

Cost Accounting, 15e Global Edition (Horngren/Datar/Rajan)

Chapter 2 An Introduction to Cost Terms and Purposes

Objective 2.1

- 1) An actual cost is _____.
A) is the cost incurred
B) is a predicted or forecasted cost
C) is anything for which a cost measurement is desired
D) is the collection of cost data in some organized way by means of an accounting system

Answer: A

Diff: 1

Objective: 1

AACSB: Analytical thinking

- 2) Comparing budgeted costs to actual costs helps managers to improve _____.
A) coordination
B) control
C) implementation
D) planning

Answer: B

Diff: 1

Objective: 1

AACSB: Analytical thinking

- 3) Budgeted costs are _____.
A) the costs incurred this year
B) the costs incurred last year
C) planned or forecasted costs
D) competitor's costs

Answer: C

Diff: 1

Objective: 1

AACSB: Analytical thinking

- 4) Cost assignment _____.
A) includes future and arbitrary costs
B) encompasses allocating indirect costs to a cost object
C) is the same as cost accumulation
D) is the difference between budgeted and actual costs

Answer: B

Diff: 1

Objective: 1

AACSB: Analytical thinking

5) A cost system determines the cost of a cost object by _____.

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

Answer: A

Diff: 1

Objective: 1

AACSB: Analytical thinking

6) A cost object is anything for which a cost measurement is desired.

Answer: TRUE

Diff: 1

Objective: 1

AACSB: Analytical thinking

7) Costs are accounted for in two basic stages: assignment followed by accumulation.

Answer: FALSE

Explanation: Costs are accounted for in two basic stages: accumulation followed by assignment.

Diff: 1

Objective: 1

AACSB: Analytical thinking

8) An actual cost is the cost incurred—a historical or past cost.

Answer: TRUE

Diff: 1

Objective: 1

AACSB: Analytical thinking

9) Accountants define a cost as a resource to be sacrificed to achieve a specific objective.

Answer: TRUE

Diff: 1

Objective: 1

AACSB: Analytical thinking

10) A cost is a resource sacrificed or forgone to achieve a specific objective.

Answer: TRUE

Explanation: A cost object could be anything management wishes to determine the cost of, for example, a department.

Diff: 1

Objective: 1

AACSB: Analytical thinking

11) Managers use cost accumulation data to make decisions and implement them.

Answer: TRUE

Diff: 1

Objective: 1

AACSB: Analytical thinking

12) Lucas Manufacturing has three cost objects that it uses to accumulate costs for its manufacturing plants. They are:

- 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 labor

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.

Diff: 2

Objective: 1

AACSB: Application of knowledge

Objective 2.2

1) Which of the following factors affect the direct/indirect classification of a cost?

- A) the level of budgeted profit for the next year
- B) the estimation of time required to complete the order
- C) the ability to execute an order in the most cost-efficient manner
- D) the design of the operation

Answer: D

Diff: 1

Objective: 2

AACSB: Analytical thinking

2) The general term used to identify both the tracing and the allocation of accumulated costs to a cost object is _____.

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

Answer: B

Diff: 1

Objective: 1

AACSB: Analytical thinking

3) Cost accumulation is _____.

- A) the collection of cost data in some organized way by means of an accounting system
- B) anything for which a cost measurement is desired
- C) anything for which a profit measurement is desired
- D) the collection of profit data in some organized way by means of an accounting system

Answer: A

Diff: 2

Objective: 1

AACSB: Analytical thinking

4) Which of the following statements about the direct/indirect cost classification is true?

- A) Indirect costs are always traced.
- B) Indirect costs are always allocated.
- C) The design of sales target affects the direct/indirect classification.
- D) The direct/indirect classification depends on the cost control measures.

Answer: B

Diff: 1

Objective: 2

AACSB: Analytical thinking

5) Cost tracing is _____.

- A) the assignment of direct costs to the chosen cost object
- B) a function of cost allocation
- 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: A

Diff: 1

Objective: 2

AACSB: Analytical thinking

6) Cost allocation is _____.

- A) the process of tracking both direct and indirect costs associated with a cost object
- B) the process of determining the opportunity cost of a cost object chosen
- C) the assignment of indirect costs to the chosen cost object
- D) made based on material acquisition document

Answer: C

Diff: 1

Objective: 2

AACSB: Analytical thinking

7) The determination of a cost as either direct or indirect depends upon the _____.

- A) accounting standards
- B) tax system chosen
- C) inventory valuation
- D) cost object chosen

Answer: D

Diff: 1

Objective: 2

AACSB: Analytical thinking

8) Classifying a cost as either direct or indirect depends upon _____.

- A) the behavior of the cost in response to volume changes
- B) whether the cost is expensed in the period in which it is incurred
- C) whether the cost can be easily traced with the cost object
- D) whether a cost is fixed or variable

Answer: C

Diff: 1

Objective: 2

AACSB: Analytical thinking

9) A manufacturing plant produces two product lines: golf equipment and soccer equipment. An example of direct costs for the golf equipment line is _____.

- A) beverages provided daily in the plant break room
- B) monthly lease payments for a specialized piece of equipment needed to manufacture the golf driver
- C) salaries of the clerical staff that work in the company administrative offices
- D) overheads incurred in producing both golf and soccer equipment

Answer: B

Diff: 1

Objective: 2

AACSB: Application of knowledge

10) A manufacturing plant produces two product lines: golf equipment and soccer equipment. An example of indirect cost for the soccer equipment line is the _____.

- A) material used to make the soccer balls
- B) labor to shape the leather used to make the soccer ball
- C) material used to manufacture the soccer studs
- D) salary paid to plant supervisor

Answer: D

Diff: 1

Objective: 2

AACSB: Application of knowledge

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

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

Answer: B

Diff: 1

Objective: 2

AACSB: Application of knowledge

12) Indirect manufacturing costs _____.

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

Answer: D

Diff: 1

Objective: 2

AACSB: Application of knowledge

13) Which of the following is true of indirect costs?

- A) Indirect costs are always considered sunk costs.
- B) All indirect costs are included in cost of goods sold.
- C) Indirect costs always vary in direct proportion to the level of production.
- D) Indirect costs cannot be traced to a particular cost object in an economically feasible way.

Answer: D

Diff: 1

Objective: 2

AACSB: Application of knowledge

14) Which of the following statements is true?

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

Answer: B

Diff: 1

Objective: 2

AACSB: Analytical thinking

15) Which of the following statements is true of direct costs?

- A) A direct cost of one cost object is a true sense of the budgeted costs.
- B) All variable costs are direct costs.
- C) A direct cost of one cost object can be an indirect cost of another cost object.
- D) All fixed costs are direct costs.

Answer: C

Diff: 1

Objective: 2

AACSB: Application of knowledge

16) A cost may be direct for one cost object and indirect for another cost object.

Answer: TRUE

Diff: 1

Objective: 2

AACSB: Application of knowledge

17) Assigning indirect costs is easier than assigning direct costs.

Answer: FALSE

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

Diff: 1

Objective: 2

AACSB: Application of knowledge

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

Answer: TRUE

Diff: 1

Objective: 2

AACSB: Analytical thinking

19) The smaller the amount of a cost the more likely it is economically feasible to trace it to a particular cost object.

Answer: FALSE

Explanation: The smaller the amount of a cost the less likely it is economically feasible to trace it to a particular cost object.

Diff: 1

Objective: 2

AACSB: Application of knowledge

20) A direct cost of one cost object can be an indirect cost of another cost object.

Answer: TRUE

Diff: 1

Objective: 2

AACSB: Analytical thinking

21) The cost of electricity used in the production of multiple products would be classified as a indirect cost.

Answer: TRUE

Diff: 1

Objective: 2

AACSB: Application of knowledge

22) The broader the cost object definition, higher the proportion of direct costs are of total costs.

Answer: TRUE

Diff: 1

Objective: 2

AACSB: Analytical thinking

23) The distinction between direct and indirect costs is clearly set forth in Generally Accepted Accounting Principles (GAAP).

Answer: FALSE

Explanation: The distinction between direct and indirect costs is not set forth in GAAP. Direct costs of a cost object are related to the particular cost object and can be traced to it in an economically feasible (cost-effective) way. Indirect costs of a cost object are related to the particular cost object but cannot be traced to it in an economically feasible (cost-effective) way.

Diff: 1

Objective: 2

AACSB: Analytical thinking

24) Archambeau Products Company manufactures office furniture. Recently, the company decided to develop a formal cost accounting system and classify all costs into three categories. Categorize 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.

<u>Item</u>	<u>Cost Tracing</u>	<u>Cost Allocation</u>	<u>Nonmanu- facturing</u>
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:	Cost	Cost	Nonmanu-
<u>Item</u>	<u>Tracing</u>	<u>Allocation</u>	<u>facturing</u>

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	

Diff: 2

Objective: 2

AACSB: Application of knowledge

25) What are the factors that affect the classification of a cost as direct or indirect?

Answer: Several factors affect whether a cost is classified as direct or indirect:

The materiality of the cost in question. The smaller the amount of a cost—that is, the more immaterial the cost is—the less likely it is economically feasible to trace it to a particular cost object.

Available information-gathering technology. Improvements in information-gathering technology make it possible to consider more and more costs as direct costs.

Design of operations. Classifying a cost as direct is easier if a company's facility (or some part of it) is used exclusively for a specific cost object, such as a specific product or a particular customer.

Diff: 3

Objective: 2

AACSB: Analytical thinking

26) 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 labor 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.

Diff: 2

Objective: 2

AACSB: Analytical thinking

Objective 2.3

1) Which of the following is true if the volume of sales increases?

- A) fixed cost increases
- B) variable cost decreases
- C) variable cost increases
- D) fixed cost decreases

Answer: C

Diff: 1

Objective: 3

AACSB: Application of knowledge

2) Which of the following is a fixed cost?

- A) monthly rent payment
- B) electricity expenses
- C) travel expenses
- D) direct material costs

Answer: A

Diff: 1

Objective: 3

AACSB: Application of knowledge

3) Cost behavior refers to _____.

- 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) classifying costs as either perpetual or period costs
- D) whether a particular expense is expensed in the same or the following period

Answer: A

Diff: 1

Objective: 3

AACSB: Analytical thinking

4) Which of the following is true if the production volume decreases?

- A) fixed cost per unit increases
- B) average cost per unit decreases
- C) variable cost per unit increases
- D) variable cost per unit decreases

Answer: A

Diff: 1

Objective: 3

AACSB: Application of knowledge

5) At a plant where a union agreement sets annual salaries and conditions, annual labor costs usually _____.

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

Answer: B

Diff: 1

Objective: 3

AACSB: Analytical thinking

6) Variable costs _____.

- A) are always indirect costs
- B) increase in total when the actual level of activity increases
- C) include most personnel costs and depreciation on machinery
- D) are never considered a part of prime cost

Answer: B

Diff: 1

Objective: 3

AACSB: Analytical thinking

7) Maize Plastics manufactures and sells 50 bottles per day. Fixed costs are \$30,000 and the variable costs for manufacturing 50 bottles are \$10,000. Each bottle is sold for \$1,000. How would the daily profit be affected if the daily volume of sales drop by 10%?

- A) profits are reduced by \$4,000
- B) profits are reduced by \$1,000
- C) profits are reduced by \$5,000
- D) profits are reduced by \$6,000

Answer: A

Explanation: A) Variable cost per unit = $\$10,000 / 50 = \200

Profit for 50 bottles = $(\$1,000 \times 50) - (\$30,000 + \$10,000) = \$10,000$

Sales after 10% drop = $50 \times (1 - 0.10) = 45$

Profit for 45 bottles = $(\$1,000 \times 45) - (\$30,000 + (45 \times 200)) = \$6,000$

Change in profit = $\$10,000 - \$6,000 = \$4,000$. Hence, the profit has decreased by \$4,000.

Diff: 3

Objective: 3

AACSB: Application of knowledge

8) Fixed costs depend on the _____.

- A) amount of resources used
- B) amount of resources acquired
- C) volume of production
- D) total number of units sold

Answer: B

Diff: 1

Objective: 3

AACSB: Analytical thinking

9) Which one of the following is a variable cost for an insurance company?

- A) rent of the building
- B) CEO's salary
- C) electricity expenses
- D) property taxes

Answer: C

Diff: 1

Objective: 3

AACSB: Application of knowledge

10) Which of the following is a fixed cost for an automobile manufacturing plant?

- A) administrative salaries
- B) electricity used by assembly-line machines
- C) sales commissions
- D) tires

Answer: A

Diff: 1

Objective: 3

AACSB: Application of knowledge

11) If each motorcycle requires a belt that costs \$20 and 2,000 motorcycles are produced for the month, the total cost for belts is _____.

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

Answer: B

Diff: 1

Objective: 3

AACSB: Application of knowledge

12) The most likely cost driver of distribution costs is the _____.

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

Answer: B

Diff: 1

Objective: 3

AACSB: Application of knowledge

13) The most likely cost driver of direct labor costs is the _____.

- A) number of machine setups for the product
- B) number of miles driven
- C) number of production hours
- D) number of machine hours

Answer: C

Diff: 1

Objective: 3

AACSB: Application of knowledge

14) Which of the following statements is true?

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

Answer: A

Diff: 1

Objective: 3

AACSB: Analytical thinking

15) A band of normal activity or volume in which specific cost-volume relationships are maintained is referred to as the _____.

- A) average range
- B) cost-allocation range
- C) cost driver range
- D) relevant range

Answer: D

Diff: 1

Objective: 3

AACSB: Analytical thinking

16) Within the relevant range, if there is a change in the level of the cost driver, then _____.

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

Answer: C

Diff: 2

Objective: 3

AACSB: Analytical thinking

17) Outside the relevant range, variable costs, such as direct material costs _____.

- A) will decrease proportionately with changes in sales volumes
- B) will remain the same with changes in production volumes
- C) will not change proportionately with changes in production volumes
- D) will increase proportionately with changes in sales volumes

Answer: C

Diff: 2

Objective: 3

AACSB: Analytical thinking

18) Which of the following is a cost driver for a company's human resource costs?

- A) the number of employees in the company
- B) the number of job applications processed
- C) the number of units sold
- D) the square footage of the office space used by the human resource department

Answer: B

Diff: 1

Objective: 3

AACSB: Analytical thinking

Answer the following questions using the information below:

Zephyr Apparels is a clothing retailer. Unit costs associated with one of its products, Product DCT121, are as follows:

Direct materials	\$ 70
Direct manufacturing labor	20
Variable manufacturing overhead	15
Fixed manufacturing overhead	32
Sales commissions (2% of sales)	5
Administrative salaries	<u>16</u>
Total	<u>\$158</u>

19) What are the direct variable manufacturing costs per unit associated with Product DCT121?

- A) \$142
- B) \$90
- C) \$105
- D) \$110

Answer: C

Explanation: C) Direct variable manufacturing costs = \$70 + \$20 + \$15 = \$105

Diff: 1

Objective: 3

AACSB: Application of knowledge

20) What are the indirect nonmanufacturing variable costs per unit associated with Product DCT121?

- A) \$5
- B) \$21
- C) \$90
- D) \$142

Answer: A

Explanation: A) Indirect variable costs = Sales commissions = \$5

Diff: 1

Objective: 3

AACSB: Application of knowledge

Answer the following questions using the information below:

The East Company manufactures several different products. Unit costs associated with Product ORD210 are as follows:

Direct materials	\$54
Direct manufacturing labor	8
Variable manufacturing overhead	11
Fixed manufacturing overhead	25
Sales commissions (2% of sales)	5
Administrative salaries	<u>12</u>
Total	<u>\$115</u>

21) What is the percentage of the total variable costs per unit associated with Product ORD105 with respect to total cost?

- A) 72%
- B) 68%
- C) 75%
- D) 70%

Answer: A

Explanation: A) $\$60 + \$10 + \$15 + \$5 = \$90 / 125 = 72\%$

Diff: 3

Objective: 3

AACSB: Application of knowledge

22) What is the percentage of the total fixed costs per unit associated with Product ORD105 with respect to total cost?

- A) 32%
- B) 28%
- C) 26%
- D) 20%

Answer: B

Explanation: B) $\$25 + 10 = \$35 / 125 = 28\%$

Diff: 3

Objective: 3

AACSB: Application of knowledge

23) A fixed cost is fixed only in relation to a given wide range of total activity or volume and only for a given time span, usually a particular budget period.

Answer: TRUE

Diff: 2

Objective: 3

AACSB: Application of knowledge

24) A cost driver is a variable, such as the level of activity or volume that causally affects costs over a given time span.

Answer: TRUE

Diff: 1

Objective: 3

AACSB: Analytical thinking

25) Fixed cost per unit reduces with an increase in production volume.

Answer: TRUE

Diff: 2

Objective: 3

AACSB: Analytical thinking

26) Variable costs per unit vary with the level of production or sales volume.

Answer: FALSE

Explanation: Variable costs per unit are constant with the level of production or sales volume.

Diff: 2

Objective: 3

AACSB: Analytical thinking

27) Wood used to manufacture chairs is considered a direct variable cost.

Answer: TRUE

Diff: 1

Objective: 3

AACSB: Analytical thinking

28) Variable costs depend on the resources used.

Answer: FALSE

Diff: 1

Objective: 3

AACSB: Analytical thinking

29) A fixed cost remains unchanged in total for a given time period, despite wide changes in the related level of total activity or volume of output produced.

Answer: TRUE

Diff: 1

Objective: 3

AACSB: Analytical thinking

30) An appropriate cost driver for shipping costs might be the number of units shipped.

Answer: TRUE

Diff: 1

Objective: 3

AACSB: Analytical thinking

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

Required:

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

	<u>Direct</u>	<u>Indirect</u>	<u>Fixed</u>	<u>Variable</u>
Electronic monitoring	_____	_____	_____	_____
Meals for patients	_____	_____	_____	_____
Nurses' salaries	_____	_____	_____	_____
Parking maintenance	_____	_____	_____	_____
Security	_____	_____	_____	_____
Answer:	<u>Direct</u>	<u>Indirect</u>	<u>Fixed</u>	<u>Variable</u>

Electronic monitoring	X			X
Meals for patients	X			X
Nurses' salaries		X	X	
Parking maintenance		X	X	
Security		X	X	

Diff: 3

Objective: 2, 3

AACSB: Application of knowledge

32) The list of representative cost drivers in the right column below are randomized with respect to the list of functions in the left column. That is, they do not match.

	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

Diff: 3

Objective: 3

AACSB: Application of knowledge

33) 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 increase with increased production or sales volumes. Fixed costs are not influenced by fluctuations in production or sales volumes. However, variable cost per unit remains the same at all levels of production and fixed cost per unit reduces with increase in production. Without the knowledge of cost behaviors, 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.

Diff: 3

Objective: 3

AACSB: Analytical thinking

Objective 2.4

1) A unit cost is computed by _____.

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

Answer: B

Diff: 1

Objective: 4

AACSB: Analytical thinking

2) In making product mix and pricing decisions, managers should focus on _____.

- A) total costs
- B) unit costs
- C) variable costs
- D) manufacturing costs

Answer: A

Diff: 2

Objective: 4

AACSB: Analytical thinking

3) When 20,000 units are produced, fixed costs are \$16 per unit. Therefore, when 16,000 units are produced, fixed costs will _____.

- A) increase to \$20 per unit
- B) remain at \$16 per unit
- C) decrease to \$10 per unit
- D) total \$160,000

Answer: A

Explanation: A) Fixed costs are \$320,000 ($\$16 \times 20,000$ units). Dividing \$320,000 by 16,000 units = \$20.

Diff: 3

Objective: 4

AACSB: Application of knowledge

4) When 20,000 units are produced, variable costs are \$8 per unit. Therefore, when 10,000 units are produced _____.

- A) variable costs will remain at \$8 per unit
- B) variable costs will total \$60,000
- C) variable unit costs will increase to \$12 per unit
- D) variable unit costs will decrease to \$3 per unit

Answer: A

Diff: 2

Objective: 4

AACSB: Application of knowledge

5) Eigen Manufacturing Corp. provided the following information for last month:

Sales	\$40,000
Variable costs	14,000
Fixed costs	<u>10,000</u>
Operating income	<u>\$16,000</u>

If sales reduce to half of the amount in the next month, what is the projected operating income?

A) \$15,000

B) \$6,000

C) \$16,000

D) \$3,000

Answer: D

Explanation: D) Projected operating income = $(\$40,000 / 2) - (\$14,000 / 2) - \$10,000 = \$3,000$

Diff: 3

Objective: 4

AACSB: Application of knowledge

6) Genosis Metals provided the following information for last month:

Sales	\$20,000
Variable costs	8,000
Fixed costs	<u>4,000</u>
Operating income	<u>\$8,000</u>

If sales reduce to half the amount in the next month, what is the projected operating income?

A) \$0

B) \$4,000

C) \$2,000

D) \$6,000

Answer: C

Explanation: C) Projected operating income = $(\$20,000 \times 0.5) - (\$8,000 \times 0.5) - \$4,000 = \$2,000$

Diff: 3

Objective: 4

AACSB: Application of knowledge

7) Grip Manufacturing currently produces 1,000 tires per month. The following per unit data for 1,000 tires apply for sales to regular customers:

Direct materials	\$30
Direct manufacturing labor	5
Variable manufacturing overhead	8
Fixed manufacturing overhead	<u>12</u>
Total manufacturing costs	<u>\$55</u>

The plant has capacity for 3,000 tires and is considering expanding production to 2,000 tires. What is the total cost of producing 2,000 tires?

- A) \$110,000
- B) \$98,000
- C) \$68,000
- D) \$88,000

Answer: B

Explanation: B) Total cost of producing 2,000 tires = $[(\$30 + \$5 + \$8) \times 2,000 \text{ units}] + (\$12 \times 1,000 \text{ units}) = \$98,000$

Diff: 3

Objective: 4

AACSB: Application of knowledge

8) XIAN Manufacturing produces a unique valve, and has the capacity to produce 50,000 valves annually. Currently XIAN produces 40,000 valves and is thinking about increasing production to 45,000 valves next year. What is the most likely behavior of total manufacturing costs and unit manufacturing costs given this change?

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

Answer: B

Diff: 2

Objective: 4

AACSB: Application of knowledge

9) Ridez Manufacturing currently produces 1,000 bicycles per month. The following per unit data apply for sales to regular customers:

Direct materials	\$50
Direct manufacturing labor	8
Variable manufacturing overhead	12
Fixed manufacturing overhead	<u>15</u>
Total manufacturing costs	<u>\$85</u>

The plant has capacity for 3,000 bicycles and is considering expanding production to 2,000 bicycles. What is the per unit cost of producing 2,000 bicycles?

- A) \$78.50 per unit
- B) \$170 per unit
- C) \$72.50 per unit
- D) \$77.50 per unit

Answer: D

Explanation: D) Cost of producing 2,000 bicycles = $[(\$50 + \$8 + \$12) \times 2,000 \text{ units}] + (\$15 \times 1,000 \text{ units}) = \$155,000 / 2,000 \text{ units} = \77.50

Diff: 3

Objective: 4

AACSB: Application of knowledge

Answer the following questions using the information below:

Buildz Manufacturing currently produces 1,000 tables per month. The following per unit data for 1,000 tables apply for sales to regular customers:

Direct materials	\$50
Direct manufacturing labor	10
Variable manufacturing overhead	15
Fixed manufacturing overhead	<u>30</u>
Total manufacturing costs	<u>\$105</u>

10) The plant has capacity for 3,000 tables and is considering expanding production to 3,000 tables. What is the total cost of producing 3,000 tables?

- A) \$255,000
- B) \$225,000
- C) \$175,000
- D) \$235,000

Answer: A

Explanation: A) $[(\$50 + \$10 + \$15) \times 3,000 \text{ units}] + (\$30 \times 1,000 \text{ units}) = \$255,000$

Diff: 3

Objective: 4

AACSB: Application of knowledge

11) What is the per unit cost when producing 3,000 tables?

- A) \$58.33
- B) \$175.00
- C) \$85.00
- D) \$125.45

Answer: C

Explanation: C) $\$255,000 / 3,000 = \85

Diff: 2

Objective: 4

AACSB: Application of knowledge

Answer the following questions using the information below:

Pederson Company reported the following:

Manufacturing costs	\$150,000
Units manufactured	5,000
Units sold	4,700 units sold for \$75 per unit
Beginning inventory	100 units

12) What is the average manufacturing cost per unit?

- A) \$40.00
- B) \$42.00
- C) \$30.00
- D) \$32.00

Answer: C

Explanation: C) $\$150,000 / 5,000 = \30.00

Diff: 2

Objective: 4

AACSB: Application of knowledge

13) What is the manufacturing cost for the ending finished goods inventory?

- A) \$12,000
- B) \$8,000
- C) \$11,000
- D) \$5,000

Answer: A

Explanation: A) $(100 + 5,000 - 4,700) \times 30 = \$12,000$

Diff: 3

Objective: 4

AACSB: Application of knowledge

Answer the following questions using the information below:

The following information pertains to Razor's Corp:

Manufacturing costs	\$135,000
Units manufactured	15,000
Units sold	12,000 units sold for \$15 per unit
Beginning inventory	\$3,500

14) What is the average manufacturing cost per unit?

- A) \$11.00
- B) \$9.00
- C) \$11.25
- D) \$11

Answer: B

Explanation: B) $\$135,000 / 15,000 = \9.00

Diff: 2

Objective: 4

AACSB: Application of knowledge

15) What is the manufacturing cost for the ending finished goods inventory?

- A) \$42,500
- B) \$25,500
- C) \$18,500
- D) \$30,500

Answer: D

Explanation: D) Ending finished inventory = $\$3,500 + (15,000 - 12,000) \times \$9 = \$30,500$

Diff: 3

Objective: 4

AACSB: Application of knowledge

16) When making decisions for product mix or and pricing, the focus should be on total costs and not unit costs.

Answer: TRUE

Diff: 1

Objective: 4

AACSB: Analytical thinking

17) Although unit costs are regularly used in financial reports and for making product mix and pricing decisions, managers should think in terms of total costs rather than unit costs for making decisions.

Answer: TRUE

Diff: 2

Objective: 4

AACSB: Analytical thinking

18) A unit cost is computed by dividing total cost by the number of units.

Answer: TRUE

Diff: 1

Objective: 4

AACSB: Analytical thinking

19) A unit cost is also called an average cost.

Answer: TRUE

Diff: 1

Objective: 4

AACSB: Analytical thinking

20) Samiera, Inc., reports the following information for September sales:

Sales	\$60,000
Variable costs	12,000
Fixed costs	<u>16,000</u>
Operating income	<u>\$ 32,000</u>

Promotional expenses for September were \$1,000.

Required:

If sales double in October, what is the impact on the variable costs?

Answer: The variable costs also double up to $\$12,000 \times 2 = \$24,000$. Promotional expenses are variable costs and are already included in \$12,000.

Diff: 2

Objective: 4

AACSB: Analytical thinking

21) Glass House Manufacturing currently produces 1,000 glasses per month. The following per unit data for thousand apply for sales to regular customers:

Direct materials	\$250
Direct manufacturing labor	40
Variable manufacturing overhead	70
Fixed manufacturing overhead	<u>50</u>
Total manufacturing costs	<u>\$410</u>

The plant has capacity for 2,000 glasses. Plant supervisor's salary is \$15,000.

Required:

- What is the total cost of producing 1,000 glasses?
- What is the total cost of producing 1,500 glasses?
- What is the per unit cost when producing 1,500 glasses?

Answer:

- a. $[(\$250 + \$40 + \$70) \times 1,000 \text{ units}] + (\$50 \times 1,000 \text{ units}) = \$410,000$

Plant supervisor's salary is already included in fixed manufacturing overhead hence not added.

- b. $[(\$250 + \$40 + \$70) \times 1,500 \text{ units}] + \$50,000 = \$590,000$

- c. $\$590,000 / 1,500 = \393.33 per unit

Diff: 2

Objective: 4

AACSB: Application of knowledge

22) During 2015, Fly High Corporation incurred manufacturing expenses of \$200,000 to produce 40,000 finished units. It was determined that 35,000 units were sold by November end while 5,000 units remained in ending inventory. The storage cost for December is \$0.5 per unit.

Required:

- What is the cost of producing one unit?
- What is the amount that will be reported on the income statement for cost of goods sold?
- What is the cost incurred for storing the inventory?

Answer:

- $\$200,000 / 40,000 = \5
- $35,000 \text{ units} \times \$5 = \$175,000$
- $5,000 \text{ units} \times \$0.5 = \$2,500$

Diff: 2

Objective: 4

AACSB: Application of knowledge

Objective 2.5

1) 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

What is the amount of gross profit margin?

- \$1,750,000
- \$3,525,000
- \$5,405,000
- \$1,645,000

Answer: D

Explanation: D) $47,000 \times (\$75 - (\$2,000,000 / 50,000)) = \$1,645,000$

Diff: 3

Objective: 5

AACSB: Application of knowledge

2) _____ sector companies purchase materials and components and convert them into finished goods.

- Merchandising
- Service
- Manufacturing
- Professional

Answer: C

Diff: 1

Objective: 5

AACSB: Analytical thinking

3) Merchandising-sectors _____.

- A) purchase and then sell tangible products without changing their basic form
- B) provide intangible products
- C) purchase materials and components and convert them into finished goods
- D) purchase and then sell tangible products by changing their basic form

Answer: A

Diff: 1

Objective: 5

AACSB: Analytical thinking

4) Service-sector companies _____.

- A) provide intangible products
- B) purchase and then sell tangible products without changing their basic form
- C) purchase and then sell tangible products by changing their basic form
- D) purchase materials and components and convert them into finished goods

Answer: A

Diff: 1

Objective: 5

AACSB: Analytical thinking

5) Wages paid to machine operators on an assembly line are classified as a _____.

- A) direct material cost
- B) direct manufacturing labor cost
- C) manufacturing overhead cost
- D) period cost

Answer: B

Diff: 1

Objective: 5

AACSB: Analytical thinking

6) The following information pertains to Alleigh's Mannequins:

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

What is the amount of gross margin?

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

Answer: D

Explanation: D) $29,500 \times (\$85 - (\$1,500,000 / 30,000)) = \$1,032,500$

Diff: 3

Objective: 5

AACSB: Analytical thinking

7) Which of the following companies is part of the service sector of our economy?

- A) Target
- B) Ernst & Young
- C) Nokia
- D) Amazon.com

Answer: B

Diff: 1

Objective: 5

AACSB: Application of knowledge

8) Which of the following companies is part of the merchandising sector of our economy?

- A) Jaguar
- B) Hewlett Packard
- C) Arrow Electronics
- D) Michael Toback Accounting Firm

Answer: C

Diff: 1

Objective: 5

AACSB: Application of knowledge

9) Which of the following companies is part of the manufacturing sector of our economy?

- A) Nike
- B) Barnes & Noble
- C) Corvette Law Firm
- D) Sears, Roebuck, and Company

Answer: A

Diff: 1

Objective: 5

AACSB: Application of knowledge

10) Yahoo, an Internet search firm, would be classified as a(n) _____.

- A) manufacturing-sector company
- B) merchandising-sector company
- C) service-sector company
- D) financial services

Answer: C

Diff: 1

Objective: 5

AACSB: Application of knowledge

11) Service-sector companies report _____.

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

Answer: D

Diff: 1

Objective: 5

AACSB: Analytical thinking

12) Manufacturing-sector companies report _____.

- A) only merchandise inventory
- B) only finished goods inventory
- C) direct materials inventory, work-in-process inventory, and finished goods inventory accounts
- D) direct materials inventory and finished goods inventory accounts only

Answer: C

Diff: 1

Objective: 5

AACSB: Analytical thinking

13) For a manufacturing company, direct material costs may be included in _____.

- A) direct materials inventory only
- B) merchandise inventory only
- C) both work-in-process inventory and finished goods inventory
- D) direct materials inventory, work-in-process inventory, and finished goods inventory accounts

Answer: D

Diff: 1

Objective: 5

AACSB: Analytical thinking

14) For a manufacturing company, direct labor costs may be included in _____.

- A) direct materials inventory only
- B) merchandise inventory only
- C) both work-in-process inventory and finished goods inventory
- D) direct materials inventory, work-in-process inventory, and finished goods inventory accounts

Answer: C

Diff: 3

Objective: 5

AACSB: Analytical thinking

15) For a manufacturing company, indirect manufacturing costs may be included in _____.

- A) direct materials inventory only
- B) merchandise inventory only
- C) both work-in-process inventory and finished goods inventory
- D) direct materials inventory, work-in-process inventory, and finished goods inventory accounts

Answer: C

Diff: 3

Objective: 5

AACSB: Analytical thinking

16) For a manufacturing-sector company, the cost of factory depreciation is classified as a _____.

- A) direct material cost
- B) direct manufacturing labor cost
- C) manufacturing overhead cost
- D) period cost

Answer: C

Diff: 1

Objective: 5

AACSB: Analytical thinking

17) Which of the following cost is included in cost of goods sold?

- A) customer service cost
- B) manufacturing labor cost
- C) distribution cost
- D) marketing cost

Answer: B

Diff: 1

Objective: 5

AACSB: Application of knowledge

18) Manufacturing overhead costs in an automobile manufacturing plant most likely include _____.

- A) labor costs of the painting department
- B) indirect material costs such as lubricants
- C) leather seat costs
- D) tyre costs

Answer: B

Diff: 1

Objective: 5

AACSB: Analytical thinking

19) Manufacturing overhead costs are also referred to as _____.

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

Answer: A

Diff: 1

Objective: 5

AACSB: Analytical thinking

20) Target reports _____.

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

Answer: A

Diff: 1

Objective: 5

AACSB: Analytical thinking

21) Direct materials inventory would normally include _____.

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

Answer: A

Diff: 1

Objective: 5

AACSB: Analytical thinking

22) Work-in-process inventory would normally include _____.

- A) direct materials in stock and awaiting use in the manufacturing process
- B) goods partially worked on but not yet fully completed
- C) goods fully completed but not yet sold
- D) goods returned after being sold to be re-worked on further improvements and quality

Answer: B

Diff: 1

Objective: 5

AACSB: Analytical thinking

23) Finished goods inventory would normally include _____.

- A) direct materials in stock and awaiting use in the manufacturing process
- B) goods partially worked on but not yet fully completed
- C) goods fully completed but not yet sold
- D) goods returned after being sold to be re-worked on further improvements and quality

Answer: C

Diff: 1

Objective: 5

AACSB: Analytical thinking

24) Which of the following is a period cost?

- A) sales promotion expenses
- B) direct material cost
- C) direct labor cost
- D) indirect manufacturing costs like plant insurance

Answer: A

Diff: 1

Objective: 5

AACSB: Analytical thinking

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

- A) Sales taxes paid to acquire materials
- B) Wages paid to assembly-line workers
- C) Plant depreciation incurred
- D) Property taxes on plant

Answer: A

Diff: 1

Objective: 5

AACSB: Analytical thinking

26) Which of the following is a direct manufacturing cost?

- A) plant maintenance
- B) plant rent
- C) fringe benefits paid to machine operators
- D) property taxes on plant

Answer: C

Diff: 1

Objective: 5

AACSB: Analytical thinking

27) _____ are all manufacturing costs that are related to the cost object but cannot be traced to that cost object.

- A) Indirect manufacturing costs
- B) Marketing costs incurred
- C) Variable manufacturing costs
- D) Custom duties paid for the materials

Answer: A

Diff: 1

Objective: 5

AACSB: Analytical thinking

28) The income statement of a manufacturing firm reports _____.

- A) sales promotion costs only
- B) inventoriable costs only
- C) cost of goods sold
- D) only manufacturing overhead costs

Answer: C

Diff: 1

Objective: 5

AACSB: Analytical thinking

29) The income statement of a service-sector firm reports _____.

- A) period costs only
- B) inventoriable costs only
- C) both period and inventoriable costs
- D) direct labor costs

Answer: A

Diff: 1

Objective: 5

AACSB: Analytical thinking

30) Which of the following is an inventoriable cost?

- A) manufacturing overhead cost
- B) customer service costs
- C) distribution costs
- D) marketing costs

Answer: A

Diff: 1

Objective: 5

AACSB: Analytical thinking

31) Inventoriable costs _____.

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

Answer: B

Diff: 1

Objective: 5

AACSB: Analytical thinking

32) Inventoriable costs are expensed on the income statement _____.

- A) when direct materials for the product are purchased
- B) after the products are manufactured
- C) when the products are sold
- D) when the goods move from work-in process to finished goods account

Answer: C

Diff: 1

Objective: 5

AACSB: Analytical thinking

33) Costs that are initially recorded as assets and expensed when goods sold are called _____.

- A) period costs
- B) inventoriable costs
- C) irrelevant costs
- D) research and development costs

Answer: B

Diff: 1

Objective: 5

AACSB: Analytical thinking

34) For merchandising companies, inventoriable costs include _____.

- A) sales costs
- B) incoming freight costs
- C) distribution costs
- D) outgoing freight costs

Answer: B

Diff: 1

Objective: 5

AACSB: Analytical thinking

35) For manufacturing firms, inventoriable costs include _____.

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

Answer: A

Diff: 1

Objective: 5

AACSB: Analytical thinking

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

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

Answer: B

Diff: 1

Objective: 5

AACSB: Analytical thinking

37) R&D costs are treated as period costs because _____.

- A) these costs may increase revenues in the current period
- B) these costs may increase revenues in the future period
- C) these costs may decrease revenues in the current period
- D) these costs are expensed when the goods are sold

Answer: B

Diff: 1

Objective: 5

AACSB: Analytical thinking

38) For an automobile manufacturer, period costs include the cost of _____.

- A) the dashboard
- B) labor used for assembly
- C) advertising
- D) assembly-line equipment

Answer: C

Diff: 1

Objective: 5

AACSB: Application of knowledge

39) Period costs _____.

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

Answer: C

Diff: 1

Objective: 5

AACSB: Application of knowledge

40) Period costs _____.

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

Answer: A

Diff: 1

Objective: 5

AACSB: Analytical thinking

41) Inventoriable costs are costs of a product that are _____.

A) costs of a product that are considered assets in a company's balance sheet when the costs are incurred and that are expensed as cost of goods sold only when the product is sold

B) considered liabilities in a company's balance sheet when the costs are incurred and that are expensed only when the product is sold

C) considered as assets in a company's income statement when the costs are capitalized and that are expensed as cost of goods sold only when the product is sold

D) considered as liabilities in a company's income statement when the costs are capitalized and that are expensed only when the product is sold

Answer: A

Diff: 3

Objective: 5

AACSB: Analytical thinking

42) Costs expensed on the income statement in the accounting period incurred are called _____.

A) direct costs

B) indirect costs

C) period costs

D) inventoriable costs

Answer: C

Diff: 1

Objective: 5

AACSB: Analytical thinking

43) In the cost classification system used by manufacturing firms, assembly workers' wages would be included in _____.

A) irrelevant cost

B) direct manufacturing costs

C) indirect manufacturing costs

D) period cost

Answer: B

Diff: 1

Objective: 5

AACSB: Analytical thinking

44) Total manufacturing costs is comprised of _____.

A) direct materials costs and period costs

B) direct materials costs, direct manufacturing labor costs, and manufacturing overhead costs

C) indirect materials costs, indirect manufacturing labor costs, and manufacturing overhead costs

D) prime costs and period costs

Answer: B

Diff: 1

Objective: 5

AACSB: Analytical thinking

Answer the following questions using the information below:

Zephyr Apparels is a clothing retailer. Unit costs associated with one of its products, Product DCT121, are as follows:

Direct materials	\$ 70
Direct manufacturing labor	20
Variable manufacturing overhead	15
Fixed manufacturing overhead	32
Sales commissions (2% of sales)	5
Administrative salaries	<u>16</u>
Total	<u>\$158</u>

45) What are the inventoriable costs per unit associated with Product DCT121?

- A) \$137
- B) \$140
- C) \$143
- D) \$88

Answer: A

Explanation: A) $\$70 + \$20 + \$15 + \$32 = \$137$

Diff: 2

Objective: 5

AACSB: Application of knowledge

46) What are the period costs per unit associated with Product DCT121?

- A) \$4
- B) \$16
- C) \$21
- D) \$52

Answer: C

Explanation: C) $\$5 + 16 = \21

Diff: 2

Objective: 5

AACSB: Application of knowledge

Answer the following questions using the information below:

The East Company manufactures several different products. Unit costs associated with Product ORD210 are as follows:

Direct materials	\$54
Direct manufacturing labor	8
Variable manufacturing overhead	11
Fixed manufacturing overhead	25
Sales commissions (2% of sales)	5
Administrative salaries	<u>12</u>
Total	<u>\$115</u>

47) What are the inventoriable costs per unit associated with Product ORD210?

- A) \$73
- B) \$87
- C) \$98
- D) \$62

Answer: C

Explanation: C) $\$54 + \$8 + \$11 + \$25 = \$98$

Diff: 2

Objective: 5

AACSB: Application of knowledge

48) What are the period costs per unit associated with Product ORD203?

- A) \$5
- B) \$12
- C) \$17
- D) \$18

Answer: C

Explanation: C) $\$5 + 12 = \17

Diff: 2

Objective: 5

AACSB: Application of knowledge

49) Leslie Manufacturing reported the following:

Revenue	\$450,000
Beginning inventory of direct materials, January 1, 2015	20,000
Purchases of direct materials	156,000
Ending inventory of direct materials, December 31, 2015	18,000
Direct manufacturing labor	21,000
Indirect manufacturing costs	42,000
Beginning inventory of finished goods, January 1, 2015	40,000
Cost of goods manufactured	114,000
Ending inventory of finished goods, December 31, 2015	45,000
Operating costs	150,000

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

- A) \$104,000
- B) \$140,000
- C) \$150,000
- D) \$147,000

Answer: C

Explanation: C) \$150,000

Diff: 3

Objective: 5

AACSB: Application of knowledge

50) Insurance companies provide services or intangible products to their customers.

Answer: TRUE

Diff: 1

Objective: 5

AACSB: Application of knowledge

51) Department stores, such as Target, are examples of a merchandising company.

Answer: TRUE

Explanation: Google would be an example of a service-sector company.

Diff: 1

Objective: 5

AACSB: Application of knowledge

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

Answer: TRUE

Diff: 1

Objective: 5

AACSB: Application of knowledge

53) Merchandising companies hold only one type of inventory: direct material.

Answer: FALSE

Explanation: Merchandising companies normally hold only one type of inventory: merchandise inventory.

Diff: 1

Objective: 5

AACSB: Analytical thinking

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

Answer: TRUE

Diff: 1

Objective: 5

AACSB: Analytical thinking

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

Answer: TRUE

Diff: 1

Objective: 5

AACSB: Analytical thinking

56) 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.

Answer: FALSE

Explanation: Direct material costs can be traced to the cost object.

Diff: 2

Objective: 5

AACSB: Analytical thinking

57) Acquisition costs of direct materials include freight-in charges, sales taxes, and custom duties.

Answer: TRUE

Diff: 2

Objective: 5

AACSB: Analytical thinking

58) Indirect manufacturing costs include the compensation of all manufacturing labor that can be traced to the cost object in an economically feasible way.

Answer: FALSE

Explanation: Direct manufacturing labor costs include the compensation of all manufacturing labor that can be traced to the cost object.

Diff: 2

Objective: 5

AACSB: Analytical thinking

59) Direct manufacturing labor includes plant rent and salaries paid to plant supervisors.

Answer: FALSE

Diff: 2

Objective: 5

AACSB: Application of knowledge

60) Inventoriable costs are reported as a liability in balance sheet when incurred and expensed on the income statement when the product is sold.

Answer: FALSE

Explanation: Inventoriable costs are reported as an asset when incurred and expensed on the income statement when the product is sold.

Diff: 2

Objective: 5

AACSB: Application of knowledge

61) All manufacturing costs are period costs.

Answer: FALSE

Diff: 2

Objective: 5

AACSB: Analytical thinking

62) All costs reported on the income statement of a service-sector company are inventoriable costs.

Answer: FALSE

Diff: 1

Objective: 5

AACSB: Analytical thinking

63) Period costs are included in the cost of goods sold.

Answer: FALSE

Diff: 2

Objective: 5

AACSB: Analytical thinking

64) Indirect manufacturing costs are also referred to as manufacturing overhead costs or factory overhead costs.

Answer: TRUE

Diff: 1

Objective: 5

AACSB: Analytical thinking

65) Whippany manufacturing wants to estimate costs for each product they produce at its Troy plant. The Troy plant produces three products at this plant, and runs two flexible assembly lines. Each assembly line can produce all three products.

Required:

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

	<u>Direct</u>	<u>Indirect</u>	<u>Fixed</u>	<u>Variable</u>
Assembly line labor wages	_____	_____	_____	_____
Plant manager's wages	_____	_____	_____	_____
Depreciation on the assembly line equipment	_____	_____	_____	_____
Component parts for the product	_____	_____	_____	_____
Wages of security personnel for the factory	_____	_____	_____	_____

Answer:

	<u>Direct</u>	<u>Indirect</u>	<u>Fixed</u>	<u>Variable</u>
Assembly line labor 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

Diff: 2

Objective: 2, 4, 5

AACSB: Application of knowledge

66) What are the three types of manufacturing cost?

Answer: Direct materials costs are the acquisition costs of all materials that eventually become part of the cost object (work in process and then finished goods) and can be traced to the cost object in an economically feasible way. Examples of direct materials costs include steel used to manufacture cars, wood used in furniture, and semiconductor chips used in laptops.

Direct manufacturing labor costs include the compensation of all manufacturing labor that can be traced to the cost object (work in process and then finished goods) in an economically feasible way. Examples of direct manufacturing labor include wages paid to assembly-line workers.

Indirect manufacturing costs are all manufacturing costs that are related to the cost object (work in process and then finished goods) but cannot be traced to that cost object in an economically feasible way. Examples of indirect manufacturing costs include plant insurance paid, plant rent, property taxes on plant.

Diff: 3

Objective: 5

AACSB: Analytical thinking

67) 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. Note that the cost of goods sold includes all manufacturing costs (direct materials, direct manufacturing labor, and manufacturing overhead costs) that are inventoriable costs incurred to produce them. Period costs are all costs in the income statement other than cost of goods sold. 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 recognized. In extreme cases, net income for a given period might be significantly misstated.

Diff: 2

Objective: 5

AACSB: Analytical thinking

Objective 2.6

1) Which of the following formulas determine cost of goods sold in a merchandising entity?

- A) Beginning inventory + Purchases + Ending inventory = 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 - Ending inventory - Purchases = Cost of goods sold

Answer: B

Diff: 1

Objective: 6

AACSB: Analytical thinking

2) Which of the following formulas determine cost of goods sold in a manufacturing entity?

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

Answer: D

Diff: 1

Objective: 6

AACSB: Analytical thinking

3) A company reported revenues of \$375,000, cost of goods sold of \$118,000, selling expenses of \$11,000, and total operating costs of \$70,000. Gross margin for the year is _____.

- A) \$257,000
- B) \$246,000
- C) \$176,000
- D) \$252,000

Answer: A

Explanation: A) $\$375,000 - \$118,000 = \$257,000$

Diff: 2

Objective: 6

AACSB: Application of knowledge

Answer the following questions using the information below:

Leslie Manufacturing reported the following:

Revenue	\$450,000
Beginning inventory of direct materials, January 1, 2015	20,000
Purchases of direct materials	156,000
Ending inventory of direct materials, December 31, 2015	18,000
Direct manufacturing labor	21,000
Indirect manufacturing costs	42,000
Beginning inventory of finished goods, January 1, 2015	40,000
Cost of goods manufactured	114,000
Ending inventory of finished goods, December 31, 2015	45,000
Operating costs	150,000

4) What is Leslie's cost of goods sold?

- A) \$103,000
- B) \$109,000
- C) \$112,000
- D) \$118,000

Answer: B

Explanation: B) $\$40,000 + \$114,000 - \$45,000 = \$109,000$

Diff: 3

Objective: 6

AACSB: Application of knowledge

5) What is Leslie's gross margin (or gross profit)?

- A) \$103,000
- B) \$152,000
- C) \$341,000
- D) \$317,000

Answer: C

Explanation: C) $\$450,000 - (\$40,000 + \$114,000 - \$45,000) = \$341,000$

Diff: 3

Objective: 6

AACSB: Application of knowledge

6) Inventoriable costs and period costs flow through the income statement at a merchandising company similar to the way costs flow at a manufacturing company.

Answer: TRUE

Explanation: Depreciation on a factory is classified as a product cost.

Diff: 2

Objective: 6

AACSB: Analytical thinking

7) Cost of goods sold refers to the products brought to completion, whether they were started before or during the current accounting period.

Answer: FALSE

Explanation: Cost of goods *manufactured* refers to the products brought to completion, whether they were started before or during the current accounting period.

Diff: 2

Objective: 6

AACSB: Application of knowledge

8) Springfield Manufacturing produces electronic storage devices, and uses the following three-part classification for its manufacturing costs: direct materials, direct manufacturing labor, 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 labor costs of each line. Summary data (in millions) for January for the most popular electronic storage device, the Big Bertha, was:

	Big Bertha
Direct manufacturing costs	\$4,500,000
Direct manufacturing labor costs	\$1,500,000
Indirect manufacturing costs	\$4,250,000
Units produced	40,000

Required:

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

- Unit costs for January were:
$$(\$4,500,000 + \$1,500,000 + \$4,250,000) / 40,000 = \$256.25 \text{ per unit}$$
- 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.

Diff: 2

Objective: 6

AACSB: Application of knowledge

9) Helmer Sporting Goods Company manufactured 100,000 units in 2015 and reported the following costs:

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 labor	275,200	Fire insurance-equipment	16,000
Direct manufacturing labor	2,176,000	Direct material purchases	3,136,000
Direct materials, 1/1/15	384,000	Direct materials, 12/31/15	275,200
Finished goods, 1/1/15	672,000	Sales revenue	12,800,000
Finished goods, 12/31/15	1,280,000	Sales commissions	640,000
Work-in-process, 1/1/15	96,000	Sales salaries	576,000
Work-in-process, 12/31/15	64,000	Advertising costs	480,000
		Administration costs	800,000

Required:

- What is the amount of direct materials used during 2015?
- What manufacturing costs were added to WIP during 2015?
- What is cost of goods manufactured for 2015?
- What is cost of goods sold for 2015?

Answer:

- $\$384,000 + \$3,136,000 - \$275,200 = \$3,244,800$
- $\$3,244,800 + \$2,176,000 + \$32,000 + \$320,000 + \$22,400 + \$275,200 + \$384,000 + \$224,000 + \$32,000 + \$16,000 = \$6,726,400$
- $\$6,726,400 + \$96,000 - \$64,000 = \$6,758,400$
- $\$6,758,400 + \$672,000 - \$1,280,000 = \$6,150,400$

Diff: 3

Objective: 6

AACSB: Application of knowledge

10) Messinger Manufacturing Company had the following account balances for the quarter ending March 31, unless otherwise noted:

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 labor	480,000
Indirect manufacturing labor	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. **Messinger Manufacturing Company**
Cost of Goods Manufactured Schedule
For quarter ending March 31

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

b. **Messinger Manufacturing Company**
Cost of Goods Sold Schedule
For the quarter ending March 31

Beginning finished goods inventory	\$ 540,000
Cost of goods manufactured	<u>1,617,600</u>
Cost of goods available for sale	2,157,600
Ending finished goods inventory	<u>(510,000)</u>
Cost of goods sold	<u>\$1,647,600</u>

Diff: 3

Objective: 6

AACSB: Application of knowledge

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

a. Merchandise Inventory	Purchases	\$210,000
	Cost of goods sold	223,000
	Beginning balance	41,000
	Ending balance	?
b. Direct Materials	Beginning balance	\$ 7,000
	Ending balance	14,000
	Purchases	48,000
	Direct materials used	?
c. Work-in-process Inventory	Ending balance	\$ 22,000
	Cost of goods manufactured	21,000
	Beginning balance	8,000
	Current manufacturing costs	?
d. Finished Goods Inventory	Cost of goods manufactured	\$62,000
	Ending balance	20,000
	Cost of goods sold	61,000
	Beginning balance	?

Answer:

a. Ending balance of merchandise inventory:
 $\$41,000 + \$210,000 - \$223,000 = 28,000$

b. Direct materials used:
 $\$7,000 + \$48,000 - \$14,000 = \$41,000$

c. Current manufacturing costs:
 $\$21,000 + \$22,000 - \$8,000 = \$35,000$

d. Beginning balance of finished goods inventory:
 $\$20,000 + \$61,000 - \$62,000 = \$19,000$

Diff: 3

Objective: 6

AACSB: Analytical thinking

12) 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.

		inventoriable (I) costs or period (P) costs
a.	Salary of Bedell Electronics president	
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 president	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	I
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

Diff: 3

Objective: 6

AACSB: Analytical thinking

13) For last year, Wampum 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 income for that year was _____.

- A) \$319,000
- B) \$312,000
- C) \$249,000
- D) \$242,000

Answer: D

Explanation: D) $\$420,000 - \$108,000 - \$70,000 = \$242,000$

Diff: 2

Objective: 6

AACSB: Application of knowledge

14) Prime costs include _____.

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

Answer: A

Diff: 1

Objective: 6

AACSB: Analytical thinking

15) Leslie Manufacturing reported the following:

Revenue	\$450,000
Beginning inventory of direct materials, January 1, 2015	20,000
Purchases of direct materials	156,000
Ending inventory of direct materials, December 31, 2015	18,000
Direct manufacturing labor	21,000
Indirect manufacturing costs	42,000
Beginning inventory of finished goods, January 1, 2015	40,000
Cost of goods manufactured	114,000
Ending inventory of finished goods, December 31, 2015	45,000
Operating costs	150,000

What is Leslie's operating income?

- A) \$186,000
- B) \$128,000
- C) \$177,000
- D) \$191,000

Answer: D

Explanation: D) $\$450,000 - (\$40,000 + \$114,000 - \$45,000) - \$150,000 = \$191,000$

Diff: 3

Objective: 6

AACSB: Application of knowledge

16) Conversion costs include _____.

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

Answer: B

Diff: 1

Objective: 6

AACSB: Analytical thinking

17) Total manufacturing costs equal _____.

- A) direct materials plus prime costs
- B) direct materials plus conversion costs
- C) direct manufacturing labor costs plus sunk costs
- D) direct manufacturing labor costs plus conversion costs

Answer: B

Diff: 1

Objective: 6

AACSB: Analytical thinking

18) The following information pertains to the Emerald Corp:

Beginning work-in-process inventory	\$ 75,000
Ending work-in-process inventory	85,000
Beginning finished goods inventory	175,000
Ending finished goods inventory	200,000
Cost of goods manufactured	1,200,000

What is cost of goods sold?

- A) \$1,210,000
- B) \$1,175,000
- C) \$1,185,000
- D) \$1,225,000

Answer: B

Explanation: B) Cost of goods sold = \$175,000 + \$1,200,000 – \$200,000 = \$1,175,000

Diff: 2

Objective: 6

AACSB: Application of knowledge

19) The following information pertains to Max Corporation:

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
Sales	300,000

What is the gross profit margin earned by the company?

- A) \$52,000
- B) \$50,000
- C) \$48,500
- D) \$53,500

Answer: A

Explanation: A) $\$36,000 + \$246,000 - \$34,000 = \$248,000$

Sales = \$300,000

Profit = $\$300,000 - 248,000 = \$52,00$

Diff: 2

Objective: 6

AACSB: Application of knowledge

Answer the following questions using the information below:

Beginning finished goods, 1/1/2015	\$ 92,000
Ending finished goods, 12/31/2015	75,000
Cost of goods sold	300,000
Sales revenue	450,000
Operating expenses	95,000

20) What is the cost of goods manufactured for 2015?

- A) \$285,000
- B) \$277,000
- C) \$283,000
- D) \$350,000

Answer: C

Explanation: C) $\$300,000 + \$75,000 - \$92,000 = \$283,000$

Diff: 2

Objective: 6

AACSB: Application of knowledge

21) What is the gross margin for 2015?

- A) \$163,000
- B) \$177,000
- C) \$170,000
- D) \$167,000

Answer: D

Explanation: D) $\$450,000 - \$283,000 = \$167,000$

Diff: 2

Objective: 6

AACSB: Application of knowledge

22) What is the operating income for 2015?

- A) \$75,000
- B) \$55,000
- C) \$62,000
- D) \$68,000

Answer: B

Explanation: B) $\$450,000 - \$300,000 - \$95,000 = \$55,000$

Diff: 3

Objective: 6

AACSB: Application of knowledge

Answer the following questions using the information below:

Beginning finished goods, 1/1/2015	\$ 46,000
Ending finished goods, 12/31/2015	38,000
Cost of goods sold	250,000
Sales revenue	488,000
Operating expenses	112,000

23) What is the cost of goods manufactured for 2015?

- A) \$242,000
- B) \$252,000
- C) \$245,000
- D) \$250,000

Answer: A

Explanation: A) $\$250,000 + \$38,000 - \$46,000 = \$242,000$

Diff: 2

Objective: 6

AACSB: Application of knowledge

24) What is gross margin for 2015?

- A) \$243,000
- B) \$238,000
- C) \$318,000
- D) \$228,000

Answer: B

Explanation: B) $\$488,000 - \$250,000 = \$238,000$

Diff: 3

Objective: 6

AACSB: Application of knowledge

25) What is operating income for 2015?

- A) \$116,000
- B) \$137,000
- C) \$126,000
- D) \$144,000

Answer: C

Explanation: C) $\$488,000 - \$250,000 - \$112,000 = \$126,000$

Diff: 3

Objective: 6

AACSB: Application of knowledge

26) A company reported revenues of \$375,000, cost of goods sold of \$118,000, selling expenses of \$11,000, and total operating costs of \$70,000. Gross margin for the year is _____.

- A) \$257,000
- B) \$246,000
- C) \$176,000
- D) \$252,000

Answer: A

Explanation: A) $\$375,000 - \$118,000 = \$257,000$

Diff: 2

Objective: 6

AACSB: Application of knowledge

27) Operating income is sales revenue minus operating expenses.

Answer: FALSE

Explanation: Operating income = sales revenue - cost of goods sold - operating expenses

Diff: 1

Objective: 6

AACSB: Analytical thinking

28) Conversion costs include all direct manufacturing costs.

Answer: FALSE

Explanation: Prime costs include all direct manufacturing costs.

Diff: 1

Objective: 6

AACSB: Analytical thinking

29) Designing, marketing, customer services, research and development expenses are operating costs.

Answer: TRUE

Diff: 2

Objective: 6

AACSB: Application of knowledge

30) Because costs that are inventoried are not expensed until the units associated with them are sold, a manager can produce more units than are expected to be sold in a period without reducing a firm's net income.

Answer: TRUE

Diff: 3

Objective: 6

AACSB: Analytical thinking

31) Indirect costs such as rent, telephone, and depreciation are always costs of the period in which they are incurred and are not associated with inventories.

Answer: FALSE

Explanation: When indirect costs are incurred in marketing or in corporate headquarters, they are period costs. However, when these costs are incurred in manufacturing, they are manufacturing overhead costs and are inventoriable.

Diff: 3

Objective: 6

AACSB: Analytical thinking

Objective 2.7

1) Which of the following is a manufacturing overhead cost?

- A) cost of conversion of direct materials to finished goods
- B) labor cost that can be traced to individual products
- C) cost of materials that can be traced to individual products
- D) overtime premiums paid to plant workers

Answer: D

Diff: 1

Objective: 6

AACSB: Application of knowledge

2) Flyers Inc., had the following activities during 2015:

Direct materials:	
Beginning inventory	\$ 22,000
Purchases	61,600
Ending inventory	10,800
Direct manufacturing labor	18,000
Manufacturing overhead	11,500
Beginning work-in-process inventory	1,000
Ending work-in-process inventory	3,500
Beginning finished goods inventory	25,000
Ending finished goods inventory	19,000

Required:

- a. What is the cost of direct materials used during 2015?
- b. What is cost of goods manufactured for 2015?
- c. What is cost of goods sold for 2015?
- d. What amount of prime costs was added to production during 2015?
- e. What amount of conversion costs was added to production during 2015?

Answer:

- a. Cost of direct materials = $\$22,000 + \$61,600 - \$10,800 = \$72,800$
- b. Cost of goods manufactured = $\$72,800 + \$18,000 + \$11,500 + \$1,000 - \$3,500 = \$99,800$
- c. Cost of goods sold = $\$99,800 + \$25,000 - \$19,000 = \$105,800$
- d. Amount of prime costs added to production = $\$72,800 + \$18,000 = \$90,800$
- e. Amount of conversion costs was added to production = $\$18,000 + \$11,500 = \$29,500$

Diff: 2

Objective: 7

AACSB: Application of knowledge

3) Product cost for reimbursement under government contracts includes _____.

- A) marketing costs
- B) design costs
- C) production costs
- D) research and development costs

Answer: D

Diff: 1

Objective: 7

AACSB: Application of knowledge

4) On the assembly floor, Crystal is paid \$20 an hour for straight-time assuming 8 working hours a day and five working days in a week. She is paid \$30 an hour for overtime. One week she worked 52 hours.

Required:

- a. What is Crystal's total compensation for the week?
- b. What amount of compensation would be reported as direct manufacturing labor?
- c. What amount of compensation would be reported as manufacturing overhead?

Answer:

- a. Total compensation = Direct labor (40 hours × \$20) + Overtime premium (12 hrs × \$30) = \$1,160
- b. Direct manufacturing labor (52 hours × \$20) = \$1,040
- c. Manufacturing overhead costs = Overtime premium (12 hrs × \$10) = \$120

Diff: 3

Objective: 7

AACSB: Application of knowledge

5) In the manufacturing plant, Alex is paid \$40 an hour for straight-time and \$60 an hour for overtime. One week she worked 54 hours, which included 8 hours of overtime, and 6 hours of idle time caused by material shortages.

Required:

- a. What is Alex's total compensation for the week?
- b. What amount of compensation would be reported as direct manufacturing labor?
- c. What amount of compensation would be reported as manufacturing overhead?

Answer:

- a. Total compensation (48 hours × \$40) + Idle time (6 hrs × \$40) + Overtime premium (8 hrs × \$20) = \$2,320
- b. Direct manufacturing labor (48 hours × \$40) = \$1,920
- c. Manufacturing overhead costs = Idle time (6 hrs × \$40) + Overtime premium (8 hrs × \$20) = \$400

Diff: 3

Objective: 7

AACSB: Application of knowledge

6) Bosely 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:

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.

Diff: 3

Objective: 7

AACSB: Analytical thinking

7) Which of the following is included in product cost for pricing and product-mix decisions?

- A) design costs
- B) sunk costs
- C) opportunity costs
- D) cost of capital

Answer: A

Diff: 2

Objective: 7

AACSB: Application of knowledge

8) Under GAAP, only _____ can be assigned to inventories in the financial statements.

- A) manufacturing costs
- B) period costs
- C) cost of goods sold
- D) historical costs

Answer: A

Diff: 2

Objective: 7

AACSB: Application of knowledge

9) Product costs for financial statements may refer to _____.

- A) inventoriable costs for external reporting purposes
- B) exchange cost incurred during transportation
- C) only the costs incurred along the supply chain
- D) opportunity costs incurred for the decisions forgone

Answer: A

Diff: 2

Objective: 7

AACSB: Analytical thinking

10) Under GAAP, for the purposes of calculating inventory costs, product costs include _____.

- A) all costs incurred along the value chain
- B) design costs
- C) only inventoriable costs
- D) only research and development costs

Answer: C

Diff: 2

Objective: 7

AACSB: Analytical thinking

11) Product costs used for government contracts generally include _____.

- A) marketing costs, and customer service costs
- B) design costs and production costs
- C) all the costs for pricing and product-mix decisions
- D) production costs, distribution costs, marketing costs, and customer service costs

Answer: B

Diff: 1

Objective: 7

AACSB: Analytical thinking

12) Product costs used for external reporting generally include _____.

- A) manufacturing costs only
- B) design costs plus manufacturing costs
- C) all costs incurred along the value chain
- D) research and development costs along with production costs

Answer: A

Diff: 1

Objective: 7

AACSB: Analytical thinking

13) Which of the following is common for reporting product cost under financial reporting and product cost

for reimbursement under government contracts?

- A) marketing cost
- B) distribution costs
- C) customer service
- D) research and development costs

Answer: D

Diff: 1

Objective: 7

AACSB: Analytical thinking

14) For external reporting _____.

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

Answer: A

Diff: 1

Objective: 7

AACSB: Analytical thinking

15) Which of the following statements is true?

- A) Product costs and design costs are interchangeable terms.
- B) Inventoriable costs are assigned to inventories under GAAP.
- C) Manufacturing costs are a special case of period costs.
- D) Intangible costs refer to a particular cost of a product.

Answer: B

Diff: 1

Objective: 7

AACSB: Analytical thinking

16) Debated items that some companies include as direct manufacturing labor include _____.

- A) fringe benefits
- B) overtime
- C) idle time
- D) plant supervisor's salary

Answer: A

Diff: 1

Objective: 7

AACSB: Analytical thinking

17) Mario Garcia is paid \$20 an hour for straight-time and \$30 an hour for overtime. One week she worked 42 hours, which included 2 hours of overtime. What is the overhead incurred to the company?

- A) \$60
- B) \$10
- C) \$30
- D) \$20

Answer: D

Explanation: D) Overtime premium ($2 \text{ hrs} \times \$10$) = \$20

Diff: 2

Objective: 7

AACSB: Analytical thinking

18) Dave Rigby is paid \$30 an hour for straight-time and \$40 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.

What is the direct labor cost incurred to the company?

- A) \$1,260
- B) \$1,400
- C) \$1,310
- D) \$1,210

Answer: A

Explanation: A) Direct labor ($45 - 3 = 42 \text{ hours} \times \30) = \$1,260

Diff: 3

Objective: 7

AACSB: Analytical thinking

19) Tony worked 48 hours last week for Bread Works Manufacturing. Of the 48 hours 5 hours were considered overtime, and also Tony was idle for 4 of the 48 hours due to an equipment malfunction. Tony makes \$50 per hour and is paid \$75 an hour (time and a half) for overtime. Tony's total compensation for that week would be _____, and assuming Bread Works charges overtime premium and idle time to indirect labor, the amount of this compensation credited to indirect labor would be _____.

- A) \$2,950; \$325
- B) \$2,900; \$280
- C) \$2,750; \$300
- D) \$2,500; \$350

Answer: A

Explanation: A) total compensation ($44 \times \$50$) + ($5 \times \75) = \$2,950;

indirect labor ($4 \times \$50$) + ($5 \times \25) = \$325

Diff: 3

Objective: 7

AACSB: Analytical thinking

20) Idle time wages consists of the wages paid to all workers (for both direct labor and indirect labor) in excess of their straight-time wage rates.

Answer: FALSE

Diff: 1

Objective: 7

AACSB: Analytical thinking

21) Rework labor time is considered an overhead cost and not a direct labor cost.

Answer: TRUE

Diff: 1

Objective: 7

AACSB: Analytical thinking

22) For external reporting purposes, indirect manufacturing costs must be allocated to individual units.

Answer: TRUE

Diff: 1

Objective: 7

AACSB: Analytical thinking

23) Overtime premium is normally considered as a component of direct labor.

Answer: FALSE

Explanation: Overtime premium is normally considered as part of indirect labor since it is usually not associated with a particular job.

Diff: 1

Objective: 7

AACSB: Analytical thinking

24) If a worker is paid for 40 hours, but is idle for 5 of those 40 hours, the 5 hour of idle time would be considered a component of direct labor.

Answer: FALSE

Explanation: Idle time is normally considered a component of indirect labor since it is usually not associated with a particular job.

Diff: 1

Objective: 7

AACSB: Analytical thinking

25) When should an overtime premium of direct manufacturing labor be considered an indirect manufacturing cost? A direct manufacturing cost?

Answer: The overtime premium of direct manufacturing labor 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.

Diff: 1

Objective: 7

AACSB: Analytical thinking

26) In determining product cost, what concerns does a manufacturing firm have when contracting with a government agency?

Answer: Government contracts often reimburse on the basis of "cost of a product" plus a prespecified profit margin. Government agencies provide detailed guidelines on the cost items they allow and disallow when calculating the cost of a product. For example, expenses such as marketing, distribution, and customer service costs may be prohibited.

Diff: 1

Objective: 7

AACSB: Analytical thinking

Objective 2.8

1) Which of the following influences the make or buy decision to the company?

- A) opportunity cost
- B) sunk cost
- C) historical cost
- D) plant depreciation

Answer: A

Diff: 2

Objective: 8

AACSB: Analytical thinking

2) Budgeting often plays a major role in affecting behavior and decisions.

Answer: TRUE

Diff: 1

Objective: 8

AACSB: Analytical thinking

3) Cost accounting and cost management include calculating various costs, obtaining financial and nonfinancial information, and analyzing relevant information for decision making.

Answer: TRUE

Diff: 1

Objective: 8

AACSB: Analytical thinking

4) An efficient management accounting system traces direct costs and allocates indirect costs to products.

Answer: TRUE

Diff: 1

Objective: 8

AACSB: Analytical thinking

5) Management accountants help managers identify what information is relevant and what information is irrelevant that help in decision making.

Answer: TRUE

Diff: 1

Objective: 8

AACSB: Analytical thinking

6) When making strategic decisions about which products and how much to produce, managers must need to distinguish fixed costs from variable costs.

Answer: TRUE

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

Diff: 2

Objective: 8

AACSB: Analytical thinking

7) A company is considering buying a product at \$15 per unit, the in-house manufacturing of the same product is \$17. The fixed cost per unit is \$3 is included in the \$17 in-house product manufacturing cost. What should the company do in this scenario?

Answer: If the company purchases the product from the vendor it will incur a cost of $\$15 + \$3 = \$18$, whereas it manufactures the product in-house for \$17. Thus, the company saves \$1 per unit by manufacturing in-house. Hence, it should manufacture the product in-house.

Diff: 2

Objective: 8

AACSB: Application of knowledge