Exam

Name___________________________________

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

1) Under variable costing, if a manager's bonus is tied to operating profit, then increasing inventory levels compared to last year would result in: 1) _______

A) increasing the manager's bonus
B) decreasing the manager's bonus
C) not affecting the manager's bonus
D) being unable to determine the manager's bonus using only the above information

Answer: C
Explanation: A)
B)
C)
D)

2) If the unit level of inventory increases during an accounting period, then: 2) _______

A) operating profit will be the same under absorption costing and variable costing
B) more operating profit will be reported under absorption costing than variable costing
C) less operating profit will be reported under absorption costing than variable costing
D) the exact effect on operating profit cannot be determined

Answer: B
Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Beginning finished goods, 1/1/2010	$80 000
Ending finished goods, 12/31/2010	67 000
Cost of goods sold	270 000
Sales revenue	500 000
Operating expenses	145 000

3) What is cost of goods manufactured for 2010? 3) _______

A) $230 000 B) $257 000 C) $355 000 D) $283 000

Answer: B
Explanation: A)
B) $270 000 + $67 000 - $80 000 = $257 000
C)
D)

4) For manufacturing firms, inventoriable costs include: 4) ________

A) plant supervisor salaries
B) costs of dealing with customers after the sale
C) research and development costs
D) distribution costs

Answer: A
Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Axle and Wheel Manufacturing currently produces 1000 axles per month. The following per unit data apply for sales to regular customers:

Direct materials	$30
Direct manufacturing labour	5
Variable manufacturing overhead	10
Fixed manufacturing overhead	40
Total manufacturing costs	$85

5) The plant has capacity for 2000 axles and is considering expanding production to 1500 axles. What is the total cost of producing 1500 axles? 5) ________

A) $170 000
B) $85 000
C) $107 500
D) $102 500

Answer: C
Explanation: A)
B)
C) [($30 + $5 + $10) × 1500 units] + ($40 × 1000 units) = $107 500
D)

6) Service-sector companies report: 6) ________

A) no inventory accounts
B) only work-in-process inventory
C) direct materials inventory
D) only finished goods inventory

Answer: A
Explanation: A)
B)
C)
D)

7) Under absorption costing, if a manager's bonus is tied to operating profit, then increasing inventory levels compared to last year would result in: 7) ________

A) increasing the manager's bonus
B) decreasing the manager's bonus
C) not affecting the manager's bonus
D) being unable to determine the manager's bonus using only the above information

Answer: A
Explanation: A)
B)
C)
D)

8) For a computer manufacturer, period costs include the cost of: 8) ________

A) labour used for assembly and packaging
B) assembly-line equipment
C) the keyboard
D) distribution

Answer: D

Explanation:
A)
B)
C)
D)

9) For last year, Ulladula Enterprises reported revenues of $420 000, cost of goods sold of $108 000, cost of goods manufactured of $101 000, and total operating costs of $70 000. Operating profit for that year was: 9) ________

A) $249 000
B) $312 000
C) $319 000
D) $242 000

Answer: D

Explanation:
A)
B)
C)
D) $420 000 - $108 000 - $70 000 = $242 000

10) If there is a change in the level of the cost driver within the relevant range, then: 10) ________

A) fixed costs per unit will remain the same and variable costs per unit will change
B) fixed and variable costs per unit will change
C) fixed and variable costs per unit will remain the same
D) fixed costs per unit will change and variable costs per unit will remain the same

Answer: D

Explanation:
A)
B)
C)
D)

11) The gross-margin format of the income statement: 11) ________

A) distinguishes between manufacturing and nonmanufacturing costs
B) distinguishes variable costs from fixed costs
C) calculates contribution margin
D) is used with variable costing

Answer: A

Explanation:
A)
B)
C)
D)

12) Google, an Internet search firm, would be classified as: 12) ________

A) a service sector company
B) a manufacturing-sector company
C) a merchandising-sector company
D) None of these answers are correct.

Answer: A

Explanation:
A)
B)
C)
D)

13) Which of the following companies is part of the manufacturing sector of the economy? 13) _______

A) Corvette Law Firm
B) Nike
C) Carlton Fruit Seller
D) Commonwealth Bank

Answer: B

Explanation: A)
B)
C)
D)

14) A retailer's inventory would normally include: 14) _______

A) goods fully completed by the firm but not yet sold
B) direct materials in stock and awaiting use in the manufacturing process
C) goods partially worked on but not yet fully completed
D) products in their original form intended to be sold without changing their basic form

Answer: D

Explanation: A)
B)
C)
D)

15) Which of the following formulae determine cost of goods sold in a manufacturing entity? 15) _______

A) Beginning work-in-process inventory + Cost of goods manufactured - Ending work-in-process inventory = Cost of goods sold
B) Cost of goods manufactured + Beginning finished goods inventory - Ending finished goods inventory = Cost of goods sold
C) Cost of goods manufactured - Beginning finished goods inventory - Ending finished goods inventory = Cost of goods sold
D) Beginning work-in-process inventory + Cost of goods manufactured + Ending work-in-process inventory = Cost of goods sold

Answer: B

Explanation: A)
B)
C)
D)

16) Joseph Davis worked 44 hours last week for Breakgood Manufacturing. Of the 44 hours 4 hours were considered overtime, and also Davis was idle for 5 of the 44 hours due to an equipment malfunction. Davis makes $20 per hour and is paid $30 an hour (time and a half) for overtime. Davis' total compensation for that week would be ________, and assuming Breakgood charges overtime premium and idle time to indirect labour, the amount of this compensation credited to indirect labour would be ________. 16) _______

A) $840; $140
B) $840; $40
C) $920; $40
D) $920; $140

Answer: D

Explanation: A)
B)
C)
D) total compensation (40 × $20) + (4 × $30) = $920;
indirect labour (5 × $20) + (4 × $10) = $140

Answer the following questions using the information below:

Wangaratta Corporation incurred fixed manufacturing costs of $6000 during 2013. Other information for 2013 includes:

The budgeted denominator level is 1000 units.
Units produced total 750 units.
Units sold total 600 units.
Beginning inventory was zero.

The company uses absorption costing and the fixed manufacturing cost rate is based on the budgeted denominator level. Manufacturing variances are closed to cost of goods sold.

17) Operating profit using absorption costing will be ________ than operating profit if using variable costing. 17) ______

A) $3600 lower B) $2400 higher C) $900 higher D) $2400 lower

Answer: C

Explanation:
A)
B)
C) Different operating profits are reported because the unit level of inventory increased during the accounting period by 150 units × $6 denominator rate = $900. Therefore, operating profit is $900 higher under absorption costing because $900 of fixed manufacturing costs remains in inventory.
D)

18) Direct materials inventory would normally include: 18) ______

A) goods fully completed by the firm but not yet sold
B) direct materials in stock and awaiting use in the manufacturing process
C) products in their original form intended to be sold without changing their basic form
D) goods partially worked on but not yet fully completed

Answer: B

Explanation:
A)
B)
C)
D)

19) Cost tracing is: 19) ______

A) the process of determining the actual cost of the cost object
B) the process of tracking both direct and indirect costs associated with a cost object
C) the assignment of direct costs to the chosen cost object
D) a function of cost allocation

Answer: C

Explanation:
A)
B)
C)
D)

20) ________ - sector companies provide intangible products. 20) ______

A) Professional B) Service C) Merchandising D) Manufacturing

Answer: B

Explanation: A)
B)
C)
D)

21) When 10 000 units are produced, variable costs are $6 per unit. Therefore, when 20 000 units are produced: 21) ______

A) variable costs will total $120 000
B) variable unit costs will increase to $12 per unit
C) variable unit costs will decrease to $3 per unit
D) variable costs will total $60 000

Answer: A

Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

The following information pertains to Bondi Creations:

Manufacturing costs	$1 500 000
Units manufactured	30 000
Units sold	29 500 units sold for $85 per unit
Beginning inventory	0 units

22) What is the average manufacturing cost per unit? 22) ______

A) $50.00 B) $50.85 C) $85.00 D) $17.65

Answer: A

Explanation: A) $1 500 000 / 30 000 = $50.00
B)
C)
D)

23) For last year, Deniliquin Manufacturing reported the following: 23) ______

Revenue	$420 000
Beginning inventory of direct materials, January 1	22 000
Purchases of direct materials	146 000
Ending inventory of direct materials, December 31	16 000
Direct manufacturing labour	18 000
Indirect manufacturing costs	40 000
Beginning inventory of finished goods, January 1	35 000
Cost of goods manufactured	104 000
Ending inventory of finished goods, December 31	36 000
Operating costs	140 000

What was Deniliquin's cost of goods sold?

A) $103 000 B) $152 000 C) $317 000 D) $268 000

Answer: A

Explanation: A) $35 000 + $104 000 - $36 000 = $103 000
B)
C)
D)

24) ________ include the compensation of all manufacturing labour that can be traced to the cost object. 24) ______

A) Direct manufacturing labour costs
B) Manufacturing overhead costs
C) Indirect manufacturing costs
D) Direct material costs

Answer: A

Explanation: A)
B)
C)
D)

25) Total manufacturing costs equal: 25) ______

A) direct materials + conversion costs
B) direct manufacturing labour costs + prime costs
C) direct manufacturing labour costs + conversion costs
D) direct materials + prime costs

Answer: A

Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

The Mt Tambourine Company manufactures several different products. Unit costs associated with Product SK2040 are as follows:

Direct materials	$60
Direct manufacturing labour	10
Variable manufacturing overhead	18
Fixed manufacturing overhead	32
Sales commissions (2% of sales)	4
Administrative salaries	16
Total	$140

26) What are the inventoriable costs per unit associated with Product SK2040? 26) _______

A) $120 B) $140 C) $88 D) $50

Answer: A

Explanation: A) $60 + $10 + $18 + $32 = $120
B)
C)
D)

27) The contribution-margin format of the income statement: 27) _______

A) calculates gross margin
B) is used with variable costing
C) is used with absorption costing
D) distinguishes between manufacturing and nonmanufacturing costs

Answer: B

Explanation: A)
B)
C)
D)

28) Which of the following formulae determine cost of goods sold in a merchandising entity? 28) _______

A) Beginning inventory - Ending inventory - Purchases = Cost of goods sold
B) Beginning inventory + Purchases - Ending inventory = Costs of goods sold
C) Beginning inventory - Purchases + Ending inventory = Cost of goods sold
D) Beginning inventory + Purchases + Ending inventory = Cost of goods sold

Answer: B

Explanation: A)
B)
C)
D)

29) The Cycle Centre currently produces 1000 bicycles per month. The following per unit data apply for sales to regular customers: 29) ______

Direct materials	$50
Direct manufacturing labour	5
Variable manufacturing overhead	14
Fixed manufacturing overhead	10
Total manufacturing costs	$79

The plant has capacity for 3000 bicycles and is considering expanding production to 2000 bicycles. What is the per unit cost of producing 2000 bicycles?

A) $134 per unit B) $79 per unit C) $74 per unit D) $158 per unit

Answer: C

Explanation: A)

B)

C) [($50 + $5 + $14) × 2000 units] + ($10 × 1000 units) = $148 000 / 2000 units = $74

D)

30) Work-in-process inventory would normally include: 30) ______

A) products in their original form intended to be sold without changing their basic form

B) goods partially worked on but not yet fully completed

C) goods fully completed by the firm but not yet sold

D) direct materials in stock and awaiting use in the manufacturing process

Answer: B

Explanation: A)

B)

C)

D)

31) Finished goods inventory would normally include: 31) ______

A) products in their original form intended to be sold without changing their basic form

B) goods fully completed but not yet sold

C) goods partially worked on but not yet fully completed

D) direct materials in stock and awaiting use in the manufacturing process

Answer: B

Explanation: A)

B)

C)

D)

32) Debated items that some companies include as direct manufacturing labour include: 32) ______

A) holiday pay B) training time

C) fringe benefits D) All of these answers are correct.

Answer: D

Explanation: A)

B)

C)

D)

33) Which of the following statements is FALSE? 33) ______

A) Over the long run all costs have cost drivers.
B) There is a cause-and-effect relationship between the cost driver and the level of activity.
C) Fixed costs have cost drivers over the short run.
D) Volume of production is a cost driver of direct manufacturing costs.

Answer: C
Explanation: A)
B)
C)
D)

34) Which of the following statements is FALSE? 34) ______

A) Operating profit under absorption costing is higher than operating profit under variable costing when production units exceed sales units.
B) Fixed manufacturing costs in ending inventory are expensed in the future under absorption costing.
C) Nonmanufacturing costs are expensed in the future under variable costing.
D) Absorption costing allocates fixed manufacturing overhead to actual units produced during the period.

Answer: C
Explanation: A)
B)
C)
D)

35) Period costs: 35) ______

A) are directly traceable to products
B) include direct labour
C) are also referred to as manufacturing overhead costs
D) are treated as expenses in the period they are incurred

Answer: D
Explanation: A)
B)
C)
D)

36) Actual costs are: 36) ______

A) forecasted costs
B) budgeted costs
C) the costs incurred
D) estimated costs

Answer: C
Explanation: A)
B)
C)
D)

37) An understanding of the underlying behaviour of costs helps in all of the following EXCEPT: 37) ______

A) costs can be better estimated as volume expands and contracts
B) sales volume can be better estimated
C) true costs can be better evaluated
D) process inefficiencies can be better identified and as a result improved

Answer: B
Explanation: A)
B)
C)
D)

38) Cost behaviour refers to: 38) ______

A) how costs react to a change in the level of activity
B) whether a cost is incurred in a manufacturing, merchandising, or service company
C) whether a particular expense has been ethically incurred
D) classifying costs as either inventoriable or period costs

Answer: A
Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Jindabyne Pillows produces and sells a decorative pillow for $75.00 per unit. In the first month of operation, 2000 units were produced and 1750 units were sold. Actual fixed costs are the same as the amount budgeted for the month. Other information for the month includes:

Variable manufacturing costs	$20.00 per unit
Variable marketing costs	$3.00 per unit
Fixed manufacturing costs	$7.00 per unit
Administrative expenses, all fixed	$15.00 per unit
Ending inventories:	
Direct materials	-0-
WIP	-0-
Finished goods	250 units

39) What is cost of goods sold per unit using variable costing? 39) ______

A) $20 B) $23 C) $30 D) $45

Answer: A
Explanation: A) $20, only variable manufacturing costs are included when using variable costing.
B)
C)
D)

Answer the following questions using the information below:

Healesville Animates produces and sells a luxury animal pillow for $40.00 per unit. In the first month of operation, 3000 units were produced and 2250 units were sold. Actual fixed costs are the same as the amount budgeted for the month. Other information for the month includes:

Variable manufacturing costs	$19 per unit
Variable marketing costs	$1 per unit
Fixed manufacturing costs	$30 000 per month
Administrative expenses, all fixed	$6000 per month
Ending inventories:	
Direct materials	-0-
WIP	-0-
Finished goods	750 units

40) What is operating profit when using absorption costing? 40) _______

A) ($11 750) B) $16 500 C) $18 750 D) $4000

Answer: B

Explanation: A)

B) [$40 - $19 - ($30 000/3000)] × 2250 units = gross margin - ($1 × 2250) - $6000 = $16 500

C)

D)

Answer the following questions using the information below:

Wangaratta Corporation incurred fixed manufacturing costs of $6000 during 2013. Other information for 2013 includes:

The budgeted denominator level is 1000 units.
Units produced total 750 units.
Units sold total 600 units.
Beginning inventory was zero.

The company uses absorption costing and the fixed manufacturing cost rate is based on the budgeted denominator level. Manufacturing variances are closed to cost of goods sold.

41) Fixed manufacturing costs included in ending inventory total: 41) _______

A) $1500 B) $1200 C) $900 D) 0

Answer: C

Explanation: A)

B)

C) $6000 / 1000 units = $6 × 150 = $900

D)

42) Costs expensed on the income statement in the accounting period incurred are called: 42) _______

A) period costs B) direct costs

C) inventoriable costs D) indirect costs

Answer: A

Explanation: A)

B)

C)

D)

43) The determination of a cost as either direct or indirect depends upon the: 43) ______

A) cost object chosen
B) accounting system
C) allocation system
D) cost tracing system

Answer: A
Explanation: A)
B)
C)
D)

44) Manufacturing overhead costs in a motor car manufacturing plant MOST likely include: 44) ______

A) steering wheel costs
B) indirect material costs such as lubricants
C) labour costs of the painting department
D) sales commissions

Answer: B
Explanation: A)
B)
C)
D)

45) Ways to 'produce for inventory' that result in increasing operating profit include: 45) ______

A) switching production to products that absorb the least amounts of fixed manufacturing costs
B) deferring maintenance to accelerate production
C) delaying items that absorb the greatest amount of fixed manufacturing costs
D) All of these answers are correct.

Answer: B
Explanation: A)
B)
C)
D)

46) ________ - sector companies purchase materials and components and convert them into finished goods. 46) ______

A) Professional
B) Service
C) Merchandising
D) Manufacturing

Answer: D
Explanation: A)
B)
C)
D)

47) Inventoriable costs for external reporting purposes are also called: 47) ______

A) product costs
B) variable costs
C) period costs
D) direct manufacturing costs

Answer: A
Explanation: A)
B)
C)
D)

48) Any item for which a separate measurement of cost is desired is known as: 48) ______

A) an indirect cost B) cost allocation C) a cost object D) a direct cost

Answer: C

Explanation: A)
B)
C)
D)

49) Conversion costs include: 49) ______

A) direct materials and manufacturing overhead costs
B) direct materials and direct manufacturing labour costs
C) only direct materials
D) direct manufacturing labour and manufacturing overhead costs

Answer: D

Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

The Mt Tambourine Company manufactures several different products. Unit costs associated with Product SK2040 are as follows:

Direct materials	$60
Direct manufacturing labour	10
Variable manufacturing overhead	18
Fixed manufacturing overhead	32
Sales commissions (2% of sales)	4
Administrative salaries	16
Total	$140

50) What are the fixed costs per unit associated with Product SK2040? 50) ______

A) $32 B) $48 C) $102 D) $52

Answer: B

Explanation: A)
B) $32 + 16 = $48
C)
D)

Answer the following questions using the information below:

Queanbeyan Company incurred fixed manufacturing costs of $7200 during 2013. Other information for 2013 includes:

The budgeted denominator level is 800 units.
Units produced total 1000 units.
Units sold total 950 units.
Beginning inventory was zero.

The fixed manufacturing cost rate is based on the budgeted denominator level. Manufacturing variances are closed to cost of goods sold.

51) Operating profit using absorption costing will be ________ operating profit if using variable costing. 51) ______

A) $450 higher than
B) the same as
C) $900 higher than
D) $1350 lower than

Answer: A

Explanation: A) Different operating profits are reported because the unit level of inventory increased during the accounting period by 50 units × $9 denominator rate = $450. Therefore, operating profit is $450 higher under absorption costing because $450 of fixed manufacturing costs remains in inventory under absorption costing.
B)
C)
D)

52) Period costs: 52) ______

A) seldom influence financial success or failure
B) include only fixed costs
C) should be treated as an indirect cost rather than as a direct manufacturing cost
D) include the cost of selling, delivering, and after-sales support for customers

Answer: D

Explanation: A)
B)
C)
D)

53) Which of the following statements about the direct/indirect cost classification is NOT true? 53) ______

A) Direct costs are always traced.
B) Direct costs are always allocated.
C) The direct/indirect classification depends on the choice of cost object.
D) The design of operations affects the direct/indirect classification.

Answer: B

Explanation: A)
B)
C)
D)

54) Which of the following includes both traced direct costs and allocated indirect costs? 54) _______

A) cost assignments
B) cost allocations
C) cost pools
D) cost tracing

Answer: A
Explanation: A)
B)
C)
D)

55) Product cost for financial statement purposes may include: 55) _______

A) production costs
B) all costs allowed by government agencies
C) all costs except marketing costs
D) all costs included for pricing and product-mix decisions

Answer: A
Explanation: A)
B)
C)
D)

56) The gross-margin format of the income statement: 56) _______

A) is used with variable costing
B) distinguishes variable costs from fixed costs
C) calculates contribution margin
D) is used with absorption costing

Answer: D
Explanation: A)
B)
C)
D)

57) A manufacturing plant produces two product lines: cricket equipment and hockey equipment. An indirect cost for the hockey equipment line is the: 57) _______

A) labour to bind the shaft to the blade of the hockey stick
B) plant supervisor
C) material used to make the hockey sticks
D) shift supervisor for the hockey line

Answer: B
Explanation: A)
B)
C)
D)

58) Budgeted costs are: 58) _______

A) competitor's costs
B) planned or forecasted costs
C) the costs incurred last year
D) the costs incurred this year

Answer: B
Explanation: A)
B)
C)
D)

59) Woggoon Nature Corporation has provided the following information: 59) ______

Beginning fixed manufacturing overhead in inventory	$60 000
Ending fixed manufacturing overhead in inventory	45 000
Beginning variable manufacturing overhead in inventory	$30 000
Ending variable manufacturing overhead in inventory	14 250
Fixed selling and administrative costs	$724 000
Units produced	5000 units
Units sold	4800 units

What is the difference between operating profits under absorption costing and variable costing?
A) $750 B) $7500 C) $15 000 D) $30 750

Answer: C
Explanation: A)
B)
C) $60 000 - $45 000 = $15 000
D)

Answer the following questions using the information below:

Leongatha Motors produces and sells an auto part for $30.00 per unit. In 2010, 100 000 parts were produced and 75 000 units were sold. Other information for the year includes:

Direct materials	$12.00 per unit
Direct manufacturing labour	$2.25 per unit
Variable manufacturing costs	$0.75 per unit
Sales commissions	$3.00 per part
Fixed manufacturing costs	$375 000 per year
Administrative expenses, all fixed	$135 000 per year

60) What is the inventoriable cost per unit using variable costing? 60) ______
A) $14.25 B) $15.00 C) $18.00 D) $21.75

Answer: B
Explanation: A)
B) $12.00 + $2.25 + $0.75 = $15.00
C)
D)

61) Switching production to products that absorb the highest amount of fixed manufacturing costs is also called: 61) ______
A) throughput costing B) cherry picking
C) cost reduction D) producing for sales

Answer: B
Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

The Mt Tambourine Company manufactures several different products. Unit costs associated with Product SK2040 are as follows:

Direct materials	$60
Direct manufacturing labour	10
Variable manufacturing overhead	18
Fixed manufacturing overhead	32
Sales commissions (2% of sales)	4
Administrative salaries	16
Total	$140

62) What are the period costs per unit associated with Product SK2040? 62) ______

A) $52 B) $16 C) $20 D) $4

Answer: C

Explanation: A)
B)
C) $4 + 16 = $20
D)

63) What are the variable costs per unit associated with Product SK2040? 63) ______

A) $22 B) $88 C) $18 D) $92

Answer: D

Explanation: A)
B)
C)
D) $60 + $10 + $18 + $4 = $92

64) Variable costs: 64) ______

A) are always indirect costs
B) increase in total when the actual level of activity increases
C) can always be traced directly to the cost object
D) include most personnel costs and depreciation on machinery

Answer: B

Explanation: A)
B)
C)
D)

65) Fixed costs depend on the: 65) ______

A) amount of resources acquired B) amount of resources used
C) volume of sales D) volume of production

Answer: A

Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Alice Opals produces and sells a mantel clock for $100 per unit. In 2010, 100 000 clocks were produced and 80 000 were sold. Other information for the year includes:

Direct materials	$30.00 per unit
Direct manufacturing labour	$2.00 per unit
Variable manufacturing costs	$3.00 per unit
Sales commissions	$5.00 per part
Fixed manufacturing costs	$25.00 per unit
Administrative expenses, all fixed	$15.00 per unit

66) What is the inventoriable cost per unit using variable costing? 66) _______

A) $32 B) $35 C) $40 D) $60

Answer: B

Explanation: A)
B) $30.00 + $2.00 + $3.00 = $35.00
C)
D)

67) One way of determining the difference between operating profits for absorption costing and variable costing is to: 67) _______

A) subtract sales of the previous period from sales of this period
B) add fixed manufacturing costs to the production-volume variance
C) subtract fixed manufacturing overhead in beginning inventory from fixed manufacturing overhead in ending inventory
D) multiply the number of units produced by the budgeted fixed manufacturing cost rate

Answer: C

Explanation: A)
B)
C)
D)

68) All of the following are examples of drawbacks of using absorption costing EXCEPT: 68) _______

A) operating profit solely reflects income from the sale of units and excludes the effects of manipulating production schedules
B) manipulation of operating profit may ultimately increase the company's costs incurred over the long run
C) management has the ability to manipulate operating profit via production schedules
D) decreasing maintenance activities and increasing production result in increased operating profit

Answer: A

Explanation: A)
B)
C)
D)

69) ________ are all manufacturing costs that are related to the cost object but cannot be traced to that cost object. 69) ______

A) Direct material costs
B) Indirect manufacturing costs
C) Period costs
D) Direct manufacturing labour costs

Answer: B
Explanation: A)
B)
C)
D)

70) In the cost classification system used by manufacturing firms, total manufacturing costs would include all of the following EXCEPT: 70) ______

A) prime costs and manufacturing overhead costs
B) direct materials costs and conversion costs
C) direct materials costs, direct manufacturing labour costs, and manufacturing overhead costs
D) indirect materials costs, indirect manufacturing labour costs, and manufacturing overhead costs

Answer: D
Explanation: A)
B)
C)
D)

71) The contribution-margin format of the income statement: 71) ______

A) is used with absorption costing
B) distinguishes manufacturing costs from nonmanufacturing costs
C) calculates gross margin
D) highlights the lump sum of fixed manufacturing costs

Answer: D
Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Beginning finished goods, 1/1/2010	$80 000
Ending finished goods, 12/31/2010	67 000
Cost of goods sold	270 000
Sales revenue	500 000
Operating expenses	145 000

72) What is operating profit for 2010? 72) ______

A) $85 000
B) $230 000
C) $112 000
D) $62 000

Answer: A
Explanation: A) $500 000 - $270 000 - $145 000 = $85 000
B)
C)
D)

73) The difference between operating profits under variable costing and absorption costing centres on how to account for: 73) ______

A) variable manufacturing costs
B) fixed manufacturing costs
C) direct materials costs
D) Both B and C are correct.

Answer: B
Explanation:
A)
B)
C)
D)

74) The cost of inventory reported on the balance sheet may include all of the following EXCEPT: 74) ______

A) the cost of parts used in the manufacturing process
B) customer-service costs
C) wages of the plant supervisor
D) depreciation of the factory equipment

Answer: B
Explanation:
A)
B)
C)
D)

75) Which of the following statements is FALSE? 75) ______

A) 'Product costs' refers to the particular costs of a product for the purpose at hand.
B) Inventoriable costs are important for GAAP.
C) Product costs and inventoriable costs are interchangeable terms.
D) Inventoriable costs are a special case of product costs.

Answer: C
Explanation:
A)
B)
C)
D)

76) In order to make decisions, managers need to know: 76) ______

A) budgeted costs
B) actual costs
C) both costs
D) neither costs

Answer: C
Explanation:
A)
B)
C)
D)

77) For last year, Lewisburn Manufacturing reported the following: 77) ______

Revenue	$420 000
Beginning inventory of direct materials, January 1	22 000
Purchases of direct materials	146 000
Ending inventory of direct materials, December 31	16 000
Direct manufacturing labour	18 000
Indirect manufacturing costs	40 000
Beginning inventory of finished goods, January 1	35 000
Cost of goods manufactured	104 000
Ending inventory of finished goods, December 31	36 000
Operating costs	140 000

How much of the above would be considered period costs for Lewisburn Manufacturing?

A) $104 000 B) $140 000 C) $390 000 D) $246 000

Answer: B

Explanation: A)
B) $140 000
C)
D)

78) Which of the following is a fixed cost for a motor car manufacturing plant? 78) ______

A) sales commissions
B) windows for each car produced
C) electricity used by assembly-line machines
D) administrative salaries

Answer: D

Explanation: A)
B)
C)
D)

79) Wages paid to machine operators on an assembly line are classified as a: 79) ______

A) manufacturing overhead cost B) period cost
C) direct material cost D) direct manufacturing labour cost

Answer: D

Explanation: A)
B)
C)
D)

80) Retail sector firms normally report: 80) ______

A) only (merchandise) inventory B) direct materials inventory
C) no inventory accounts D) only work-in-process inventory

Answer: A

Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Healesville Animates produces and sells a luxury animal pillow for $40.00 per unit. In the first month of operation, 3000 units were produced and 2250 units were sold. Actual fixed costs are the same as the amount budgeted for the month. Other information for the month includes:

Variable manufacturing costs	$19 per unit
Variable marketing costs	$1 per unit
Fixed manufacturing costs	$30 000 per month
Administrative expenses, all fixed	$6000 per month
Ending inventories:	
Direct materials	-0-
WIP	-0-
Finished goods	750 units

81) What is gross margin when using absorption costing? 81) ______

A) $54 750 B) $77 250 C) $45 000 D) $24 750

Answer: D

Explanation: A)
B)
C)
D) [$40 - $19 - ($30 000/3000)] × 2250 units = $24 750

82) Product costs used for external reporting generally include: 82) ______

A) design costs plus manufacturing costs
B) all costs incurred along the value chain
C) manufacturing costs only
D) All of these answers are correct.

Answer: C

Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Hewitt Corporation incurred fixed manufacturing costs of $6000 during 2013. Other information for 2013 includes:

The budgeted denominator level is 1000 units.
Units produced total 750 units.
Units sold total 600 units.
Beginning inventory was zero.

The company uses VARIABLE COSTING and the fixed manufacturing cost rate is based on the budgeted denominator level. Manufacturing variances are closed to cost of goods sold.

83) Fixed manufacturing costs included in ending inventory total: 83) ______

A) $1500 B) $900 C) $1200 D) 0

Answer: D

Explanation: A)
B)
C)
D) Under variable costing no fixed manufacturing costs are included in inventory, and all are expensed on the income statement as a lump sum.

Answer the following questions using the information below:

Queanbeyan Company incurred fixed manufacturing costs of $7200 during 2013. Other information for 2013 includes:

The budgeted denominator level is 800 units.
Units produced total 1000 units.
Units sold total 950 units.
Beginning inventory was zero.

The fixed manufacturing cost rate is based on the budgeted denominator level. Manufacturing variances are closed to cost of goods sold.

84) Under absorption costing, fixed manufacturing costs expensed on the income statement (excluding adjustments for variances) total: 84) _______

A) $8550 B) $7200 C) $9000 D) 0

Answer: A

Explanation: A) $7200 / 800 units = $9 × 950 = $8550
B)
C)
D)

85) For last year, Deniliquin Manufacturing reported the following: 85) _______

Revenue	$420 000
Beginning inventory of direct materials, January 1	22 000
Purchases of direct materials	146 000
Ending inventory of direct materials, December 31	16 000
Direct manufacturing labour	18 000
Indirect manufacturing costs	40 000
Beginning inventory of finished goods, January 1	35 000
Cost of goods manufactured	104 000
Ending inventory of finished goods, December 31	36 000
Operating costs	140 000

What was Lewisburn's gross margin (or gross profit)?

A) $103 000 B) $268 000 C) $152 000 D) $317 000

Answer: D

Explanation: A)
B)
C)
D) $420 000 - ($35 000 + $104 000 - $36 000) = $317 000

86) Manufacturing overhead costs are also referred to as: 86) _______

A) direct material B) indirect manufacturing costs
C) period costs D) prime costs

Answer: B

Explanation: A)
B)
C)
D)

87) Manufacturing costs include all of the following EXCEPT: 87) ______

A) both inventoriable and period costs
B) both direct and indirect costs
C) both variable and fixed costs
D) costs incurred inside the factory

Answer: A
Explanation: A)
B)
C)
D)

88) An unfavourable production-volume variance occurs when: 88) ______

A) unit sales exceed production
B) production exceeds unit sales
C) production exceeds the denominator level
D) the denominator level exceeds production

Answer: D
Explanation: A)
B)
C)
D)

89) Which statement is TRUE? 89) ______

A) A direct cost of one cost object cannot be an indirect cost of another cost object.
B) All fixed costs are direct costs.
C) All variable costs are direct costs.
D) A direct cost of one cost object can be an indirect cost of another cost object.

Answer: D
Explanation: A)
B)
C)
D)

90) Variable costing regards fixed manufacturing overhead as a(n): 90) ______

A) product cost
B) administrative cost
C) inventoriable cost
D) period cost

Answer: D
Explanation: A)
B)
C)
D)

91) Fixed costs: 91) ______

A) may include either direct or indirect costs
B) vary with production or sales volumes
C) can be adjusted in the short run to meet actual demands
D) include parts and materials used to manufacture a product

Answer: A
Explanation: A)
B)
C)
D)

92) For merchandising companies, inventoriable costs include: 92) _______

A) insurance costs for the goods
B) incoming freight costs
C) the cost of the goods themselves
D) All of these answers are correct.

Answer: D

Explanation:
A)
B)
C)
D)

93) Which of the following is a variable cost for an insurance company? 93) _______

A) CEO's salary
B) property taxes
C) rent
D) sales commissions

Answer: D

Explanation:
A)
B)
C)
D)

Answer the following questions using the information below:

Pederson Company reported the following:

Manufacturing costs	$2 000 000
Units manufactured	50 000
Units sold	47 000 units sold for $75 per unit
Beginning inventory	0 units

94) What is the cost of ending finished goods inventory? 94) _______

A) $225 000
B) $120 000
C) $1 880 000
D) $105 000

Answer: B

Explanation:
A)
B) (50 000 - 47 000) × ($2 000 000 / $50 000) = $120 000
C)
D)

95) Bradman Corporation has reported operating profit of $30 000 and a fixed overhead cost rate is $20 per unit for the current accounting period. Under absorption costing, if this company now produces an additional 100 units of inventory, then operating profit: 95) _______

A) will increase by $2000
B) will not be affected
C) is indeterminable
D) will increase by $2000 only if the additional 100 units of inventory are sold

Answer: A

Explanation:
A) Ending inventory increases by 100 × $20 = $2000, thereby reducing cost of goods sold by the same amount, so operating profit will increase by $2000. $2000 of fixed costs are carried over to the next accounting period
B)
C)
D)

96) At a plant where a union agreement sets annual salaries and conditions, annual labour costs usually: 96) ______

A) depend on the scheduling of production runs
B) are considered a variable cost
C) are considered a fixed cost
D) depend on the scheduling of floor workers

Answer: C
Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Pederson Company reported the following:

Manufacturing costs	$2 000 000
Units manufactured	50 000
Units sold	47 000 units sold for $75 per unit
Beginning inventory	0 units

97) What is the average manufacturing cost per unit? 97) ______

A) $40.00 B) $0.025 C) $42.55 D) $75.00

Answer: A
Explanation: A) $2 000 000 / 50 000 = $40.00
B)
C)
D)

98) Companies have recently been able to reduce inventory levels because: 98) ______

A) there is better sharing of information between suppliers and manufacturers
B) just-in-time production strategies are being implemented
C) production quotas are being implemented
D) Both A and B are correct.

Answer: D
Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Healesville Animates produces and sells a luxury animal pillow for $40.00 per unit. In the first month of operation, 3000 units were produced and 2250 units were sold. Actual fixed costs are the same as the amount budgeted for the month. Other information for the month includes:

Variable manufacturing costs	$19 per unit
Variable marketing costs	$1 per unit
Fixed manufacturing costs	$30 000 per month
Administrative expenses, all fixed	$6000 per month
Ending inventories:	
Direct materials	-0-
WIP	-0-
Finished goods	750 units

99) What is cost of goods sold per unit when using absorption costing? 99) ______

A) $19 B) $20 C) $29 D) $32

Answer: C

Explanation: A)

B)

C) $19 + ($30 000 / 3000 units) = $29

D)

100) Which of the following does NOT affect the direct/indirect classification of a cost? 100) ______

A) the design of the operation

B) available technology to gather information about the cost

C) the materiality of the cost in question

D) the level of budgeted profit for the next year

Answer: D

Explanation: A)

B)

C)

D)

Answer the following questions using the information below:

Hewitt Corporation incurred fixed manufacturing costs of $6000 during 2013. Other information for 2013 includes:

The budgeted denominator level is 1000 units.
Units produced total 750 units.
Units sold total 600 units.
Beginning inventory was zero.

The company uses VARIABLE COSTING and the fixed manufacturing cost rate is based on the budgeted denominator level. Manufacturing variances are closed to cost of goods sold.

101) The production-volume variance totals: 101) ______

A) $1500 B) $2400 C) $2000 D) 0

Answer: D

Explanation: A)
B)
C)
D) Variable costing has no production-volume variance.

Answer the following questions using the information below:

Leongatha Motors produces and sells an auto part for $30.00 per unit. In 2010, 100 000 parts were produced and 75 000 units were sold. Other information for the year includes:

Direct materials	$12.00 per unit
Direct manufacturing labour	$2.25 per unit
Variable manufacturing costs	$0.75 per unit
Sales commissions	$3.00 per part
Fixed manufacturing costs	$375 000 per year
Administrative expenses, all fixed	$135 000 per year

102) What is the inventoriable cost per unit using absorption costing? 102) ______

A) $15.00 B) $18.00 C) $18.75 D) $21.75

Answer: C

Explanation: A)
B)
C) $12.00 + $2.25 + $0.75 + ($375 000 / 100 000) = $18.75
D)

Answer the following questions using the information below:

The SouthAus Company manufactures several different products. Unit costs associated with Product ADE108 are as follows:

Direct materials	$40
Direct manufacturing labour	8
Variable manufacturing overhead	12
Fixed manufacturing overhead	23
Sales commissions (2% of sales)	6
Administrative salaries	9
Total	$98

103) What are the variable costs per unit associated with Product ADE108? 103) ______

A) $83 B) $48 C) $66 D) $60

Answer: C

Explanation: A)

B)

C) $40 + $8 + $12 + $6 = $66

D)

104) Variable and absorption costing may be combined with all costing systems EXCEPT: 104) ______

A) actual costing
B) mixed costing
C) normal costing
D) standard costing

Answer: B

Explanation: A)

B)

C)

D)

105) Which one of the following items is a direct cost? 105) ______

A) Customer-service costs of a multiproduct firm; Product A is the cost object.
B) Utility costs of the administrative offices; the accounting department is the cost object.
C) The salary of a maintenance supervisor in a multiproduct manufacturing plant; Product B is the cost object.
D) Printing costs incurred for payroll check processing; payroll check processing is the cost object.

Answer: D

Explanation: A)

B)

C)

D)

106) Lindwall Corporation has reported operating profit of $30 000 and a fixed overhead cost rate is $20 per unit for the current accounting period. Under variable costing, if this company produces 100 more units of inventory, then operating profit: 106) ______

A) will increase by $2000 only if the 100 additional units of inventory are sold
B) is indeterminable
C) will not be affected
D) will increase by $2000

Answer: C
Explanation:
A)
B)
C) All fixed costs are accounted for in the period in which they are incurred.
D)

107) Which of the following cost(s) are inventoried when using absorption costing? 107) ______

A) fixed manufacturing costs
B) variable marketing costs
C) direct manufacturing costs
D) Both A and C are correct.

Answer: D
Explanation:
A)
B)
C)
D)

108) Manufacturing overhead costs may include all of the following EXCEPT: 108) ______

A) labour that can be traced to individual products
B) salaries of the plant cleaning staff
C) wages paid for unproductive time due to machine breakdowns
D) overtime premiums paid to plant workers

Answer: A
Explanation:
A)
B)
C)
D)

Answer the following questions using the information below:

The following information pertains to Bondi Creations:

Manufacturing costs	$1 500 000
Units manufactured	30 000
Units sold	29 500 units sold for $85 per unit
Beginning inventory	0 units

109) What is the cost of ending finished goods inventory? 109) ______

A) $42 500
B) $1 475 000
C) $25 000
D) $25 424

Answer: C
Explanation:
A)
B)
C) (30 000 - 29 500) × ($1 500 000 / $30 000) = $25 000
D)

110) The only difference between variable and absorption costing is the expensing of: 110) ______

A) fixed manufacturing costs
B) direct manufacturing costs
C) variable marketing costs
D) Both A and C are correct.

Answer: A

Explanation: A)
B)
C)
D)

111) ________ - sector companies purchase and then sell tangible products without changing their basic form. 111) ______

A) Professional
B) Merchandising
C) Manufacturing
D) Service

Answer: B

Explanation: A)
B)
C)
D)

112) Product cost for pricing and product-mix decisions may include all costs EXCEPT: 112) ______

A) customer-service costs
B) design costs
C) research and development costs
D) marketing costs
E) All of the above may be included.

Answer: E

Explanation: A)
B)
C)
D)
E)

113) In making product mix and pricing decisions, managers should focus on: 113) ______

A) fixed costs
B) variable costs
C) total costs
D) unit costs

Answer: C

Explanation: A)
B)
C)
D)

114) ________ is a method of inventory costing in which all variable and fixed manufacturing costs are included as inventoriable costs. 114) ______

A) Variable costing
B) Standard costing
C) Absorption costing
D) Mixed costing

Answer: C

Explanation: A)
B)
C)
D)

115) Which of the following companies is part of the service sector of the economy? 115) ______

A) General Motors
B) Woolworths
C) Amazon.com
D) National Bank

Answer: D

Explanation:
A)
B)
C)
D)

Answer the following questions using the information below:

The following information pertains to Bondi Creations:

Manufacturing costs	$1 500 000
Units manufactured	30 000
Units sold	29 500 units sold for $85 per unit
Beginning inventory	0 units

116) What is the amount of gross margin? 116) ______

A) $2 507 500
B) $1 475 000
C) $1 500 000
D) $1 032 500

Answer: D

Explanation:
A)
B)
C)
D) 29 500 × ($85 - ($1 500 000 / $30 000)) = $1 032 500

117) Cost assignment: 117) ______

A) is the same as cost accumulation
B) is finding the difference between budgeted and actual costs
C) is always arbitrary
D) includes tracing and allocating

Answer: D

Explanation:
A)
B)
C)
D)

Answer the following questions using the information below:

Wangaratta Corporation incurred fixed manufacturing costs of $6000 during 2013. Other information for 2013 includes:

The budgeted denominator level is 1000 units.
Units produced total 750 units.
Units sold total 600 units.
Beginning inventory was zero.

The company uses absorption costing and the fixed manufacturing cost rate is based on the budgeted denominator level. Manufacturing variances are closed to cost of goods sold.

118) Fixed manufacturing costs expensed on the income statement (excluding adjustments for variances) total: 118) ______

A) $3600 B) $4800 C) 0 D) $6000

Answer: A

Explanation: A) $6000 / 1000 units = $6 × 600 = $3600
B)
C)
D)

119) The MOST likely cost driver of distribution costs is the: 119) ______

A) number of products manufactured
B) number of production hours
C) number of miles driven
D) number of parts within the product

Answer: C

Explanation: A)
B)
C)
D)

120) Which of the following companies is part of the merchandising sector of the economy? 120) ______

A) Robert Meyer Accounting Firm
B) Melbourne Medical Centre
C) David Jones
D) Toyoto Co.

Answer: C

Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

The SouthAus Company manufactures several different products. Unit costs associated with Product ADE108 are as follows:

Direct materials	$40
Direct manufacturing labour	8
Variable manufacturing overhead	12
Fixed manufacturing overhead	23
Sales commissions (2% of sales)	6
Administrative salaries	9
Total	$98

121) What are the period costs per unit associated with Product ADE108? 121) ______

A) $15 B) $27 C) $9 D) $6

Answer: A

Explanation: A) $6 + 9 = $15
B)
C)
D)

122) A manufacturing plant produces two product lines: football equipment and cricket equipment. Direct costs for the football equipment line are the: 122) ______

A) beverages provided daily in the plant break room
B) salaries of the clerical staff that work in the company administrative offices
C) monthly lease payments for a specialised piece of equipment needed to manufacture the football helmet
D) utilities paid for the manufacturing plant

Answer: C

Explanation: A)
B)
C)
D)

123) A mixed cost is: 123) ______

A) a fixed cost B) always an indirect cost
C) a cost with fixed and variable elements D) a variable cost

Answer: C

Explanation: A)
B)
C)
D)

124) A cost system determines the cost of a cost object by: 124) ______

A) assigning and then accumulating costs B) accumulating and then assigning costs
C) accumulating costs D) assigning costs

Answer: B

Explanation: A)
B)
C)
D)

125) Within the relevant range, if there is a change in the level of the cost driver, then: 125) ______

A) total fixed costs and total variable costs will change
B) total fixed costs will change and total variable costs will remain the same
C) total fixed costs and total variable costs will remain the same
D) total fixed costs will remain the same and total variable costs will change

Answer: D
Explanation: A)
B)
C)
D)

126) Duggan Corporation has provided the following information: 126) ______

Beginning work-in-process inventory	$20 000
Ending work-in-process inventory	23 000
Beginning finished goods inventory	36 000
Ending finished goods inventory	34 000
Cost of goods manufactured	246 000

What is cost of goods sold?

A) $243 000 B) $248 000 C) $249 000 D) $244 000

Answer: B
Explanation: A)
B) $36 000 + $246 000 - $34 000 = $248 000
C)
D)

127) Mt Panorama Company has the following information for the current year: 127) ______

Beginning fixed manufacturing overhead in inventory	$95 000
Fixed manufacturing overhead in production	375 000
Ending fixed manufacturing overhead in inventory	25 000
Beginning variable manufacturing overhead in inventory	$10 000
Variable manufacturing overhead in production	50 000
Ending variable manufacturing overhead in inventory	15 000

What is the difference between operating profits under absorption costing and variable costing?

A) $70 000 B) $50 000 C) $40 000 D) $5000

Answer: A
Explanation: A) $95 000 - $25 000 = $70 000
B)
C)
D)

128) The collection of accounting data in some organised way is: 128) ______

A) cost assignment
B) cost accumulation
C) cost tracing
D) conversion costing

Answer: B

Explanation:
A)
B)
C)
D)

129) The general term used to identify both the tracing and the allocation of accumulated costs to a cost object is: 129) ______

A) cost assignment
B) conversion costing
C) cost accumulation
D) cost tracing

Answer: A

Explanation:
A)
B)
C)
D)

130) Indirect manufacturing costs: 130) ______

A) may include both variable and fixed costs
B) can be easily identified with the cost object
C) generally include the cost of material and the cost of labour
D) can be traced to the product that created the costs

Answer: A

Explanation:
A)
B)
C)
D)

131) For last year, Lewisburn Manufacturing reported the following: 131) ______

Revenue	$420 000
Beginning inventory of direct materials, January 1	22 000
Purchases of direct materials	146 000
Ending inventory of direct materials, December 31	16 000
Direct manufacturing labour	18 000
Indirect manufacturing costs	40 000
Beginning inventory of finished goods, January 1	35 000
Cost of goods manufactured	104 000
Ending inventory of finished goods, December 31	36 000
Operating costs	140 000

What was Deniliquin's operating profit?

A) $280 000
B) $128 000
C) $177 000
D) $76 000

Answer: C

Explanation:
A)
B)
C) $420 000 - ($35 000 + $104 000 - $36 000) - $140 000 = $177 000
D)

132) When making decisions: 132) ______

A) it is best to use average costs
B) it is best to use total costs rather than unit costs
C) it is best to use unit costs
D) All of these types of costs can be used for decision making; it varies depending on the decision required.

Answer: D
Explanation: A)
B)
C)
D)

133) The income statement of a manufacturing firm reports: 133) ______

A) inventoriable costs only
B) period and inventoriable costs but at different times; the reporting varies
C) both period and inventoriable costs
D) period costs only

Answer: C
Explanation: A)
B)
C)
D)

134) The MOST likely cost driver of direct material costs is the: 134) ______

A) number of production hours
B) number of miles driven
C) number of parts within the product
D) number of products manufactured

Answer: D
Explanation: A)
B)
C)
D)

135) Inventoriable costs are expensed on the income statement: 135) ______

A) when direct materials for the product are purchased
B) when the products are sold
C) after the products are manufactured
D) not at any particular time, it varies

Answer: B
Explanation: A)
B)
C)
D)

136) Critics of absorption costing suggest evaluating management on their ability to: 136) ______

A) decrease inventory costs
B) exceed production quotas
C) increase operating profit
D) All of these answers are correct.

Answer: A
Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Beginning finished goods, 1/1/2010	$40 000
Ending finished goods, 12/31/2010	33 000
Cost of goods sold	250 000
Sales revenue	600 000
Operating expenses	120 000

137) What is cost of goods manufactured for 2010? 137) ______

A) $350 000 B) $257 000 C) $243 000 D) $250 000

Answer: C

Explanation: A)

B)

C) $250 000 + $33 000 - $40 000 = $243 000

D)

138) Indirect costs: 138) ______

A) cannot be used for external reporting
B) specifically exclude marketing costs
C) often comprise a large percentage of overall costs assigned to a cost object
D) are treated as period costs and not as product costs

Answer: C

Explanation: A)

B)

C)

D)

139) Rodney Marsh is paid $10 an hour for straight-time and $15 an hour for overtime. One week he worked 45 hours, which included 5 hours of overtime, and 3 hours of idle time caused by material shortages. Compensation would be reported as: 139) ______

A) $445 of direct labour and $30 of manufacturing overhead
B) $420 of direct labour and $55 of manufacturing overhead
C) $450 of direct labour and $25 of manufacturing overhead
D) $370 of direct labour and $105 of manufacturing overhead

Answer: B

Explanation: A)

B) Direct labour (42 hours × $10) + Idle time (3 hrs × $10) + Overtime premium (5 hrs × $5) = $475

C)

D)

Answer the following questions using the information below:

Beginning finished goods, 1/1/2010	$40 000
Ending finished goods, 12/31/2010	33 000
Cost of goods sold	250 000
Sales revenue	600 000
Operating expenses	120 000

140) What is gross margin for 2010? 140) ______

A) $357 000 B) $243 000 C) $527 000 D) $350 000

Answer: D

Explanation: A)
B)
C)
D) $600 000 - $250 000 = $350 000

Answer the following questions using the information below:

The SouthAus Company manufactures several different products. Unit costs associated with Product ADE108 are as follows:

Direct materials	$40
Direct manufacturing labour	8
Variable manufacturing overhead	12
Fixed manufacturing overhead	23
Sales commissions (2% of sales)	6
Administrative salaries	9
Total	$98

141) What are the inventoriable costs per unit associated with Product ADE108? 141) ______

A) $48 B) $66 C) $60 D) $83

Answer: D

Explanation: A)
B)
C)
D) $40 + $8 + $12 + $23 = $83

142) Manufacturing-sector companies report: 142) ______

A) direct materials inventory, work-in-process inventory, finished goods inventory
B) only direct materials inventory
C) only finished goods inventory
D) no inventory accounts

Answer: A

Explanation: A)
B)
C)
D)

143) Classifying a cost as either direct or indirect depends upon: 143) ______

A) whether an expenditure is avoidable or not in the future
B) whether the cost can be easily identified with the cost object
C) whether the cost is expensed in the period in which it is incurred
D) the behaviour of the cost in response to volume changes

Answer: B
Explanation: A)
B)
C)
D)

144) Costs which are not economically feasible to trace but which are related to a cost object are known as: 144) ______

A) indirect costs B) variable costs C) direct costs D) fixed costs

Answer: A
Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Wangaratta Corporation incurred fixed manufacturing costs of $6000 during 2013. Other information for 2013 includes:

The budgeted denominator level is 1000 units.
Units produced total 750 units.
Units sold total 600 units.
Beginning inventory was zero.

The company uses absorption costing and the fixed manufacturing cost rate is based on the budgeted denominator level. Manufacturing variances are closed to cost of goods sold.

145) The production-volume variance is: 145) ______

A) $2400 B) $1500 C) $2000 D) 0

Answer: B
Explanation: A)
B) $6000 / 1000 units = $6 × 250 = $1500
C)
D)

146) O'Reilly Manufacturing provided the following information for last month: 146) ______

Sales	$20 000
Variable costs	6000
Fixed costs	5000
Operating profit	$9000

If sales double next month, what is the projected operating profit?

A) $12 000 B) $14 000 C) $23 000 D) $18 000

Answer: C

Explanation:
A)
B)
C) ($20 000 × 2) - ($6000 × 2) - $5000 = $23 000
D)

Answer the following questions using the information below:

Beginning finished goods, 1/1/2010	$80 000
Ending finished goods, 12/31/2010	67 000
Cost of goods sold	270 000
Sales revenue	500 000
Operating expenses	145 000

147) What is gross margin for 2010? 147) ______

A) $355 000 B) $257 000 C) $230 000 D) $283 000

Answer: C

Explanation:
A)
B)
C) $500 000 - $270 000 = $230 000
D)

148) Which of the following is a mixed cost? 148) ______

A) direct materials
B) monthly rent payment
C) manager's salary
D) monthly telephone bill

Answer: D

Explanation:
A)
B)
C)
D)

Answer the following questions using the information below:

Hewitt Corporation incurred fixed manufacturing costs of $6000 during 2013. Other information for 2013 includes:

The budgeted denominator level is 1000 units.
Units produced total 750 units.
Units sold total 600 units.
Beginning inventory was zero.

The company uses VARIABLE COSTING and the fixed manufacturing cost rate is based on the budgeted denominator level. Manufacturing variances are closed to cost of goods sold.

149) Fixed manufacturing costs expensed on the income statement (excluding adjustments for variances) total: 149) ______

A) $4800 B) 0 C) $6000 D) $3600

Answer: C
Explanation: A)
B)
C) $6000 of fixed manufacturing costs is expensed as a lump sum.
D)

150) Absorption costing is required for all of the following EXCEPT: 150) ______

A) determining a competitive selling price
B) external reporting to shareholders
C) generally accepted accounting principles
D) income tax reporting

Answer: A
Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Jindabyne Pillows produces and sells a decorative pillow for $75.00 per unit. In the first month of operation, 2000 units were produced and 1750 units were sold. Actual fixed costs are the same as the amount budgeted for the month. Other information for the month includes:

Variable manufacturing costs	$20.00 per unit
Variable marketing costs	$3.00 per unit
Fixed manufacturing costs	$7.00 per unit
Administrative expenses, all fixed	$15.00 per unit
Ending inventories:	
Direct materials	-0-
WIP	-0-
Finished goods	250 units

151) What is cost of goods sold using variable costing? 151) ______

A) $35 000 B) $40 000 C) $47 250 D) $54 000

Answer: A
Explanation: A) $20 × 1750 units = $35 000
B)
C)
D)

152) When 10 000 units are produced, fixed costs are $15 per unit. Therefore, when 30 000 units are produced, fixed costs will: 152) ______

A) remain at $15 per unit
B) total $450 000
C) increase to $45 per unit
D) decrease to $5 per unit

Answer: D

Explanation: A)
B)
C)
D)

153) Absorption costing: 153) ______

A) treats direct manufacturing costs as a period cost
B) includes fixed manufacturing overhead as an inventoriable cost
C) expenses marketing costs as cost of goods sold
D) is required for internal reports to managers

Answer: B

Explanation: A)
B)
C)
D)

154) A unit cost is computed by: 154) ______

A) dividing variable cost by the number of units
B) multiplying total cost by the number of units
C) adding variable cost to fixed cost
D) dividing total cost by the number of units

Answer: D

Explanation: A)
B)
C)
D)

155) Brenda Hicks is paid $10 an hour for straight-time and $15 an hour for overtime. One week she worked 42 hours, which included 2 hours of overtime. Compensation would be reported as: 155) ______

A) $430 of direct labour and $0 of manufacturing overhead
B) $400 of direct labour and $30 of manufacturing overhead
C) $420 of direct labour and $10 of manufacturing overhead
D) $400 of direct labour and $0 of manufacturing overhead

Answer: C

Explanation: A)
B)
C) Direct labour (42 hours × $10) + Overtime premium (2 hrs × $5) = $430
D)

156) Cost objects include: 156) ______

A) customers
B) products
C) departments
D) All of these answers are correct.

Answer: D

Explanation: A)
B)
C)
D)

157) For last year, Ulladula Enterprises reported revenues of $420 000, cost of goods sold of $108 000, cost of goods manufactured of $101 000, and total operating costs of $70 000. Gross margin for last year was: 157) ______

A) $249 000
B) $312 000
C) $242 000
D) $319 000

Answer: B

Explanation: A)
B) $420 000 - $108 000 = $312 000
C)
D)

158) Dandenong Tyre Company currently produces 1000 tyres per month. The following per unit data apply for sales to regular customers: 158) ______

Direct materials	$20
Direct manufacturing labour	3
Variable manufacturing overhead	6
Fixed manufacturing overhead	10
Total manufacturing costs	$39

The plant has capacity for 3000 tyres and is considering expanding production to 2000 tyres. What is the total cost of producing 2000 tyres?

A) $62 000
B) $78 000
C) $68 000
D) $39 000

Answer: C

Explanation: A)
B)
C) [($20 + $3 + $6) × 2000 units] + ($10 × 1000 units) = $68 000
D)

159) Inventoriable costs: 159) ______

A) are also referred to as nonmanufacturing costs
B) are particularly useful in management accounting
C) are expensed in the accounting period in which the products are sold
D) include administrative and marketing costs

Answer: C

Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Jindabyne Pillows produces and sells a decorative pillow for $75.00 per unit. In the first month of operation, 2000 units were produced and 1750 units were sold. Actual fixed costs are the same as the amount budgeted for the month. Other information for the month includes:

Variable manufacturing costs	$20.00 per unit
Variable marketing costs	$3.00 per unit
Fixed manufacturing costs	$7.00 per unit
Administrative expenses, all fixed	$15.00 per unit
Ending inventories:	
Direct materials	-0-
WIP	-0-
Finished goods	250 units

160) What is contribution margin using variable costing? 160) ______

A) $96 250 B) $91 000 C) $104 000 D) $110 000

Answer: B

Explanation: A)
B) ($75 × 1750) - [($20 + $3) × 1750 units] = $91 000
C)
D)

161) ________ are subtracted from sales to calculate gross margin. 161) ______

A) Fixed manufacturing costs B) Variable marketing costs
C) Variable manufacturing costs D) Both A and C are correct.

Answer: D

Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

The SouthAus Company manufactures several different products. Unit costs associated with Product ADE108 are as follows:

Direct materials	$40
Direct manufacturing labour	8
Variable manufacturing overhead	12
Fixed manufacturing overhead	23
Sales commissions (2% of sales)	6
Administrative salaries	9
Total	$98

162) What are the fixed costs per unit associated with Product ADE108? 162) ______

A) $35 B) $32 C) $23 D) $44

Answer: B

Explanation: A)
B) $23 + 9 = $32
C)
D)

163) Which of the following inventory costing methods is MOST likely to cause undesirable incentives for managers to build up finished goods inventory? 163) ______

A) absorption costing
B) variable costing
C) direct costing
D) throughput costing

Answer: A
Explanation: A)
B)
C)
D)

164) Which statement is TRUE? 164) ______

A) All direct costs are variable costs.
B) All fixed costs are indirect costs.
C) Because of a cost-benefit tradeoff, some direct costs may be treated as indirect costs.
D) All variable costs are direct costs.

Answer: C
Explanation: A)
B)
C)
D)

165) Product costs used for pricing and product-mix decisions generally include: 165) ______

A) distribution costs only
B) design costs plus manufacturing costs
C) manufacturing costs only
D) all costs incurred along the value chain

Answer: D
Explanation: A)
B)
C)
D)

166) Xi'an Manufacturing produces a unique terracota warrior, and has the capacity to produce 50 000 warriors annually. Currently Xi'an produces 40 000 warriors and is thinking about increasing production to 45 000 warriors next year. What is the most likely behaviour of total manufacturing costs and unit manufacturing costs given this change? 166) ______

A) Total manufacturing costs will stay the same and unit manufacturing costs will decrease.
B) Total manufacturing costs will increase and unit manufacturing costs will decrease.
C) Total manufacturing costs will increase and unit manufacturing costs will stay the same.
D) Total manufacturing costs will stay the same and unit manufacturing costs will stay the same.

Answer: B
Explanation: A)
B)
C)
D)

167) Chapple Manufacturing provided the following information for last month: 167) ______

Sales	$12 000
Variable costs	4000
Fixed costs	1000
Operating profit	$7000

If sales double next month, what is the projected operating profit?

A) $18 000 B) $15 000 C) $19 000 D) $14 000

Answer: B

Explanation: A)

B) ($12 000 × 2) - ($4000 × 2) - $1000 = $15 000

C)

D)

Answer the following questions using the information below:

Queanbeyan Company incurred fixed manufacturing costs of $7200 during 2013. Other information for 2013 includes:

The budgeted denominator level is 800 units.
Units produced total 1000 units.
Units sold total 950 units.
Beginning inventory was zero.

The fixed manufacturing cost rate is based on the budgeted denominator level. Manufacturing variances are closed to cost of goods sold.

168) Under variable costing, the fixed manufacturing costs expensed on the income statement (excluding adjustments for variances) total: 168) ______

A) 0 B) $7200 C) $9000 D) $8550

Answer: B

Explanation: A)

B) $7200 of fixed manufacturing costs is expensed as a lump sum.

C)

D)

169) In the cost classification system used by manufacturing firms, assembly workers' wages would be included in all of the following EXCEPT: 169) ______

A) period cost B) prime cost C) conversion cost D) product cost

Answer: A

Explanation: A)

B)

C)

D)

170) The income statement of a service-sector firm reports: 170) ______

A) both period and inventoriable costs
B) period costs only
C) inventoriable costs only
D) period and inventoriable costs but at different times; the reporting varies

Answer: B
Explanation: A)
B)
C)
D)

171) Prime costs include: 171) ______

A) direct materials and direct manufacturing labour costs
B) direct materials and manufacturing overhead costs
C) direct manufacturing labour and manufacturing overhead costs
D) only direct materials

Answer: A
Explanation: A)
B)
C)
D)

172) Which of the following would be LEAST likely to be a cost driver for a company's accounting costs? 172) ______

A) the number of invoices processed
B) the number of employees in the accounting department
C) the number of units sold
D) the square metreage of the office space used by the accounting department

Answer: C
Explanation: A)
B)
C)
D)

173) ________ are subtracted from sales to calculate contribution margin. 173) ______

A) Variable marketing costs
B) Variable manufacturing costs
C) Fixed manufacturing costs
D) Both A and B are correct.

Answer: D
Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Axle and Wheel Manufacturing currently produces 1000 axles per month. The following per unit data apply for sales to regular customers:

Direct materials	$30
Direct manufacturing labour	5
Variable manufacturing overhead	10
Fixed manufacturing overhead	40
Total manufacturing costs	$85

174) What is the per unit cost when producing 1500 axles? 174) ______

A) $71.67 B) $170.00 C) $107.50 D) $85.00

Answer: A

Explanation: A) $107 500 / 1500 = $71.67
B)
C)
D)

Answer the following questions using the information below:

Queanbeyan Company incurred fixed manufacturing costs of $7200 during 2013. Other information for 2013 includes:

The budgeted denominator level is 800 units.
Units produced total 1000 units.
Units sold total 950 units.
Beginning inventory was zero.

The fixed manufacturing cost rate is based on the budgeted denominator level. Manufacturing variances are closed to cost of goods sold.

175) Under absorption costing, the production-volume variance is: 175) ______

A) 0 B) $1350 C) $1800 D) $450

Answer: C

Explanation: A)
B)
C) $7200 / 800 units = $9 × 200 = $1800
D)

Answer the following questions using the information below:

Beginning finished goods, 1/1/2010	$40 000
Ending finished goods, 12/31/2010	33 000
Cost of goods sold	250 000
Sales revenue	600 000
Operating expenses	120 000

176) What is operating profit for 2010? 176) ______

A) $230 000 B) $107 000 C) $157 000 D) $123 000

Answer: A

Explanation: A) $600 000 - $250 000 - $120 000 = $230 000
B)
C)
D)

177) ________ are the acquisition costs of all materials that eventually become part of the cost object and can be traced to the cost object. 177) ______

A) Direct manufacturing labour costs
B) Manufacturing overhead costs
C) Indirect manufacturing costs
D) Direct material costs

Answer: D

Explanation: A)
B)
C)
D)

178) ________ is a method of inventory costing in which only variable manufacturing costs are included as inventoriable costs. 178) ______

A) Absorption costing
B) Mixed costing
C) Fixed costing
D) Variable costing

Answer: D

Explanation: A)
B)
C)
D)

179) All of the following are true EXCEPT that indirect costs: 179) ______

A) vary with the selection of the cost object
B) may be included in prime costs
C) are not easily traced to products or services
D) may be included in manufacturing overhead

Answer: B

Explanation: A)
B)
C)
D)

180) When comparing the operating profits between absorption costing and variable costing, and beginning finished inventory exceeds ending finished inventory, it may be assumed that: 180) ______

A) variable costing operating profit exceeds absorption costing operating profit
B) sales increased during the period
C) variable cost per unit is less than fixed cost per unit
D) there is an unfavourable production-volume variance

Answer: A
Explanation:
A)
B)
C)
D)

181) The following information has been taken from Blue Mountains accounting records: 181) ______

Beginning work-in-process inventory	$50 000
Ending work-in-process inventory	48 000
Beginning finished goods inventory	180 000
Ending finished goods inventory	195 000
Cost of goods manufactured	1 220 000

What is cost of goods sold?

A) $1 218 000
B) $1 205 000
C) $1 235 000
D) $1 222 000

Answer: B
Explanation:
A)
B) $180 000 + $1 220 000 - $195 000 = $1 205 000
C)
D)

182) Given a constant contribution margin per unit and constant fixed costs, the period-to-period change in operating profit under variable costing is driven solely by: 182) ______

A) changes in sales price per unit
B) changes in the quantity of units produced
C) changes in ending inventory
D) changes in the quantity of units actually sold

Answer: D
Explanation:
A)
B)
C)
D)

183) Which of the following inventory costing methods shown below is required by GAAP (generally accepted accounting principles) for external financial reporting? 183) ______

A) variable costing
B) direct costing
C) throughput costing
D) absorption costing

Answer: D
Explanation:
A)
B)
C)
D)

Answer the following questions using the information below:

Alice Opals produces and sells a mantel clock for $100 per unit. In 2010, 100 000 clocks were produced and 80 000 were sold. Other information for the year includes:

Direct materials	$30.00 per unit
Direct manufacturing labour	$2.00 per unit
Variable manufacturing costs	$3.00 per unit
Sales commissions	$5.00 per part
Fixed manufacturing costs	$25.00 per unit
Administrative expenses, all fixed	$15.00 per unit

184) What is the inventoriable cost per unit using absorption costing? 184) ______

A) $32 B) $35 C) $60 D) $80

Answer: C

Explanation: A)
B)
C) $30 + $2 + $3 + $25 = $60
D)

185) Cost allocation is: 185) ______

A) a function of cost tracing
B) the assignment of indirect costs to the chosen cost object
C) the process of tracking both direct and indirect costs associated with a cost object
D) the process of determining the actual cost of the cost object

Answer: B

Explanation: A)
B)
C)
D)

186) Many companies have switched from absorption costing to variable costing for internal reporting: 186) ______

A) to increase bonuses for managers
B) so the denominator level is more accurate
C) to comply with external reporting requirements
D) to reduce the undesirable incentive to build up inventories

Answer: D

Explanation: A)
B)
C)
D)

187) A plant manufactures several different products. The wages of the plant supervisor can be classified as a(n): 187) ______

A) direct cost B) period cost
C) inventoriable cost D) variable cost

Answer: C

Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Jindabyne Pillows produces and sells a decorative pillow for $75.00 per unit. In the first month of operation, 2000 units were produced and 1750 units were sold. Actual fixed costs are the same as the amount budgeted for the month. Other information for the month includes:

Variable manufacturing costs	$20.00 per unit
Variable marketing costs	$3.00 per unit
Fixed manufacturing costs	$7.00 per unit
Administrative expenses, all fixed	$15.00 per unit
Ending inventories:	
Direct materials	-0-
WIP	-0-
Finished goods	250 units

188) What is operating profit using variable costing? 188) ______

A) $78 750 B) $52 500 C) $65 750 D) $47 000

Answer: D

Explanation: A)

B)

C)

D) Contribution margin of $91 000 - [($7 + $15) × 2000 units] = $47 000

189) A band of normal activity or volume in which specific cost-volume relationships are maintained is called the: 189) ______

A) cost-allocation range B) average range

C) relevant range D) cost driver range

Answer: C

Explanation: A)

B)

C)

D)

190) To discourage producing for inventory, management can: 190) ______

A) evaluate performance over a three- to five-year period rather than a single year

B) evaluate non-financial measures such as units in ending inventory compared to units in sales

C) incorporate a carrying charge for inventory in the internal accounting system

D) All of these answers are correct.

Answer: D

Explanation: A)

B)

C)

D)

191) Product costs may refer to: 191) ______

A) inventoriable costs for external reporting
B) all costs incurred along the value chain for pricing decisions
C) design costs plus manufacturing costs for government contracts
D) All of these answers are correct.

Answer: D
Explanation: A)
B)
C)
D)

192) Which of the following is NOT a period cost? 192) ______

A) marketing costs
B) manufacturing costs
C) general and administrative costs
D) research and development costs

Answer: B
Explanation: A)
B)
C)
D)

193) Costs that are initially recorded as assets and expensed when sold are called: 193) ______

A) fixed costs
B) inventoriable costs
C) period costs
D) variable costs

Answer: B
Explanation: A)
B)
C)
D)

194) If each furnace requires a hose that costs $30 and 3000 furnaces are produced for the month, the total cost for hoses is: 194) ______

A) considered to be a direct fixed cost
B) considered to be an indirect variable cost
C) considered to be a direct variable cost
D) considered to be an indirect fixed cost

Answer: C
Explanation: A)
B)
C)
D)

195) Identifying department costs helps managers: 195) ______

A) evaluate the performance of subordinates
B) evaluate the performance of subunits
C) control the costs for which they are responsible
D) All of these answers are correct.

Answer: D
Explanation: A)
B)
C)
D)

196) Which of the following cost(s) are inventoried when using variable costing? 196) ______

A) direct manufacturing costs
B) fixed manufacturing costs
C) variable marketing costs
D) Both A and B are correct.

Answer: A
Explanation: A)
B)
C)
D)

197) Which method is NOT a way to discourage producing for inventory? 197) ______

A) include non-financial measures when evaluating performance
B) focus on careful budgeting and inventory planning
C) incorporate a carrying charge for inventory
D) evaluate performance on a quarterly basis only

Answer: D
Explanation: A)
B)
C)
D)

Answer the following questions using the information below:

Hewitt Corporation incurred fixed manufacturing costs of $6000 during 2013. Other information for 2013 includes:

The budgeted denominator level is 1000 units.
Units produced total 750 units.
Units sold total 600 units.
Beginning inventory was zero.

The company uses VARIABLE COSTING and the fixed manufacturing cost rate is based on the budgeted denominator level. Manufacturing variances are closed to cost of goods sold.

198) Operating profit using variable costing will be ________ than operating profit if using absorption costing. 198) ______

A) $2400 lower
B) $3600 higher
C) $2400 higher
D) $900 lower

Answer: D
Explanation: A)
B)
C)
D) Different operating profits are reported because the unit level of inventory increased during the accounting period by 150 units × $6 denominator rate = $900. Therefore, operating profit is $900 lower under variable costing because $900 of fixed manufacturing costs remains in inventory under absorption.

199) For external reporting: 199) ______

A) costs are classified as either inventoriable or period costs
B) there are no prescribed rules since no one is exactly sure how investors and creditors will use these numbers
C) costs include amounts that reflect both current and future benefits
D) costs reflect current values

Answer: A
Explanation: A)
B)
C)
D)

200) Variable costing: 200) ______

A) is required for external reporting to shareholders
B) treats direct manufacturing costs as a product cost
C) expenses administrative costs as cost of goods sold
D) includes fixed manufacturing overhead as an inventoriable cost

Answer: B
Explanation: A)
B)
C)
D)

201) Differences between absorption costing and variable costing are much smaller when a: 201) ______

A) large part of the manufacturing process is subcontracted out
B) just-in-time inventory strategy is implemented
C) significant portion of manufacturing costs are fixed
D) Both A and B are correct.

Answer: D
Explanation: A)
B)
C)
D)

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

202) For 2013, Baggy Green Caps Inc., had sales of 75 000 units and production of 100 000 units. Other information for the year included: 202) ____________

Direct manufacturing labour	$187 500
Variable manufacturing overhead	100 000
Direct materials	150 000
Variable selling expenses	100 000
Fixed administrative expenses	100 000
Fixed manufacturing overhead	200 000

There was no beginning inventory.

Required:

a. Compute the ending finished goods inventory under both absorption and variable costing.

b. Compute the cost of goods sold under both absorption and variable costing.

Answer:

		Absorption	Variable
a.		Absorption	Variable
	Direct materials	$150 000	$150 000
	Direct manufacturing labour	187 500	187 500
	Variable manufacturing overhead	100 000	100 000
	Fixed manufacturing overhead	200 000	0
	Total	$637 500	$437 500
	Unit costs:		
	$637 500/100 000 units	$6.375	
	$437 500/100 000 units		$4.375
	Ending inventory:		
	25 000 units × $6.375	$159 375	
	25 000 units × $4.375		$109 375
b.	Cost of goods sold:		
	75 000 × $6.375	$478 125	
	75 000 × $4.375		$328 125

Explanation:

203) Lillee-Walker Company was concerned that increased sales did not result in increased profits for 2016. Both variable unit and total fixed manufacturing costs for 2015 and 2016 remained constant at $20 and $2 000 000, respectively. 203) ____________
In 2015, the company produced 100 000 units and sold 80 000 units at a price of $50 per unit. There was no beginning inventory in 2015. In 2016, the company made 70 000 units and sold 90 000 units at a price of $50. Selling and administrative expenses were all fixed at $100 000 each year.

Required:

a. Prepare income statements for each year using absorption costing.

b. Prepare income statements for each year using variable costing.

c. Explain why the income was different each year using the two methods. Show computations.

Answer: a. *Absorption-costing income statements*:

	2015	2016
Sales	$4 000 000	$4 500 000
Cost of goods sold:		
Beginning inventory	0	800 000
Variable	2 000 000	1 400 000
Fixed	2 000 000	2 000 000
Subtotal	4 000 000	4 200 000
Ending inventory	800 000	0
Total COGS	3 200 000	4 200 000
Gross margin	800 000	300 000
Selling and administrative	100 000	100 000
Operating profit	$700 000	$200 000

b. *Variable-costing income statements*:

	2015	2016
Sales	$4 000 000	$4 500 000
Variable expenses	1 600 000	1 800 000
Contribution margin	2 400 000	2 700 000
Fixed expenses:		
Manufacturing	2 000 000	2 000 000
Selling and administrative	100 000	100 000
Operating profit	$300 000	$600 000

c. Budgeted fixed manufacturing overhead rate for 2015 = $2 000 000 / 100 000 = $20

2015 difference of $400 000 = (100 000 - 80 000) × $20 = $400 000 (favours absorption method)

2016 difference of $400 000 = (70 000 - 90 000) × $20 = $400 000 (favours variable method)

Explanation:

204) Waugh Products Company has three cost objects that it uses to accumulate costs for its manufacturing plants. They are: 204) ____________

Cost object #1: The physical buildings and equipment
Cost object #2: The use of buildings and equipment
Cost object #3: The availability and use of manufacturing labour

The following manufacturing overhead cost categories are found in the accounting records:

a. Depreciation on buildings and equipment
b. Lubricants for machines
c. Property insurance
d. Supervisors' salaries
e. Fringe benefits
f. Property taxes
g. Utilities

Required:
Assign each of the above costs to the most appropriate cost object.

Answer: Cost object # 1 includes categories a, c, and f.
Cost object # 2 includes categories b and g.
Cost object # 3 includes categories d and e.

Explanation:

205) Tamworth Company prepared the following absorption-costing income statement for the year ended May 31, 2013. 205) ____________

Sales (16 000 units)	$320 000
Cost of goods sold	216 000
Gross margin	$104 000
Selling and administrative expenses	46 000
Operating profit	$58 000

Additional information follows:
Selling and administrative expenses include $1.50 of variable cost per unit sold. There was no beginning inventory, and 17 500 units were produced. Variable manufacturing costs were $11 per unit. Actual fixed costs were equal to budgeted fixed costs.

Required:
Prepare a variable-costing income statement for the same period.

Answer:

Sales		$320 000
Variable expenses:		
Manufacturing cost of goods sold[1]	$176 000	
Selling and administrative[2]	24 000	200 000
Contribution margin		$120 000
Fixed expenses:		
Fixed factory overhead[3]	$43 750	
Fixed selling and administrative[4]	22 000	65 750
Operating profit		$54 250

1 16 000 units × $11 = $176 000
2 16 000 units × $1.50 = $24 000
3 [($216 000/16 000 units) - $11] × 17 500 units = $43 750
4 $46 000 - $24 000 = $22 000

Explanation:

206) Phillip's Island Furniture Company manufactures office furniture. Recently, the company decided to develop a formal cost accounting system and classify all costs into three categories. Categorise each of the following items as being appropriate for (1) cost tracing to the finished furniture, (2) cost allocation of an indirect manufacturing cost to the finished furniture, or (3) as a nonmanufacturing item. 206) ____________

Item	Cost Tracing	Cost Allocation	Nonmanu-facturing
Carpenter wages	________	________	________
Depreciation - office building	________	________	________
Glue for assembly	________	________	________
Lathe department supervisor	________	________	________
Lathe depreciation	________	________	________
Lathe maintenance	________	________	________
Lathe operator wages	________	________	________
Lumber	________	________	________
Samples for trade shows	________	________	________
Metal brackets for drawers	________	________	________
Factory washroom supplies	________	________	________

Answer:

Item	Cost Tracing	Cost Allocation	Nonmanu-facturing
Carpenter wages	X		
Depreciation - office building			X
Glue for assembly		X	
Lathe department supervisor		X	
Lathe depreciation		X	
Lathe maintenance		X	
Lathe operator wages		X	
Lumber	X		
Samples for trade shows			X
Metal brackets for drawers	X		
Factory washroom supplies		X	

Explanation:

207) The following information has come from Bill Lawrie Inc. accounting records for 2013: 207) ____________

Direct materials:	
Beginning inventory	$40 000
Purchases	123 200
Ending inventory	20 800
Direct manufacturing labour	32 000
Manufacturing overhead	24 000
Beginning work-in-process inventory	1600
Ending work-in-process inventory	8000
Beginning finished goods inventory	48 000
Ending finished goods inventory	32 000

Required:

a. What is the cost of direct materials used during 2013?
b. What is cost of goods manufactured for 2013?
c. What is cost of goods sold for 2013?
d. What amount of prime costs was added to production during 2013?
e. What amount of conversion costs was added to production during 2013?

Answer: a. $40 000 + $123 200 - $20 800 = $142 400
b. $142 400 + $32 000 + $24 000 + $1600 - $8000 = $192 000
c. $192 000 + $48 000 - $32 000 = $208 000
d. $142 400 + $32 000 = $174 400
e. $32 000 + $24 000 = $56 000

Explanation:

208) Each of the following items pertains to one of these companies: Bedell Electronics (a manufacturing company), Gregory Food Retailers (a merchandising company), and Larson Real Estate (a service sector company). Classify each item as either inventoriable (I) costs or period (P) costs. 208) ____________

		inventoriable (I) costs or period (P) costs
a.	Salary of Bedell Electronics CEO	
b.	Depreciation on Bedell Electronics assembly equipment.	
c.	Salaries of Bedell's assembly line workers	
d.	Purchase of frozen food for sale to customers by Gregory Food Retailers	
e.	Salaries of frozen food personnel at Gregory Food Retailing	
f.	Depreciation on freezers at Gregory Food Retailing	
g.	Salary of a receptionist at Larson Real Estate	
h.	Depreciation on a computer at Larson Real Estate	
i.	Salary of a real estate agent at Larson Real Estate	

Answer:

		inventoriable (I) costs or period (P) costs
a.	Salary of Bedell Electronics CEO	P
b.	Depreciation on Bedell Electronics assembly equipment.	I
c.	Salaries of Bedell's assembly line workers	I
d.	Purchase of frozen food for sale to customers by Gregory Food Retailers	
e.	Salaries of frozen food personnel at Gregory Food Retailing	I
f.	Depreciation on freezers at Gregory Food Retailing	P
g.	Salary of a receptionist at Larson Real Estate	P
h.	Depreciation on a computer at Larson Real Estate	P
i.	Salary of a real estate agent at Larson Real Estate	P

Explanation:

209) Match the list of representative cost drivers in the right column to the list of functions in the left column. 209) ____________

	Function		Representative Cost Driver
1.	Purchasing	A.	Number of employees
2.	Billing	B.	Number of shipments
3.	Shipping	C.	Number of customers
4.	Computer Support	D.	Number of invoices
5.	Personnel	E.	Number of desktop computers
6.	Customer Service	F.	Number of purchase orders

Required:
Match each business function with its representative cost driver.

	Function	Insert letter of appropriate driver (A through F)
1.	Purchasing	
2.	Billing	
3.	Shipping	
4.	Computer Support	
5.	Personnel	
6.	Customer Service	

Answer:

	Function	Insert letter of appropriate driver (A through F)
1.	Purchasing	F
2.	Billing	D
3.	Shipping	B
4.	Computer Support	E
5.	Personnel	A
6.	Customer Service	C

Explanation:

210) Werribee Manufacturing Co. wants to classify costs for the product produced at its facility. The company produces only one product at the facility and operates continually. The cost categories are: 210) ____________

Product cost
Prime cost
Conversion cost
Period cost

The following costs are found in the accounting records:

a. Quality control inspection wages
b. Raw material purchases
c. Sales commissions
d. Factory depreciation
e. Assembly wages

Required:
Assign each of the above costs to the most appropriate cost categories.

Answer: Product cost includes a, b, d, e.
Prime cost includes a, b, e.
Conversion cost includes a, d, e.
Period cost includes c.
Explanation:

211) The following information pertains to Ball Company: 211) ____________

Manufacturing costs	\$2 400 000
Units manufactured	40 000
Beginning inventory	0 units

39 800 units are sold during the year for \$100 per unit.

Required:

a. What is the average manufacturing cost per unit?
b. What is the cost of ending finished goods inventory?
c. What is the gross margin?

Answer: a. \$2 400 000 / 40 000 = \$60.00
b. (40 000 - 39 800) × \$60 = \$12 000
c. 39 800 × (\$100 - \$60) = \$1 592 000
Explanation:

212) Whitecliffs Manufacturers wants to estimate costs for each product it produces at its Geelong plant. The Geelong plant produces three products, and runs two flexible assembly lines. Each assembly line can produce all three products. 212) ____________

Required:
a. Classify each of the following costs as either direct or indirect for each product.
b. Classify each of the following costs as either fixed or variable with respect to the number of units produced of each product.

	Direct	Indirect	Fixed	Variable
Assembly line labour wages	______	______	______	______
Plant manager's wages	______	______	______	______
Depreciation on the assembly line equipment	______	______	______	______
Component parts for the product	______	______	______	______
Wages of security personnel for the factory	______	______	______	______

Answer:

	Direct	Indirect	Fixed	Variable
Assembly line labour wages	X			X
Plant manager's wages		X	X	
Depreciation on the assembly line equipment		X	X	
Component parts for the product	X			X
Wages of security personnel for the factory		X	X	X

Explanation:

213) Rail Bogies Manufacturing currently produces 1000 bogies per month. The following per unit data apply for sales to regular customers: 213) ____________

Direct materials	$2000
Direct manufacturing labour	300
Variable manufacturing overhead	600
Fixed manufacturing overhead	400
Total manufacturing costs	$3300

The plant has capacity for 2000 bogies.

Required:
a. What is the total cost of producing 1000 bogies?
b. What is the total cost of producing 1500 bogies?
c. What is the per unit cost when producing 1500 bogies?

Answer: a. [($2000 + $300 + $600) × 1000 units] + ($400 × 1000 units) = $3 300 000
b. [($2000 + $300 + $600) × 1500 units] + $400 000 = $4 750 000
c. $4 750 000 / 1500 = $3166.67 per unit

Explanation:

214) Gosford Manufacturing Company had the following account balances for the quarter ending March 31, unless otherwise noted: 214) ____________

Work-in-process inventory (January 1)	$140 400
Work-in-process inventory (March 31)	171 000
Finished goods inventory (January 1)	540 000
Finished goods inventory (March 31)	510 000
Direct materials used	378 000
Indirect materials used	84 000
Direct manufacturing labour	480 000
Indirect manufacturing labour	186 000
Property taxes on manufacturing plant building	28 800
Salespersons' company vehicle costs	12 000
Depreciation of manufacturing equipment	264 000
Depreciation of office equipment	123 600
Miscellaneous plant overhead	135 000
Plant utilities	92 400
General office expenses	305 400
Marketing distribution costs	30 000

Required:

a. Prepare a cost of goods manufactured schedule for the quarter.

b. Prepare a cost of goods sold schedule for the quarter.

Answer:

a.

Gosford Manufacturing Company
Cost of Goods Manufactured Schedule
For quarter ending March 31

Direct materials used		$378 000
Direct manufacturing labour		480 000
Manufacturing overhead		
Depreciation of manufacturing equipment	$264 000	
Indirect manufacturing labour	186 000	
Indirect materials	84 000	
Miscellaneous plant overhead	135 000	
Plant utilities	92 400	
Property taxes on building	28 800	790 200
Manufacturing costs incurred		$1 648 200
Add beginning work-in-process inventory		140 400
Total manufacturing costs		$1 788 600
Less ending work-in-process inventory		171 000
Cost of goods manufactured		$1 617 600

b.

Gosford Manufacturing Company
Cost of Goods Sold Schedule
For the quarter ending March 31

Beginning finished goods inventory	$540 000
Cost of goods manufactured	1 617 600
Cost of goods available for sale	2 157 600
Ending finished goods inventory	510 000
Cost of goods sold	$1 647 600

Explanation:

215) On the assembly floor, Vicky Wilson is paid $20 an hour for straight-time and $30 an hour for overtime. One week she worked 43 hours, which included 3 hours of overtime. 215) ____________

Required:
a. What is Vicky's total compensation for the week?
b. What amount of compensation would be reported as direct manufacturing labour?
c. What amount of compensation would be reported as manufacturing overhead?

Answer: a. Direct labour (43 hours × $20) + Overtime premium (3 hrs × $10) = $890
b. Direct manufacturing labour (43 hours × $20) = $860
c. Manufacturing overhead costs = Overtime premium (3 hrs × $10) = $30

Explanation:

216) SBW Corporation planned to be in operation for three years. 216) ____________

· During the first year, 2011, it had no sales but incurred $120 000 in variable manufacturing expenses and $40 000 in fixed manufacturing expenses.
· In 2012, it sold half of the finished goods inventory from 2011 for $100 000 but it had no manufacturing costs.
· In 2013, it sold the remainder of the inventory for $120 000, had no manufacturing expenses and went out of business.
· Marketing and administrative expenses were fixed and totaled $20 000 each year.

Required:
a. Prepare an income statement for each year using absorption costing.
b. Prepare an income statement for each year using variable costing.

Answer: a. *Absorption-costing income statements*:

	2011	2012	2013
Sales	$0	$100 000	$120 000
Cost of goods sold	0	80 000	80 000
Gross margin	0	20 000	40 000
Marketing and administrative	20 000	20 000	20 000
Operating profit	$(20 000)	$0	$20 000

b. *Variable-costing income statements*:

	2011	2012	2013
Sales	$0	$100 000	$120 000
Variable expenses	0	60 000	60 000
Contribution margin	0	40 000	60 000
Fixed expenses:			
Manufacturing	$40 000	$0	$0
Marketing and administrative	20 000	20 000	20 000
Total fixed	60 000	20 000	20 000
Operating profit	$(60 000)	$20 000	$40 000

Explanation:

217) Bendigo Hospital wants to estimate the cost for each patient stay. It is a general health care facility offering only basic services and not specialised services such as organ transplants. 217) ____________

Required:
a. Classify each of the following costs as either direct or indirect with respect to each patient.
b. Classify each of the following costs as either fixed or variable with respect to hospital costs per day.

	Direct	Indirect	Fixed	Variable
Electronic monitoring	________	________	________	________
Meals for patients	________	________	________	________
Nurses' salaries	________	________	________	________
Parking maintenance	________	________	________	________
Security	________	________	________	________

Answer:

	Direct	Indirect	Fixed	Variable
Electronic monitoring	X			X
Meals for patients	X			X
Nurses' salaries		X	X	
Parking maintenance		X	X	
Security		X	X	

Explanation:

218) Hadlee Company sells its products for $66 each. The current production level is 25 000 units, although only 20 000 units are anticipated to be sold. 218) ____________

Unit manufacturing costs are:	
Direct materials	$12.00
Direct manufacturing labour	$18.00
Variable manufacturing costs	$9.00
Total fixed manufacturing costs	$180 000
Marketing expenses	$6.00 per unit, plus $60 000 per year

Required:
a. Prepare an income statement using absorption costing.
b. Prepare an income statement using variable costing.

Answer: a. *Absorption-costing income statement*:

Sales (20 000 × $66)		$1 320 000
Cost of goods sold (20 000 × $46.20*)		924 000
Gross margin		396 000
Marketing:		
Variable (20 000 × $6)	$120 000	
Fixed	60 000	180 000
Operating profit		$216 000

* $12.00 + $18.00 + $9.00 + ($180 000/25 000) = $46.20

Answer: b. *Variable-costing income statement*:

Sales (20 000 × $66)		$1 320 000
Variable costs:		
Cost of goods sold (20 000 × $39*)	$780 000	
Marketing (20 000 × $6)	120 000	900 000
Contribution margin		420 000
Fixed costs:		
Manufacturing	$180 000	
Marketing	60 000	240 000
Operating profit		$180 000

* $12.00 + $18.00 + $9.00 = $39

Explanation:

219) Ruggles Company has provided the following data for the year ended September 30, 2013. 219) ______________

Sales:	24 000 units at $50 each
Expected and actual production:	30 000 units
Manufacturing costs incurred:	
Variable:	$525 000
Fixed:	$372 000
Nonmanufacturing costs incurred:	
Variable:	$144 800
Fixed:	$77 400
Beginning inventories:	none

Required:

a. Determine operating profit using the variable-costing approach.
b. Determine operating profit using the absorption-costing approach.
c. Explain why operating profit is not the same under the two approaches.

Answer: a. 24 000 × $50 = $1 200 000 sales
($525 000/30 000) × 24 000 = $420 000 variable manufacturing cost
$1 200 000 - $420 000 - $144 800 = $635 200 contribution margin
$635 200 - $372 000 - $77 400 = $185 800 operating profit

b. ($372 000/30 000) × 24 000 = $297 600 manufacturing fixed cost
$1 200 000 - $420 000 - $297 600 = $482 400 gross margin
$482 400 - $144 800 - $77 400 = $260 200 operating profit

c. $260 200 - $185 800 = $74 400 or 6000 units in ending inventory × $12.40 per unit of fixed manufacturing cost.

Explanation:

220) Woods Golf Company sells a special putter for $20 each. In March, it sold 28 000 putters while manufacturing 30 000. There was no beginning inventory on March 1. Production information for March was: 220) ______________

Direct manufacturing labour per unit	15 minutes
Fixed selling and administrative costs	$40 000
Fixed manufacturing overhead	132 000

Direct materials cost per unit	2
Direct manufacturing labour per hour	24
Variable manufacturing overhead per unit	4
Variable selling expenses per unit	2

Required:

a. Compute the cost per unit under both absorption and variable costing.
b. Compute the ending inventories under both absorption and variable costing.
c. Compute operating profit under both absorption and variable costing.

Answer: a.

	Absorption	Variable
Direct manufacturing labour ($24/4)	$6.00	$6.00
Direct materials	2.00	2.00
Variable manufacturing overhead	4.00	4.00
Fixed manufacturing overhead ($132 000/30 000)	4.40	0
Total cost per unit	$16.40	$12.00

b.

	Absorption	Variable
Beginning inventory	$0	$0
Cost of goods manufactured:		
30 000 × $16.40	$492 000	
30 000 × $12.00		$360 000
Cost of goods available for sale	$492 000	$360 000
Cost of goods sold:		
28 000 × $16.40	$459 200	
28 000 × $12.00		$336 000
Ending inventory	$32 800	$24 000

c. *Absorption-costing income statement*:

Sales (28 000 × $20)		$560 000
Cost of goods sold (28 000 × $16.40)		459 200
Gross margin		100 800
Less:		
Variable selling and administrative	$56 000	
Fixed selling and administrative	40 000	96 000
Operating profit		$4800

Variable-costing income statement:

Sales (28 000 × $20)		$560 000
Variable COGS (28 000 × $12)	$336 000	
Variable selling expenses (28 000 × $2)	56 000	392 000
Contribution margin		168 000
Fixed costs:		
Manufacturing	$132 000	

Answer:	Selling and administrative	40 000	172 000
	Operating profit		$(4000)

Explanation:

221) Booti Booti Bottling Works manufactures glass bottles. January and February operations were identical in every way except for the planned production. 221) ____________
January had a production denominator of 35 000 units.
February had a production denominator of 36 000 units.
Fixed manufacturing costs totaled $126 000.
Sales for both months totalled 45 000 units with variable manufacturing costs of $4 per unit. Selling and administrative costs were $0.40 per unit variable and $60 000 fixed. The selling price was $10 per unit.

Required:
Compute the operating profit for both months using absorption costing.

Answer: *January manufacturing cost per unit:*

Variable costs:	$4.00
Fixed costs ($126 000/35 000)	3.60
Total per unit	$7.60

February manufacturing cost per unit:

Variable costs	$4.00
Fixed costs $126 000/36 000	3.50
Total per unit	$7.50

January Income Statement

Sales (45 000 × $10)		$450 000
Cost of goods sold (45 000 × $7.60)		342 000
Gross margin		$108 000
Other costs:		
Variable selling and administrative	$18 000	
Fixed selling and administrative	60 000	78 000
Operating profit		$30 000

February Income Statement

Sales (45 000 × $10)		$450 000
Cost of goods sold (45 000 × $7.50)		337 500
Gross margin		$112 500
Other costs:		
Variable selling and administrative	$18 000	
Fixed selling and administrative	60 000	78 000
Operating profit		$34 500

Explanation:

222) Sutcliffe Corporation manufactures and sells top-of-the-line saxaphones and uses standard costing. For the month of September there was no beginning inventory, there were 1500 units produced and 1250 units sold. The manufacturing variable cost per unit is $770 and the operating cost per unit was $625. The fixed manufacturing cost is $450 000 and the fixed operating cost is $75 000. The selling price per unit is $1850. 222) ____________

Required:
Prepare the income statement for Sutcliffe Corporation for September under variable costing.

Answer:

Revenues (1250 × $1850)		$2 312 500
Variable costs		
Beginning inventory	$0	
Variable manufacturing costs (1500 × $770)	1 155 000	
Cost of goods available	1 155 000	
Deduct ending inventory (250 × $770)	(192 500)	
Variable cost of goods sold	962 500	
Variable operating costs (1250 × $625)	781 250	
Total variable costs		1 743 750
Contribution margin		568 750
Fixed costs		
Fixed manufacturing costs	450 000	
Fixed operating costs	75 000	
Total fixed costs		525 000
Operating profit		$43 750

Explanation:

223) Perth Production Company manufactured 100 000 units in 2013 and reported the following costs: 223) ____________

Sandpaper	$32 000	Leasing costs-plant	$384 000
Materials handling	320 000	Depreciation-equipment	224 000
Coolants & lubricants	22 400	Property taxes-equipment	32 000
Indirect manufacturing labour	275 200	Fire insurance-equipment	16 000
Direct manufacturing labour	2 176 000	Direct material purchases	3 136 000
Direct materials, 1/1/13	384 000	Direct materials, 12/31/13	275 200
Finished goods, 1/1/13	672 000	Sales revenue	12 800 000
Finished goods, 12/31/13	1 280 000	Sales commissions	640 000
Work-in-process, 1/1/13	96 000	Sales salaries	576 000
Work-in-process, 12/31/13	64 000	Advertising costs	480 000
		Administration costs	800 000

Required:

a. What is the amount of direct materials used during 2013?
b. What manufacturing costs were added to WIP during 2013?
c. What is cost of goods manufactured for 2013?
d. What is cost of goods sold for 2013?

Answer: a. $384 000 + $3 136 000 - $275 200 = $3 244 800

b. $3 244 800 + $2 176 000 + $32 000 + $320 000 + $22 400 + $275 200 + $384 000 + $224 000 +
$32 000 + $16 000 = $6 726 400

c. $6 726 400 + $96 000 - $64 000 = $6 758 400

d. $6 758 400 + $672 000 - $1 280 000 = $6 150 400

Explanation:

224) Coonabarabran Realty bought a 2000-acre island for $10 000 000 and divided it into 200 equal size lots. 224) ____________

As the lots are sold, they are cleared at an average cost of $5000.
Storm drains and driveways are installed at an average cost of $8000 per site.
Sales commissions are 10% of selling price.
Administrative costs are $850 000 per year.

The average selling price was $160 000 per lot during 2011 when 50 lots were sold.

During 2012, the company bought another 2000-acre island for $10 000 000 and developed it exactly the same way. Lot sales in 2012 totaled 300 with an average selling price of $160 000. All costs were the same as in 2011.

Required:
Prepare income statements for both years using both absorption and variable costing methods.

Answer:

Cost per site:	Absorption	Variable
Land cost $10 000 000/200 sites	$50 000	$0
Clearing costs	5000	5000
Improvements	8000	8000
Total	$63 000	$13 000

Absorption-costing income statements:	2011	2012
Sales	$8 000 000	$48 000 000
Cost of goods sold:		
50 × ($50 000 + $8000 + $5000)	3 150 000	
300 × ($50 000 + $8000 + $5000)		18 900 000
Gross margin	$4 850 000	$29 100 000
Variable marketing	800 000	4 800 000
Fixed administrative	850 000	850 000
Operating profit	$3 200 000	$23 450 000

Variable-costing income statements:	2011	2012
Sales	$8 000 000	$48 000 000
Variable expenses:		
Cost of operations:		
50 × $13 000	650 000	
300 × $13 000		3 900 000
Selling expenses	800 000	4 800 000
Contribution margin	$6 550 000	$39 300 000
Fixed expenses:		
Land	10 000 000	10 000 000
Administrative	850 000	850 000
Operating profit	$(4 300 000)	$28 450 000

Explanation:

225) Using the following information to find the unknown amounts. Assume each set of information is an independent case. 225) ____________

a.	Merchandise Inventory	Purchases	$420 000
		Cost of goods sold	446 000
		Beginning balance	82 000
		Ending balance	?
b.	Direct Materials	Beginning balance	$14 000
		Ending balance	28 000
		Purchases	96 000
		Direct materials used	?
c.	Work-in-process Inventory	Ending balance	$44 000
		Cost of goods manufactured	42 000
		Beginning balance	16 000
		Current manufacturing costs	?
d.	Finished Goods Inventory	Cost of goods manufactured	$124 000
		Ending balance	40 000
		Cost of goods sold	122 000
		Beginning balance	?

Answer: a. Ending balance of merchandise inventory:
$82 000 + $420 000 - $446 000 = $56 000

b. Direct materials used:
$14 000 + $96 000 - $28 000 = $82 000

c. Current manufacturing costs:
$42 000 + $44 000 - $16 000 = $70 000

d. Beginning balance of finished goods inventory:
$40 000 + $122 000 - $124 000 = $38 000

Explanation:

226) Harvey Industries produces electronic storage devices, and uses the following three-part classification for its manufacturing costs: direct materials, direct manufacturing labour, and indirect manufacturing costs. Total indirect manufacturing costs for January were $300 million, and were allocated to each product on the basis of direct manufacturing labour costs of each line. Summary data (in millions) for January for the most popular electronic storage device, the Big Bertha, was: 226) ____________

	Big Bertha
Direct manufacturing costs	$10 000 000
Direct manufacturing labour costs	$4 000 000
Indirect manufacturing costs	$8 500 000
Units produced	50 000

Required:

a. Compute the manufacturing cost per unit for each product produced in January.

b. Suppose production will be reduced to 30 000 units in February. Speculate as to whether the unit costs in February will most likely be higher or lower than unit costs in January; it is not necessary to calculate the exact February unit cost. Briefly explain your reasoning.

Answer: a. Unit costs for January were:
($10 000 000 + $4 000 000 + $8 500 000) /50 000 = $450.00 per unit

b. Unit costs should be higher in February if only 30 000 units are to be produced. Indirect manufacturing costs most likely include both fixed and variable components. Since fewer units are expected to be produced in February, total fixed costs will be spread over fewer units. This will result in an increase in total cost per unit since variable costs per unit will most likely not change with the decreased production.

Explanation:

227) During 2013, Laker & Lock Corporation incurred manufacturing expenses of $20 000 000 to produce 400 000 finished units. At year-end, it was determined that 370 000 units were sold while 30 000 units remained in ending inventory. 227) ____________

Required:

a. What is the cost of producing one unit?

b. What is the amount that will be reported on the income statement for cost of goods sold?

c. What is the amount that will be reported on the balance sheet for ending inventory?

Answer: a. $20 000 000 / 400 000 = $50.00

b. 370 000 units × $50 = $18 500 000

c. 30 000 units × $50 = $1 500 000

Explanation:

228) Combs, Inc., reports the following information for September sales: 228) ______

Sales	$25 000
Variable costs	6000
Fixed costs	8000
Operating profit	$11 000

Required:
If sales double in October, what is the projected operating profit?

Answer: ($25 000 × 2) - ($6000 × 2) - $8000 = $30 000
Explanation:

229) In the manufacturing plant, Margaret Thorpe is paid $20 an hour for straight-time and $30 an hour for overtime. One week she worked 46 hours, which included 6 hours of overtime, and 4 hours of idle time caused by material shortages. 229) ______

Required:
a. What is Margaret's total compensation for the week?
b. What amount of compensation would be reported as direct manufacturing labour?
c. What amount of compensation would be reported as manufacturing overhead?

Answer: a. Direct manufacturing labour (42 hours × $20) + Idle time (4 hrs × $20) + Overtime premium (6 hrs × $10) = $980
b. Direct manufacturing labour (42 hours × $20) = $840
c. Manufacturing overhead costs = Idle time (4 hrs × $20) + Overtime premium (6 hrs × $10) = $140
Explanation:

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

230) Fixed and variable costs may be allocated to a cost object. 230) ______

Answer: ✔ True False
Explanation:

231) Fixed costs depend on the resources used, not the resources acquired. 231) ______

Answer: True ✔ False
Explanation: Fixed costs depend on the resources ACQUIRED, and not whether the resources are used or not.

232) The variable cost per unit of a product should stay the same throughout the relevant range of production. 232) ______

Answer: ✔ True False
Explanation:

233) If a worker is paid for 8 hours, but is idle for 1 of those 8 hours, the 1 hour of idle time would be considered a component of direct labour. 233) ______

Answer: True ✔ False
Explanation: Idle time is normally considered a component of indirect labour since it is usually not associated with a particular job.

234) Costs that are difficult to change over the short run are always variable over the long run. 234) ______

Answer: ✓ True False
Explanation:

235) Under variable costing, managers can increase operating profit by simply producing more inventory at the end of the accounting period even if that inventory never gets sold. 235) ______

Answer: True ✓ False
Explanation: Under ABSORPTION costing, managers can increase operating profit by producing more inventory at the end of the accounting period.

236) When making strategic decisions about which products to produce, managers do not need to know how revenues and costs vary with changes in output level. 236) ______

Answer: True ✓ False
Explanation: Managers need to know how revenues and costs vary with changes in output level.

237) Assigning direct costs poses more problems than assigning indirect costs. 237) ______

Answer: True ✓ False
Explanation: Tracing direct costs is quite straightforward, whereas assigning indirect costs to a number of different cost objects can be very challenging.

238) If managers report inventories of zero at the start and end of each accounting period, operating profits under absorption costing and variable costing will be the same. 238) ______

Answer: ✓ True False
Explanation:

239) Some fixed costs may be classified as direct manufacturing costs. 239) ______

Answer: ✓ True False
Explanation:

240) Work-in-process inventory are goods partially worked on but not yet completed. 240) ______

Answer: ✓ True False
Explanation:

241) Merchandising companies purchase products and sell them to customers without changing their basic form. 241) ______

Answer: ✓ True False
Explanation:

242) The materiality of the cost is a factor in classifying the cost as a direct or indirect cost. 242) ______

Answer: ✓ True False
Explanation:

243) Operating profit is sales revenue minus cost of goods manufactured. 243) ______

Answer: True ✓ False
Explanation: Operating profit = sales revenue - cost of goods sold - operating expenses

244) Absorption costing is required by GAAP (Generally Accepted Accounting Principles) for external reporting. 244) ______

Answer: ✓ True False
Explanation:

245) A costing system traces direct costs and allocates indirect costs to products. 245) ______

Answer: True False
Explanation:

246) A chartered accountant would be an example of a merchandising business. 246) ______

Answer: True False
Explanation: A chartered accountant would be an example of a service-sector business.

247) Under variable costing, fixed manufacturing costs are treated as an expense of the period. 247) ______

Answer: True False
Explanation:

248) Service-sector companies provide services or intangible products to their customers. 248) ______

Answer: True False
Explanation:

249) The cost of a customised machine only used in the production of a single product would be classified as a direct cost. 249) ______

Answer: True False
Explanation:

250) Inventory of a manufacturing firm includes goods partially worked on but not yet fully completed. 250) ______

Answer: True False
Explanation:

251) Manufacturing sector firms normally hold three types of inventory: direct materials inventory, work-in-process inventory, and finished goods inventory. 251) ______

Answer: True False
Explanation:

252) Accountants define a cost as a resource sacrificed to achieve a specific objective. 252) ______

Answer: True False
Explanation:

253) Fixed costs have no cost driver in the short run, but may have a cost driver in the long run. 253) ______

Answer: True False
Explanation:

254) Improvements in information-gathering technologies are making it possible to trace more costs as direct. 254) ______

Answer: True False
Explanation:

255) The difference in operating profit under absorption costing and variable costing is due solely to the timing difference of expensing fixed manufacturing costs. 255) ______

Answer: True False
Explanation:

256) Fixed manufacturing costs included in cost of goods available for sale + the production-volume variance will always = total fixed manufacturing costs under absorption costing. 256) ______

Answer: ✔ True False
Explanation:

257) Direct costing is a perfect way to describe the variable-costing inventory method. 257) ______

Answer: True ✔ False
Explanation: Direct costing is a less than perfect way to describe this method because not all variable costs are inventoriable costs.

258) Cost objects may be jobs, products, or customers. 258) ______

Answer: ✔ True False
Explanation:

259) All manufacturing costs are inventoriable costs. 259) ______

Answer: ✔ True False
Explanation:

260) The wages of a plant supervisor would be classified as a period cost. 260) ______

Answer: True ✔ False
Explanation: The wages of a plant supervisor would be classified as a PRODUCT cost.

261) The income under variable costing will always be the same as the income under absorption costing. 261) ______

Answer: True ✔ False
Explanation: The income under variable costing will sometimes be the same as the income under absorption costing.

262) Conversion costs include all direct manufacturing costs. 262) ______

Answer: True ✔ False
Explanation: Prime costs include all direct manufacturing costs.

263) Overtime premium consists of the wages paid to all workers (for both direct labour and indirect labour) in excess of their straight-time wage rates. 263) ______

Answer: ✔ True False
Explanation:

264) The contribution-margin format of the income statement is used with absorption costing. 264) ______

Answer: True ✔ False
Explanation: The contribution-margin format of the income statement is used with *variable* costing.

265) In absorption costing, all nonmanufacturing costs are subtracted from gross margin. 265) ______

Answer: ✔ True False
Explanation:

266) The two most common methods of costing inventories in manufacturing companies are variable costing and fixed costing. 266) ______

Answer: True ✔ False
Explanation: The two methods are variable costing and absorption costing.

267) Overtime premium is normally considered as a component of direct labour. 267) ______

Answer: True ✓ False

Explanation: Overtime premium is normally considered as part of indirect labour since it is usually not associated with a particular job.

268) The same cost may be direct for one cost object and indirect for another cost object. 268) ______

Answer: ✓ True False

Explanation:

269) A decision maker cannot adjust capacity over the short run. 269) ______

Answer: ✓ True False

Explanation:

270) Non-financial measures such as comparing units in ending inventory this period to units in ending inventory last period can help reduce buildup of excess inventory. 270) ______

Answer: ✓ True False

Explanation:

271) For reporting to external parties under the accounting standards only manufacturing costs are allocated to products. 271) ______

Answer: ✓ True False

Explanation:

272) All costs reported on the income statement of a service-sector company are period costs. 272) ______

Answer: ✓ True False

Explanation:

273) For external reporting purposes, indirect manufacturing costs must be allocated to individual units. 273) ______

Answer: ✓ True False

Explanation:

274) Unit costs and average costs are really the same thing. 274) ______

Answer: ✓ True False

Explanation:

275) Under both variable and absorption costing, all variable manufacturing costs are inventoriable costs. 275) ______

Answer: ✓ True False

Explanation:

276) The cost driver of an indirect cost is often used as the cost-allocation base. 276) ______

Answer: ✓ True False

Explanation:

277) If the cost object is a product factory supervisor costs would be classified as fixed costs. 277) ______

Answer: ✓ True False

Explanation:

278) The main difference between variable costing and absorption costing is the way in which fixed manufacturing costs are accounted for. 278) ______

Answer: True False
Explanation:

279) Actual costs and budgeted costs are two different terms referring to the same thing. 279) ______

Answer: True False
Explanation: Budgeted costs are what are planned before the beginning of the accounting period, while actual costs are those costs compiled at the end of the accounting period.

280) Cost of goods sold refers to the products brought to completion, whether they were started before or during the current accounting period. 280) ______

Answer: True False
Explanation: Cost of goods MANUFACTURED refers to the products brought to completion, whether they were started before or during the current accounting period.

281) Absorption costing 'absorbs' only variable manufacturing costs. 281) ______

Answer: True False
Explanation: Absorption costing 'absorbs' all manufacturing costs, both fixed and variable.

282) Variable costing includes all variable costs—both manufacturing and nonmanufacturing—in inventory. 282) ______

Answer: True False
Explanation: Variable costing includes only manufacturing variable costs in inventory.

283) Under absorption costing, managers can increase operating profit by holding more inventories at the end of the period. 283) ______

Answer: True False
Explanation:

284) Products, services, departments, and customers may be cost objects. 284) ______

Answer: True False
Explanation:

285) Period costs are never included as part of inventory. 285) ______

Answer: True False
Explanation:

286) The cost accountant's role is to tailor the cost calculation to fit the current decision situation. 286) ______

Answer: True False
Explanation:

287) Fixed costs vary with the level of production or sales volume. 287) ______

Answer: True False
Explanation: Variable costs vary with the level of production or sales volume.

288) An appropriate cost driver for shipping costs is the number of units shipped. 288) ______

Answer: True False
Explanation:

289) Inventoriable costs are reported as an asset when incurred and expensed on the income statement when the product is sold. 289) ______

Answer: ✓ True False
Explanation:

290) Depreciation can be classified as either an inventoriable cost or a period cost, depending on what is being depreciated. 290) ______

Answer: ✓ True False
Explanation:

291) A department could be considered a cost object. 291) ______

Answer: ✓ True False
Explanation:

292) Managers can increase operating profit when absorption costing is used by producing more inventory. 292) ______

Answer: ✓ True False
Explanation:

293) Indirect manufacturing costs include the compensation of all manufacturing labour that can be traced to the cost object in an economically feasible way. 293) ______

Answer: True ✓ False
Explanation: Direct manufacturing labour costs include the compensation of all manufacturing labour that can be traced to the cost object.

294) A unit cost is computed by dividing total cost by the number of units. 294) ______

Answer: ✓ True False
Explanation:

295) When variable costing is used, an income statement will show gross margin. 295) ______

Answer: True ✓ False
Explanation: When variable costing is used, an income statement will show contribution margin.

296) Direct manufacturing labour includes wages and fringe benefits paid to machine operators. 296) ______

Answer: ✓ True False
Explanation:

297) Cost accounting and cost management include calculating various costs, obtaining financial and non-financial information, and analysing relevant information for decision making. 297) ______

Answer: ✓ True False
Explanation:

298) A manager can increase operating profit by deferring maintenance beyond the current accounting period when absorption costing is used. 298) ______

Answer: ✓ True False
Explanation:

299) The gross-margin format of the income statement highlights the lump sum of fixed manufacturing costs. 299) ______

Answer: True ✓ False

Explanation: The gross-margin format of the income statement distinguishes manufacturing costs from nonmanufacturing costs, but it does not highlight the lump sum of fixed manufacturing costs.

300) Quality control costs may be a direct cost of the Manufacturing Department, but an indirect cost of an individual job. 300) ______

Answer: ✓ True False

Explanation:

301) When production deviates from the denominator level, a production-volume variance always exists under absorption costing. 301) ______

Answer: ✓ True False

Explanation:

302) A product cost that is useful for one decision may not be useful information for another decision. 302) ______

Answer: ✓ True False

Explanation:

303) Misallocated indirect costs may lead to promoting products that are not profitable. 303) ______

Answer: ✓ True False

Explanation:

304) Costs are accounted for in two basic stages: assignment followed by accumulation. 304) ______

Answer: True ✓ False

Explanation: Costs are accounted for in two basic stages: accumulation followed by assignment.

305) Acquisition costs of direct materials include freight-in charges, and custom duties. 305) ______

Answer: ✓ True False

Explanation:

306) When 50 000 units are produced the fixed cost is $10 per unit. Therefore, when 100 000 units are produced fixed costs will remain at $10 per unit. 306) ______

Answer: True ✓ False

Explanation: When 100 000 units are produced fixed costs will decrease to $5 per unit.

307) The production-volume variance only exists under absorption costing and not under variable costing. 307) ______

Answer: ✓ True False

Explanation:

308) Management accountants help managers identify which information is relevant to a particular decision. 308) ______

Answer: ✓ True False

Explanation:

309) Insurance on a factory can be classified as a period cost. 309) ______

Answer: True ✔ False

Explanation: Insurance on a factory is classified as a product cost.

310) When making decisions using fixed costs, the focus should be on total costs and not unit costs. 310) ______

Answer: ✔ True False

Explanation:

311) Many companies use variable costing for internal reporting to reduce the undesirable incentive to build up inventories. 311) ______

Answer: ✔ True False

Explanation:

312) A common problem reported by companies using variable costing is the difficulty of classifying costs into fixed or variable categories. 312) ______

Answer: ✔ True False

Explanation:

313) Direct material costs are the acquisition costs of all materials that eventually become part of the cost object and cannot be traced to the cost object in an economically feasible way. 313) ______

Answer: True ✔ False

Explanation: Direct material costs can be traced to the cost object.

314) For external reporting, GAAP requires that costs be classified as either variable or fixed. 314) ______

Answer: True ✔ False

Explanation: For external reporting, GAAP requires that costs be classified as either product or period costs.

315) The contribution-margin format of the income statement distinguishes manufacturing costs from nonmanufacturing costs. 315) ______

Answer: True ✔ False

Explanation: The contribution-margin format of the income statement distinguishes variable costs from fixed costs.

316) When making decisions using fixed costs, the focus should be on unit costs and not total costs. 316) ______

Answer: True ✔ False

Explanation: When making decisions using fixed costs, the focus should be on total costs and not unit costs.

317) Merchandising companies only hold two types of inventories: merchandise inventory, and direct material. 317) ______

Answer: True ✔ False

Explanation: Merchandising companies normally hold only one type of inventory: merchandise inventory.

318) A cost object is always either a product or a service. 318) ______

Answer: True ✔ False

Explanation: A cost object could be anything management wishes to determine the cost of, for example, a department.

319) Raw materials that can be traced to a cost object are an example of an indirect cost. 319) ______

Answer: True ✔ False

Explanation: Raw materials are an example of a direct cost.

320) When the unit level of inventory increases during an accounting period, operating profit is greater under variable costing than absorption costing. 320) ______

Answer: True ✔ False

Explanation: Greater operating profit is reported under variable costing than absorption costing when the unit level of inventory DECREASES during an accounting period.

321) The distinction between direct and indirect costs is clearly set forth in Generally Accepted Accounting Principles (GAAP). 321) ______

Answer: True ✔ False

Explanation: The distinction depends on how the cost object is defined.

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

322) What are the differences between direct costs and indirect costs? Give an example of each.

Answer: DIRECT costs are costs that can be traced easily to the product manufactured or the service rendered. Examples of direct costs include direct materials and direct manufacturing labour used in a product. INDIRECT costs cannot be easily identified with individual products or services rendered, and are usually assigned using allocation formulas. In a plant that manufactures multiple products, examples of indirect costs include the plant supervisor's salary and the cost of machines used to produce more than one type of product.

323) What is the meaning of the term 'cost object?' Give an example of a cost object that would be used in a manufacturing company, a merchandising company, and a service sector company?

Answer: A cost object is anything for which a measurement of costs is desired. An example of a cost object for a manufacturing company might be the cost of manufacturing a particular product. An example of a cost object for a merchandising company might be a particular department of a retail store. An example of a cost object for a service sector company might be the cost to serve or supply a particular customer.

324) Explain the difference between an inventoriable cost and a period cost. What potential problems does an inaccurate classification of product and period costs cause?

Answer: Inventoriable costs are all costs of a product that are considered as assets in the balance sheet when they are incurred and which become cost of goods sold only when the product is sold. Period costs are treated as expenses of the accounting period in which they are incurred. An inaccurate classification of inventoriable and period costs could lead to violations of the matching principle, which states that costs used in producing revenue should be matched on the income statement when the revenue is recognised.

325) Describe a variable cost. Describe a fixed cost. Explain why the distinction between variable and fixed costs is important in cost accounting.

Answer: TOTAL VARIABLE costs are affected by fluctuations in production or sales volume.
FIXED costs are not influenced by fluctuations in production or sales volumes.
Without the knowledge of cost behaviours, budgets and other forecasting tools will be inaccurate and unreliable. Understanding whether a cost behaves as a variable or a fixed cost is essential to estimating and planning for business success.

326) Why is it possible that a raw material such as glue might be considered as an indirect material for one furniture manufacturer and as a direct material for another furniture manufacturer?

Answer: Overall, the direct/indirect classification is decided on a cost/benefit basis. It is possible for a raw material such as glue to be considered as an indirect material by one furniture manufacturer and as a direct material by another furniture manufacturer. The decision is largely a choice by the manufacturer and depends on a number of factors including the materiality of the cost in question, the cost of gathering the information, and the design of the manufacturing process. If the product in question has an insignificant cost, it might not be worth the trouble to trace the cost of the glue to each piece of furniture, and the glue would be considered indirect. If the cost of tracing the cost of the glue is high in relation to the benefits received from tracing it, the glue would likely be considered as indirect material. If the design of the manufacturing process easily permits all the glue to be traced to a single type of furniture, then it would be easy for a company to consider that material to be direct.

327) When should the overtime premium of direct manufacturing labour be considered an indirect manufacturing cost? A direct manufacturing cost?

Answer: The overtime premium of direct manufacturing labour should be considered an indirect manufacturing cost when it is attributable to the overall volume of work, and a direct manufacturing cost when a 'rush job' is the sole source of the overtime.

Answer Key
Testname: C2

1) C
2) B
3) B
4) A
5) C
6) A
7) A
8) D
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187) C
188) D
189) C
190) D
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193) B
194) C
195) D
196) A
197) D
198) D
199) A
200) B

201) D

202)

a.

	Absorption	Variable
Direct materials	$150 000	$150 000
Direct manufacturing labour	187 500	187 500
Variable manufacturing overhead	100 000	100 000
Fixed manufacturing overhead	200 000	0
Total	$637 500	$437 500
Unit costs:		
$637 500/100 000 units	$6.375	
$437 500/100 000 units		$4.375
Ending inventory:		
25 000 units × $6.375	$159 375	
25 000 units × $4.375		$109 375

b.

	Absorption	Variable
Cost of goods sold:		
75 000 × $6.375	$478 125	
75 000 × $4.375		$328 125

203) a. *Absorption-costing income statements*:

	2015	2016
Sales	$4 000 000	$4 500 000
Cost of goods sold:		
Beginning inventory	0	800 000
Variable	2 000 000	1 400 000
Fixed	2 000 000	2 000 000
Subtotal	4 000 000	4 200 000
Ending inventory	800 000	0
Total COGS	3 200 000	4 200 000
Gross margin	800 000	300 000
Selling and administrative	100 000	100 000
Operating profit	$700 000	$200 000

b. *Variable-costing income statements*:

	2015	2016
Sales	$4 000 000	$4 500 000
Variable expenses	1 600 000	1 800 000
Contribution margin	2 400 000	2 700 000
Fixed expenses:		
Manufacturing	2 000 000	2 000 000
Selling and administrative	100 000	100 000
Operating profit	$300 000	$600 000

c. Budgeted fixed manufacturing overhead rate for 2015 = $2 000 000 / 100 000 = $20

2015 difference of $400 000 = (100 000 - 80 000) × $20 = $400 000 (favours absorption method)

2016 difference of $400 000 = (70 000 - 90 000) × $20 = $400 000 (favours variable method)

204) Cost object # 1 includes categories a, c, and f.
Cost object # 2 includes categories b and g.
Cost object # 3 includes categories d and e.

205)

Sales		$320 000
Variable expenses:		
Manufacturing cost of goods sold[1]	$176 000	
Selling and administrative[2]	24 000	200 000
Contribution margin		$120 000
Fixed expenses:		
Fixed factory overhead[3]	$43 750	
Fixed selling and administrative[4]	22 000	65 750
Operating profit		$54 250

1 16 000 units × $11 = $176 000
2 16 000 units × $1.50 = $24 000
3 [($216 000/16 000 units) - $11] × 17 500 units = $43 750
4 $46 000 - $24 000 = $22 000

206)

Item	Cost Tracing	Cost Allocation	Nonmanu-facturing
Carpenter wages	X		
Depreciation - office building			X
Glue for assembly		X	
Lathe department supervisor		X	
Lathe depreciation		X	
Lathe maintenance		X	
Lathe operator wages		X	
Lumber	X		
Samples for trade shows			X
Metal brackets for drawers	X		
Factory washroom supplies		X	

207) a. $40 000 + $123 200 - $20 800 = $142 400
b. $142 400 + $32 000 + $24 000 + $1600 - $8000 = $192 000
c. $192 000 + $48 000 - $32 000 = $208 000
d. $142 400 + $32 000 = $174 400
e. $32 000 + $24 000 = $56 000

208)

		inventoriable (I) costs or period (P) costs
a.	Salary of Bedell Electronics CEO	P
b.	Depreciation on Bedell Electronics assembly equipment.	I
c.	Salaries of Bedell's assembly line workers	I
d.	Purchase of frozen food for sale to customers by Gregory Food Retailers	
e.	Salaries of frozen food personnel at Gregory Food Retailing	I
f.	Depreciation on freezers at Gregory Food Retailing	P
g.	Salary of a receptionist at Larson Real Estate	P
h.	Depreciation on a computer at Larson Real Estate	P
i.	Salary of a real estate agent at Larson Real Estate	P

209)

	Function	Insert letter of appropriate driver (A through F)
1.	Purchasing	F
2.	Billing	D
3.	Shipping	B
4.	Computer Support	E
5.	Personnel	A
6.	Customer Service	C

210) Product cost includes a, b, d, e.
Prime cost includes a, b, e.
Conversion cost includes a, d, e.
Period cost includes c.

211) a. $2 400 000 / 40 000 = $60.00
b. (40 000 - 39 800) × $60 = $12 000
c. 39 800 × ($100 - $60) = $1 592 000

212)

	Direct	Indirect	Fixed	Variable
Assembly line labour wages	X			X
Plant manager's wages		X	X	
Depreciation on the assembly line equipment		X	X	
Component parts for the product	X			X
Wages of security personnel for the factory		X	X	X

213) a. [($2000 + $300 + $600) × 1000 units] + ($400 × 1000 units) = $3 300 000
b. [($2000 + $300 + $600) × 1500 units] + $400 000 = $4 750 000
c. $4 750 000 / 1500 = $3166.67 per unit

214)

a. Gosford Manufacturing Company
Cost of Goods Manufactured Schedule
For quarter ending March 31

Direct materials used		$378 000
Direct manufacturing labour		480 000
Manufacturing overhead		
Depreciation of manufacturing equipment	$264 000	
Indirect manufacturing labour	186 000	
Indirect materials	84 000	
Miscellaneous plant overhead	135 000	
Plant utilities	92 400	
Property taxes on building	28 800	790 200
Manufacturing costs incurred		$1 648 200
Add beginning work-in-process inventory		140 400
Total manufacturing costs		$1 788 600
Less ending work-in-process inventory		171 000
Cost of goods manufactured		$1 617 600

b. Gosford Manufacturing Company
Cost of Goods Sold Schedule
For the quarter ending March 31

Beginning finished goods inventory	$540 000
Cost of goods manufactured	1 617 600
Cost of goods available for sale	2 157 600
Ending finished goods inventory	510 000
Cost of goods sold	$1 647 600

215) a. Direct labour (43 hours × $20) + Overtime premium (3 hrs × $10) = $890

b. Direct manufacturing labour (43 hours × $20) = $860

c. Manufacturing overhead costs = Overtime premium (3 hrs × $10) = $30

216) a. *Absorption-costing income statements*:

	2011	2012	2013
Sales	$0	$100 000	$120 000
Cost of goods sold	0	80 000	80 000
Gross margin	0	20 000	40 000
Marketing and administrative	20 000	20 000	20 000
Operating profit	$(20 000)	$0	$20 000

b. *Variable-costing income statements*:

	2011	2012	2013
Sales	$0	$100 000	$120 000
Variable expenses	0	60 000	60 000
Contribution margin	0	40 000	60 000
Fixed expenses:			
Manufacturing	$40 000	$0	$0
Marketing and administrative	20 000	20 000	20 000
Total fixed	60 000	20 000	20 000
Operating profit	$(60 000)	$20 000	$40 000

217)

	Direct	Indirect	Fixed	Variable
Electronic monitoring	X			X
Meals for patients	X			X
Nurses' salaries		X	X	
Parking maintenance		X	X	
Security		X	X	

218) a. *Absorption-costing income statement*:

Sales (20 000 × $66)		$1 320 000
Cost of goods sold (20 000 × $46.20*)		924 000
Gross margin		396 000
Marketing:		
Variable (20 000 × $6)	$120 000	
Fixed	60 000	180 000
Operating profit		$216 000

* $12.00 + $18.00 + $9.00 + ($180 000/25 000) = $46.20

b. *Variable-costing income statement*:

Sales (20 000 × $66)		$1 320 000
Variable costs:		
Cost of goods sold (20 000 × $39*)	$780 000	
Marketing (20 000 × $6)	120 000	900 000
Contribution margin		420 000
Fixed costs:		
Manufacturing	$180 000	
Marketing	60 000	240 000
Operating profit		$180 000

* $12.00 + $18.00 + $9.00 = $39

219) a. 24 000 × $50 = $1 200 000 sales
($525 000/30 000) × 24 000 = $420 000 variable manufacturing cost
$1 200 000 - $420 000 - $144 800 = $635 200 contribution margin
$635 200 - $372 000 - $77 400 = $185 800 operating profit

b. ($372 000/30 000) × 24 000 = $297 600 manufacturing fixed cost
$1 200 000 - $420 000 - $297 600 = $482 400 gross margin
$482 400 - $144 800 - $77 400 = $260 200 operating profit

c. $260 200 - $185 800 = $74 400 or 6000 units in ending inventory × $12.40 per unit of fixed manufacturing cost.

220) a.

	Absorption	Variable
Direct manufacturing labour ($24/4)	$6.00	$6.00
Direct materials	2.00	2.00
Variable manufacturing overhead	4.00	4.00
Fixed manufacturing overhead ($132 000/30 000)	4.40	0
Total cost per unit	$16.40	$12.00

b.

	Absorption	Variable
Beginning inventory	$0	$0
Cost of goods manufactured:		
30 000 × $16.40	$492 000	
30 000 × $12.00		$360 000
Cost of goods available for sale	$492 000	$360 000
Cost of goods sold:		
28 000 × $16.40	$459 200	
28 000 × $12.00		$336 000
Ending inventory	$32 800	$24 000

c. *Absorption-costing income statement*:

Sales (28 000 × $20)		$560 000
Cost of goods sold (28 000 × $16.40)		459 200
Gross margin		100 800
Less:		
Variable selling and administrative	$56 000	
Fixed selling and administrative	40 000	96 000
Operating profit		$4800

Variable-costing income statement:

Sales (28 000 × $20)		$560 000
Variable COGS (28 000 × $12)	$336 000	
Variable selling expenses (28 000 × $2)	56 000	392 000
Contribution margin		168 000
Fixed costs:		
Manufacturing	$132 000	
Selling and administrative	40 000	172 000
Operating profit		$(4000)

221) *January manufacturing cost per unit:*

Variable costs:	$4.00
Fixed costs ($126 000/35 000)	3.60
Total per unit	$7.60

February manufacturing cost per unit:

Variable costs	$4.00
Fixed costs $126 000/36 000	3.50
Total per unit	$7.50

January Income Statement

Sales (45 000 × $10)		$450 000
Cost of goods sold (45 000 × $7.60)		342 000
Gross margin		$108 000
Other costs:		
Variable selling and administrative	$18 000	
Fixed selling and administrative	60 000	78 000
Operating profit		$30 000

February Income Statement

Sales (45 000 × $10)		$450 000
Cost of goods sold (45 000 × $7.50)		337 500
Gross margin		$112 500
Other costs:		
Variable selling and administrative	$18 000	
Fixed selling and administrative	60 000	78 000
Operating profit		$34 500

222)

Revenues (1250 × $1850)			$2 312 500
Variable costs			
Beginning inventory		$0	
Variable manufacturing costs (1500 × $770)		1 155 000	
Cost of goods available		1 155 000	
Deduct ending inventory (250 × $770)		(192 500)	
Variable cost of goods sold		962 500	
Variable operating costs (1250 × $625)	781 250		
Total variable costs			1 743 750
Contribution margin			568 750
Fixed costs			
Fixed manufacturing costs		450 000	
Fixed operating costs		75 000	
Total fixed costs			525 000
Operating profit			$43 750

223) a. $384 000 + $3 136 000 - $275 200 = $3 244 800

b. $3 244 800 + $2 176 000 + $32 000 + $320 000 + $22 400 + $275 200 + $384 000 + $224 000 + $32 000 + $16 000 = $6 726 400

c. $6 726 400 + $96 000 - $64 000 = $6 758 400

d. $6 758 400 + $672 000 - $1 280 000 = $6 150 400

224)

Cost per site:	Absorption	Variable
Land cost $10 000 000/200 sites	$50 000	$0
Clearing costs	5000	5000
Improvements	8000	8000
Total	$63 000	$13 000

Absorption-costing income statements:	2011	2012
Sales	$8 000 000	$48 000 000
Cost of goods sold:		
50 × ($50 000 + $8000 + $5000)	3 150 000	
300 × ($50 000 + $8000 + $5000)		18 900 000
Gross margin	$4 850 000	$29 100 000
Variable marketing	800 000	4 800 000
Fixed administrative	850 000	850 000
Operating profit	$3 200 000	$23 450 000

Variable-costing income statements:	2011	2012
Sales	$8 000 000	$48 000 000
Variable expenses:		
Cost of operations:		
50 × $13 000	650 000	
300 × $13 000		3 900 000
Selling expenses	800 000	4 800 000
Contribution margin	$6 550 000	$39 300 000
Fixed expenses:		
Land	10 000 000	10 000 000
Administrative	850 000	850 000
Operating profit	$(4 300 000)	$28 450 000

225) a. Ending balance of merchandise inventory:
$82 000 + $420 000 - $446 000 = $56 000

b. Direct materials used:
$14 000 + $96 000 - $28 000 = $82 000

c. Current manufacturing costs:
$42 000 + $44 000 - $16 000 = $70 000

d. Beginning balance of finished goods inventory:
$40 000 + $122 000 - $124 000 = $38 000

226) a. Unit costs for January were:
($10 000 000 + $4 000 000 + $8 500 000) /50 000 = $450.00 per unit
b. Unit costs should be higher in February if only 30 000 units are to be produced. Indirect manufacturing costs most likely include both fixed and variable components. Since fewer units are expected to be produced in February, total fixed costs will be spread over fewer units. This will result in an increase in total cost per unit since variable costs per unit will most likely not change with the decreased production.
227) a. $20 000 000 / 400 000 = $50.00
b. 370 000 units × $50 = $18 500 000
c. 30 000 units × $50 = $1 500 000
228) ($25 000 × 2) - ($6000 × 2) - $8000 = $30 000
229) a. Direct manufacturing labour (42 hours × $20) + Idle time (4 hrs × $20) + Overtime premium (6 hrs × $10) = $980
b. Direct manufacturing labour (42 hours × $20) = $840
c. Manufacturing overhead costs = Idle time (4 hrs × $20) + Overtime premium (6 hrs × $10) = $140
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322) DIRECT costs are costs that can be traced easily to the product manufactured or the service rendered. Examples of direct costs include direct materials and direct manufacturing labour used in a product. INDIRECT costs cannot be easily identified with individual products or services rendered, and are usually assigned using allocation formulas. In a plant that manufactures multiple products, examples of indirect costs include the plant supervisor's salary and the cost of machines used to produce more than one type of product.
323) A cost object is anything for which a measurement of costs is desired. An example of a cost object for a manufacturing company might be the cost of manufacturing a particular product. An example of a cost object for a merchandising company might be a particular department of a retail store. An example of a cost object for a service sector company might be the cost to serve or supply a particular customer.
324) Inventoriable costs are all costs of a product that are considered as assets in the balance sheet when they are incurred and which become cost of goods sold only when the product is sold. Period costs are treated as expenses of the accounting period in which they are incurred. An inaccurate classification of inventoriable and period costs could lead to violations of the matching principle, which states that costs used in producing revenue should be matched on the income statement when the revenue is recognised.
325) TOTAL VARIABLE costs are affected by fluctuations in production or sales volume.
FIXED costs are not influenced by fluctuations in production or sales volumes.
Without the knowledge of cost behaviours, budgets and other forecasting tools will be inaccurate and unreliable.
Understanding whether a cost behaves as a variable or a fixed cost is essential to estimating and planning for business success.
326) Overall, the direct/indirect classification is decided on a cost/benefit basis. It is possible for a raw material such as glue to be considered as an indirect material by one furniture manufacturer and as a direct material by another furniture manufacturer. The decision is largely a choice by the manufacturer and depends on a number of factors including the materiality of the cost in question, the cost of gathering the information, and the design of the manufacturing process. If the product in question has an insignificant cost, it might not be worth the trouble to trace the cost of the glue to each piece of furniture, and the glue would be considered indirect. If the cost of tracing the cost of the glue is high in relation to the benefits received from tracing it, the glue would likely be considered as indirect material. If the design of the manufacturing process easily permits all the glue to be traced to a single type of furniture, then it would be easy for a company to consider that material to be direct.
327) The overtime premium of direct manufacturing labour should be considered an indirect manufacturing cost when it is attributable to the overall volume of work, and a direct manufacturing cost when a 'rush job' is the sole source of the overtime.