportunity cost is the cost of not doing something.

Answer: TRUE

Explanation: An opportunity cost is the foregone benefit of the path not taken, that is, the cost of not doing something.

Difficulty: 1 Easy

Topic: Cost Terminology

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

12) Whether a cost is treated as direct or indirect depends on whether tracing the cost is both possible and feasible.

Answer: TRUE

Explanation: Direct costs can be traced directly to a specific cost object, while indirect costs cannot be traced to a specific cost object or are not worth the effort of tracing.

Difficulty: 2 Medium

Topic: Direct Versus Indirect Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

13) Variable costs are always direct costs.

Answer: FALSE

Explanation: Variable costs change, in total, in direct proportion to changes in activity levels. They are not always direct costs, which can be traced to a specific cost object.

Difficulty: 2 Medium

Topic: Direct Versus Indirect Costs; Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

14) Fixed costs stay the same, on a per-unit basis, as activity level changes.

Answer: FALSE

Explanation: Fixed costs stay the same, in total, as activity level changes.

Difficulty: 1 Easy

Topic: Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

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15) Prime costs include direct materials, direct labor, and manufacturing overhead.

Answer: FALSE

Explanation: Taken together, direct materials and direct labor are referred to as prime cost.

Difficulty: 1 Easy

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

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16) All manufacturing costs are treated as product costs.

Answer: TRUE

Explanation: GAAP requires that all manufacturing costs be treated as product costs, or costs that are assigned to the product as it is being manufactured.

Difficulty: 1 Easy

Topic: Product Versus Period Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

17) All manufacturing costs are inventoriable costs.

Answer: TRUE

Explanation: Manufacturing costs are product costs that are assigned to the product as it is being manufactured. Product costs are also called inventoriable costs because they are counted as inventory until the product is finally sold.

Difficulty: 2 Medium

Topic: Product Versus Period Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

18) A cost that will occur in the future and differs between various alternatives under consideration is a relevant cost.

Answer: TRUE

Explanation: For a cost to be relevant, it must occur in the future and differ between the various alternatives the manager is considering.

Difficulty: 1 Easy

Topic: Relevant Versus Irrelevant Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

19) What is the primary goal of accounting?

- A) To set long-term goals and objectives.
- B) To arrange for the necessary resources to achieve a plan.
- C) To provide information for decision making.
- D) To motivate others to work towards a plan's success.

Answer: C

Explanation: The primary goal of accounting is to capture, summarize, and report useful information for decision making.

Difficulty: 1 Easy

Topic: Comparison of financial and managerial accounting

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

20) Of the following groups, which is the primary user of managerial accounting information?

- A) Investors
- B) Creditors
- C) Regulators
- D) Managers

Answer: D

Explanation: Managerial accounting information is used by internal business owners and managers.

Difficulty: 1 Easy

Topic: Comparison of financial and managerial accounting

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

21) Managerial accounting, as compared to financial accounting, is primarily intended to facilitate:

- A) an understanding of GAAP.
- B) making decisions with timely, relevant information.
- C) conducting ethics investigations under SOX.
- D) reporting results to shareholders.

Answer: B

Explanation: Managers need information that is timely and relevant to the specific decisions at hand, and they use managerial accounting to facilitate that.

Difficulty: 1 Easy

Topic: Comparison of financial and managerial accounting

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

22) Managerial accounting information includes all of the following except:

- A) budgets.
- B) performance evaluations, for example budget-to-actual reports.
- C) cost reports.
- D) financial statements prepared in accordance with generally accepted accounting principles.

Answer: D

Explanation: Managerial accounting is used by internal business owners and managers, who need internal information such as budgets, performance evaluations, and cost reports.

Difficulty: 1 Easy

Topic: Comparison of financial and managerial accounting

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

23) Which of the following is **not** a characteristic of financial accounting?

- A) Financial reports are prepared according to GAAP.
- B) Information is used by external parties.
- C) Information is subjective, relevant, and future-oriented.
- D) Reports are prepared periodically.

Answer: C

Explanation: Managerial, not financial, accounting information is subjective, relevant, and future-oriented.

Difficulty: 1 Easy

Topic: Comparison of financial and managerial accounting

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

24) Which of the following is **not** a characteristic of financial accounting?

- A) Information is reported at the decision making level.
- B) Information is used by external parties.
- C) Information is objective, reliable and historical.
- D) Reports are prepared periodically.

Answer: A

Explanation: Managerial, not financial, accounting information is reported at the decision making level. Financial accounting information is reported at the company level.

Difficulty: 1 Easy

Topic: Comparison of financial and managerial accounting

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

25) Which of the following is **not** a characteristic of financial accounting?

- A) Financial reports are prepared according to GAAP.
- B) Information is used primarily by internal parties.
- C) Information is objective, reliable, and historical.
- D) Reports are prepared periodically.

Answer: B

Explanation: The primary users of managerial, not financial, accounting information are internal parties.

Difficulty: 1 Easy

Topic: Comparison of financial and managerial accounting

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

26) Which of the following is **not** a characteristic of managerial accounting?

- A) Information is used by internal parties.
- B) Information is subjective, relevant, and future-oriented.
- C) Reports are prepared as needed.
- D) Reports are prepared according to GAAP.

Answer: D

Explanation: Financial, not managerial, accounting information is prepared according to GAAP.

Difficulty: 1 Easy

Topic: Comparison of financial and managerial accounting

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

27) Which of the following is **not** a characteristic of managerial accounting?

- A) Information is used by external parties.
- B) Information is subjective, relevant, and future-oriented.
- C) Reports are prepared as needed.
- D) Information is reported at the decision making level.

Answer: A

Explanation: Financial, not managerial, accounting information is used by external parties such as investors, creditors, and regulators.

Difficulty: 1 Easy

Topic: Comparison of financial and managerial accounting

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

28) Which of the following is **not** a characteristic of managerial accounting?

- A) Information is used by internal parties.
- B) Information is subjective, relevant, and future-oriented.
- C) Reports are prepared as needed.
- D) Information is reported for the company as a whole.

Answer: D

Explanation: Financial, not managerial, accounting information is reported for the company as a whole.

Difficulty: 1 Easy

Topic: Comparison of financial and managerial accounting

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

29) Which of the following types of reports is more characteristic of managerial accounting than financial accounting?

- A) An internal report used by management
- B) An external report used by investors
- C) A report prepared according to GAAP
- D) A report prepared periodically (monthly, quarterly, annually)

Answer: A

Explanation: Managerial accounting information is used by internal business owners and managers, so an internal report used by management is more characteristic of managerial accounting than financial accounting.

Difficulty: 1 Easy

Topic: Comparison of financial and managerial accounting

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

30) The control function is:

- A) comparing actual with budgeted results and taking corrective action when needed.
- B) arranging of the necessary resources to carry out the plan.
- C) the directing, leading, and motivating of those necessary to carry out the plan.
- D) drafting the goals and strategies to achieve long-term results.

Answer: A

Explanation: During the control function, managers keep track of how they are doing, including comparing actual results with the budget, and they determine what corrective actions must be taken.

Difficulty: 1 Easy

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

31) During the last fiscal year, XYZ organization implemented managerial accounting to allocate program costs to its soup kitchen. The kitchen's manager is reviewing actual results from the prior month to compare the outcomes with the organization's objectives. Which function of the Plan-Implement-Control cycle is she conducting?

- A) Plan
- B) Implement
- C) Control
- D) Strategize

Answer: C

Explanation: This manager is keeping track of how she and her department are doing and whether actions must be taken to adjust the plan as part of the control function.

Difficulty: 3 Hard

Topic: Functions of Management

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

32) Which of the following types of organizations purchases raw materials from suppliers and uses them to create a finished product?

- A) Manufacturing firms
- B) Merchandising companies
- C) Service companies
- D) Retailers

Answer: A

Explanation: Manufacturing firms purchase raw materials from suppliers and use them to create a finished product.

Difficulty: 1 Easy

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

33) Hair salons and law firms are examples of which of the following type of organization?

- A) Retailers
- B) Service companies
- C) Manufacturing firms
- D) Merchandising companies

Answer: B

Explanation: Service companies provide a service to customers or clients and include hair salons and law firms.

Difficulty: 2 Medium

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

34) Which of the following types of organizations sells goods to the general public?

- A) Service companies
- B) Manufacturing firms
- C) Merchandising companies
- D) Retailers

Answer: D

Explanation: Merchandising companies sell the goods that manufacturing firms produce and include wholesalers and retailers. Wholesalers are merchandisers that sell exclusively to other businesses; retailers are merchandisers who sell to the general public.

Difficulty: 1 Easy

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

35) Which of the following statements is true about the use of managerial accounting information in nonprofit organizations?

- A) Universities do not exist strictly to earn profit for shareholders, so managerial accounting information is not vital to their operations.
- B) Unlike other nonprofits, hospitals (which exist with a focus on financial results in addition to health metrics) make use of managerial accounting.
- C) Because managers of nonprofit organizations need timely and relevant information to make decisions, managerial accounting is vital to these organizations.
- D) Because nonprofit organizations—hospitals, educational institutions, charities—do not exist with a profit motive, they do not use managerial accounting principles.

Answer: C

Explanation: Managerial accounting information is vital to nonprofit organizations, including hospitals, universities, and charitable organizations. Although these organizations do not exist strictly to earn profit for shareholders, their managers still need timely and relevant information to prepare budgets, manage resources, and make strategic and operational decisions.

Difficulty: 1 Easy

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

36) Which of the following functions of management involves comparing actual results with budgeted results?

- A) Planning
- B) Implementing
- C) Reviewing
- D) Control

Answer: D

Explanation: Control involves comparing actual results to planned results, to see whether the objectives set in the planning stage are being met.

Difficulty: 1 Easy

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

37) Which of the following functions of management involves setting short and long-term objectives and the tactics to achieve them?

- A) Planning
- B) Implementing
- C) Reviewing
- D) Control

Answer: A

Explanation: Planning involves setting long-term goals and objectives, along with the short-term tactics necessary to achieve them.

Difficulty: 1 Easy

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

38) Which of the following functions of management involves arranging for the necessary resources to carry out the plan?

- A) Planning
- B) Implementing
- C) Reviewing
- D) Control

Answer: B

Explanation: Implementing involves arranging for the necessary resources needed to achieve the plan within the Plan-Implement-Control cycle.

Difficulty: 1 Easy

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

39) Which of the following functions of management involves providing motivation to achieve results?

- A) Planning
- B) Implementing
- C) Reviewing
- D) Control

Answer: B

Explanation: The implementation function within the Plan-Implement-Control cycle involves putting the plan into action and motivating others to work toward the plan's success.

Difficulty: 1 Easy

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

40) Which of the following functions of management involves taking corrective action if needed?

- A) Planning
- B) Implementing
- C) Reviewing
- D) Control

Answer: D

Explanation: Control involves comparing actual results to planned results, and taking corrective action if needed.

Difficulty: 1 Easy

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

41) Which of the following functions of management involves providing feedback for future plans?

- A) Planning
- B) Implementing
- C) Reviewing
- D) Control

Answer: D

Explanation: Control involves comparing actual results to planned results, to see whether the objectives set in the planning stage are being met, and providing feedback for future plans.

Difficulty: 1 Easy

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

42) Which of the following is the correct sequencing of the functions within the managerial cycle?

- A) Plan - Control - Implement
- B) Review - Plan - Implement
- C) Plan - Implement - Control
- D) Review - Control - Plan

Answer: C

Explanation: Planning leads to implementing and then control. Then, the loop begins again.

Difficulty: 2 Medium

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

43) Which of the following describes the Planning function within the management cycle?

- A) Setting short and long-term objectives
- B) Comparing actual to budgeted results and taking corrective action
- C) Taking actions to implement the plan
- D) Arranging the necessary resources to carry out the plan

Answer: A

Explanation: Planning involves setting long-term goals and objectives, along with the short-term tactics necessary to achieve them.

Difficulty: 1 Easy

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

44) Which of the following describes the Control function within the management cycle?

- A) Setting short and long-term objectives
- B) Comparing actual to budgeted results and taking corrective action
- C) Taking actions to implement the plan
- D) Arranging the necessary resources to carry out the plan

Answer: B

Explanation: Control involves comparing actual results to planned results, to see whether the objectives set in the planning stage are being met, and taking corrective action if needed.

Difficulty: 1 Easy

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

45) Which of the following does **not** describe the Implementing function within the management cycle?

- A) Leading, directing, and motivating others to achieve the plan's goals
- B) Arranging the necessary resources to carry out the plan
- C) Taking actions to implement the plan
- D) Setting short- and long-term objectives

Answer: D

Explanation: Implementing means putting the plan into action, including leading, directing, and motivating others and arranging necessary resources.

Difficulty: 2 Medium

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

46) "Ethics" refers to all of the following **except**:

- A) the standards of conduct for judging fair from unfair.
- B) the standards of conduct for judging right from wrong.
- C) the standards of conduct for judging opportunity from incentives.
- D) the standards of conduct for judging honest from dishonest.

Answer: C

Explanation: Ethics refers to the standards of conduct for judging right from wrong, honest from dishonest, and fair from unfair.

Difficulty: 1 Easy

Topic: Ethics and the Sarbanes-Oxley Act

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Ethics

Accessibility: Keyboard Navigation

47) Which of the following is **not** one of the factors affecting the accounting reporting environment focused on by the Sarbanes-Oxley Act?

- A) Industry
- B) Opportunity
- C) Character
- D) Incentives

Answer: A

Explanation: The Sarbanes-Oxley Act focuses on reducing the opportunity for error and fraud, counteracting the incentive to commit fraud, and emphasizing the importance of the character of managers and employees.

Difficulty: 1 Easy

Topic: Ethics and the Sarbanes-Oxley Act

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Ethics

Accessibility: Keyboard Navigation

48) Which of the following is a requirement under the Sarbanes-Oxley Act?

- A) Financial statements must be audited by a Big Four accounting firm.
- B) Management must issue a report that indicates whether the financial statements are free of error.
- C) Management must conduct a review of the company's internal control system.
- D) Background checks must be performed on all employees.

Answer: C

Explanation: The Sarbanes-Oxley Act requires that management conduct a review of the company's internal control system.

Difficulty: 1 Easy

Topic: Ethics and the Sarbanes-Oxley Act

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Ethics

Accessibility: Keyboard Navigation

- 49) Which of the following is **not** a provision of the Sarbanes-Oxley Act?
- A) Executives can avoid penalties for fraud by declaring personal bankruptcy.
 - B) Stiffer penalties for fraud in terms of monetary fines and jail time decrease the incentive to commit fraud.
 - C) Public companies must adopt a code of ethics for senior financial officers.
 - D) Management must issue a report that indicates whether internal controls are effective at preventing errors and fraud.

Answer: A

Explanation: Executives cannot avoid monetary penalties by declaring personal bankruptcy.

Difficulty: 1 Easy

Topic: Ethics and the Sarbanes-Oxley Act

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Ethics

Accessibility: Keyboard Navigation

- 50) Which of the following is **not** true about how the Sarbanes-Oxley Act counteracts incentives for committing fraud?

- A) It provides for stiffer monetary penalties.
- B) It increases the maximum jail sentence for fraudulent reporting.
- C) It removes legal protection from whistleblowers.
- D) It provides that violators must repay any money obtained via fraud and pay fines.

Answer: C

Explanation: The Sarbanes-Oxley Act gives whistleblowers legal protection from retaliation by those charged with fraud; it does not remove such protection from them.

Difficulty: 1 Easy

Topic: Ethics and the Sarbanes-Oxley Act

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Ethics

Accessibility: Keyboard Navigation

51) The requirement of the Sarbanes-Oxley Act that requires management to issue a report on internal controls places responsibility for the accuracy of the reporting system on:

- A) accounting managers.
- B) marketing managers.
- C) production managers.
- D) all managers.

Answer: D

Explanation: The requirement that management must conduct a review of the company's internal control system and issue a report on its effectiveness places more responsibility on all managers (not just accountants) for the accuracy of the reporting system.

Difficulty: 1 Easy

Topic: Ethics and the Sarbanes-Oxley Act

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Ethics

Accessibility: Keyboard Navigation

52) Which of the following changes introduced by the Sarbanes-Oxley Act is **not** one intended to reduce opportunities for error and fraud?

- A) Internal control report from management
- B) Code of ethics
- C) Stronger oversight by directors
- D) Internal control audit by external auditors

Answer: B

Explanation: The Sarbanes-Oxley Act requires adoption of a code of ethics as part of its attempt to encourage good character, not to reduce opportunities for error and fraud.

Difficulty: 2 Medium

Topic: Ethics and the Sarbanes-Oxley Act

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

53) Which of the following changes introduced by the Sarbanes-Oxley Act is **not** one intended to encourage good character?

- A) Anonymous tip lines
- B) Whistle-blower protection
- C) Code of ethics
- D) Stiffer fines and prison terms

Answer: D

Explanation: As part of the act's attempt to reduce opportunities for error and fraud (not to encourage good character), it provides stiffer penalties in terms of monetary fines and jail time.

Difficulty: 1 Easy

Topic: Ethics and the Sarbanes-Oxley Act

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Ethics

Accessibility: Keyboard Navigation

54) Which of the following changes introduced by the Sarbanes-Oxley Act is intended to counteract incentives for fraud?

- A) Stronger oversight by directors
- B) Code of ethics
- C) Stiffer fines and prison terms
- D) Anonymous tip lines

Answer: C

Explanation: The Sarbanes-Oxley Act attempts to counteract the incentive to commit fraud by providing much stiffer penalties in terms of monetary fines and jail time.

Difficulty: 1 Easy

Topic: Ethics and the Sarbanes-Oxley Act

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Ethics

Accessibility: Keyboard Navigation

55) Which of the following is **not** true about how the Sarbanes-Oxley Act emphasizes the importance of the character of managers and employees?

- A) It requires that ethics be embedded in the organizational culture.
- B) It requires that audit committees establish anonymous tip lines.
- C) It provides protection for whistle-blowers.
- D) It requires that public companies adopt a code of ethics for senior financial officers.

Answer: A

Explanation: The Sarbanes-Oxley Act does not require that ethics be embedded in the organizational culture.

Difficulty: 2 Medium

Topic: Ethics and the Sarbanes-Oxley Act

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

56) Which of the following statements is correct about sustainability accounting?

- A) Sustainability accounting has been in existence since 1592.
- B) Sustainability accounting tracks a company's "green" score.
- C) Sustainability accounting aims to provide managers a broad set of information to meet the needs of multiple stakeholders.
- D) Sustainability accounting is a subset of GAAP applied only to socially responsible companies.

Answer: C

Explanation: Sustainability accounting is an emerging area of accounting that is aimed at providing managers with a broader set of information to meet the needs of multiple stakeholders, with a goal of ensuring a company's long-term survival in an uncertain and resource-constrained world.

Difficulty: 2 Medium

Topic: Sustainability Accounting

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

- 57) Which of the following statements is correct about the triple bottom line?
- A) The triple bottom line measures a company's social impact, without regard for profit.
 - B) The triple bottom line captures three factors: People, Profit, and Planet.
 - C) The triple bottom line has replaced net income as the most crucial measure of a company's success.
 - D) The triple bottom line reports profit at the expense of social factors.

Answer: B

Explanation: The triple bottom line is often represented by the three P's: People, Profit, and Planet.

Difficulty: 2 Medium

Topic: Sustainability Accounting

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

- 58) Many organizations are building sustainable business practices into their strategies by issuing:

- A) corporate social responsibility reports.
- B) reports on internal controls.
- C) profit and loss statements that reflect people and planet costs.
- D) reports from the board of directors on sustainability.

Answer: A

Explanation: Most public companies now issue corporate social responsibility reports that provide sustainability-related information, including measures of social and environmental impact.

Difficulty: 1 Easy

Topic: Sustainability Accounting

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Ethics

Accessibility: Keyboard Navigation

59) All of the following terms are often used interchangeably to refer to the extraction of insights from large amounts of data **except**:

- A) big data.
- B) business intelligence.
- C) business analytics.
- D) business acumen.

Answer: D

Explanation: Although differences exist at a technical level, the terms big data, business analytics, and business intelligence are often used interchangeably to refer to the extraction of meaningful and actionable insights from big data so that managers can make more intelligent business decisions.

Difficulty: 1 Easy

Topic: Decision Analytics

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

60) The term "Big data" refers to the:

- A) accuracy, completeness, and source of the data.
- B) accuracy, volume, and source of the data.
- C) variety, volume, and velocity of the data.
- D) velocity, veracity, and volume of the data.

Answer: C

Explanation: "BIG data" relates to the volume, velocity, and variety of data.

Difficulty: 1 Easy

Topic: Decision Analytics

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

61) Recommending a course of action based upon patterns and insights from data is referred to as:

- A) predictive analytics.
- B) prescriptive analytics.
- C) descriptive analytics.
- D) diagnostic analytics.

Answer: B

Explanation: Prescriptive analytics is the recommending of a course of action.

Difficulty: 1 Easy

Topic: Decision Analytics

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

62) Using data to estimate what is likely to occur in the future is an example of:

- A) predictive analytics.
- B) prescriptive analytics.
- C) descriptive analytics.
- D) diagnostic analytics.

Answer: A

Explanation: Predictive analytics is the forecasting of what is likely to happen.

Difficulty: 2 Medium

Topic: Decision Analytics

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

63) Data that is received as events are occurring is an example of:

- A) volume
- B) velocity
- C) variety
- D) veracity

Answer: B

Explanation: The data arrives with great velocity or speed, including not just data on past events but also that which is created in real time, as events are occurring.

Difficulty: 2 Medium

Topic: Decision Analytics

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

64) Data received from social media is an example of:

- A) volume.
- B) velocity.
- C) variety.
- D) veracity.

Answer: C

Explanation: Data comes in a variety of formats (e.g. text, numerics, images, audio, and video), and is generated from a variety of sources, devices, and sensors, including geographic, financial, and social media data.

Difficulty: 2 Medium

Topic: Decision Analytics

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

65) Analytics provides meaningful patterns and insights from data useful for all of the following **except**:

- A) managing resources.
- B) enhancing customer service.
- C) pursuing other business opportunities.
- D) preparing financial statements in accordance with GAAP.

Answer: D

Explanation: Analytics is the process of discovering and communicating meaningful patterns and insights from the data to find more intelligent ways of operating a business, managing resources, enhancing customer service, reducing operating costs, or pursuing other business opportunities.

Difficulty: 1 Easy

Topic: Decision Analytics

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

66) Which of the following is an example of the variety of big data?

- A) Data collected from YouTube videos
- B) The collection of petabytes of data per hour
- C) Data that is created in real time
- D) Delivering data as quickly as possible

Answer: A

Explanation: Data comes in a variety of formats (e.g. text, numerics, images, audio, and video), and is generated from a variety of sources, devices, and sensors, including geographic, financial, and social media data.

Difficulty: 2 Medium

Topic: Decision Analytics

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 67) An out-of-pocket costs is:
- A) an actual outlay of cash.
 - B) the cost of not doing something.
 - C) a deferred cost.
 - D) a budgeted estimate.

Answer: A

Explanation: Out-of-pocket costs are amounts paid for items purchased, and they involve an actual outlay of cash, unlike opportunity costs.

Difficulty: 1 Easy

Topic: Cost Terminology

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 68) Which of the following is **not** one of the categories used to sort costs in managerial accounting?
- A) Relevant or irrelevant
 - B) Variable or fixed
 - C) Out-of-pocket or opportunity
 - D) Direct or indirect

Answer: C

Explanation: In managerial accounting costs are sorted into different categories including direct or indirect, variable or fixed, and relevant or irrelevant. An out-of-pocket cost involves an actual cash outlay, whereas an opportunity cost is the cost of not doing something—a foregone benefit.

Difficulty: 2 Medium

Topic: Cost Terminology

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 69) Which of the following statements concerning costs is **incorrect**?
- A) Costs are treated differently depending on how the information will be used.
 - B) Out-of-pocket costs include the costs associated with not taking a particular course of action.
 - C) Any single cost can be classified in more than one way.
 - D) Costs can be categorized on the basis of relevant or irrelevant costs.

Answer: B

Explanation: An opportunity cost, not an out-of-pocket cost, is the cost associated with not taking a particular course of action; it's the forgone benefit of a particular course of action.

Difficulty: 2 Medium

Topic: Cost Terminology

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 70) The cost of **not** doing something is a(n):

- A) out-of-pocket cost.
- B) opportunity cost.
- C) direct cost.
- D) cost object.

Answer: B

Explanation: The cost of not doing something is its opportunity cost.

Difficulty: 1 Easy

Topic: Cost Terminology

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

71) An actual outlay of cash is a(n):

- A) out-of-pocket cost.
- B) opportunity cost.
- C) direct cost.
- D) cost object.

Answer: A

Explanation: An out-of-pocket cost is an actual outlay of cash.

Difficulty: 1 Easy

Topic: Cost Terminology

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

72) An opportunity cost is:

- A) the foregone benefit of the path not taken.
- B) an actual outlay of cash.
- C) the initial investment required to pursue an opportunity.
- D) a cost that cannot be traced to a specific cost object.

Answer: A

Explanation: An opportunity cost is the foregone benefit (or lost opportunity) of the path not taken.

Difficulty: 1 Easy

Topic: Cost Terminology

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 73) An out-of-pocket cost involves which of the following?
- A) Choosing to do one thing instead of another.
 - B) Tracing the cost directly to a cost object.
 - C) An actual outlay of cash.
 - D) Determining how the cost changes with a change in activity level.

Answer: C

Explanation: An out-of-pocket cost is an actual outlay of cash.

Difficulty: 1 Easy

Topic: Cost Terminology

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 74) To earn summer money, Joe could mow lawns in his neighborhood, or he could work at a local grocery store. Which of the following is an opportunity cost of mowing lawns?
- A) Cash paid for gas to run the lawnmower.
 - B) The time spent mowing the lawns.
 - C) The wages he could have earned working at the grocery store.
 - D) Depreciation on the lawnmower.

Answer: C

Explanation: An opportunity cost is the foregone benefit of the path not taken; in this case, the wages Joe could have earned working at the grocery store.

Difficulty: 3 Hard

Topic: Cost Terminology

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

75) To earn summer money, Joe could mow lawns in his neighborhood, or he could work at a local grocery store. Which of the following is an out-of-pocket cost of mowing lawns?

- A) The use of his father's truck to get to job sites.
- B) The wages he could have earned working at the grocery store.
- C) The time spent mowing the lawns.
- D) Cash paid for gas to run the lawnmower.

Answer: D

Explanation: An out-of-pocket cost involves an actual outlay of cash. Thus, the cash Joe pays for gas to run the lawnmower is an out-of-pocket cost.

Difficulty: 3 Hard

Topic: Cost Terminology

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

76) Which of the following cannot be an out-of-pocket cost?

- A) A direct cost
- B) An opportunity cost
- C) A variable cost
- D) A period cost

Answer: B

Explanation: Unlike an out-of-pocket cost, which involves an outlay of cash, an opportunity cost is the cost of not doing something.

Difficulty: 2 Medium

Topic: Cost Terminology

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

77) Costs that can be traced to a specific cost object are:

- A) opportunity costs.
- B) direct costs.
- C) indirect costs.
- D) irrelevant costs.

Answer: B

Explanation: Costs that can be traced directly to a specific cost object, and are worth the effort of tracing, are called direct costs.

Difficulty: 1 Easy

Topic: Direct Versus Indirect Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

78) Costs that are **not** worth the effort to trace to a specific cost object are:

- A) opportunity costs.
- B) direct costs.
- C) indirect costs.
- D) irrelevant costs.

Answer: C

Explanation: Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs.

Difficulty: 1 Easy

Topic: Direct Versus Indirect Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

79) Which of the following statements is correct?

- A) A direct cost can be readily traced to a cost object while an indirect cost is traced only to manufacturing costs.
- B) An indirect cost can be readily traced to a cost object while a direct cost is traced only to manufacturing costs.
- C) A direct cost can be traced to a specific cost object, while an indirect cost cannot.
- D) An indirect cost can be traced to a specific cost object, while a direct cost cannot.

Answer: C

Explanation: An indirect cost cannot be readily traced to a cost object. A direct cost can be traced to a specific cost object. It does not necessarily involve manufacturing costs.

Difficulty: 2 Medium

Topic: Direct Versus Indirect Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

80) A direct cost is one that:

- A) involves an actual outlay of cash for a specific cost object.
- B) can be traced to a specific cost object.
- C) cannot be traced to a specific cost object.
- D) is not worth the effort of tracing to a specific cost object.

Answer: B

Explanation: Costs that can be traced directly to a specific cost object are direct costs.

Difficulty: 1 Easy

Topic: Direct Versus Indirect Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

81) What determines the difference between a direct and an indirect cost?

- A) Whether it changes when activity levels change.
- B) Whether it is relevant to a particular decision.
- C) Whether it can be traced to a specific cost object.
- D) Whether it is related to manufacturing or nonmanufacturing activities.

Answer: C

Explanation: Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs.

Difficulty: 2 Medium

Topic: Direct Versus Indirect Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

82) Which of the following is an indirect cost of manufacturing a table made of wood and glass for a firm that manufactures furniture?

- A) The cost of the wood in the table.
- B) The cost of the labor used to assemble the table.
- C) The cost of the glass in the table.
- D) The cost of rent on the factory where the table is manufactured.

Answer: D

Explanation: Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs, such as the cost of rent on the factory.

Difficulty: 3 Hard

Topic: Direct Versus Indirect Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

83) Which of the following is a direct cost of manufacturing a table made of wood and glass, for a firm that manufactures furniture?

- A) The cost of the wood in the table.
- B) The cost of rent on the factory where the table is manufactured.
- C) The salary of the supervisor who oversees all production for the firm.
- D) Depreciation on the tools used to manufacture the table.

Answer: A

Explanation: Costs that can be traced directly to a specific cost object are direct costs, such as the cost of the wood in the table.

Difficulty: 3 Hard

Topic: Direct Versus Indirect Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

84) A cost object is:

- A) an item for which managers are trying to determine the cost.
- B) an item to which managers must directly trace costs.
- C) an item to which it is not worth the effort of tracing costs.
- D) an item for sale by a business.

Answer: A

Explanation: The item for which managers are trying to determine cost is the cost object.

Difficulty: 2 Medium

Topic: Direct Versus Indirect Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

85) Indirect costs are:

- A) costs that are not worth the effort to trace to a specific cost object.
- B) costs that change, in total, in direct proportion to changes in activity levels.
- C) always irrelevant.
- D) costs that remain constant no matter the activity level.

Answer: A

Explanation: Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs.

Difficulty: 2 Medium

Topic: Direct Versus Indirect Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

86) Variable costs are:

- A) costs that are not worth the effort to trace to a specific cost object.
- B) costs that change, in total, in direct proportion to changes in activity levels.
- C) always irrelevant.
- D) costs that remain constant no matter the activity level.

Answer: B

Explanation: Variable costs are those that change, in total, in direct proportion to changes in activity levels. Examples include the cost of direct materials and direct labor.

Difficulty: 1 Easy

Topic: Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

87) A cost is \$50,000 when 25,000 units are produced, and \$100,000 when 50,000 units are produced. This is an example of a(n):

- A) fixed cost.
- B) direct cost.
- C) variable cost.
- D) indirect cost.

Answer: C

Explanation: Variable costs are those that change, in total, in direct proportion to changes in activity levels. This cost increases in total as production increases, at a rate of \$2 for every unit produced.

Difficulty: 2 Medium

Topic: Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

88) A cost is \$50,000 when 25,000 units are produced, and \$50,000 when 50,000 units are produced. This is an example of a(n):

- A) fixed cost.
- B) direct cost.
- C) variable cost.
- D) indirect cost.

Answer: A

Explanation: Fixed costs are those that stay the same, in total, regardless of activity level. This cost remains at \$50,000 even when production increases.

Difficulty: 2 Medium

Topic: Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

- 89) What determines the difference between a variable and a fixed cost?
- A) Whether the total cost changes when activity levels change.
 - B) Whether the total cost is relevant to a particular decision.
 - C) Whether the total cost can be traced to a specific cost object.
 - D) Whether the total cost is related to manufacturing or nonmanufacturing activities.

Answer: A

Explanation: Variable costs are those that change, in total, in direct proportion to changes in activity level. Fixed costs are those that stay the same, in total, regardless of activity level.

Difficulty: 2 Medium

Topic: Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 90) Which of the following is an example of a variable cost for a manufacturing firm?
- A) The cost of rent on the factory.
 - B) The cost of factory supervision.
 - C) The cost of raw materials.
 - D) The cost of depreciation on equipment.

Answer: C

Explanation: Variable costs are those that change, in total, in direct proportion to changes in activity levels, such as raw materials.

Difficulty: 2 Medium

Topic: Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

91) Fixed costs are:

- A) costs that are not worth the effort to trace to a specific cost object.
- B) costs that change, in total, in direct proportion to changes in activity levels.
- C) always irrelevant.
- D) costs that remain constant, in total, no matter the activity level.

Answer: D

Explanation: Fixed costs are those that stay the same, in total, regardless of activity level, at least within some range of activity.

Difficulty: 1 Easy

Topic: Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

92) A fixed cost:

- A) goes up in total when activity increases.
- B) goes up per unit when activity increases.
- C) goes down in total when activity increases.
- D) goes down per unit when activity increases.

Answer: D

Explanation: Unit fixed costs will vary inversely with the number of units produced.

Difficulty: 3 Hard

Topic: Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Analyze

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

93) A relevant cost is a cost that:

- A) has the potential to influence a decision.
- B) changes in direct proportion to changes in activity level.
- C) can be traced to a specific cost object.
- D) is used for control purposes.

Answer: A

Explanation: A relevant cost is one that has the potential to influence a decision.

Difficulty: 1 Easy

Topic: Relevant Versus Irrelevant Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

94) An irrelevant cost:

- A) is also called a differential cost.
- B) must differ between decision alternatives.
- C) must be incurred in the future rather than in the past.
- D) will not influence a decision.

Answer: D

Explanation: A relevant cost is one that has the potential to influence a decision; an irrelevant cost is one that will not influence a decision.

Difficulty: 1 Easy

Topic: Relevant Versus Irrelevant Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 95) For a cost to be relevant, it must:
- A) differ between decision alternatives.
 - B) have already been incurred.
 - C) not influence a decision.
 - D) not be a differential cost.

Answer: A

Explanation: A relevant cost must differ between the decision alternatives, and it must be incurred in the future.

Difficulty: 1 Easy

Topic: Relevant Versus Irrelevant Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 96) A cost that has already been incurred is called a(n) _____ cost.
- A) indirect
 - B) sunk
 - C) relevant
 - D) opportunity

Answer: B

Explanation: A sunk cost is one that has already been incurred.

Difficulty: 1 Easy

Topic: Relevant Versus Irrelevant Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

97) You are to receive five gold coins from your great uncle as an incentive to study hard. The coins were originally purchased in 1982. Your great uncle will deliver the coins the week after finals (assuming your grades are "acceptable"). The amount your great uncle paid for the coins is a(n):

- A) opportunity cost.
- B) indirect cost.
- C) sunk cost.
- D) overhead cost.

Answer: C

Explanation: A sunk cost is one that has already been incurred, in this case a cost that was incurred in 1982.

Difficulty: 2 Medium

Topic: Relevant Versus Irrelevant Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

98) For a cost to be relevant, it must meet which of the following criteria?

- A) It must not differ between the decision alternatives and it must be incurred in the future rather than in the past.
- B) It must differ between the decision alternatives and it must be incurred in the future rather than in the past.
- C) It must not differ between the decision alternatives and it must have occurred in the past rather than in the future.
- D) It must differ between the decision alternatives and it must have occurred in the past rather than in the future.

Answer: B

Explanation: A relevant cost must differ between the decision alternatives, and it must be incurred in the future.

Difficulty: 2 Medium

Topic: Relevant Versus Irrelevant Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 99) For a cost to be relevant, it must be:
- A) a differential cost and a sunk cost.
 - B) a differential cost, but not a sunk cost.
 - C) a sunk cost, but not a differential cost.
 - D) neither a differential cost nor a sunk cost.

Answer: B

Explanation: A relevant cost must differ between the decision alternatives (a differential cost), and it must be incurred in the future rather than in the past. Sunk costs have already occurred in the past.

Difficulty: 2 Medium

Topic: Relevant Versus Irrelevant Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

100) Which of the following costs is **not** relevant to the decision whether to replace an old computer with a new one?

- A) The cost of the new computer.
- B) The cost of the old computer.
- C) The cost of a service plan on the new computer.
- D) The cost to repair the old computer if a new computer is not purchased.

Answer: B

Explanation: The cost of the old computer is a sunk cost; therefore it is not relevant to the decision.

Difficulty: 3 Hard

Topic: Relevant Versus Irrelevant Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

101) Manufacturing costs are generally classified into which of the following categories?

- A) Relevant costs and irrelevant costs
- B) Direct materials, direct labor, and manufacturing overhead
- C) Prime costs and conversion costs
- D) Conversion costs, marketing costs, and administrative costs

Answer: B

Explanation: Manufacturing costs are generally classified into one of three categories: direct materials, direct labor, or manufacturing overhead.

Difficulty: 1 Easy

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

102) Prime costs are defined as:

- A) manufacturing costs plus non-manufacturing costs.
- B) direct labor plus direct materials.
- C) variable costs equal fixed costs.
- D) manufacturing overhead plus direct labor.

Answer: B

Explanation: Taken together, direct materials and direct labor are referred to as prime costs because they represent the primary costs that can be traced to the end product.

Difficulty: 1 Easy

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

103) Which of the following is **not** a manufacturing cost?

- A) Raw materials cost
- B) Marketing cost
- C) Direct labor cost
- D) Manufacturing overhead cost

Answer: B

Explanation: Marketing cost is a cost associated with selling the product, and is therefore a nonmanufacturing cost.

Difficulty: 1 Easy

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

104) Nonmanufacturing costs are generally classified into what two groups?

- A) Conversion costs and prime costs
- B) Direct materials and direct labor
- C) Marketing costs and administrative costs
- D) Direct labor and manufacturing overhead

Answer: C

Explanation: Nonmanufacturing costs are generally classified into two groups: marketing (or selling) costs and administrative costs.

Difficulty: 1 Easy

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

105) Robin Company has the following balances for the current month:

Direct materials used	\$	24,000
Direct labor	\$	36,800
Sales salaries	\$	19,200
Indirect labor	\$	4,800
Production manager's salary	\$	9,600
Marketing costs	\$	14,400
Factory lease	\$	6,400

What are Robin's prime costs?

- A) \$60,800
- B) \$56,000
- C) \$75,200
- D) \$65,600

Answer: A

Explanation: $\$60,800 = \$24,000 + \$36,800$. Direct materials and direct labor are prime costs. The total of these two costs is \$60,800.

Difficulty: 2 Medium

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

106) Conversion costs can be defined as:

- A) manufacturing costs plus non-manufacturing costs.
- B) direct labor plus direct materials.
- C) variable costs plus fixed costs.
- D) manufacturing costs minus direct materials.

Answer: D

Explanation: Manufacturing costs consist of direct materials, direct labor, and manufacturing overhead. Manufacturing costs minus direct materials leaves direct labor and manufacturing overhead, which are the conversion costs.

Difficulty: 3 Hard

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Analyze

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

107) Manufacturing costs are:

- A) always relevant.
- B) always fixed.
- C) the costs incurred to produce a final product.
- D) split into prime costs and conversion costs.

Answer: C

Explanation: Manufacturing costs include all costs incurred to produce the physical product.

Difficulty: 2 Medium

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

108) Prime costs are the same as:

- A) manufacturing costs minus non-manufacturing costs.
- B) manufacturing costs minus manufacturing overhead.
- C) manufacturing costs minus fixed costs.
- D) manufacturing costs minus direct materials.

Answer: B

Explanation: Manufacturing costs consist of direct materials, direct labor, and manufacturing overhead. Manufacturing costs minus manufacturing overhead leaves direct materials and direct labor: the prime costs.

Difficulty: 3 Hard

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Analyze

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

109) Robin Company has the following balances for the current month:

Direct materials used	\$ 24,000
Direct labor	\$ 36,800
Sales salaries	\$ 19,200
Indirect labor	\$ 4,800
Production manager's salary	\$ 9,600
Marketing costs	\$ 14,400
Factory lease	\$ 6,400

What is Robin's total manufacturing cost?

- A) \$115,200
- B) \$81,600
- C) \$33,600
- D) \$60,800

Answer: B

Explanation: $\$81,600 = \$24,000 + \$36,800 + \$4,800 + \$9,600 + \$6,400$. Manufacturing costs include the cost of direct materials, direct labor, indirect labor, the production manager's salary, and the factory lease, which total \$81,600.

Difficulty: 2 Medium

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

110) Robin Company has the following balances for the current month:

Direct materials used	\$ 24,000
Direct labor	\$ 36,800
Sales salaries	\$ 19,200
Indirect labor	\$ 4,800
Production manager's salary	\$ 9,600
Marketing costs	\$ 14,400
Factory lease	\$ 6,400

What is Robin's total manufacturing overhead?

- A) \$14,400
- B) \$28,800
- C) \$20,800
- D) \$33,600

Answer: C

Explanation: $\$20,800 = \$4,800 + \$9,600 + \$6,400$. Manufacturing overhead includes the costs of indirect labor, the production manager's salary, and the factory lease, which total \$20,800.

Difficulty: 2 Medium

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

111) Robin Company has the following balances for the current month:

Direct materials used	\$ 24,000
Direct labor	\$ 36,800
Sales salaries	\$ 19,200
Indirect labor	\$ 4,800
Production manager's salary	\$ 9,600
Marketing costs	\$ 14,400
Factory lease	\$ 6,400

What are Robin's conversion costs?

- A) \$70,400
- B) \$60,800
- C) \$91,200
- D) \$57,600

Answer: D

Explanation: $\$57,600 = \$36,800 + \$4,800 + \$9,600 + \$6,400$. Direct labor and manufacturing overhead are conversion costs, which include the indirect labor, the production manager's salary, the factory lease, and direct labor. These items total \$57,600.

Difficulty: 3 Hard

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

112) GAAP reporting rules require that all manufacturing costs be treated as:

- A) period costs.
- B) product costs.
- C) value-added costs.
- D) relevant costs.

Answer: B

Explanation: For external reporting, GAAP requires that all manufacturing costs be treated as product costs, or costs that are attached to the product as it is being produced.

Difficulty: 1 Easy

Topic: Product Versus Period Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

113) Product costs are sometimes called:

- A) relevant costs.
- B) sunk costs.
- C) differential costs.
- D) inventoriable costs.

Answer: D

Explanation: Product costs are sometimes called inventoriable costs because they are counted as part of the cost of inventory until the product is sold.

Difficulty: 1 Easy

Topic: Product Versus Period Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

114) Which of the following is true about product and period costs?

- A) Product costs are usually manufacturing costs, and period costs are usually nonmanufacturing costs.
- B) Product costs are usually nonmanufacturing costs, and period costs are usually manufacturing costs.
- C) Both product and period costs are usually manufacturing costs.
- D) Both product and period costs are usually nonmanufacturing costs.

Answer: A

Explanation: Manufacturing costs are attached to the product as it is being produced.

Nonmanufacturing costs are expensed during the period in which they are incurred.

Difficulty: 1 Easy

Topic: Product Versus Period Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

115) Product costs are:

- A) expensed on the income statement when incurred.
- B) treated as an asset and depreciated.
- C) inventoried until the units are sold.
- D) considered current liabilities until paid.

Answer: C

Explanation: Product costs are counted as part of the inventory until the product is sold.

Difficulty: 1 Easy

Topic: Product Versus Period Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

116) When are period costs counted as inventory?

- A) Before products are sold.
- B) After products are sold.
- C) After products are completed, but before they are sold.
- D) Never.

Answer: D

Explanation: Period costs are never counted as inventory. Rather, they are expensed during the period they are incurred.

Difficulty: 2 Medium

Topic: Product Versus Period Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

117) What determines the difference between a product cost and a period cost?

- A) Whether the cost changes when activity levels change.
- B) Whether the cost is relevant to a particular decision.
- C) Whether the cost can be traced to a specific cost object.
- D) When the cost will be matched against revenue on the income statement.

Answer: D

Explanation: Product costs are counted as inventory until the product is sold, while period costs are expensed during the period they are incurred.

Difficulty: 2 Medium

Topic: Product Versus Period Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

118) Product costs are reported:

- A) only on the balance sheet.
- B) only on the income statement.
- C) on the balance sheet before goods are sold, and on the income statement after goods are sold.
- D) on the income statement before goods are sold, and on the balance sheet after goods are sold.

Answer: C

Explanation: Product costs are counted as inventory (an asset) until the product is sold, at which point they are reported as Cost of Goods Sold on the income statement.

Difficulty: 2 Medium

Topic: Product Versus Period Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

119) Which of the following might you find in a job description for a managerial accountant in a manufacturing company?

A) The Managerial Accountant will conduct internal analysis on the health of the company, suggest variances to emphasize in evaluations, and review unusual results.

B) The Managerial Accountant will be the primary contact in dealing with the external audit team.

C) The Managerial Accountant will be responsible for preparing and presenting quarterly financial statements to management.

D) The ideal candidate for this position will have a strong knowledge of financial accounting to provide advice on generally accepted accounting principles to the CFO.

Answer: A

Explanation: Key differences between financial and managerial accounting include the users of the information (including how those users receive information), the types of reports generated, the nature of the information, the timing of reports, and the level of detail the information communicates. Managerial accountants generally conduct internal analysis on the health of the company, suggest key variances to track, and review unusual results.

Difficulty: 3 Hard

Topic: Comparison of financial and managerial accounting

Learning Objective: 01-01 Describe the key differences between financial accounting and managerial accounting.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

120) Pretend you are the president of the Managerial Accounting Club and you are responsible for executing the club's most important event: A recruiting event for members and local firms. How might you use the Plan-Implement-Control cycle?

- A) To plan, I would prepare a preliminary list of goals and plans and then hold a kick-off meeting with the club's membership to present and revise the plan.
- B) To control, I would identify two additional individuals within the club to help lead the event.
- C) To plan, I would create a timeline and schedule of key tasks leading up to the event and assign responsibility for each task to key members of the club.
- D) To implement, I would hold regular check-in meetings to monitor progress.

Answer: A

Explanation: Planning is the future-oriented part of the management cycle, including setting goals and the means of accomplishing them. Implementing is putting the plan into action, including leading, directing, and motivating others. Control is the final step in which managers (or in this case, club presidents) track progress and make adjustments to the plan.

Difficulty: 3 Hard

Topic: Functions of Management

Learning Objective: 01-02 Describe how managerial accounting is used in different types of organizations to support the key functions of management.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

121) Pretend you are a junior managerial accountant. Your supervisor has no knowledge of sustainability accounting. All of the following statements would be convincing arguments to advocate for the importance of sustainability accounting, **except** one. Which one?

- A) Sustainability accounting reflects the changing nature of accountability.
- B) Companies are only accountable to shareholders and shareholders care about sustainability.
- C) Companies are accountable to the world at large, not simply to shareholders.
- D) Sustainability accounting does not replace the emphasis on financial results; rather it complements financial strength in building a strong company for the future.

Answer: B

Explanation: Sustainability accounting reflects the changing nature of accountability: Companies are not simply accountable to shareholders, but rather they are accountable to the world at large. Sustainability accounting can help ensure the longevity of an organization, which is excellent for the company long-term. Sustainability accounting will likely play a large role in evaluating companies in the future, and early adopters may be rewarded for their forward thinking. Sustainability accounting does not replace the emphasis on financial results; rather it complements financial strength in building a strong company for the future.

Difficulty: 3 Hard

Topic: Ethics and the Sarbanes-Oxley Act

Learning Objective: 01-03 Describe the importance of ethics, sustainability, and decision analytics in managerial accounting.

Bloom's: Evaluate

AACSB: Ethics

Accessibility: Keyboard Navigation

122) Imagine purchasing a cup of coffee. Which of the following statements correctly classifies the direct, indirect, variable, and fixed costs associated with that purchase, assuming the cost object is the cup of coffee?

- A) The cost of the cup and the lid is an indirect cost because it can be readily traced to the cost object.
- B) The shop supervisor's salary is a direct cost because it cannot be readily and feasibly traced to the cost object.
- C) The volume of coffee beans purchased is a variable cost because it changes along with the changing volume of cups of coffee sold.
- D) The shop's monthly water bill is a fixed cost because it changes along with the changing volume of sales.

Answer: C

Explanation: The managerial accounting cost principles can be applied to almost any decision (including decisions to purchase cups of coffee). Direct costs are those that can be directly and reasonably traced to the cost object. Indirect costs are those that cannot be traced, or that are not worth the effort of tracing. Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that do not change, in total, based on changes in activity levels.

Difficulty: 3 Hard

Topic: Cost Terminology

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

123) Stetson Manufacturing builds custom wooden cabinets. Classify the following items as a) what category of product costs **and** b) whether the item is a prime or conversion cost.

	Product Costs				
	Direct Materials	Direct Labor	Mfg Overhead	Prime Cost	Conversion Cost
Cost of hardware (slides, handles, etc.)					
Cost of wood					
Depreciation on production equipment					
Factory property taxes					
Factory rent					
Glue					
Production supervisor salary					
Utilities for factory					
Wages for maintenance workers					
Wages of assembly workers					
Wages of finishing workers					

Answer:

	Product Costs				
	Direct Materials	Direct Labor	Mfg Overhead	Prime Cost	Conversion Cost
Cost of hardware (slides, handles, etc.)	X			X	
Cost of wood	X			X	
Depreciation on production equipment			X		X
Factory property taxes			X		X
Factory rent			X		X
Glue			X		X
Production supervisor salary			X		X
Utilities for factory			X		X
Wages for maintenance workers			X		X
Wages of assembly workers		X		X	X
Wages of finishing workers		X		X	X

Direct materials are the traceable material inputs. Direct labor is the cost of traceable labor. Manufacturing overhead includes all manufacturing costs other than direct materials and direct labor. Prime costs are direct materials and direct labor. Conversion costs are direct labor and manufacturing overhead.

Difficulty: 2 Medium

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

124) For each of the following independent cases, compute the missing values:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$13,600	\$23,000	\$4,600	??	\$14,000	??
B	??	??	\$6,000	\$3,000	\$10,500	??
C	\$23,000	\$41,000	\$7,000	??	??	??
D	??	\$23,550	\$4,200	\$9,750	??	\$27,750
E	??	??	??	\$6,300	\$9,300	\$17,400

Answer:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$13,600	\$23,000	\$4,600	\$9,000	\$14,000	\$27,600
B	\$9,000	\$13,500	\$6,000	\$3,000	\$10,500	\$19,500
C	\$23,000	\$41,000	\$7,000	\$16,000	\$25,000	\$48,000
D	13,950	\$23,550	\$4,200	\$9,750	\$13,800	\$27,750
E	\$8,100	\$15,600	\$1,800	\$6,300	\$9,300	\$17,400

Prime costs are the total of direct materials and direct labor. Conversion costs are the total of direct labor and manufacturing overhead. Total manufacturing cost is the total of direct materials, direct labor, and manufacturing overhead.

Difficulty: 3 Hard

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

125) Quail Company builds snowboards. Quail Company has reported the following costs for the previous year. Assume no production inventories.

Cost of fiberglass (raw material)	\$ 119,000
Factory rent	\$ 67,200
Advertising	\$ 175,000
Utilities for factory	\$ 25,200
Wages of assembly workers	\$ 126,000
Production supervisor salary	\$ 63,000
Sales manager salary	\$ 58,800
Factory property taxes	\$ 16,800
Depreciation on production equipment	\$ 35,000
Cost of bindings (raw material)	\$ 35,000
Screws	\$ 1,680
Wages of snowboard painters	\$ 105,000
Wages for maintenance workers	\$ 53,200

Compute the following:

- a. Direct material costs
- b. Direct labor cost
- c. Manufacturing overhead
- d. Total manufacturing cost
- e. Prime cost
- f. Conversion cost
- g. Total period cost

Answer:

- a. Direct material costs: $\$154,000 = \$119,000 + \$35,000$
- b. Direct labor costs: $\$231,000 = \$126,000 + \$105,000$
- c. Manufacturing overhead: $\$262,080 = \$67,200 + \$25,200 + \$63,000 + \$16,800 + \$35,000 + \$1,680 + \$53,200$
- d. Total manufacturing cost: $\$647,080 = \$154,000 + \$231,000 + \$262,080$
- e. Prime cost: $\$385,000 = \$154,000 + \$231,000$
- f. Conversion cost: $\$231,000 + \$262,080$
- g. Total period cost: $\$175,000 + \$58,800$

Direct materials are the traceable material inputs. Direct labor is the cost of traceable labor. Manufacturing overhead includes all manufacturing costs other than direct materials and direct labor. Total manufacturing cost is the sum of direct labor, direct materials, and manufacturing overhead. Prime costs are direct materials and direct labor. Conversion costs are direct labor and manufacturing overhead. The nonmanufacturing costs are period costs.

Difficulty: 3 Hard

Topic: Manufacturing Versus Nonmanufacturing Costs; Product Versus Period Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

126) For each of the following independent cases, compute the missing values:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$27,200	\$46,000	\$9,200	??	\$28,000	??
B	??	??	\$12,000	\$6,000	\$21,000	??
C	\$46,000	\$82,000	\$14,000	??	??	??
D	??	\$47,100	\$8,400	\$19,500	??	\$55,500
E	??	??	??	\$12,600	\$18,600	\$34,800

Answer:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$27,200	\$46,000	\$9,200	\$18,000	\$28,000	\$55,200
B	\$18,000	\$27,000	\$12,000	\$6,000	\$21,000	\$39,000
C	\$46,000	\$82,000	\$14,000	\$32,000	\$50,000	\$96,000
D	\$27,900	\$47,100	\$8,400	\$19,500	\$27,600	\$55,500
E	\$16,200	\$31,200	\$3,600	\$12,600	\$18,600	\$34,800

Prime costs are the total of direct materials and direct labor. Conversion costs are the total of direct labor and manufacturing overhead. Total manufacturing cost is the total of direct materials, direct labor, and manufacturing overhead.

Difficulty: 3 Hard

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

127) Mariposa Manufacturing builds custom wooden cabinets. Mariposa Manufacturing has reported the following costs for the previous year. Assume no production inventories.

Advertising	\$ 70,000
Cost of hardware (slides, handles, etc.)	\$ 34,000
Cost of wood	\$ 117,000
Depreciation on production equipment	\$ 63,000
Factory property taxes	\$ 17,300
Factory rent	\$ 76,000
Glue	\$ 3,800
Production supervisor salary	\$ 40,700
Sales manager salary	\$ 41,600
Utilities for factory	\$ 23,900
Wages for maintenance workers	\$ 31,800
Wages of assembly workers	\$ 91,400
Wages of finishing workers	\$ 77,300

Compute the following:

- a. Direct material costs
- b. Direct labor cost
- c. Manufacturing overhead
- d. Total manufacturing cost
- e. Prime cost
- f. Conversion cost
- g. Total period cost

Answer:

- a. Direct materials cost: $\$151,000 = \$34,000 + \$117,000$
- b. Direct labor cost: $\$168,700 = \$91,400 + \$77,300$
- c. Manufacturing overhead: $\$256,500 = \$63,000 + \$17,300 + \$76,000 + \$3,800 + \$40,700 + \$23,900 + \$31,800$
- d. Total manufacturing cost: $\$576,200 = \$151,000 + \$168,700 + \$256,500$
- e. Prime cost: $\$319,700 = \$151,000 + \$168,700$
- f. Conversion cost: $\$425,200 = \$168,700 + \$256,500$
- g. Total period cost: $\$111,600 = \$70,000 + \$41,600$

Direct materials are the traceable material inputs. Direct labor is the cost of traceable labor. Manufacturing overhead includes all manufacturing costs other than direct materials and direct labor. Total manufacturing cost is the sum of direct labor, direct materials, and manufacturing overhead. Prime costs are direct materials and direct labor. Conversion costs are direct labor and manufacturing overhead. The nonmanufacturing costs are period costs.

Difficulty: 3 Hard

Topic: Manufacturing Versus Nonmanufacturing Costs; Product Versus Period Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

128) For each of the following independent cases, compute the missing values:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$40,800	\$69,000	\$13,800	??	\$42,000	??
B	\$27,000	??	??	\$9,000	\$31,500	??
C	\$69,000	\$123,000	\$21,000	??	??	??
D	??	\$70,650	\$12,600	\$29,250	??	\$83,250

Answer:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$40,800	\$69,000	\$13,800	\$27,000	\$42,000	\$82,800
B	\$27,000	\$40,500	\$18,000	\$9,000	\$31,500	\$58,500
C	\$69,000	\$123,000	\$21,000	\$48,000	\$75,000	\$144,000
D	\$41,850	\$70,650	\$12,600	\$29,250	\$41,400	\$83,250

Prime costs are the total of direct materials and direct labor. Conversion costs are the total of direct labor and manufacturing overhead. Total manufacturing cost is the total of direct materials, direct labor, and manufacturing overhead.

Difficulty: 3 Hard

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

129) Alameda Manufacturing manufactures a variety of wooden picture frames using recycled wood from old barns. Alameda Manufacturing has reported the following costs for the previous year. Assume no production inventories.

Advertising	\$ 50,000
Cost of hardware (hangers, decorations, etc.)	\$ 86,000
Cost of wood	\$ 122,000
Depreciation on production equipment	\$ 33,000
Factory property taxes	\$ 16,000
Factory rent	\$ 48,000
Glue	\$ 3,100
Production supervisor salary	\$ 41,000
Sales manager salary	\$ 84,000
Utilities for factory	\$ 26,600
Wages for maintenance workers	\$ 34,000
Wages of assembly workers	\$ 88,000
Wages of finishing workers	\$ 74,000

Compute the following:

- a. Direct material costs
- b. Direct labor cost
- c. Manufacturing overhead
- d. Total manufacturing cost
- e. Prime cost
- f. Conversion cost
- g. Total period cost

Answer:

- a. Direct material costs: $\$208,000 = \$86,000 + \$122,000$
- b. Direct labor cost: $\$162,000 = \$88,000 + \$74,000$
- c. Manufacturing overhead: $\$201,700 = \$33,000 + \$16,000 + \$48,000 + \$3,100 + \$41,000 + \$26,600 + \$34,000$
- d. Total manufacturing cost: $\$571,700 = (a) \$208,000 + (b) \$162,000 + (c) \$201,700$
- e. Prime cost: $\$370,000 = (a) \$208,000 + (b) \$162,000$
- f. Conversion cost: $\$363,700 = (b) \$162,000 + (c) \$201,700$
- g. Total period cost: $\$134,000 = \$50,000 + \$84,000$

Direct materials are the traceable material inputs. Direct labor is the cost of traceable labor. Manufacturing overhead includes all manufacturing costs other than direct materials and direct labor. Total manufacturing cost is the sum of direct labor, direct materials, and manufacturing overhead. Prime costs are direct materials and direct labor. Conversion costs are direct labor and manufacturing overhead. The nonmanufacturing costs are period costs.

Difficulty: 3 Hard

Topic: Manufacturing Versus Nonmanufacturing Costs; Product Versus Period Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

130) For each of the following independent cases, compute the missing values:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$23,800	\$40,250	\$8,050	??	\$24,500	??
B	??	??	\$10,500	\$5,250	\$18,375	??
C	??	\$82,425	\$14,700	\$34,125	??	\$97,125
D	??	??	??	\$11,025	\$16,275	\$30,450

Answer:

Case	Prime Cost	Conversion Cost	Direct Materials Used	Direct Labor	Manufacturing Overhead	Total Manufacturing Cost
A	\$23,800	\$40,250	\$8,050	\$15,750	\$24,500	\$48,300
B	\$15,750	\$23,625	\$10,500	\$5,250	\$18,375	\$34,125
C	\$48,825	\$82,425	\$14,700	\$34,125	\$48,300	\$97,125
D	\$14,175	\$27,300	\$3,150	\$11,025	\$16,275	\$30,450

Prime costs are the total of direct materials and direct labor. Conversion costs are the total of direct labor and manufacturing overhead. Total manufacturing cost is the total of direct materials, direct labor, and manufacturing overhead.

Difficulty: 3 Hard

Topic: Manufacturing Versus Nonmanufacturing Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

131) Willow Manufacturing manufactures custom tabletops. For each cost listed below, place an "X" in all of the appropriate categories.

	Product Costs					
	Direct Materials	Direct Labor	Mfg Overhead	Prime Cost	Conversion Cost	Period Cost
Advertising						
Depreciation on production equipment						
Direct material purchases						
Factory insurance						
Factory rent						
Indirect production labor						
Production supervisor salary						
Production wages: Assembly						
Production wages: Finishing						
Sales commissions						
Sales manager salary						
Utilities for factory						

Answer:

	Product Costs					
	Direct Materials	Direct Labor	Mfg Overhead	Prime Cost	Conversion Cost	Period Cost
Advertising						X
Depreciation on production equipment			X		X	
Direct material purchases	X			X		
Factory insurance			X		X	
Factory rent			X		X	
Indirect production labor			X		X	
Production supervisor salary			X		X	
Production wages: Assembly		X		X	X	
Production wages: Finishing		X		X	X	
Sales commissions						X
Sales manager salary						X
Utilities for factory			X		X	

Direct materials are the traceable material inputs. Direct labor is the cost of traceable labor. Manufacturing overhead includes all manufacturing costs other than direct materials and direct labor. Prime costs are direct materials and direct labor. Conversion costs are direct labor and manufacturing overhead. The nonmanufacturing costs are period costs.

Difficulty: 2 Medium

Topic: Manufacturing Versus Nonmanufacturing Costs; Product Versus Period Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

132) Pinnacle Manufacturing manufactures custom wheel covers. For each cost listed below, place an "X" in all of the appropriate categories.

	Product Costs					
	Direct Materials	Direct Labor	Mfg Overhead	Prime Cost	Conversion Cost	Period Cost
Administrative Salaries						
Advertising						
Depreciation on production equipment						
Direct material purchases						
Factory insurance						
Factory rent						
Indirect materials						
Indirect production labor						
Lease on President's vehicle						
President's salary						
Production supervisor salary						
Production wages: Assembly						
Production wages: Finishing						
Sales commissions						
Sales manager salary						
Utilities for factory						

Answer:

	Product Costs					
	Direct Materials	Direct Labor	Mfg Overhead	Prime Cost	Conversion Cost	Period Cost
Administrative Salaries						X
Advertising						X
Depreciation on production equipment			X		X	
Direct material purchases	X			X		
Factory insurance			X		X	
Factory rent			X		X	
Indirect materials			X		X	
Indirect production labor			X		X	
Lease on President's vehicle						X
President's salary						X
Production supervisor salary			X		X	
Production wages: Assembly		X		X	X	
Production wages: Finishing		X		X	X	
Sales commissions						X
Sales manager salary						X
Utilities for factory			X		X	

Direct materials are the traceable material inputs. Direct labor is the cost of traceable labor. Manufacturing overhead includes all manufacturing costs other than direct materials and direct labor. Prime costs are direct materials and direct labor. Conversion costs are direct labor and manufacturing overhead. The nonmanufacturing costs are period costs.

Difficulty: 2 Medium

Topic: Manufacturing Versus Nonmanufacturing Costs; Product Versus Period Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

133) Elektra Enterprises manufactures custom boat covers. For each cost listed below, place an "X" in all of the appropriate categories.

	Product Costs					
	Direct Materials	Direct Labor	Mfg Overhead	Prime Cost	Conversion Cost	Period Cost
Utilities for factory						
Utilities for corporate office						
Sales manager salary						
Production wages: Finishing						
Production wages: Assembly						
Production supervisor salary						
President's salary						
Lease on President's vehicle						
Indirect production labor						
Indirect materials						
Factory rent						
Factory insurance						
Direct material purchases						
Depreciation on production equipment						
Depreciation on office equipment						
Commissions on sales						
Advertising						
Administrative Salaries						

Answer:

	Product Costs					
	Direct Materials	Direct Labor	Mfg Overhead	Prime Cost	Conversion Cost	Period Cost
Utilities for factory			X		X	
Utilities for corporate office						X
Sales manager salary						X
Production wages: Finishing		X		X	X	
Production wages: Assembly		X		X	X	
Production supervisor salary			X		X	
President's salary						X
Lease on President's vehicle						X
Indirect production labor			X		X	
Indirect materials			X		X	
Factory rent			X		X	
Factory insurance			X		X	
Direct material purchases	X			X		
Depreciation on production equipment			X		X	
Depreciation on office equipment						X
Commissions on sales						X
Advertising						X
Administrative Salaries						X

Direct materials are the traceable material inputs. Direct labor is the cost of traceable labor. Manufacturing overhead includes all manufacturing costs other than direct materials and direct labor. Prime costs are direct materials and direct labor. Conversion costs are direct labor and manufacturing overhead. The nonmanufacturing costs are period costs.

Difficulty: 2 Medium

Topic: Manufacturing Versus Nonmanufacturing Costs; Product Versus Period Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

134) Parkside Rentals, a firm that rents tuxedos for special events, incurred costs for the following items.

Cost to purchase tuxedos (replaced when they show wear, after approximately 80 - 100 rentals)	\$ 7,000
Salespersons' salaries	\$ 52,000
Advertising	\$ 29,000
Dry cleaning	\$ 24,000
Sales commissions on tuxedo rentals	\$ 15,000
Store rent	\$ 24,000
Store utilities (paid at a monthly rate)	\$ 6,800
Store window displays	\$ 5,900
Depreciation on office equipment	\$ 16,000
Insurance	\$ 8,500
President's salary	\$ 62,000

Calculate each of the following, where the cost object is tuxedo rentals:

- a. Total variable costs
- b. Total fixed costs
- c. Total direct costs
- d. Total indirect costs

Answer:

- a. Total variable costs: $\$46,000 = \$7,000 + \$24,000 + \$15,000$
- b. Total fixed costs: $\$204,200 = \$52,000 + \$29,000 + 24,000 + \$6,800 + \$5,900 + \$16,000 + \$8,500 + \$62,000$
- c. Direct costs: $\$39,000 = \$24,000 + \$15,000$
- d. Indirect costs: $\$211,200 = \$7,000 + \$52,000 + \$29,000 + 24,000 + \$6,800 + \$5,900 + \$16,000 + \$8,500 + \$62,000$

Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level. Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs. Since tuxedo replacement cannot be traced to a specific rental, but applies to a number of rentals (which may vary), it is an indirect cost.

Difficulty: 3 Hard

Topic: Direct Versus Indirect Costs; Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

135) Salon de Beauty, a local hair salon, incurred the following costs last month. (Hint: Treat Salon utilities as Variable cost)

Salon rent	\$ 3,600
Salon utilities (electric and water)	\$ 890
Hairstylists' salaries	\$ 10,000
Hairstylists' commissions (a percentage of sales)	\$ 2,400
Depreciation on fixtures and equipment	\$ 780
Shampoo and conditioner (only a small amount is used on each customer)	\$ 500
Insurance	\$ 1,650
Advertising	\$ 1,200
Store manager's salary	\$ 2,800
Hair dye and perm kits (each dye job or perm uses one kit)	\$ 390

Calculate each of the following, where the cost object is customers served:

- Total variable costs
- Total fixed costs
- Total direct costs
- Total indirect costs

Answer:

- Total variable costs: $\$4,180 = \$890 + \$2,400 + \$500 + \$390$ (Note that utilities are considered a variable cost in this example, based on the number of customers served. Some costs, however, have characteristics of both fixed and variable costs, and we call these "mixed" costs.)
- Total fixed costs: $\$20,030 = \$3,600 + \$10,000 + \$780 + \$1,650 + \$1,200 + \$2,800$
- Total direct costs: $\$2,790 = \$2,400 + \$390$
- Total indirect costs: $\$21,420 = \$3,600 + \$890 + \$10,000 + \$780 + \$500 + \$1,650 + \$1,200 + \$2,800$

Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level. Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs.

Difficulty: 3 Hard

Topic: Direct Versus Indirect Costs; Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

136) Adobe Music Company, which manufactures wooden and metal xylophones, incurred costs for the following items.

Assembly labor wages	\$ 21,000
Wood	\$ 17,600
Production supervisor's salary	\$ 41,000
Advertising	\$ 9,000
Factory rent	\$ 19,000
Depreciation on factory equipment	\$ 8,500
Metal	\$ 26,000
Wood polish used to finish the wood xylophones	\$ 900
Factory utilities (dependent on hours)	\$ 2,800
Paint	\$ 1,900
Salary of product designer	\$ 18,500
Depreciation on office equipment	\$ 2,000
Insurance premiums	\$ 1,800
President's salary	\$ 60,000
Glue	\$ 100

Calculate each of the following, where the cost object is the xylophones manufactured by the company:

- Total variable costs
- Total fixed costs
- Total direct costs
- Total indirect costs

Answer:

a. Total variable costs: $\$70,300 = \$21,000 + \$17,600 + \$26,000 + \$900 + \$2,800 + \$1,900 + \100

b. Total fixed costs: $\$159,800 = \$41,000 + \$9,000 + \$19,000 + \$8,500 + \$18,500 + \$2,000 + \$1,800 + \$60,000$

c. Total direct costs: $\$64,600 = \$21,000 + \$17,600 + \$26,000$

d. Total indirect costs: $\$165,500 = \$41,000 + \$9,000 + \$19,000 + \$8,500 + \$900 + \$2,800 + \$1,900 + \$18,500 + \$2,000 + \$1,800 + \$60,000 + \$100$

Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level. Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs.

Difficulty: 3 Hard

Topic: Direct Versus Indirect Costs; Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

137) Melinda's Custom Homes, a construction company that builds custom-designed houses, incurred costs for the following items. Place an "X" in the appropriate column to indicate whether they are direct or indirect, and whether they are variable or fixed. The cost object is the houses built by the company.

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Wages paid to construction crew				
Wood				
Production supervisor's salary				
Billboard advertising for the company				
Rent on office space				
Depreciation on tools used at construction sites				
Sheet rock				
Machine purchased to cut a special kind of tile requested by one customer — cannot be re-used				
Gas for the company truck, used to haul supplies to construction sites				
Paint				
Fees paid to electrical contractor (a fixed amount per house)				
Depreciation on the company truck, used to haul supplies to construction sites (straight-line)				
Insurance premiums				
President's salary				
Bricks				

Answer:

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Wages paid to construction crew	X		X	
Wood	X		X	
Production supervisor's salary		X		X
Billboard advertising for the company		X		X
Rent on office space		X		X
Depreciation on tools used at construction sites		X		X
Sheet rock	X		X	
Machine purchased to cut a special kind of tile requested by one customer — cannot be re-used	X			X
Gas for the company truck, used to haul supplies to construction sites		X	X	
Paint	X		X	
Fees paid to electrical contractor (a fixed amount per house)	X		X	
Depreciation on the company truck, used to haul supplies to construction sites (straight-line)		X		X
Insurance premiums		X		X
President's salary		X		X
Bricks	X		X	

Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs. Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level.

Difficulty: 2 Medium

Topic: Direct Versus Indirect Costs; Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

138) Parkside Rentals, a firm that rents tuxedos for special events, incurred costs for the following items. Place an "X" in the appropriate column to indicate whether they are direct or indirect, and whether they are variable or fixed. The cost object is tuxedo rentals.

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Cost to purchase tuxedos (replaced when they show wear, after approximately 80 - 100 rentals)				
Salespersons' salaries				
Advertising				
Dry cleaning				
Sales commissions on tuxedo rentals				
Store rent				
Store utilities (paid at a monthly rate)				
Store window displays				
Depreciation on office equipment				
Insurance				
President's salary				

Answer:

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Cost to purchase tuxedos (replaced when they show wear, after approximately 80 - 100 rentals)		X	X	
Salespersons' salaries		X		X
Advertising		X		X
Dry cleaning	X		X	
Sales commissions on tuxedo rentals	X		X	
Store rent		X		X
Store utilities (paid at a monthly rate)		X		X
Store window displays		X		X
Depreciation on office equipment		X		X
Insurance		X		X
President's salary		X		X

Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs. Since tuxedo replacement cannot be traced to a specific rental, but applies to a number of rentals (which may vary), it is an indirect cost. Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level.

Difficulty: 2 Medium

Topic: Direct Versus Indirect Costs; Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

139) Salon de Beauty, a local hair salon, incurred the following costs last month. Place an "X" in the appropriate column to indicate whether they are direct or indirect, and whether they are variable or fixed. The cost object is customers served.

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Salon rent				
Salon utilities (electric and water)				
Hairstylists' salaries				
Hairstylists' commissions (a percentage of sales)				
Depreciation on fixtures and equipment				
Shampoo and conditioner (only a small amount is used on each customer)				
Insurance				
Advertising				
Store manager's salary				
Hair dye and perm kits (each dye job or perm uses one kit)				

Answer:

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Salon rent		X		X
Salon utilities (electric and water)		X	X	
Hairstylists' salaries		X		X
Hairstylists' commissions (a percentage of sales)	X		X	
Depreciation on fixtures and equipment		X		X
Shampoo and conditioner (only a small amount is used on each customer)		X	X	
Insurance		X		X
Advertising		X		X
Store manager's salary		X		X
Hair dye and perm kits (each dye job or perm uses one kit)	X		X	

Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs. Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level.

Difficulty: 2 Medium

Topic: Direct Versus Indirect Costs; Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

140) Adobe Music Company, which manufactures wooden and metal xylophones, incurred costs for the following items. Place an "X" in the appropriate column to indicate whether they are direct or indirect, and whether they are variable or fixed. The cost object is the xylophones manufactured by the company.

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Assembly labor wages				
Wood				
Production supervisor's salary				
Advertising				
Factory rent				
Depreciation on factory equipment				
Metal				
Wood polish used to finish the wood xylophones				
Factory utilities (dependent on hours)				
Paint				
Salary of product designer				
Depreciation on office equipment				
Insurance premiums				
President's salary				
Glue				

Answer:

	Direct or Indirect		Variable or Fixed	
	Direct	Indirect	Variable	Fixed
Assembly labor wages	X		X	
Wood	X		X	
Production supervisor's salary		X		X
Advertising		X		X
Factory rent		X		X
Depreciation on factory equipment		X		X
Metal	X		X	
Wood polish used to finish the wood xylophones		X	X	
Factory utilities (dependent on hours)		X	X	
Paint		X	X	
Salary of product designer		X		X
Depreciation on office equipment		X		X
Insurance premiums		X		X
President's salary		X		X
Glue		X	X	

Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs. Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level.

Difficulty: 2 Medium

Topic: Direct Versus Indirect Costs; Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Understand

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

141) Melinda's Custom Homes, a construction company that builds custom-designed houses, incurred costs for the following items.

Wages paid to construction crew	\$ 105,000
Wood	\$ 176,000
Production supervisor's salary	\$ 52,000
Billboard advertising the company	\$ 9,000
Rent on office space	\$ 12,000
Depreciation on tools used at construction sites	\$ 32,500
Sheet rock	\$ 84,000
Machine purchased to cut a special kind of tile requested by one customer—cannot be re-used	\$ 8,300
Gas for the company truck, used to haul supplies to construction sites	\$ 2,800
Paint	\$ 9,600
Fees paid to electrical contractor, who charges a set amount per house	\$ 12,500
Depreciation on the company truck, used to haul supplies to construction sites (straight-line)	\$ 10,000
Insurance premiums	\$ 13,800
President's salary	\$ 101,000
Bricks	\$ 89,000

Calculate each of the following, where the cost object is the houses built by the company:

- Total variable costs
- Total fixed costs
- Total direct costs
- Total indirect costs

Answer: Total variable costs: $\$478,900 = \$105,000 + \$176,000 + \$84,000 + \$2,800 + \$9,600 + \$12,500 + \$89,000$

b. Total fixed costs: $\$238,600 = \$52,000 + \$9,000 + \$12,000 + \$32,500 + \$8,300 + \$10,000 + \$13,800 + \$101,000$

c. Total direct costs: $\$484,400 = \$105,000 + \$176,000 + \$84,000 + \$8,300 + \$9,600 + \$12,500 + \$89,000$

d. Total indirect costs: $\$233,100 = \$52,000 + \$9,000 + \$12,000 + \$32,500 + \$2,800 + \$10,000 + \$13,800 + \$101,000$

Variable costs are those that change, in total, in direct proportion to changes in activity levels. Fixed costs are those that stay the same, in total, regardless of activity level. Costs that can be traced directly to a specific cost object are direct costs. Costs that cannot be traced to a specific cost object, or that are not worth the effort of tracing, are indirect costs.

Difficulty: 3 Hard

Topic: Direct Versus Indirect Costs; Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation

142) Cactus Cookies incurred the following costs this month to manufacture 1,000 jumbo chocolate chip cookies.

Chocolate chips	\$ 75.00
Flour	\$ 22.00
Butter	\$ 48.50
Sugar	\$ 30.00
Other ingredients	\$ 27.00
Labor wages	\$ 300.00
Rent on manufacturing space	\$ 250.00
Utilities (paid at a monthly rate)	\$ 52.00
Depreciation on kitchen equipment	\$ 88.00

Calculate each of the following:

- The total variable cost this month
- The total fixed cost this month
- The variable cost per cookie this month
- The fixed cost per cookie this month
- The total variable cost if Cactus Cookies had manufactured 2,000 cookies this month
- The total fixed cost if Cactus Cookies had manufactured 2,000 cookies this month
- The variable cost per cookie if Cactus Cookies had manufactured 2,000 cookies this month
- The fixed cost per cookie if Cactus Cookies had manufactured 2,000 cookies this month

Answer:

- a. Total variable cost: $\$502.50 = \$75.00 + \$22.00 + \$48.50 + \$30.00 + \$27.00 + \$300.00$
- b. Total fixed cost: $\$390.00 = \$250.00 + \$52.00 + \88.00
- c. Variable cost per cookie: $\$0.5025 = (\text{a}) \$502.50 / 1,000 \text{ cookies}$
- d. Fixed cost per cookie $\$0.39 = (\text{b}) \$390 / 1,000 \text{ cookies}$
- e. Total variable costs for #2,000 cookies: $\$1,005.00 = \$0.5025 (\text{c}) \times 2,000 \text{ cookies}$
- f. Total fixed costs for #2,000 cookies: $390.00 = \$250.00 + \$52.00 + \$88.00$
- g. Variable cost per cookie: $\$0.5025 = \$1,005.00 (\text{e}) / 2,000 \text{ cookies}$
- h. Fixed cost per cookie: $\$0.195 = \$390 (\text{f}) / 2,000 \text{ cookies}$

Note: The variable cost per cookie stayed the same. (See letters c and g.) However the fixed cost per cookie decreased (see letters d and h) as the volume increased.

Variable costs are those that change, in total, in direct proportion to changes in activity levels.

Fixed costs are those that stay the same, in total, regardless of activity level.

Difficulty: 3 Hard

Topic: Variable Versus Fixed Costs

Learning Objective: 01-04 Define and give examples of different types of costs: Out-of-pocket or opportunity costs, Direct or indirect costs, Variable or fixed costs, Manufacturing or nonmanufacturing costs, Product or period costs, Relevant or irrelevant costs.

Bloom's: Apply

AACSB: Analytical Thinking; Knowledge Application

Accessibility: Keyboard Navigation