CHAPTER 2

ASSIGNMENT CLASSIFICATION TABLE

Study Objectives	Self-Study Questions	Brief Exercises	Do It! Review	Exercises	Problems
1. Define the three classes of manufacturing costs and differentiate between product and period costs.	5, 6, 7, 8	1, 2, 3, 9, 11	15	19, 20, 21, 22, 23, 30, 36	42A, 42A, 47A, 50A, 51B, 52B, 55B,
2. Explain variable, fixed, and mixed costs and the relevant range.	1, 2	4, 5	16	24, 25, 27, 29	49A, 57B
3. Apply the high-low method to determine the components of mixed costs.	3, 4	4, 6, 7, 8	17	26, 28	
4. Demonstrate how to calculate cost of goods manufactured and prepare financial statements for a manufacturer.	9, 10	10, 12, 13	18	31, 32, 33, 34, 35, 36, 37, 38, 39, 40	44A, 45A, 46A, 47A, 48A, 50A, 53B, 54B, 55B, 56B, 58B, 59B, 60B
*5. Apply regression analysis to determine the components of mixed costs.		14		41	

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
42A	Classify manufacturing costs into different categories and calculate the unit cost.	Simple	20–30
43A	Classify manufacturing costs into different categories and calculate the unit cost.	Simple	20–30
44A	Indicate the missing amount of different cost items, and prepare a condensed cost of goods manufactured schedule, an income statement, and a partial balance sheet.	Moderate	30–40
45A	Prepare a cost of goods manufactured schedule, a partial income statement, and a partial balance sheet.	Moderate	30–40
46A	Prepare a cost of goods manufactured schedule and a correct income statement.	Moderate	30–40
47A	Calculate cost of goods manufactured, and cost of goods sold.	Moderate	20–30
48A	Calculate raw materials purchased, cost of goods manufactured, and cost of goods sold.	Moderate	20–30
49A	Determine missing amounts in the cost of goods manufactured and sold schedule and compare fixed and variable costs.	Challenging	30–40
50A	Determine missing amounts and calculate selected costs for schedules of cost of goods manufactured and sold.	Challenging	30–40
51B	Classify manufacturing costs into different categories and calculate the unit cost.	Simple	20–30
52B	Classify manufacturing costs into different categories and calculate the unit cost.	Simple	20–30
53B	Indicate the missing amount of different cost items, and prepare a condensed cost of goods manufactured schedule, an income statement, and a partial balance sheet.	Moderate	30–40
54B	Prepare a cost of goods manufactured schedule, a partial income statement, and a partial balance sheet.	Moderate	30–40

ASSIGNMENT CHARACTERISTICS TABLE (Continued)

Problem Number	Description	Difficulty Level	Time Allotted (min.)
55B	Calculate prime cost, conversion cost and cost of goods manufactured.	Moderate	20–30
56B	Prepare income statement schedules for cost of goods sold and cost of goods manufactured.	Moderate	30–40
57B	Determine missing amounts in the cost of goods manufactured and sold schedule and compare fixed and variable costs.	Challenging	20–30
58B	Prepare a cost of goods manufactured schedule and a correct income statement.	Moderate	30–40
59B	Calculate selected costs for the income statement, and schedules of cost of goods manufactured and sold.	Moderate	20–30
60B	Determine missing amounts, prepare cost of goods manufactured and calculate inventory values.	Challenging	40–50

Correlation Chart between Bloom's Taxonomy, Study Objectives and End-of-Chapter Exercises and Problems

Study Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Define the three classes of manufacturing costs and differentiate between product and period costs.	D15	BE1, BE2, BE3, BE9, BE11, E19, E20, E21, E22, E23	E30, E36, P55B	P42A, P43A, P47A, P50A, P51B, P52B		
2. Explain variable, fixed, and mixed costs and the relevant range.		BE4, D16, E24, E27	BE5, E29	E25	P49A, P57B	
3. Apply the high-low method to determine the components of mixed costs.		BE4	BE6, D17, E26, E28	BE7, BE8		
4. Demonstrate how to calculate cost of goods manufactured and prepare financial statements for a manufacturer.	E38	BE10	BE12, BE13, D18, E31, E32, E35, E36, E37, E39, E40, P45A, P54B, P55B, P58B	P47A, P48A, P50A, P56B, P59B	E33, E34, P44A, P46A, P53B, P60B	
*5. Apply regression analysis to determine the components of mixed costs			BE14, E41			

A note about the correlation between CPA competencies and the end-of-chapter exercises and problems.

The CPA competencies are divided into enabling competencies and terminal competencies. Unless otherwise specified, the terminal competency being tested by the end-of-chapter material in this course is cpa-t003 (Management Accounting). The enabling competency being tested will differ between questions. The following questions test enabling competency cpa-e002 Problem-Solving and Decision-Making:

BE2.5, BE2.6, BE2.7, BE2.8, BE2.11, BE2.12, BE2.13, *BE2.14, D2.17, D2.18, E2.21, E2.25, E2.26, E2.28, E2.29, E2.30, E2.31, E2.32, E2.33, E2.34, E2.35, E2.36, E2.37, E2.39, E2.40, *E2.41, P2.42A, P2.43A, P2.44A, P2.45A, P2.46A, P2.47A, P2.48A, P2.49A, P2.50A, P2.51B, P2.52B, P2.53B, P2.54B, P2.55B, P2.56B, P2.57B, P2.58B, P2.59B, P2.60B

Legend**:** The following abbreviations will appear throughout the solutions manual file.

LO	Learning objective	
	Bloom's	
BT	Taxonomy	
	K	Knowledge
	C	Comprehension
	AP	Application
	AN	Analysis
	S	Synthesis
	E	Evaluation
Difficulty:	Level of difficulty	
	S	Simple
	M	Moderate
	C	Complex
Time:	Estimated time to complete in minutes	
AACSB	Association to Advance Collegiate Schools of Business	
	Communication	Communication
	Ethics	Ethics
	Analytic	Analytic
	Tech.	Technology
	Diversity	Diversity
	Reflec. Thinking	Reflective Thinking
CPA CM	CPA Canada Competency Map	
	Ethics	Professional and Ethical Behaviour
	PS and DM	Problem-Solving and Decision-Making
	Comm.	Communication
	Self-Mgt.	Self-Management
	Team & Lead	Teamwork and Leadership
	Reporting	Financial Reporting
	Stat. & Gov.	Strategy and Governance
	Mgt. Accounting	Management Accounting
	Audit	Audit and Assurance
	Finance	Finance
	Tax	Taxation

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 2.1

a. DM Frames and tires used in manufacturing bicycles
b. DL Wages paid to production workers
c. MO Insurance on factory equipment and machinery
d. MO Depreciation on factory equipment

LO 1 BT: C Difficulty: S Time: 2 min. AACSB: Analytic CPA: cpa-t003 CM: Mgt. Accounting

BRIEF EXERCISE 2.2

a. Direct materials
b. Direct materials
c. Direct labour
d. Manufacturing overhead
e. Manufacturing overhead (Indirect materials)
f. Direct materials
g. Direct materials
h. Manufacturing overhead (Indirect labour)

LO 1 BT: C Difficulty: S Time: 5 min. AACSB: Analytic CPA: cpa-t003 CM: Mgt. Accounting

BRIEF EXERCISE 2.3

a. Product
b. Period
c. Period
d. Product
e. Period
f. Product

LO 1 BT: C Difficulty: S Time: 2 min. AACSB: Analytic CPA: cpa-t003 CM: Mgt. Accounting

BRIEF EXERCISE 2.4

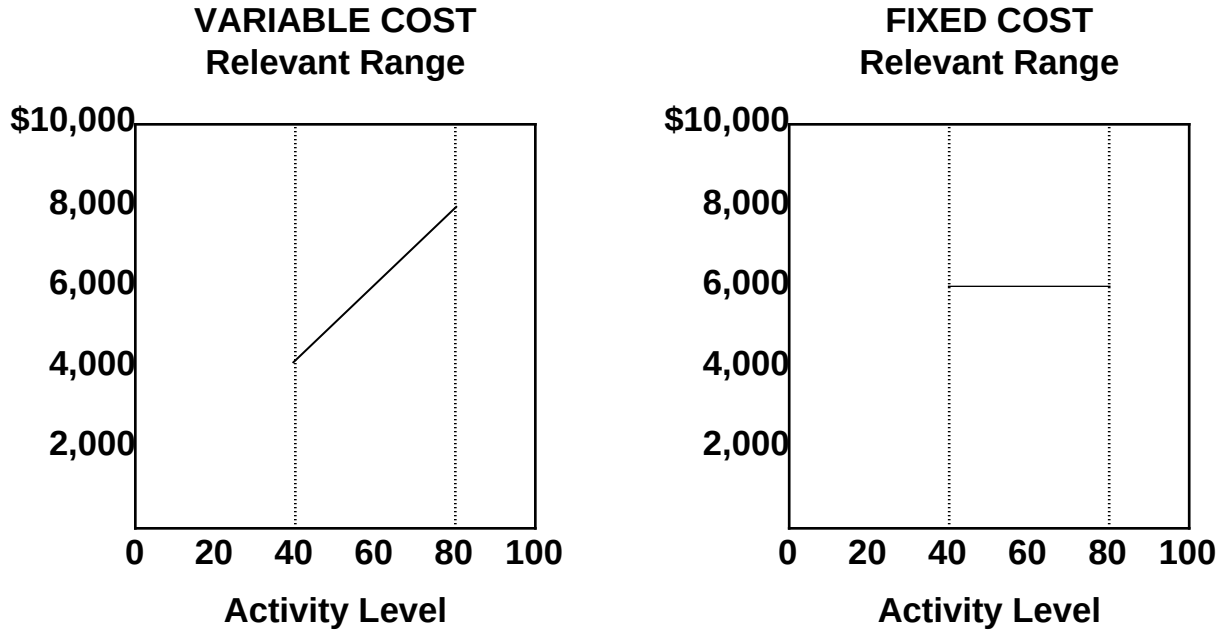
Indirect labour is a variable cost because it increases in total directly and proportionately with the change in the activity level: $10,000 ÷ 2,000 units = $5 and $20,000 ÷ 4,000 units = $5.

Supervisory salaries are a fixed cost because they remain the same in total regardless of changes in the activity level: $5,000 at both levels.

Maintenance is a mixed cost because it increases in total but not proportionately with changes in the activity level: $4,000 ÷ 2,000 units = $2 and $7,000 ÷ 4,000 units = $1.75.

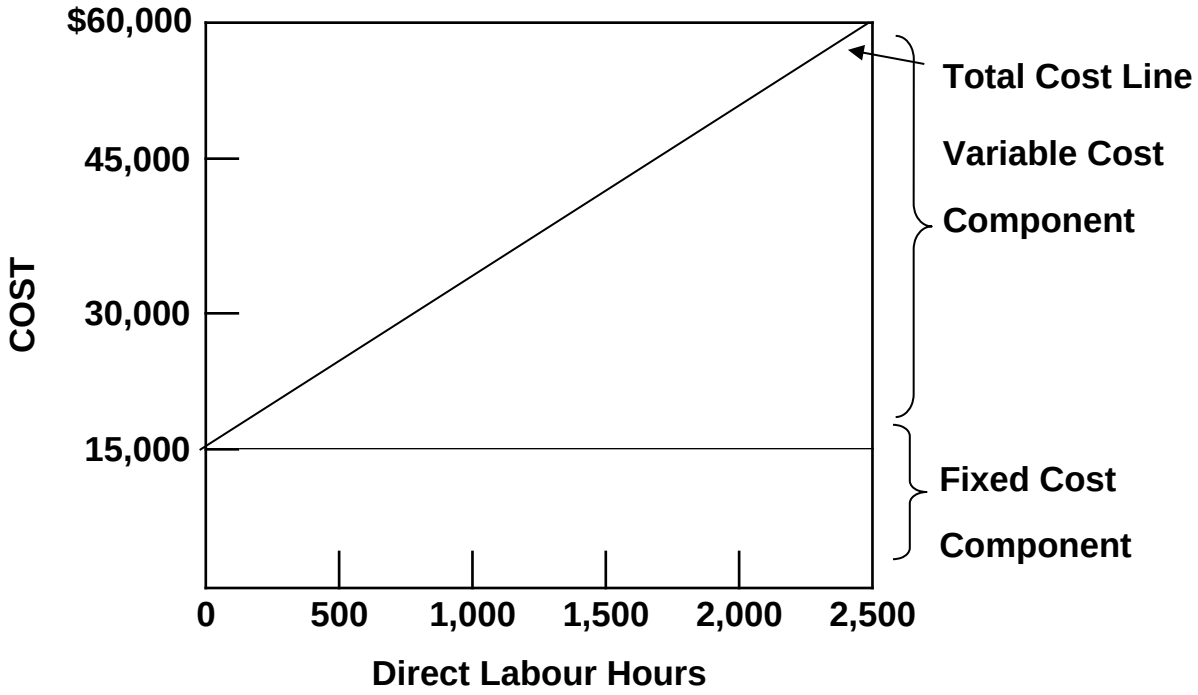
LO 2,3 BT: C Difficulty: S Time: 5 min. AACSB: Analytic CPA: cpa-t003 CM: Mgt. Accounting

BRIEF EXERCISE 2.5



LO 2 BT: AP Difficulty: M Time: 10 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

BRIEF EXERCISE 2.6



LO 3 BT: AP Difficulty: M Time: 10 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

BRIEF EXERCISE 2.7

High		Low		Difference
$16,490	–	$12,330	=	$4,160
8,200	–	5,000	=	3,200

$4,160 ÷ 3,200 = $1.30—Variable cost per kilometre

	High	Low
Total cost	$16,490	$12,330
Less: Variable costs		
8,200 × $1.30	10,660	
5,000 × $1.30		6,500
Total fixed costs	$5,830	$5,830

The mixed cost is $5,830 plus $1.30 per kilometre.

LO 3 BT: AN Difficulty: M Time: 10 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

BRIEF EXERCISE 2.8

High		Low		Difference
$65,000	–	$32,000	=	$33,000
40,000	–	18,000	=	22,000

$33,000 ÷ 22,000 = $1.50 per unit

	Activity Level	
	High	Low
Total cost	$65,000	$32,000
Less: Variable costs		
40,000 × $1.50	60,000	
18,000 × $1.50		27,000
Total fixed costs	$ 5,000	$ 5,000

The mixed cost is $5,000 plus $1.50 per unit produced.

LO 3 BT: AN Difficulty: M Time: 10 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

BRIEF EXERCISE 2.9

	Product Costs		
	Direct Materials	Direct Labour	Factory Overhead
a.			X
b.	X		
c.			X
d.		X	

LO 1 BT: C Difficulty: S Time: 2 min. AACSB: Analytic CPA: cpa-t003 CM: Mgt. Accounting

BRIEF EXERCISE 2.10

DIEKER COMPANY
Balance Sheet Partial)
December 31, 2022

Current assets		
Cash		$62,000
Accounts receivable		200,000
Inventories		
Finished goods	$71,000	
Work in process	87,000	
Raw materials	73,000	
		231,000
Prepaid expenses		38,000
Total current assets		$531,000

LO 4 BT: C Difficulty: M Time: 10 min. AACSB: Analytic CPA: cpa-t003 CM: Mgt. Accounting

BRIEF EXERCISE 2.11

a. Direct labour costs = prime costs + conversion costs – total manufacturing costs
Direct labour = $195,000 + $140,000 – $270,000 = $65,000

Direct material costs = prime costs – direct labour costs
Direct material costs = $195,000 – $65,000 = $130,000

Manufacturing overhead costs = conversion costs – direct labour costs
Manufacturing overhead costs = $140,000 – $65,000 = $75,000

b. Total costs of production = direct material + direct labour + overhead
= $130,000 + $65,000 + $75,000 = $270,000

c Total period costs = selling and administrative costs = $200,000

LO 1 BT: C Difficulty: M Time: 10 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

BRIEF EXERCISE 2.12

	Direct Materials Used	Direct Labour Used	Factory Overhead	Total Manufacturing Costs
(1)				$136,000[1]
(2)	$81,000[2]			
(3)		$144,000[3]		

(1) $25,000 + $61,000 + $50,000
(2) $296,000 – $140,000 – $75,000
(3) $310,000 – $111,000 – $55,000

LO 4 BT: AP Difficulty: S Time: 5 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

BRIEF EXERCISE 2.13

	Total Manufacturing Costs	Work in Process (1/1)	Work in Process (12/31)	Cost of Goods Manufactured
(1)	$136,000			$174,000[1]
(2)		$123,000[2]		
(3)			$58,000[3]	

[1] $120,000 + $136,000 – $82,000 = $174,000
[2] $321,000 – $296,000 + $98,000 = $123,000
[3] $310,000 + $463,000 - $715,000 = $58,000

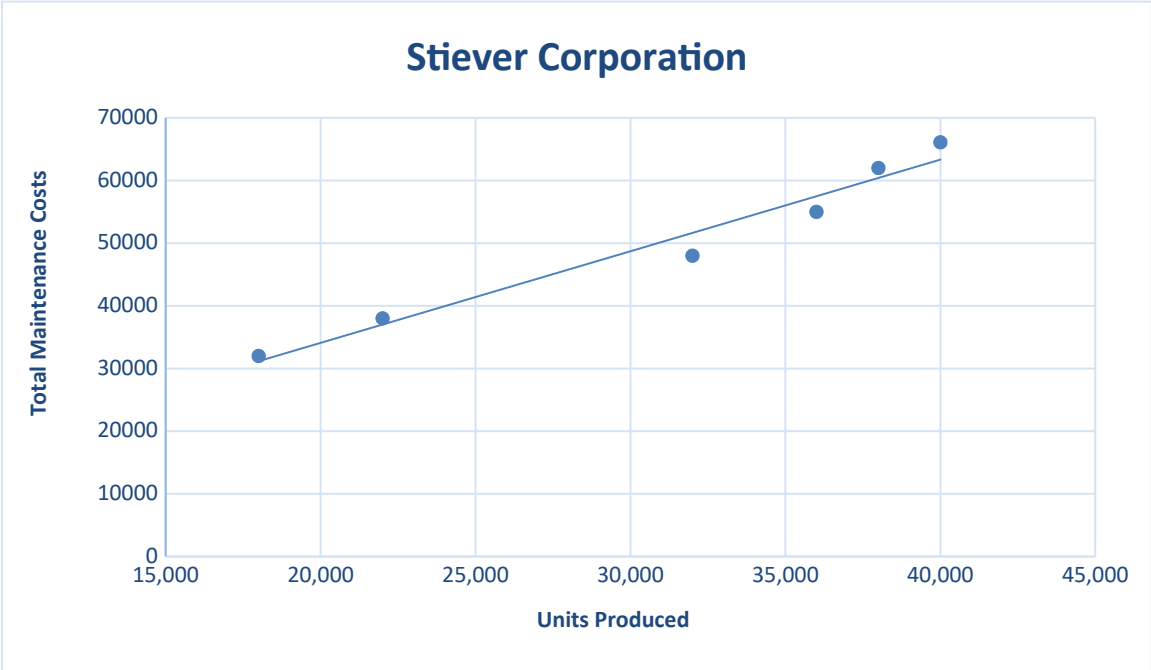
LO 4 BT: AP Difficulty: S Time: 5 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

*BRIEF EXERCISE 2.14

	Units Produced	Total Cost
July	18,000	$32,000
August	32,000	48,000
September	36,000	55,000
October	22,000	38,000
November	40,000	66,100
December	38,000	62,000

intercept	4,836
slope	1.46

BRIEF EXERCISE 2.14 (Continued)



Cost formula:

	Fixed Costs	Variable Costs
Total maintenance costs =	**Intercept**	**Slope x Quantity**
=	**$4,836**	**($1.46 x units produced)**

LO 5 BT: AP Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

SOLUTIONS TO *DO IT!* REVIEW EXERCISES

*DO IT! 2.*15

Period costs:
Advertising
Salaries of sales representatives

Product costs:
Blank CDs (DM)
Depreciation of CD image burner (MO)
Salary of factory manager (MO)
Factory supplies used (MO)
Paper inserts for CD cases (DM)
CD plastic cases (DM)
Salaries of factory maintenance employees (MO)
Salaries of employees who burn music onto CDs (DL)

LO 1 BT: K Difficulty: S Time: 5 min. AACSB: Analytic CPA: cpa-t003 CM: Mgt. Accounting

*DO IT! 2.*16

Variable costs: Indirect labour, direct labour, and direct materials
Fixed costs: Property taxes and depreciation
Mixed costs: Utilities and maintenance

LO 2 BT: C Difficulty: S Time: 5 min. AACSB: Analytic CPA: cpa-t003 CM: Mgt. Accounting

*DO IT! 2.*17

a. Variable cost: ($18,750 – $16,200) ÷ (10,500 – 8,800) = $1.50 per unit
Fixed cost: $18,750 – ($1.50 × 10,500 units) = $3,000
or $16,200 – ($1.50 × 8,800 units) = $3,000

b **Total estimated cost should not be calculated because 8,500 units are out of the relevant range of 8,800 to 10,500 units.**

LO 3 BT: AP Difficulty: M Time: 10 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

*DO IT! 2.*18

ROLEN MANUFACTURING COMPANY
Cost of Goods Manufactured Schedule
For the Month Ended April 30

Work in process, April 1		**$5,000**
Direct materials		
Raw materials, April 1	**$10,000**	
Raw materials purchases	**98,000**	
Total raw materials available for use	**108,000**	
Less: Raw materials, April 30	**14,000**	
Direct materials used	**$94,000**	
Direct labour	**60,000**	
Manufacturing overhead	**180,000**	
Total manufacturing costs		**334,000**
Total cost of work in process		**339,000**
Less: Work in process, April 30		**3,500**
Cost of goods manufactured		**$335,500**

LO 4 BT: AP Difficulty: M Time: 10 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

SOLUTIONS TO EXERCISES

EXERCISE 2.19

1. (c) Manufacturing overhead (indirect labour)
2. (c) Manufacturing overhead
3. (c) Manufacturing overhead
4. (c) Manufacturing overhead
5. (a) Direct materials
6. (b) Direct labour
7. (c) Manufacturing overhead
8. (c) Manufacturing overhead (Indirect materials)
9. (c) Manufacturing overhead (Indirect labour)
10. (a) Direct materials

LO 1 BT: C Difficulty: S Time: 10 min. AACSB: Analytic CPA: cpa-t003 CM: Mgt. Accounting

EXERCISE 2.20

a.

Materials used in product….DM
Depreciation on plant…….MOH
Property taxes on store……Period
Labour costs of assembly-line workers……DL
Factory supplies used……MOH
Advertising expense.....Period
Property taxes on plant.....MOH
Delivery expense.....Period
Sales commissions.....Period
Salaries paid to sales clerks....Period

b. Product costs are recorded as a part of the cost of inventory, because they are an integral part of the cost of producing the product. Product costs are not expensed until the goods are sold and are reflected in the cost of goods sold account. Period costs are recognized as an expense when incurred.

LO 1 BT: C Difficulty: M Time: 10 min. AACSB: Analytic CPA: cpa-t003 CM: Mgt. Accounting

EXERCISE 2.21

a.	**Factory utilities**	**$ 15,500**
	Depreciation on factory equipment	**12,650**
	Indirect factory labour	**48,900**
	Indirect materials	**80,800**
	Factory manager's salary	**8,000**
	Property taxes on factory building	**2,500**
	Factory repairs	**2,000**
	Manufacturing overhead	**$170,350**
b.	**Direct materials used**	**$137,600**
	Direct labour	**69,100**
	Manufacturing overhead	**170,350**
	Product costs	**$377,050**
c	**Depreciation on delivery trucks**	**$ 3,800**
	Sales salaries	**46,400**
	Repairs to office equipment	**1,300**
	Advertising	**15,000**
	Office supplies used	**2,640**
	Period costs	**$69,140**

LO 1 BT: AP Difficulty: M Time: 15 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

EXERCISE 2.22

1.	**(c)**	**3.**	**(a)**	**5.**	**(b)***	**7.**	**(a)**	**9.**	**(c)**
2.	**(c)**	**4.**	**(c)**	**6.**	**(d)**	**8.**	**(b)**	**10.**	**(c)**

***or sometimes (c), depending on the circumstances**

LO 1 BT: C Difficulty: S Time: 10 min. AACSB: Analytic CPA: cpa-t003 CM: Mgt. Accounting

EXERCISE 2.23

1. (b)
2. (c)
3. (a)
4. (c)
5. (c)
6. (c)
7. (c)
8. (c)
9. (c)
10. (c)

LO 1 BT: C Difficulty: M Time: 10 min. AACSB: Analytic CPA: cpa-t003 CM: Mgt. Accounting

EXERCISE 2.24

a.

Variable costs	**Vary in total directly and proportionately with changes in the activity level but remain constant on a per-unit basis**
Fixed costs	**Remain constant in total regardless of changes in the activity level but vary on a per-unit basis**
Mixed costs	**Contain both a variable and fixed cost element. They change in total but not proportionately with changes in the activity level and vary both in total and on a per-unit basis**

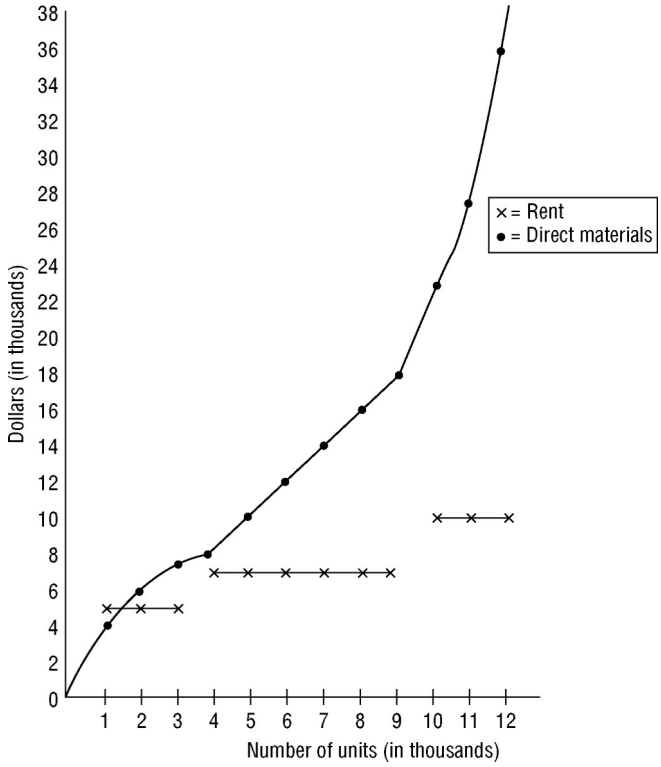
b. Using these criteria as a guideline, the classification is as follows:

Direct materials	**Variable**	**Rent**	**Fixed**
Direct labour	**Variable**	**Maintenance**	**Mixed**
Utilities	**Mixed**	**Supervisory salaries**	**Fixed**

LO 2 BT: C Difficulty: S Time: 10 min. AACSB: Analytic CPA: cpa-t003 CM: Mgt. Accounting

EXERCISE 2.25

a.



b. The relevant range is 4,000 – 9,000 units of output since a straight-line relationship exists for both direct materials and rent within this range.

c. Variable cost per unit within the relevant range: (4,000 – 9,000 units)

$$= \frac{\text{Cost}}{\text{Units}}$$

$$= \frac{\$10{,}000^*}{5{,}000^*} = \$2 \text{ per unit}$$

***Any costs and units within the relevant range could have been used to calculate the same unit cost of $2.**

d. Fixed cost within the relevant range (4,000 to 9,000 units) = $7,000.

LO 2 BT: AN Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

EXERCISE 2.26

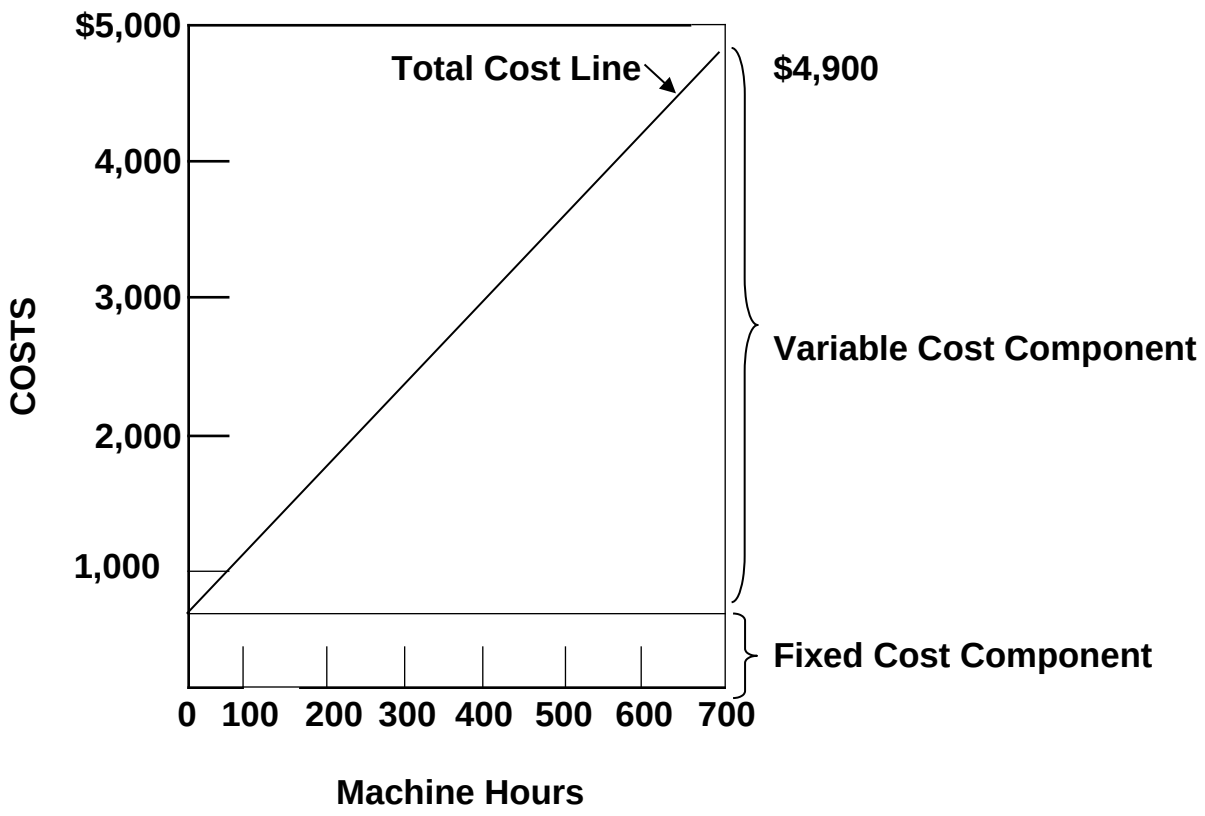
a. Maintenance Costs:

($4,900 – $2,500) ÷ (700 – 300) = $2,400 ÷ 400 =
$6.00 variable cost per machine hour

	700 Machine Hours	300 Machine Hours
Total costs	**$4,900**	**$2,500**
Less: Variable costs		
700 × $6.00	**4,200**	
300 × $6.00		**1,800**
Total fixed costs	**$ 700**	**$ 700**

Thus, maintenance costs are $700 per month plus $6.00 per machine hour.

b.



LO 3 BT: AP Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

EXERCISE 2.27

1.	Wood used in the production of furniture	Variable
2.	Fuel used in delivery trucks	Variable
3.	Straight-line depreciation on factory building	Fixed
4.	Screws used in the production of furniture	Variable
5.	Sales staff salaries	Fixed
6.	Sales commissions	Variable
7.	Property taxes	Fixed
8.	Insurance on buildings	Fixed
9.	Hourly wages of furniture craftspeople	Variable
10.	Salaries of factory supervisors	Fixed
11.	Utilities expense	Mixed
12.	Telephone bill	Mixed

LO 2 BT: C Difficulty: S Time: 10 min. AACSB: Analytic CPA: cpa-t003 CM: Mgt. Accounting

EXERCISE 2.28

a. Maintenance Costs:

$$\frac{\$5{,}000 - \$2{,}750}{8{,}000 - 3{,}500} = \frac{\$2{,}250}{4{,}500}$$

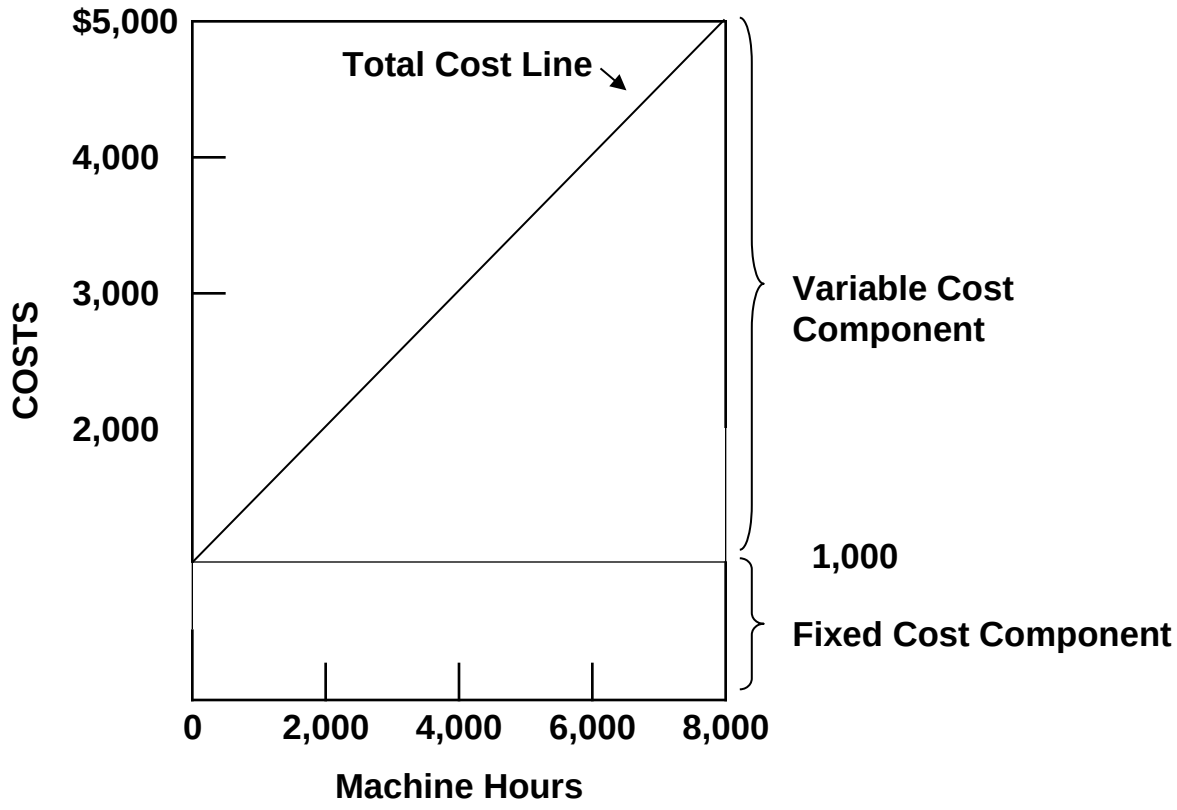
= $0.50 variable cost per machine hour

	Activity Level	
	High	Low
Total cost	$5,000	$2,750
Less: Variable costs		
8,000 × $.50	4,000	
3,500 × $.50		1,750
Total fixed costs	$1,000	$1,000

Thus, maintenance costs are $1,000 per month plus $0.50 per machine hour.

EXERCISE 2.28 (Continued)

b.



LO 3 BT: AP Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

EXERCISE 2.29

a.

Cost	Fixed	Variable	Mixed
Direct materials		X	
Direct labour		X	
Utilities			X
Property taxes	X		
Indirect labour		X	
Supervisory salaries	X		
Maintenance			X
Depreciation	X		

EXERCISE 2.29 (Continued)

b. Variable costs to produce 3,000 units = $7,500 + $15,000 + $4,500
= $27,000

Variable cost per unit = $27,000 ÷ 3,000 units
= $9 per unit

Variable cost portion of mixed cost = Total cost – Fixed portion

Utilities:
Variable cost to produce 3,000 units = $1,800 – $300
= $1,500

Variable cost per unit = $1,500 ÷ 3,000 units
= $0.50 per unit

Maintenance:
Variable cost to produce 3,000 units = $1,100 – $200
= $900

Variable cost per unit = $900 ÷ 3,000 units
= $0.30 per unit

Total variable cost per unit = $9.00 + $0.50 + $0.30
= $9.80

Fixed cost component = $1,000 + $1,800 + $2,400 +
$300 + $200
= $5,700

Cost to produce 5,000 units = ($9.80 × 5,000) + $5,700
= $49,000 + $5,700
= $54,700

LO 2 BT: AP Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

EXERCISE 2.30

(a)	**Delivery service (product) costs:**	
	Indirect materials	**$ 8,400**
	Depreciation on delivery equipment	**11,200**
	Dispatcher's salary	**7,000**
	Gas and oil for delivery trucks	**2,200**
	Drivers' salaries	**15,000**
	Delivery equipment repairs	**300**
	Total	**$44,100**
(b)	**Period costs:**	
	Property taxes on office building	**$ 2,870**
	CEO's salary	**22,000**
	Advertising	**1,600**
	Office supplies	**650**
	Office utilities	**990**
	Repairs on office equipment	**680**
	Total	**$28,790**

LO 1 BT: AP Difficulty: S Time: 10 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

EXERCISE 2.31

a.	**Work-in-process, 1/1**		**$ 10,000**
	Manufacturing costs:		
	Direct materials used		**$120,000**
	Direct labour		**110,000**
	Manufacturing overhead		
	Depreciation on plant	**$60,000**	
	Factory supplies used	**25,000**	
	Property taxes on plant	**19,000**	
			104,000
	Total cost of work-in-process		**344,000**
	Less: ending work-in-process		**14,000**
	Cost of goods manufactured		**$330,000**
b.	**Finished goods, 1/1**		**$ 60,000**
	Cost of goods manufactured		**330,000**
	Cost of goods available for sale		**390,000**
	Finished goods, 12/31		**50,600**
	Cost of goods sold		**$339,400**

LO 4 BT: AP Difficulty: M Time: 10 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

EXERCISE 2.32

CEPEDA MANUFACTURING COMPANY
Cost of Goods Manufactured Schedule
For the Year Ended December 31

Work in process inventory (1/1).....		$210,000
Direct materials		
Raw materials inventory, (1/1) [2].....	$42,500	
Raw materials purchases.....	165,000	
Total raw materials available for use [1]…	207,500	
Less: Raw materials inventory (12/31)…..	17,500	
Direct materials used.....		190,000
Direct labour [5]		111,000
Manufacturing overhead		
Indirect labour.....	$15,000	
Factory depreciation.....	36,000	
Factory utilities.....	68,000	
Total manufacturing overhead.....		119,000
Total manufacturing costs [4].....		420,000
Total cost of work in process [3].....		630,000
Less: Work in process inventory (12/31).....		80,000
Cost of goods manufactured.....		$550,000

Calculations:

[1] Total raw materials available for use:

Direct materials used.....	$190,000
Add: Raw materials inventory (12/31).....	17,500
Total raw materials available for use.....	$207,500

[2] Raw materials inventory (1/1):

Raw materials available for use (from [1]).....	$207,500
Less: Raw materials purchases.....	165,000
Raw materials inventory (1/1).....	$ 42,500

EXERCISE 2.32 (continued)

(3) Total cost of work in process:

Cost of goods manufactured	$550,000
Add: Work in process (12/31)	80,000
Total cost of work in process	$630,000

(4) Total manufacturing costs:

Total cost of work in process	$630,000
Less: Work in process (1/1)	210,000
Total manufacturing costs	$420,000

(5) Direct labour:

Total manufacturing costs	$420,000
Less: Total overhead	119,000
Direct materials used	190,000
Direct labour	$ 111,000

LO 4 BT: AP Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

EXERCISE 2.33

(a) + $57,400 + $46,500 = $175,650
(a) = $71,750

$175,650 + (b) = $221,500
(b) = $45,850

$221,500 – (c) = $180,725
(c) = $40,775

$68,400 + $86,500 + $81,600 = .
(d) = $236,500

$236,500 + $15,600 = (e)
(e) = $252,100

$252,100 – $11,000 = (f)
(f) = $241,100

$273,700 – $130,000 –$102,000 =(g)
(g) = $41,700

$273,700 + (h) = $335,000
(h) = $61,300

$335,000 – $90,000 = (i)
(i) = $245,000

EXERCISE 2.33 (Continued)

Additional explanation to EXERCISE 2.33 solution:

Case A

(a)	**Total manufacturing costs**	**$175,650**
	Less: Manufacturing overhead	**46,500**
	Direct labour	**57,400**
	Direct materials used	**$ 71,750**
(b)	**Total cost of work in process**	**$221,500**
	Less: Total manufacturing costs	**175,650**
	Work in process (1/1/22)	**$ 45,850**
(c)	**Total cost of work in process**	**$221,500**
	Less: Cost of goods manufactured	**180,725**
	Work in process (12/31/22)	**$ 40,775**

Case B

(d)	**Direct materials used**	**$ 68,400**
	Direct labour	**86,500**
	Manufacturing overhead	**81,600**
	Total manufacturing costs	**$236,500**
(e)	**Total manufacturing costs**	**$236,500**
	Work in process (1/1/22)	**15,600**
	Total cost of work in process	**$252,100**
(f)	**Total cost of work in process**	**$252,100**
	Less: Work in process (12/31/22)	**11,000**
	Cost of goods manufactured	**$241,100**

EXERCISE 2.33 (Continued)

Case C

(g) Total manufacturing costs.....$273,700
Less: Manufacturing overhead.....102,000
Direct materials used..... 130,000
Direct labour.....$ 41,700

(h) Total cost of work in process.....$335,000
Less: Total manufacturing costs.....273,700
Work in process (1/1/20).....$ 61,300

(i) Total cost of work in process..... $335,000
Less: Work in process (12/31/22)..... 90,000
Cost of goods manufactured.....$245,000

LO 4 BT: S Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

EXERCISE 2.34

a. (a) $127,000 + $140,000 + $89,000 = $356,000

(b) $356,000 + $33,000 – $360,000 = $29,000

(c) $430,000 – ($200,000 + $123,000) = $107,000

(d) $40,000 + $470,000 – $430,000 = $80,000

(e) $257,000 – ($80,000 + $100,000) = $77,000

(f) $257,000 + $60,000 – $80,000 = $237,000

(g) $308,000 – ($67,000 + $75,000) = $166,000

(h) $308,000 + $45,000 – $270,000 = $83,000

EXERCISE 2.34 (Continued)

b.

IKERD COMPANY
Cost of Goods Manufactured Schedule
For the Year Ended December 31, 2022

Work in process, January 1	$ 33,000
Direct materials	$127,000
Direct labour	140,000
Manufacturing overhead	89,000
Total manufacturing costs	356,000
Total cost of work in process	389,000
Less: Work in process, December 31	29,000
Cost of goods manufactured	$360,000

LO 4 BT: S Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

EXERCISE 2.35

a.

AIKMAN CORPORATION
Cost of Goods Manufactured Schedule
For the Month Ended June 30, 2022

Work in process, June 1		$ 3,000
Direct materials used		25,000
Direct labour		30,000
Manufacturing overhead		
Indirect factory labour	$4,500	
Factory manager's salary	3,000	
Indirect materials	2,200	
Depreciation, factory equipment	1,400	
Maintenance, factory equipment	1,800	
Factory utilities	400	
Total manufacturing overhead		13,300
Total manufacturing costs		68,300
Total cost of work in process		71,300
Less: Work in process, June 30		2,800
Cost of goods manufactured		$68,500

EXERCISE 2.35 Continued)

b.

AIKMAN CORPORATION
Income Statement (Partial)
For the Month Ended June 30, 2022

Net sales	$87,100
Cost of goods sold	
Finished goods inventory, June 1	$ 5,000
Cost of goods manufactured [from (a)]	68,500
Cost of goods available for sale	73,500
Finished goods inventory, June 30	9,500
Cost of goods sold	64,000
Gross profit	$23,100

LO 4 BT: AP Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

EXERCISE 2.36

a.

DANNER, LETOURNEAU, AND MAJEWSKI
Schedule of Cost of Contract Services Provided
For the Month Ended August 31, 2022

Supplies used (direct materials)		$ 2,500
Salaries of professionals (direct labour)		15,600
Service overhead:		
Utilities for contract operations	$1,900	
Contract equipment depreciation	900	
Insurance on contract operations	800	
Janitorial services for professional offices	300	3,900
Cost of contract services provided		$22,000

b. The costs not included in the cost of contract services provided would all be classified as period costs. They would be reported on the income statement under administrative expenses.

LO 1,4 BT: AP Difficulty: M Time: 15 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

EXERCISE 2.37

a. Work-in-process, 1/1		**$ 13,500**
Direct materials used		
Raw materials inventory, 1/1	**$ 21,000**	
Materials purchased	**150,000**	
Materials available for use	**171,000**	
Less: Materials inventory, 12/31	**30,000**	**$141,000**
Direct labour		**220,000**
Manufacturing overhead		**180,000**
Total manufacturing costs		**541,000**
Total cost of work in process		**554,500**
Less: Work in process, 12/31		**17,200**
Cost of goods manufactured		**$537,300**

SASSAFRAS COMPANY
Income Statement (Partial)
For the Year Ended December 31, 2022

b. Sales revenue		**$910,000**
Cost of goods sold		
Finished goods, 1/1		**$ 27,000**
Cost of goods manufactured (from a.)		**537,300**
Cost of goods available for sale		**564,300**
Less: Finished goods, 12/31		**21,000**
Cost of goods sold		**543,300**
Gross profit		**$366,700**

EXERCISE 2.37 (Continued)

SASSAFRAS COMPANY
(Partial) Balance Sheet
December 31, 2022

c. Current assets
Inventories

Finished goods	**$21,000**
Work in process	**17,200**
Raw materials	**30,000**
	$68,200

d. In a merchandising company's income statement, the only difference would be in the computation of cost of goods sold. The beginning and ending finished goods inventory would be replaced by beginning and ending merchandise inventory and the cost of goods manufactured total would be replaced by purchases. In a merchandising company's balance sheet, there would be one inventory account (merchandise inventory) instead of three.

LO 4 BT: AP Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

EXERCISE 2.38

1.	**a.**	**9.**	**a.**
2.	**a.** [1]	**10.**	**a., b.**
3.	**a., c.**	**11.**	**b.**
4.	**b.** [1]	**12.**	**b.**
5.	**a.**	**13.**	**a.**
6.	**a.**	**14.**	**a.**
7.	**a.**	**15.**	**a.**
8.	**b., c**	**16.**	**a.**

[1]Only ending inventory is reflected on the balance sheet. Opening inventory would be reflected as the ending inventory of the previous year in a comparative balance sheet.

LO 4 BT: K Difficulty: S Time: 10 min. AACSB: Analytic CPA: cpa-t003 CM: Mgt. Accounting

EXERCISE 2.39

a.

KANANASKIS MANUFACTURING
Cost of Goods Manufactured Schedule
For the Month Ended June 30, 2022

Work in process inventory, June 1.....		$ 5,000
Direct materials used		
Raw materials inventory, June 1.....	$ 10,000	
Raw materials purchases.....	64,000	
Total raw materials available for use.....	74,000	
Less: Raw materials inventory, June 30. .	13,100	60,900
Manufacturing overhead		
Direct labour ……..		57,000
Indirect labour.....	7,500	
Factory insurance.....	4,000	
Machinery depreciation.....	5,000	
Factory utilities.....	3,100	
Machinery repairs.....	1,800	
Miscellaneous factory costs.....	1,500	22,900
Total manufacturing costs.....		140,800
Total cost of work in process.....		145,800
Less: Work in process inventory, June 30.....		13,000
Cost of goods manufactured.....		$132,800

b.

KANANASKIS MANUFACTURING
(Partial) Balance Sheet
As at June 30, 2022

Current assets	
Inventories	
Finished goods.....	$ 6,000
Work in process.....	13,000
Raw materials.....	13,100
	$32,100

LO 4 BT: AP Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

EXERCISE 2.40

a. Raw Materials account:

5,000 units purchased less 4,650 units used = 350 units remaining
350 units x $8 each = $2,800

Work in Process account:

4,600 units were used in manufacturing; 90% in completed autos
(4,600 × 10%) × $8 = $3,680

Finished Goods account:

4,600 x 90% completed; 75% of completed autos sold
(4,600 × 90% × 25%) × $8 = $8,280

Cost of Goods Sold account:

4,600 x 90% completed; 75% of completed autos sold
(4,600 × 90% × 75%) × $8 = $24,840

Selling Expenses account: 50 × $8 = $400

Proof of cost of head lamps allocated (5,000 × $8 = $40,000)

Raw materials	**$ 2,800**
Work in process	**3,680**
Finished goods	**8,280**
Cost of goods sold	**24,840**
Selling expenses	**400**
Total	**$40,000**

EXERCISE 2.40 (Continued)

b. To: Chief Accountant

From: Student

Subject: Statement Presentation of Accounts

Two accounts will appear on the income statement. Cost of Goods Sold will be deducted from net sales in determining gross profit. Selling Expenses will be shown under operating expenses and will be deducted from gross profit in determining net income. Sometimes, the calculation for Cost of Goods Sold is shown on the income statement. In these cases, the balance in Finished Goods inventory would also be shown on the income statement.

The other accounts associated with the head lamps are inventory accounts that contain end-of-period balances. Thus, they will be reported under inventories in the current assets section of the balance sheet in the following order: finished goods, work in process, and raw materials.

LO 4 BT: AP Difficulty: C Time: 25 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

*EXERCISE 2.41

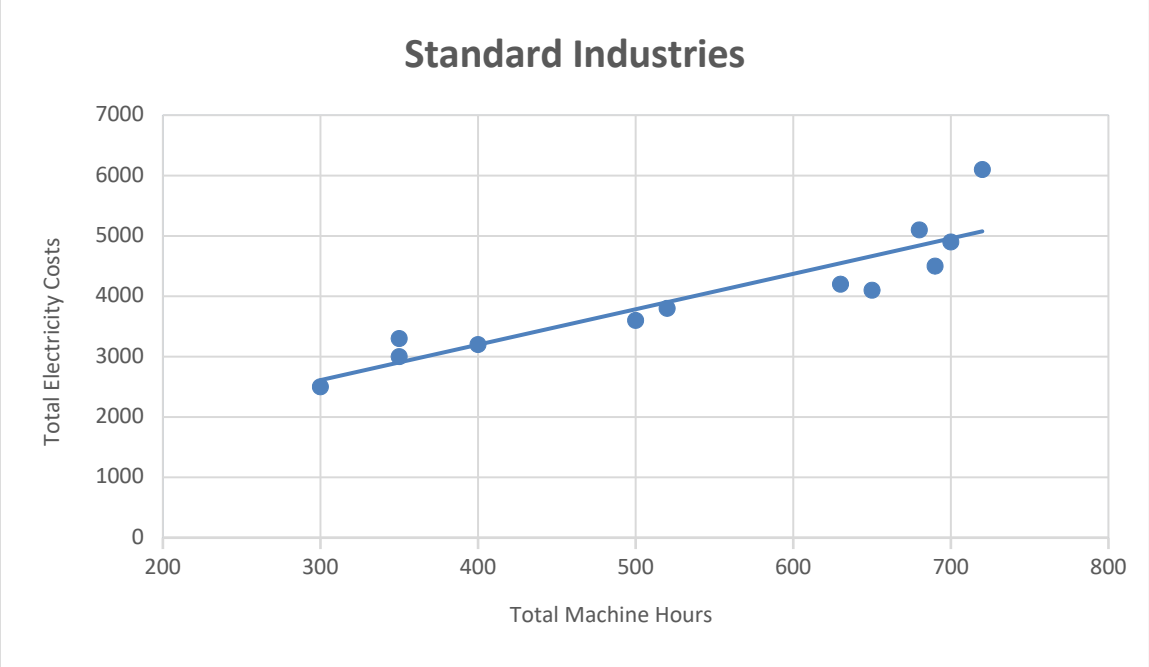
a.

	Total Machine Hours	Total Electricity Costs
January	300	$2,500
February	350	3,000
March	500	3,600
April	690	4,500
May	400	3,200
June	700	4,900
July	650	4,100
August	520	3,800
September	680	5,100
October	630	4,200
November	350	3,300
December	720	6,100

Intercept 850.47
Slope 5.87

EXERCISE 2.41 (Continued)

b.



c. The cost formula estimates the electricity cost for the level of activity of 500 machine hours at $3,785 while the observed cost was $3,600 for a difference of $185.

LO 5 BT: AP Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

SOLUTIONS TO PROBLEMS: SET A

PROBLEM 2.42A

a.

	Product Costs			
Cost Item	Direct Materials	Direct Labour	Manufact. Overhead	Period Costs
Maintenance on factory building			$ 1,300	
Factory manager's salary			4,000	
Advertising for helmets				$ 8,000
Sales commissions				5,000
Depreciation on factory building			700	
Rent on factory equipment			6,000	
Insurance on factory building			3,000	
Raw materials	$20,000			
Utility costs for factory			800	
Supplies for general office				200
Wages for assembly-line workers		$55,000		
Depreciation on office equipment				500
Miscellaneous materials			2,000	
	$20,000	$55,000	$17,800	$13,700

b. Total production costs

Direct materials	$20,000
Direct labour	55,000
Manufacturing overhead	17,800
Total production cost	$92,800

Production cost per motorcycle helmet = $92,800/1,000 = $92.80

LO 1 BT: AN Difficulty: S Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.43A

a.

Cost Item	Direct Materials	Direct Labour	MOH	Period Costs
Raw materials (1)	$60,000			
Wages for workers (2)		$65,000		
Rent on equipment			$ 1,500	
Indirect materials (3)			7,500	
Factory supervisor's salary			3,500	
Factory janitorial costs			1,400	
Advertising				$6,000
Depreciation–factory building (4)			800	
Property taxes–factory building (5)			600	
	$60,000	$65,000	$15,300	$6,000

(1) $24 × 2,500 = $60,000
(2) $13 × 2 hrs. × 2,500 = $65,000
(3) $3 × 2,500 = $7,500
(4) $9,600/12 = $800
(5) $7,200/12 = $600

b. Total production costs

Direct materials	$ 60,000
Direct labour	65,000
Manufacturing overhead	15,300
Total production cost	$140,300

Production cost per driver = $140,300 ÷ 2,500 = $56.12

LO 1 BT: AN Difficulty: S Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.44A

a. Case 1

Total manufacturing costs = (a)
(a) = $6,300 + $3,000 + $6,000 = $15,300

Ending work in process inventory = (b)
$15,300 + $1,000 – (b) = $14,600
(b) = $15,300 + $1,000 – $14,600 = $1,700

Beginning finished goods inventory =
$14,600 + (c) = $18,300
(c) = $18,300 – $14,600 = $3,700

Cost of goods sold = (d)
(d) = $18,300 – $1,500 = $16,800

Gross profit = (e)
(e) = ($22,500 – $1,500) – $16,800 = $4,200

Net income = (f)
(f) = $4,200 – $2,700 = $1,500

Case 2

Direct materials used = (g)
(g) + $8,000 + $4,000 = $18,000
(g) = $18,000 – $8,000 – $4,000 = $6,000

Beginning work in process inventory = (h)
$18,000 total manufacturing costs + (h) beginning work in process
– $3,000 ending work in process = $22,000
(h) = $22,000 + $3,000 – $18,000 = $7,000

Cost of goods sold = (k)
(k) = $3,300 beginning inventory + $22,000 Cost of goods manufactured – $2,500 ending inventory = $22,800

(Note: Item (i) can only be solved after item (k) is solved.)

PROBLEM 2.44A (Continued)

Sales = (i)
((i) – $1,400) – (k) = $6,000
((i) – $1,400) – $22,800 = $6,000
(i) = $1,400 + $22,800 + $6,000 = $30,200

Goods available for sale = (j)
(j) = $22,000 + $3,300 = $25,300

Operating expenses = (l)
$6,000 – (l) = $2,200
(l) = $3,800

b.

CASE 1
Cost of Goods Manufactured Schedule

Work in process, beginning	$ 1,000
Direct materials	6,300
Direct labour	3,000
Manufacturing overhead	6,000
Total manufacturing costs	15,300
Total cost of work in process	16,300
Less: Work in process, ending	1,700
Cost of goods manufactured	$14,600

c.

CASE 1
Income Statement

Sales	$22,500
Less: Sales discounts	1,500
Net sales	$21,000
Cost of goods sold	
Finished goods inventory, beginning	3,700
Cost of goods manufactured	14,600
Cost of goods available for sale	18,300
Less: Finished goods inventory, ending	1,500
	16,800
Gross profit	4,200
Operating expenses	2,700
Net income	$ 1,500

PROBLEM 2.44A (Continued)

CASE 1
(Partial) Balance Sheet

Current assets		
Cash		**$ 3,000**
Receivables (net)		**10,000**
Inventories		
Finished goods	**$1,500**	
Work in process	**1,700**	
Raw materials	**700**	**3,900**
Prepaid expenses		**200**
Total current assets		**$17,100**

LO 4 BT: S Difficulty: M Time: 30 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.45A

a.

STELLAR MANUFACTURING COMPANY
Cost of Goods Manufactured Schedule
For the Year Ended December 31, 2022

Work in process, (1/1).....		$ 9,500
Direct materials		
Raw materials inventory, (1/1).....	$ 47,000	
Raw materials purchases.....	62,500	
Total raw materials available for use.....	109,500	
Less: Raw materials inventory, (12/31).....	44,800	
Direct materials used.....		$ 64,700
Direct labour.....		145,100
Manufacturing overhead		
Indirect labour.....	18,100	
Factory insurance.....	7,400	
Factory machinery depreciation….	7,700	
Factory utilities.....	12,900	
Plant manager's salary.....	40,000	
Factory property taxes.....	6,900	
Factory repairs.....	800	
Total manufacturing overhead.....		93,800
Total manufacturing costs.....		303,600
Total cost of work in process.....		313,100
Less: Work in process, (12/31).....		7,500
Cost of goods manufactured.....		$305,600

PROBLEM 2.45A (Continued)

b.

STELLAR MANUFACTURING COMPANY
(Partial) Income Statement
For the Year Ended December 31, 2022

Sales revenues	
Sales	**$465,000**
Less: Sales discounts	**2,500**
Net sales	**$462,500**
Cost of goods sold	
Finished goods inventory, (1/1)	**85,000**
Cost of goods manufactured	**305,600**
Cost of goods available for sale	**390,600**
Less: Finished goods inventory, (12/31)	**77,800**
Cost of goods sold	**312,800**
Gross profit	**$149,700**

c.

STELLAR MANUFACTURING COMPANY
(Partial) Balance Sheet
As at December 31, 2022

	Assets	
Current assets		
Cash		**$ 28,000**
Accounts receivable		**27,000**
Inventories:		
Finished goods	**$77,800**	
Work in process	**7,500**	
Raw materials	**44,800**	**130,100**
Total current assets		**$185,100**

LO 4 BT: AP Difficulty: M Time: 30 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.46A

a.

TOMBERT COMPANY
Cost of Goods Manufactured Schedule
For the Month Ended October 31, 2022

Work in process, October 1		$ 16,000
Direct materials		
Raw materials inventory, October 1	$ 18,000	
Raw materials purchases	264,000	
Total raw materials available for use	282,000	
Less: Raw materials inventory, October 31	29,000	
Direct materials used		$253,000
Direct labour		190,000
Manufacturing overhead		
Rent on factory facilities	60,000	
Depreciation on factory equipment	31,000	
Indirect labour	28,000	
Factory utilities*	9,000	
Factory insurance**	4,800	
Total manufacturing overhead	132,800	
Total manufacturing costs		575,800
Total cost of work in process		591,800
Less: Work in process, October 31		14,000
Cost of goods manufactured		$577,800

*$12,000 × 75% = $9,000
**$8,000 × 60% = $4,800

PROBLEM 2.46A (Continued)

b.

TOMBERT COMPANY
Income Statement
For the Month Ended October 31, 2022

Sales (net)	**$780,000**
Cost of goods sold	
Finished goods inventory, October 1	**$ 30,000**
Cost of goods manufactured	**577,800**
Cost of goods available for sale	**607,800**
Less: Finished goods inventory, October 31	**45,000**
Cost of goods sold	**562,800**
Gross profit	**217,200**
Operating expenses	
Advertising expense	**90,000**
Selling and administrative salaries	**75,000**
Depreciation expense on sales equipment	**45,000**
Utilities expense*	**3,000**
Insurance expense**	**3,200**
Total operating expenses	**216,200**
Net income	**$ 1,000**

***$12,000 × 25%**

****$8,000 × 40%**

LO 4 BT: S Difficulty: M Time: 30 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.47A

a.	**Raw materials inventory, beginning.....**	**$ 9,600**
	Raw materials purchased[(1)].....	**28,800**
	Raw materials available for use.....	**38,400**
	Less: Raw materials inventory, ending.....	**10,400**
	Raw materials used in production	**$28,000**

[1] $28,000 + $10,400 = $38,400
$38,400 – $9,600 = $28,800

b.	**Work in process inventory, beginning.....**	**$ 14,600**
	Manufacturing costs added.....	**160,000**
	Total work in process during the month.....	**174,600**
	Less: Work in process inventory, ending.....	**13,000**
	Cost of goods manufactured [(2)]	**$161,600**

[2]$14,600 + $160,000 – $13,000 = $161,600

c	**Finished goods inventory, beginning.....**	**$ 9,600**
	Cost of goods manufactured.....	**161,600**
	Cost of goods available for sale.....	**171,200**
	Less: Finished goods inventory, ending.....	**9,200**
	Cost of goods sold[3]	**$162,000**

[3]$9,600 + $161,600 – $9,200 = $162,000

LO 1,4 BT: AN Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.48A

a. Cost of goods sold = manufacturing cost per unit × number of units sold
Cost of goods sold = ($3,000,000 ÷ 300,000) × 298,500
= $2,985,000

b. Gross Profit = Sales – Cost of goods sold
= ($18 × 298,500) – $2,985,000
= $2,388,000

c Cost of finished goods = number of units in inventory × per unit product cost
Cost of finished goods = (300,000 – 298,500) × $10[1]
= $15,000

[1]$3,000,000 ÷ 300,000 = $10 per unit

LO 4 BT: AN Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.49A

a. (a) Raw materials inventory, beginning.....$18,000
Plus: Raw materials purchased.....100,000
Raw materials available for use.....118,000
Less: Raw materials inventory, ending.....18,000
Raw materials used in production.....100,000
Less: Indirect materials.....10,000
Direct materials used.....$90,000

(b) Manufacturing costs for the month $285,000
Less: Direct materials used.....90,000
Less: Manufacturing overhead.....115,000
Direct labour $80,000

(c) Work in process, beginning.....$. 8,000
Plus: Manufacturing costs for the month.....285,000
Total cost of work in process.....293,000
Less: Work in process, ending.....20,000
Cost of goods manufactured*.....$273,000

***This is the value of product transferred to finished goods.**

(d) Cost of goods sold + 40% markup = Sales
Sales = 140% × COGS
COGS = $420,000 ÷ 1.40 = $300,000

(e) Cost of goods sold (from (d)).....$300,000
Plus: Finished goods inventory, ending..... 20,000
Goods available for sale..... 320,000
Less: Cost of goods manufactured..... 273,000
Finished goods inventory, beginning..... $ 47,000

PROBLEM 2.49A (Continued)

b. Variable costs vary in total directly and proportionately with changes in the activity level but remain constant on a per-unit basis. Fixed costs remain constant in total regardless of changes in the activity level but vary on a per-unit basis.

LO 2 BT: S Difficulty: C Time: 30 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.50A

a.

Raw materials used in production	$180,000
Plus: Raw materials inventory, ending	55,000
Raw materials available for use	235,000
Less: Raw materials inventory, beginning	25,000
Raw materials purchased	$210,000

b.

Cost incurred for the month (10,000 hrs × $15)	$150,000
Plus: Beginning of the month accrual	10,000
	160,000
Less: End of the month accrual	20,000
Cash disbursements for labour	$140,000

c.

Work in process inventory, beginning	$ 15,000
Plus: Materials used in production	180,000
Labour costs (10,000 hrs × $15)	150,000
Manufacturing overhead	100,000
	445,000
Less: Work in process inventory, ending	4,500
Cost of goods transferred to finished goods	$440,500

d.

Cost of goods sold	$400,000
Plus: Finished goods inventory, ending	50,000
Goods available for sale	450,000
Less: Transferred from work in process (c)	440,500
Finished goods inventory, beginning	$ 9,500

LO 1 BT: AN Difficulty: C Time: 30 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

SOLUTIONS TO PROBLEMS: SET B

PROBLEM 2.51B

a.

Cost Item	Product Costs: Direct Materials	Product Costs: Direct Labour	Product Costs: Manufact. Overhead	Period Costs
Maintenance on factory building			$ 1,500	
Factory manager's salary			4,000	
Advertising for helmets				8,000
Sales commissions				5,000
Depreciation on factory building			700	
Rent on factory equipment			6,000	
Insurance on factory building			3,000	
Raw materials	$20,000			
Utility costs for factory			800	
Supplies for general office				200
Wages for assembly-line workers		$54,000		500
Depreciation on office equipment			2,000	
Miscellaneous materials	$20,000	$54,000	$18,000	$13,700

b. Total production costs

Direct materials	$20,000
Direct labour	54,000
Manufacturing overhead	18,000
Total production cost	$92,000

Production cost per motorcycle helmet = $92,000 ÷ 1,000 = $92

LO 1 BT: AN Difficulty: S Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.52B

a.

	Product Costs			
Cost Item	Direct Materials	Direct Labour	MOH	Period Costs
Raw materials (1)	$57,500			
Wages for workers (2)		$65,000		
Rent on equipment			$ 1,300	
Indirect materials (3)			7,500	
Factory supervisor's salary			3,500	
Factory janitorial costs			1,400	
Advertising				$6,000
Depreciation – factory (4)			700	
Property taxes – factory (5)			600	
	$57,500	$65,000	$15,000	$6,000

(1) $23 × 2,500 = $57,500
(2) $13 × 2 hours × 2,500 = $65,000
(3) $3 × 2,500 = $7,500
(4) $8,400 ÷ 12 = $700
(5) $7,200 ÷ 12 = $600

b. Total production costs

Direct materials	$ 57,500
Direct labour	65,000
Manufacturing overhead	15,000
Total production cost	$137,500

Production cost per racquet = $137,500 ÷ 2,500 = $55

LO 1 BT: AN Difficulty: S Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.53B

a. Case 1

Total manufacturing costs = (a)
(a) = $6,300 + $3,000 + $6,000 = $15,300

Ending work in process inventory = (b)
$15,300 + $1,000 – (b) = $15,800
(b) = $15,300 + $1,000 – $15,800 = $500

Beginning finished goods inventory = (c)
(c) + $15,800 = $18,300
(c) = $18,300 – $15,800 = $2,500

Cost of goods sold = (d)
(d) = $18,300 – $1,200 = $17,100

Gross profit = (e)
(e) = ($22,500 – $1,500) – $17,100 = $3,900

Net Income = (f)
(f) = $3,900 – $2,700 = $1,200

Case 2

Direct materials used = (g)
(g) + $4,000 + $5,000 = $16,000
(g) = $16,000 – $4,000 – $5,000 = $7,000

Beginning work in process inventory = (h)
$16,000 + (h) – $2,000 = $20,000
(h) = $20,000 + $2,000 – $16,000 = $6,000

Goods available for sale = (j)
(j) = $20,000 + $5,000 = $25,000

Cost of goods sold = (k)
(k) = $25,000 – $2,500 = $22,500

PROBLEM 2.53B (Continued)

(Note: Item (i) can only be solved after items (j) and (k) are solved.)
Sales = (i)
((i) – $1,200) – (k) = $6,000
((i) – $1,200) – $22,500 = $6,000
(i) = $1,200 + $22,500 + $6,000 = $29,700

Operating expenses = (l)
$6,000 – (l) = $2,200
(l) = $3,800

b.

CASE 1
Cost of Goods Manufactured Schedule

Work in process, beginning	$ 1,000
Direct materials	$6,300
Direct labour	3,000
Manufacturing overhead	6,000
Total manufacturing costs	15,300
Total cost of work in process	16,300
Less: Work in process, ending	500
Cost of goods manufactured	$15,800

c

CASE 1
Income Statement

Sales	$22,500
Less: Sales discounts	1,500
Net sales	$21,000
Cost of goods sold	
Finished goods inventory, beginning	$ 2,500
Cost of goods manufactured	15,800
Cost of goods available for sale	18,300
Finished goods inventory, ending	1,200
Cost of goods sold	17,100
Gross profit	3,900
Operating expenses	2,700
Net income	$ 1,200

PROBLEM 2.53B (Continued)

CASE 1
(Partial) Balance Sheet

Current assets		
Cash		**$ 3,000**
Receivables (net)		**10,000**
Inventories		
Finished goods	**$1,200**	
Work in process	**500**	
Raw materials	**700**	
		2,400
Prepaid expenses		**200**
Total current assets		**$15,600**

LO 4 BT: S Difficulty: M Time: 30 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.54B

a.

RUIZ MANUFACTURING COMPANY
Cost of Goods Manufactured Schedule
For the Year Ended December 31, 2022

Work in process inventory (1/1).		$ 9,500
Direct materials		
Raw materials inventory (1/1)…	$ 47,000	
Raw materials purchases.....	62,500	
Raw materials available for use	109,500	
Less: Raw materials inventory. (12/31).....	44,200	
Direct materials used.....		$ 65,300
Direct labour.....		145,100
Manufacturing overhead		
Plant manager's salary.....	40,000	
Indirect labour.....	18,100	
Factory utilities.....	12,900	
Factory machinery depreciation.....	7,700	
Factory insurance.....	7,400	
Factory property taxes.....	6,100	
Factory repairs.....	800	
Total manufacturing overhead…		93,000
Total manufacturing costs. .		303,400
Total cost of work in process…..		312,900
Less: Work in process, (12/31). .		8,000
Cost of goods manufactured……		$304,900

PROBLEM 2.54B (Continued)

b.

RUIZ MANUFACTURING COMPANY
(Partial) Income Statement
For the Year Ended December 31, 2022

Sales revenues		
Sales		**$465,000**
Less: Sales discounts		**2,500**
Net sales		**$462,500**
Cost of goods sold		
Finished goods inventory, (1/1)	**85,000**	
Cost of goods manufactured (see schedule)	**304,900**	
Cost of goods available for sale	**389,900**	
Finished goods inventory, (12/31)	**67,800**	
Cost of goods sold		**322,100**
Gross profit		**$140,400**

c

RUIZ MANUFACTURING COMPANY
(Partial) Balance Sheet
As at December 31, 2022

Assets		
Current assets		
Cash	**$ 28,000**	
Accounts receivable	**27,000**	
Inventories		
Finished goods **$67,800**		
Work in process **8,000**		
Raw materials **44,200**		
	120,000	
Total current assets		**$175,000**

LO 4 BT: AP Difficulty: M Time: 30 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.55B

(a) Prime costs = direct materials + direct labour
Prime costs = $200,000 + $160,000 = $360,000

(b) Conversion costs = direct labour + manufacturing overhead
Conversion costs = $160,000 + $128,000* = $288,000

***Manufacturing overhead = ($160,000/$10) × $8**

(c)

Cost of goods manufactured =	
Beginning work in process inventory	**$ 80,000**
+ total manufacturing costs[1]	**488,000**
	568,000
– Ending work in process inventory	**50,000**
	$518,000

[1]$200,000 + $160,000 + $128,000

LO 4 BT: AP Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.56B

a. Let GP = Gross profit
GP – non-manufacturing costs = net income
GP = $50,000 + $170,000 = $220,000

b. Let COGS = Cost of goods sold
Sales – COGS = gross profit
COGS = $560,000 – $220,000 = $340,000

c. Let EFI = Ending finished goods inventory
EFI = Beginning finished goods inventory +
cost of goods manufactured – COGS
EFI = $270,000 + $260,000 – $340,000 = $190,000

d. Let TMC = total manufacturing costs
Let BWI = Beginning work in process inventory
Let EWI = Ending work in process inventory
Let COGM = Cost of goods manufactured
BWI + TMC – EWI = COGM
$110,000 + TMC – $0 = $260,000
TMC = $150,000

LO 4 BT: AN Difficulty: M Time: 30 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.57B

a. (a) Raw materials inventory, beginning..... $28,000
Plus: Raw material purchased..... 150,000
Raw materials available for use..... 178,000
Less: Direct materials used..... 125,000
53,000
Less: Indirect materials transferred out..... 20,000
Raw materials inventory, ending..... $ 33,000

(b) Manufacturing costs for the month..... $498,000
Less: Direct materials used..... 125,000
Less: Manufacturing overhead..... 145,000
Direct labour $228,000

(c) Work in process, beginning..... $ 38,000
Plus: Manufacturing costs for the month..... 498,000
Total cost of work in process..... 536,000
Less: Work in process, ending..... 30,000
Cost of goods manufactured*..... $506,000

***This is the value of product transferred to finished goods.**

(d) Cost of goods sold + 30% markup = Sales
Sales = 130% × COGS
COGS = $780,000 ÷ 1.30 = $600,000

(e) Cost of goods sold (from (d))..... $600,000
Plus: Finished goods inventory, ending..... 25,000
Goods available for sale..... 625,000
Less: Cost of goods manufactured..... 506,000
Finished goods inventory, beginning..... $119,000

PROBLEM 2.57B (Continued)

b. Variable costs vary in total directly and proportionately with changes in the activity level but remain constant on a per-unit basis. Fixed costs remain constant in total regardless of changes in the activity level but vary on a per-unit basis.

LO 2 BT: S Difficulty: C Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.58B

a.

AGLER COMPANY
Cost of Goods Manufactured Schedule
For the Month Ended August 31, 2022

Work in process, August 1		$ 25,000
Direct materials		
Raw materials inventory, August 1	$ 19,500	
Raw materials purchases	200,000	
Total raw materials available for use	219,500	
Less: Raw materials inventory, August 31	30,000	
Direct materials used		$189,500
Direct labour		160,000
Manufacturing overhead		
Rent on factory facilities	$ 60,000	
Depreciation on factory equipment	35,000	
Indirect labour	20,000	
Factory utilities*	5,000	
Factory insurance**	3,500	
Total manufacturing overhead		123,500
Total manufacturing costs		473,000
Total cost of work in process		498,000
Less: Work in process, August 31		21,000
Cost of goods manufactured		$477,000

*$10,000 × 50%
**$5,000 × 70%

PROBLEM 2.58B (Continued)

b.

AGLER COMPANY
Income Statement
For the Month Ended August 31, 2022

Sales (net)	**$675,000**
Cost of goods sold	
Finished goods inventory, August 1	**$ 40,000**
Cost of goods manufactured	**477,000**
Cost of goods available for sale	**517,000**
Less: Finished goods inventory, August 31	**59,000**
Cost of goods sold	**458,000**
Gross profit	**217,000**
Operating expenses	
Advertising expense	**75,000**
Selling and administrative salaries	**70,000**
Depreciation on sales equipment	**50,000**
Utilities expense*	**5,000**
Insurance expense**	**1,500**
Total operating expenses	**201,500**
Net income	**$ 15,500**

***$10,000 × 50%**
****$5,000 × 30%**

LO 4 BT: S Difficulty: M Time: 30 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.59B

a. Cost of goods sold = $390 – $70 = $320 million

b. Total factory overhead cost =
$320 – $80 – $180 = $60 million

c. Selling and administrative expenses =
$70 – $22 = $48 million

d. Total product costs = DM + DL + MOH =
$80 + $180 + $60 = $320 million

e. Total period costs = $48 million

f. Prime cost = DM + DL = $80 + $180 = $260 million

g. Conversion cost = DL + MOH = $180 + $60 = $240 million

h. Cost of goods manufactured = $0 + $320 – $0 = $320 million

LO 4 BT: AN Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

PROBLEM 2.60B

Abbreviations used:
Let CON = Conversion cost
Let FOH = Factory overhead costs
Let PRI = Prime cost
Let TMC = Total manufacturing costs
BDMI is Beginning Direct Materials Inventory
EDMI is Ending Direct Materials Inventory

a. Calculations:

Gross profit = $900,000 × 20% = $180,000
Cost of goods sold = $900,000 – $180,000 = $720,000

CON = $360,000 + (40% × CON)
(0.6 × CON) = $360,000
CON = $600,000
FOH = $600,000 – $360,000 = $240,000

PRI = 70% × TMC
DM + DL = 0.70(DM + DL + FOH)
1.0DM – 0.70DM = 0.70(DL + FOH) – DL
0.30DM = 0.70($360,000 + $240,000) – $360,000
DM = $200,000

TMC = $200,000 + $360,000 + $240,000 = $800,000

Ending WIP = 10% × TMC = 0.10 × $800,000 = $80,000 (3)

COGM = BWIP + TCM – EWIP = $68,000 + $800,000 – $80,000 = $788,000

BFI + COGM – EFI = COGS
EFI = $30,000 + $788,000 – $720,000 = $98,000 (1)

EDMI = BDMI + DM Purchases – DM Used
EDMI = $32,000 + $320,000 – $200,000 = $152,000 (2)

PROBLEM 2.60B (Continued)

MEDIUM-SIZED COMPANY
Cost of Goods Manufactured Schedule
For the Month Ended January 31, 2022

Work in process, beginning		$ 68,000
Direct materials		
Direct materials inventory, January 1	$ 32,000	
Direct materials purchases	320,000	
Total direct materials available for use	352,000	
Less: Direct materials inventory, January 31[(2)]	152,000	
Direct materials used		$200,000
Direct labour		360,000
Manufacturing overhead		240,000
Total manufacturing costs		800,000
Total cost of work in process		868,000
Less: Work in process, ending [(3)]		80,000
Cost of goods manufactured		$788,000

b. Inventories destroyed:

Finished goods	$ 98,000[1]
Work in process	80,000[3]
Direct materials	152,000[2]
Total	$330,000

LO 4 BT: S Difficulty: C Time: 40 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

SOLUTIONS TO CASES

CASE 2.61

Calculations to complete the data for operations in 2022:

Raw materials[1] inventory, beginning	$13,000
Raw materials purchased	13,000
Raw materials available for use	26,000
Direct materials used	20,000
Raw materials inventory, ending	$ 6,000

[1]Assumes all raw materials are used as direct materials

Direct materials	$20,000
Direct labour	25,000
Factory overhead	8,000
Manufacturing costs added during the year	$53,000

Work in process inventory, beginning	$ 8,000
Manufacturing costs (see above)	53,000
Total work in process during the year	61,000
Less: Work in process inventory, ending	7,000
Cost of goods manufactured	$54,000

CASE 2.61 (Continued)

Finished goods inventory, beginning.....	$ 6,000
Plus: Cost of goods manufactured (see above)....	54,000
Cost of goods available for sale.....	60,000
Less: Cost of goods sold.....	55,000
Finished goods inventory, ending.....	$ 5,000
Sales ($9,000 + $55,000).....	$64,000
Less: Cost of goods sold (given).....	55,000
Gross profit (given).....	9,000
Less: Operating expenses ($9,000 – ($4,000)).....	13,000
Operating income (loss).....	$ (4,000)

BYDO INC
Cost of Goods Manufactured Schedule
For the Year Ended December 31, 2022

Work in process, beginning.....			$8,000
Direct materials:			
Raw materials inventory, beginning...	$13,000		
Plus: Raw materials purchases.....	13,000		
Total raw materials available for use	26,000		
Less: Raw materials inventory, ending	6,000		
Direct materials used.....		$20,000	
Direct labour		25,000	
Factory overhead.....		8,000	
Total manufacturing costs.....			53,000
Total cost of work in process.....			61,000
Less: Work in process, ending.....			7,000
Cost of goods manufactured.....			$54,000

CASE 2.61 (Continued)

BYDO INC
Schedule of Cost of Goods Sold
For the Year Ended December 31, 2022

Finished goods inventory, beginning.....	$ 6,000
Plus: Cost of goods manufactured.....	54,000
Cost of goods available for sale.....	60,000
Less: Finished goods inventory, ending.....	5,000
Cost of goods sold.....	$55,000

BYDO INC
Income Statement
For the Year Ended December 31, 2022

Sales.....	$64,000
Less: Cost of goods sold.....	55,000
Gross profit.....	9,000
Less: Operating expenses.....	13,000
Operating income (loss).....	$(4,000)

LO 4 BT: S Difficulty: C Time: 45 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

CASE 2.62

a.	**Direct materials inventory, beginning.....**	**$ 6,000**
	Plus: Direct materials purchased.....	**18,000**
	Direct materials available for use.....	**24,000**
	Less: Direct materials inventory, ending…….	**10,000**
	Direct materials used in production	**$14,000**
b.	**Finished goods inventory, beginning.....**	**$12,000**
	Plus: Cost of goods manufactured.....	**26,500[3]**
	Cost of goods available for sale.....	**38,500[2]**
	Less: Finished goods inventory, ending.....	**2,500**
	Cost of goods sold.....	**$ 36,000[1]**

[1]COGS = Sales of $60,000 × (100% – 40% Gross profit) = $36,000
[2] $36,000 + $2,500 = $38,500
[3] $38,500 – $12,000 = $26,500 which is cost of goods transferred out

Note: What we are looking for here is the "cost of goods manufactured" (which is footnote 3). In order to calculate this, we need to calculate "cost of goods available for sale" (which is footnote 2). In order to calculate this, we need to know "cost of goods sold," which we can calculate from the information provided (footnote 1).

c	**Finished goods inventory, beginning.....**	**$12,000**
	Cost of goods manufactured.....	**28,000[4]**
	Cost of goods available for sale.....	**$40,000**
	Work in process inventory, beginning.....	**$ 2,000**
	Plus: Direct materials used.....	**20,000**
	Plus: Conversion costs.....	**22,000**
	Total cost of work in process.....	**44,000**
	Less: Work in process inventory, ending……	**16,000[6]**
	Cost of goods manufactured.....	**$28,000[5]**

[4] $40,000 – $12,000 = $28,000
[5] Cost of goods manufactured = $28,000 from point (4)
[6] ($2,000 + $20,000 + $22,000) – $28,000 = $16,000

LO 4 BT: AN Difficulty: C Time: 25 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

CASE 2.63

a.

Sayers Manufacturing
Cost of Goods Manufactured Schedule
For the Month Ended January 31, 2022

Work in process, beginning		$ 110,000
Direct materials:		
Direct materials inventory, beginning	$80,000	
Plus: Direct materials purchases	900,000	
Total direct materials available for use	980,000	
Less: Direct materials inventory, ending	90,000	
Direct materials used	890,000	
Direct labour	710,000	
Manufacturing overhead[1]	386,600	
Total manufacturing costs		1,986,600
Total cost of work in process		2,096,600
Less: Work in process, ending		74,600
Cost of goods manufactured		$2,022,000

[1] $75,000 + $50,000 + $125,000 + $92,500 + $2,800 + $10,000 + $31,300

b.

Sayers Manufacturing
Schedule of Cost of Goods Sold
For the Month Ended January 31, 2022

Finished goods inventory, beginning	$ 95,000
Plus: Cost of goods manufactured	2,022,000
Cost of goods available for sale	2,117,000
Less: Finished goods inventory, ending	108,000
Cost of goods sold	$2,009,000

LO 4 BT: AP Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

CASE 2.64

a.	**Direct costs of production**	**$220**
	Indirect costs of production	**180**
	Total costs of production	**$400**
b.	**Direct materials, beginning**	**$ 50**
	Plus: Direct materials purchased	**140**
	Total material available for use	**190**
	Less: Direct materials, ending	**80**
	Direct materials used	**$110**
c.	**Direct costs of production**	**$220**
	Less: Direct materials used	**110**
	Direct labour	**$110**
d.	**Total variable costs of production[1]**	**$280**
	Less: direct costs of production	**220**
	Variable overhead costs	**$ 60**
	[1]Includes DM, DL, VOH	
e.	**Total indirect costs of production[2]**	**$180**
	Less: variable overhead costs	**60**
	Fixed manufacturing overhead	**$120**
	[2]Indirect costs are overhead costs – both variable and fixed	

CASE 2.64 (Continued)

f.	**Work in process, beginning**		**$140**
	Plus: Manufacturing costs		
	Direct materials	**$110**	
	Direct labour	**110**	
	Variable manufacturing overhead	**60**	
	Fixed manufacturing overhead	**120**	**400**
	Total cost of work in process		**540**
	Less: Work in process, ending		**180**
	Cost of goods manufactured		**$360**

g.	**Finished goods inventory, beginning**	**$240**
	Plus: Cost of goods manufactured	**360**
	Cost of goods available for sale	**600**
	Less: Finished goods inventory, ending	**250**
	Cost of goods sold	**$350**

h.	**Direct labour**	**$110**
	Variable manufacturing overhead	**60**
	Fixed manufacturing overhead	**120**
	Total conversion costs	**$290**

i.	**Direct materials**	**$110**
	Direct labour	**110**
	Total prime costs	**$220**

j.		
	Period costs =	
	Selling and administrative costs	**$210**

LO 4 BT: AP Difficulty: M Time: 25 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

CASE 2.65

Raw materials inventory, beginning	**$ 19,000**
Plus: Raw materials purchased	**345,000**
Raw materials available for use	**364,000**
Less: Raw materials used in production	**350,000**
Raw materials inventory, ending	**$ 14,000**

Direct materials	**$350,000**
Direct labour	**240,000**
Factory overhead ($240,000 × 60%)	**144,000**
Manufacturing costs added during the year	**$734,000**

Cost of goods available for sale	**$770,000**
Less: finished goods inventory, beginning	**38,000**
Cost of goods manufactured	**$732,000**

Work in process inventory, beginning	**$ 25,000**
Manufacturing costs	**734,000**
Total work in process during the year	**759,000**
Less: Cost of goods manufactured	**732,000**
Work in process inventory, ending	**$ 27,000**

Sales	**$1,260,000**
Less: Gross profit ($1,260,000 × 40%)	**504,000**
Cost of goods sold	**$ 756,000**

Cost of goods available for sale	**$770,000**
Less: cost of goods sold	**756,000**
Finished goods inventory, ending	**$ 14,000**

LO 4 BT: AN Difficulty: M Time: 20 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

CASE 2.66

a. The stakeholders in this situation are:

- **The users of Robbin Industries' financial statements**
- **Wayne Terrago, controller**
- **The vice-president of finance**
- **The president of Robbin Industries**

b. The ethical issues in this situation pertain to the adherence to sound and acceptable accounting principles. Intentional violation of current standards in order to satisfy a practical short-term personal or company need, thereby creating misleading financial statements, would be unethical. However, selecting one acceptable method of accounting and reporting among various acceptable methods is not necessarily unethical.

c Ethically, the management of Robbin Industries should be trying to report the financial condition and results of operations as fairly as possible; that is, in accordance with current accounting standards. Wayne should inform management what is acceptable accounting and what is not. The basic concept to be supported in this advertising cost transaction is matching costs and revenues. Normally, advertising costs are expensed in the period in which they are incurred because it is very difficult to associate them with specific revenues. Further, as advertising costs are not incurred to manufacture the product they should not be classified as product costs.

LO NA BT: AN Difficulty: M Time: 10 min. AACSB: Ethics CPA: cpa-t003 cpa-e001 CM: Mgt. Accounting; Ethics

CASE 2.67: "All About You" Activity

There is no one specific correct response. Students should consider the wider implications of the situation, making assumptions as needed.

a. By eliminating one of the production shifts, the cost of labour could be reduced. However, the shortfall of 1,000 units (11,000 – 10,000) would have to be produced using overtime labour (assuming this is practical). This could result in a higher labour cost per unit than at the 20,000-production level.
Also, it is possible that material costs will increase if the company is no longer able to get volume discounts from its suppliers.

b. Fixed costs could be reduced by:

- **A partial closure of the plant or consolidating activities to one location in the plant**
- **Subletting a portion of the plant**
- **Closing the plant completely and outsourcing production of the 11,000 units**

c. Other options for the company to increase profits are to

- **consider utilizing the excess production capacity created by the bankruptcy to produce another product**
- **diversify their customer base**
- **reduce discretionary expenditures**
- **negotiate improved prices from suppliers**
- **research assistance packages from provincial or federal governments**

LO 1,2 BT: AN Difficulty: M Time: 25 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

SOLUTION TO DECISION-MAKING AT CURRENT DESIGNS

DM2.1

Payee	Purpose	Product Costs			Period Costs
		Direct Materials	Direct Labour	Manufacturing Overhead	
Winona Agency	Property insurance for the manufacturing plant			X	
Bill Johnson (sales manager)	Payroll cheque–payment to sales manager				X
Xcel Energy	Electricity for manufacturing plant			X	
Winona Printing	Price lists for salespeople				X
Jim Kaiser (sales representative)	Sales commissions				X
Dave Thill (plant manager)	Payroll cheque–payment to plant manager			X	
Dana Schultz (kayak assembler)	Payroll cheque–payment to kayak assembler		X		
Composite One	Bagging film used when kayaks are assembled; it is discarded after use			X	
Fastenal	Shop supplies–brooms, paper towels, etc.			X	
Ravago	Polyethylene powder, which is the main ingredient for the rotational moulded kayaks	X			
Winona County	Property taxes on manufacturing plant			X	
North American Composites	Kevlar® fabric for composite kayaks	X			
Waste Management	Garbage disposal for the company office building				X
None	Journal entry to record depreciation of manufacturing equipment			X	

SOLUTION TO WATERWAYS CONTINUING PROBLEM WCP.2

a. Direct labour:

($176,000 – $148,000) ÷ ($32,000 – $24,000) = 3.5

	Activity Level	
	High	Low
Total cost	$176,000	$148,000
Less: Variable costs		
32,000 × 3.5	112,000	
24,000 × 3.5		84,000
Total fixed costs	$ 64,000	$ 64,000

The cost formula is: $64,000 + 3.5X.

Hours of operation:

($170,000 – $145,000) ÷ (700 – 500) = $125 per hour

	Activity Level	
	High	Low
Total cost	$170,000	$145,000
Less: Variable costs		
700 × $125	87,500	
500 × $125		62,500
Total fixed costs	$ 82,500	$ 82,500

The cost formula is: $82,500 + $125X.

WCP.2 (Continued)

b. First determine the direct labour cost for the month:

$70,000 x (100% - 60%) = $28,000

Then, if we substitute the actual values of the activity bases from the current month we would get the following estimates:

Labour dollars: $64,000 + (3.5 × $28,000) = $162,000

Hours of operation: $82,500 + ($125 × 600) = $157,500

Actual manufacturing overhead for the month is calculated as follows:

Total manufacturing costs (given)		**$315,000**
Less: Direct materials [(1)]	**$132,000**	
Direct labour [(2)]	**28,000**	**160,000**
Manufacturing overhead		**$155,000**

[(1)] Direct materials	
Raw materials inventory, beg.	**$35,000**
Plus: raw material purchases	**191,000**
Raw materials available for use	**226,000**
Less: Raw materials inventory, end	**50,000**
Raw materials used in production	**176,000**
Less: indirect materials (25%)	**44,000**
Direct materials used in production	**$132,000**

[(2)] Total salaries and wages	**$70,000**
Less: Indirect wages (60%)	**42,000**
Direct labour used in production	**$28,000**

As the actual manufacturing overhead was $155,000 for the month, hours of operation would be the better choice as an activity base for predicting manufacturing overhead.

WCP.2 (Continued)

c

Waterways Corporation
Schedule of Cost of Goods Manufactured

Work in process, beginning			**$52,000**
Direct materials:			
Raw materials inventory, beginning	**$35,000**		
Raw material purchases	**191,000**		
Total raw materials available for use	**226,000**		
Less: Raw materials inventory, ending	**50,000**		
Raw materials used in production	**176,000**		
Less: indirect materials	**44,000**		
Direct materials		**$132,000**	
Direct labour		**28,000**	
Manufacturing overhead		**155,000**	
Total manufacturing costs			**315,000**
Total cost of work in process			**367,000**
Less: Work in process, ending [(3)]			**42,000**
Cost of goods manufactured			**$325,000**

[(3)] Work in process, ending

Work in process beginning	**$ 52,000**
Plus: total manufacturing costs	**315,000**
Total cost of work in process	**367,000**
Less: cost of goods manufactured	**325,000**
Work in process ending	**$ 42,000**

LO 1,3,4 BT: S Difficulty: C Time: 50 min. AACSB: Analytic CPA: cpa-t003 cpa-e002 CM: Mgt. Accounting; PS and DM

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