



Pearson

Chapter 2

Different costs for different purposes

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

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

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

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

2) What do managers use their knowledge of to guide decisions, for example about product innovation, quality and customer service?

- A) Prices
- B) Markets
- C) Competitors
- D) Costs

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

3) Cost accumulation is the collection of cost data in some organised way by means of an:

- A) accounting system.
- B) strategy.
- C) information system.
- D) cost driver.

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.



4) _____ is the collection of cost data in some organised way by means of an accounting system.

- A) Benchmarking
- B) Market research
- C) Cost accumulation
- D) Budgeting

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

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

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

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

6) A(n) _____ cost is the cost incurred.

- A) actual
- B) budgeted
- C) estimated
- D) sunk

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

7) Budgeted costs are:

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

Answer: D

AACSB: Able to analyse and frame problems



Difficulty: Moderate

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

Write 'True' if the statement is correct and 'False' if the statement is incorrect.

8) Products, services, departments, and customers may be cost objects.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

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

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

10) Actual costs and budgeted costs are two different terms referring to the same thing.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

11) Accountants define a resource sacrificed or forgone to achieve a specific objective.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

12) A cost object is always either a product or a service.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.



13) Raw materials that can be traced to a cost object are an example of an indirect cost.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

14) Cost accumulation is the collection of cost data in some organised way by means of an accounting system.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

15) Quality control costs may be a direct cost of the Manufacturing Department, but an indirect cost of an individual job.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

16) Cost objects may be jobs, products, or customers.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

17) An actual cost is the cost incurred (a historical or past cost), as distinguished from a budgeted cost, which is a predicted or forecasted cost (a future cost).

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

18) A cost object is anything for which a measurement of costs is desired.

Answer: True



AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

19) In absorption costing, all nonmanufacturing costs are subtracted from gross margin.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

Write your answer in the space provided or on a separate sheet of paper.

20) 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.

<u>Item</u>	<u>Cost Tracing</u>	<u>Cost Allocation</u>	<u>Non-manu- facturing</u>
Carpenter wages	_____	_____	_____
Depreciation - office building	_____	_____	_____
Glue for assembly	_____	_____	_____
Lathe department supervisor	_____	_____	_____
Lathe depreciation	_____	_____	_____
Lathe maintenance	_____	_____	_____
Lathe operator wages	_____	_____	_____
Timber	_____	_____	_____
Samples for trade shows	_____	_____	_____
Metal brackets for drawers	_____	_____	_____
Factory washroom supplies	_____	_____	_____

Answer: <u>Item</u>	<u>Cost Tracing</u>	<u>Cost Allocation</u>	<u>Non-manu- 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	
Timber	X		
Samples for trade shows			X
Metal brackets for drawers	X		
Factory washroom supplies		X	

AACSB: Able to communicate effectively orally and in writing
 Difficulty: Moderate
 Topic: Costs and cost terminology
 Learning Objective: 2.1 Define and illustrate a cost object.

21) 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.

AACSB: Able to communicate effectively orally and in writing

Difficulty: Complex

Topic: Costs and cost terminology

Learning Objective: 2.1 Define and illustrate a cost object.

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

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



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

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

23) _____ of a cost object are related to the particular cost object but cannot be traced to it in an economically feasible (cost-effective) way.

- A) Direct costs
- B) Accumulated costs
- C) Indirect costs
- D) Projected costs

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

24) Which of the following is the general term used to identify both the tracing and the allocation of accumulated costs to a cost object?

- A) Cost accumulation
- B) Cost tracing
- C) Cost assignment
- D) Conversion costing

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

25) The _____ the amount of a cost—that is, the more immaterial the cost is—the less likely it is to be economically feasible to trace that cost to a particular cost object.

- A) smaller
- B) larger
- C) more precise
- D) less precise



Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

26) A cost system determines the cost of a cost object by:

A) assigning and then accumulating costs.

B) assigning costs.

C) accumulating costs.

D) accumulating and then assigning costs.

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

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

A) the level of budgeted profit for the next year

B) available technology to gather information about the cost

C) the design of the operation

D) the materiality of the cost in question

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

28) Improvements in information-gathering technology make it possible to consider more and more costs as _____ costs.

A) direct

B) indirect

C) estimated

D) fixed

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.



29) What is cost tracing?

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

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

30) What is cost allocation?

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

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

31) Classifying a cost as _____ 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.

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

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

32) What does classifying a cost as either direct or indirect depend upon?

- 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



AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

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

A) salaries of the clerical staff that work in the company administrative offices.

B) utilities paid for the manufacturing plant.

C) beverages provided daily in the plant break room.

D) monthly lease payments for a specialised piece of equipment needed to manufacture the football helmet.

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

34) Generally, managers are more confident about the accuracy of _____ costs of cost objects.

A) variable

B) fixed

C) direct

D) indirect

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

35) Improvements in information-gathering technology make it possible to consider more and more costs as:

A) direct costs.

B) fixed costs.

C) indirect costs.

D) variable costs.

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.



36) Classifying a cost as _____ 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.

- A) direct
- B) indirect
- C) allocated
- D) accumulated

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

37) What term is used to describe the assignment of direct costs to a particular cost object?

- A) Assignment
- B) Allocation
- C) Accumulation
- D) Tracing

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

38) Which statement is TRUE?

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

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

39) Which statement is TRUE?

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



Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

40) Which of the following are all manufacturing costs that are related to the cost object but cannot be traced to that cost object?

A) Direct material costs

B) Indirect manufacturing costs

C) Direct manufacturing labour costs

D) Period costs

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

Write 'True' if the statement is correct and 'False' if the statement is incorrect.

41) 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.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

42) Direct 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.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

43) 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.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic



Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

44) Misallocated indirect costs may lead to promoting products that are not profitable.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

45) The term 'cost allocation' is used to describe the assignment of indirect costs to a particular cost object.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

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

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

47) Inaccurate product costs will mislead managers about the profitability of different products.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

48) Indirect 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.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.



Write your answer in the space provided or on a separate sheet of paper.

49) Waugh Products Company 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 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.

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

50) 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:

	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:
$$(\$10\,000\,000 + \$4\,000\,000 + \$8\,500\,000) / 50\,000 = \$450.00 \text{ per unit}$$
- 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.

Difficulty: Complex

AACSB: Able to translate knowledge of business and management into practice

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

51) 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.

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.

	<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	

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

52) Why is it possible that a raw material such as glue will 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.

AACSB: Able to communicate effectively orally and in writing

Difficulty: Complex

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

53) 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.

AACSB: Able to communicate effectively orally and in writing

Difficulty: Complex

Topic: Direct costs and indirect costs

Learning Objective: 2.2 Distinguish between direct costs and indirect costs.

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

54) A 'mixed cost' is:

A) a variable cost.

B) always an indirect cost.

C) a fixed cost.

D) a cost with fixed and variable elements.

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

55) Which of the following is a 'mixed cost'?

A) Direct materials

B) Manager's salary

C) Monthly rent payment

D) Monthly telephone bill

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

56) Some costs have both fixed and variable elements and are called mixed or _____ costs.

A) allocated

B) estimated

C) accumulated

D) semi-variable



Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

57) What is a variable, such as the level of activity or volume, called that causally affects costs over a given time span?

A) Cost accumulator

B) Cost allocation

C) Cost driver

D) Cost manager

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

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

A) depend on the scheduling of floor workers.

B) are considered a variable cost.

C) are considered a fixed cost.

D) depend on the scheduling of production runs.

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

59) Variable costs:

A) include most personnel costs and depreciation on machinery.

B) are always indirect costs.

C) increase in total when the actual level of activity increases.

D) can always be traced directly to the cost object.

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.



60) Fixed costs:

- 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

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

61) The cost driver of a variable cost is the level of activity or volume for which change causes proportionate changes in the _____ cost.

- A) variable
- B) fixed
- C) mixed
- D) allocated

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

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

- A) CEO's salary
- B) Property taxes
- C) Rent
- D) Sales commissions

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

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

- A) Windows for each car produced
- B) Administrative salaries
- C) Sales commissions
- D) Electricity used by assembly-line machines

Answer: B



AACSB: Able to translate knowledge of business and management into practice

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

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

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

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

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

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

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

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

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

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.



67) Costs that are fixed in the short run have no cost driver in the short run but may have a cost driver in the _____ run.

- A) short
- B) long
- C) indefinite
- D) cost driver

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

68) What term is used to refer to a band of normal activity or volume in which specific cost-volume relationships are maintained?

- A) Relevant range
- B) Cost-allocation range
- C) Cost driver range
- D) Average range

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

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

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

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

70) What are costing systems that identify the cost of each activity, such as testing, design, or set-up called?

- A) Activity-based costing systems
- B) Periodic systems
- C) Product systems



D) Hybrid systems

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

71) _____ is the band of normal activity level or volume in which there is a specific relationship between the level of activity or volume and the cost in question.

A) Cost behaviour

B) Relevant range

C) Cost allocation

D) Performance evaluation

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

Write 'True' if the statement is correct and 'False' if the statement is incorrect.

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

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

73) Costing systems record the cost of resources acquired, such as materials, labour and equipment, and track how those resources are used to produce and sell products or services.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

74) A decision maker cannot adjust capacity over the short run.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Cost behaviour patterns: variable costs and fixed costs



Learning Objective: 2.3 Explain variable costs and fixed costs.

75) Fixed costs vary with the level of production or sales volume.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

76) Costs are defined as variable or fixed with respect to a specific activity and for a given time period.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

77) A variable cost changes per unit in proportion to changes in the related level of total activity or volume.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

78) Surveys of practice repeatedly show that identifying a cost as variable or fixed provides valuable information for making management decisions and is an important input when evaluating performance.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

79) Unlike variable costs, fixed costs of resources (such as for line supervision) cannot be quickly and easily changed to match the resources needed or used.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.



Write your answer in the space provided or on a separate sheet of paper.

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

	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

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Moderate

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.



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

Sales	\$25 000
Variable costs	6000
Fixed costs	<u>8000</u>
Operating profit	<u>\$11 000</u>

Required:

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

Answer:

$$(\$25\,000 \times 2) - (\$6000 \times 2) - \$8000 = \$30\,000$$

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

82) 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.

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 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:

	<u>Direct</u>	<u>Indirect</u>	<u>Fixed</u>	<u>Variable</u>
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

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

83) 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.

AACSB: Able to communicate effectively orally and in writing

Difficulty: Complex

Topic: Cost behaviour patterns: variable costs and fixed costs

Learning Objective: 2.3 Explain variable costs and fixed costs.

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

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

A) variable costs.

B) total costs.

C) unit costs.

D) fixed costs.

Answer: B



AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

85) How is a unit cost computed?

A) Dividing total cost by the number of units

B) Adding variable cost to fixed cost

C) Multiplying total cost by the number of units

D) Dividing variable cost by the number of units

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

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

A) total \$450 000.

B) decrease to \$5 per unit.

C) remain at \$15 per unit.

D) increase to \$45 per unit.

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

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

A) variable unit costs will increase to \$12 per unit.

B) variable unit costs will decrease to \$3 per unit.

C) variable costs will total \$120 000.

D) variable costs will total \$60 000.

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.



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

Sales	\$20 000
Variable costs	6000
Fixed costs	<u>5000</u>
Operating profit	<u>\$9000</u>

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

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

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

89) Chapple Manufacturing provided the following information for last month:

Sales	\$12 000
Variable costs	4000
Fixed costs	<u>1000</u>
Operating profit	<u>\$7000</u>

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

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

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

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

Direct materials	\$20
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Direct manufacturing labour	3
Variable manufacturing overhead	6
Fixed manufacturing overhead	<u>10</u>
Total manufacturing costs	<u>\$39</u>

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) \$78 000
- B) \$62 000
- C) \$68 000
- D) \$39 000

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

91) Xi'an Manufacturing produces a unique terracotta 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?

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

Answer: A

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

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

Direct materials	\$50
Direct manufacturing labour	5
Variable manufacturing overhead	14
Fixed manufacturing overhead	<u>10</u>
Total manufacturing costs	<u>\$79</u>



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) \$158 per unit
- C) \$74 per unit
- D) \$79 per unit

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

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	<u>40</u>
Total manufacturing costs	<u>\$85</u>

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

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

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

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

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



Answer: A

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

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

95) What is the average manufacturing cost per unit?

A) \$40.00

B) \$42.55

C) \$75.00

D) \$0.025

Answer: A

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

96) What is the cost of ending finished goods inventory?

A) \$105 000

B) \$120 000

C) \$225 000

D) \$1 880 000

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

97) By summing unit costs throughout the _____, managers calculate the unit cost of the different products or services they deliver and determine the profitability of each product or service.

A) organisation



- B) business environment
- C) value chain
- D) organisation structure

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

Write 'True' if the statement is correct and 'False' if the statement is incorrect.

98) Generally, the decision maker should think in terms of total costs rather than unit costs.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

99) Generally, the decision maker should think in terms of unit costs rather than total costs.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

100) 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.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

101) Accounting systems typically report both total cost amounts and average-cost-per-unit amounts.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

102) Unit costs are found in all areas of the value chain.



Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

Write your answer in the space provided or on a separate sheet of paper.

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

Direct materials	\$2000
Direct manufacturing labour	300
Variable manufacturing overhead	600
Fixed manufacturing overhead	<u>400</u>
Total manufacturing costs	<u>\$3300</u>

The plant has capacity for 2000 bogies.

Required:

- What is the total cost of producing 1000 bogies?
- What is the total cost of producing 1500 bogies?
- What is the per unit cost when producing 1500 bogies?

Answer:

a. $[(\$2000 + \$300 + \$600) \times 1000 \text{ units}] + (\$400 \times 1000 \text{ units}) = \$3\,300\,000$

b. $[(\$2000 + \$300 + \$600) \times 1500 \text{ units}] + \$400\,000 = \$4\,750\,000$

c. $\$4\,750\,000 / 1500 = \3166.67 per unit

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Total costs and unit costs

Learning Objective: 2.4 Interpret unit costs with caution.

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

104) Retail sector companies purchase _____ products and then sell them without changing their basic form.

- tangible
- intangible
- packaged
- popular



Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

A) Service

B) Manufacturing

C) Professional

D) Retail

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

106) _____ sector companies provide intangible products.

A) Professional

B) Service

C) Retail

D) Manufacturing

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

107) _____ 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.

A) Direct materials

B) Indirect materials

C) Fixed

D) Variable

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs



Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

108) Direct manufacturing _____ costs include the compensation of all manufacturing labour that can be traced to the cost object (work in process and then finished goods) in an economically feasible way.

- A) material
- B) labour
- C) overhead
- D) projected

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

109) _____ 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.

- A) Fixed
- B) Unit
- C) Indirect
- D) Direct

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

110) _____ costs are all costs of a product that are considered as assets in the balance sheet when they are incurred and that become cost of goods sold only when the product is sold.

- A) Direct
- B) Indirect
- C) Variable
- D) Inventoriable

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

111) Work-in-process inventory would normally include:

- A) direct materials in stock and awaiting use in the manufacturing process.



- B) products in their original form intended to be sold without changing their basic form.
- C) goods fully completed by the firm but not yet sold.
- D) goods partially worked on but not yet fully completed.

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

112) Finished goods inventory would normally include:

- A) direct materials in stock and awaiting use in the manufacturing process.
- B) goods fully completed but not yet sold.
- 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

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

113) A retailer's inventory would normally include:

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

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

114) Service sector companies report:

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

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs



Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

115) Which of the following do manufacturing companies report?

- A) Only finished goods inventory
- B) No inventory accounts
- C) Direct materials inventory, work-in-process inventory, finished goods inventory
- D) Only direct materials inventory

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

117) Period costs are all costs in the income statement other than:

- A) prime costs.
- B) indirect costs.
- C) fixed costs.
- D) cost of goods sold.

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

118) _____ include the compensation of all manufacturing labour that can be traced to the cost object.

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



Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

119) For manufacturing sector companies, period costs in the income statement are all:

A) prime costs.

B) non-manufacturing costs.

C) fixed costs.

D) indirect costs.

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

A) period and inventoriable costs but at different times; the reporting varies.

B) inventoriable costs only.

C) both period and inventoriable costs.

D) period costs only.

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

121) Manufacturing costs include all of the following EXCEPT:

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

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

122) Inventoriable costs:



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

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

123) Inventoriable costs are expensed on the income statement:

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

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

125) For retail sector companies, inventoriable costs include:

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

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Moderate



Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

126) For manufacturing firms, inventoriable costs include:

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

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

- A) assembly-line equipment.
- B) labour used for assembly and packaging.



C) the keyboard.

D) distribution.

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

130) Period costs:

A) include only fixed costs.

B) should be treated as an indirect cost rather than as a direct manufacturing cost.

C) seldom influence financial success or failure.

D) include the cost of selling, delivering, and after-sales support for customers.

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

131) Period costs:

A) are treated as expenses in the period they are incurred.

B) are directly traceable to products.

C) are also referred to as manufacturing overhead costs.

D) include direct labour.

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

132) Which of the following is NOT a period cost?

A) General and administrative costs

B) Marketing costs

C) Research and development costs

D) Manufacturing costs

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

- A) period costs.
- B) inventoriable costs.
- C) indirect costs.
- D) direct costs.

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

134) For last year, Lewisburn Manufacturing reported the following:

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) \$246 000
- B) \$140 000
- C) \$104 000
- D) \$390 000

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

135) Direct materials inventory includes which of the following?

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



D) Goods fully completed by the firm but not yet sold

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

136) Retail sector firms normally report:

A) no inventory accounts.

B) only (merchandise) inventory.

C) direct materials inventory.

D) only work-in-process inventory.

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

137) Which of the following costs consists only of all direct manufacturing costs?

A) Conversion

B) Fixed

C) Variable

D) Prime

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

138) 'Prime costs' include:

A) only direct materials.

B) direct materials and manufacturing overhead costs.

C) direct materials and direct manufacturing labour costs.

D) direct manufacturing labour and manufacturing overhead costs.

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.



139) 'Conversion costs' include:

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

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

140) 'Total manufacturing costs' consists of which of the following?

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

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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



Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

A) salaries of the plant cleaning staff.

B) wages paid for unproductive time due to machine breakdowns.

C) labour that can be traced to individual products.

D) overtime premiums paid to plant workers.

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

144) Which of the following formulae determine cost of goods sold in a retail sector company?

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

B) Beginning inventory + Purchases + Ending inventory = Cost of goods sold

C) Beginning inventory + Purchases - Ending inventory = Costs of goods sold

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

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

145) Which of the following formulae determine cost of goods sold in a manufacturing sector company?

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

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate



Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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) \$1 222 000

B) \$1 205 000

C) \$1 218 000

D) \$1 235 000

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

147) Duggan Corporation has provided the following information:

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) \$249 000

B) \$248 000

C) \$243 000

D) \$244 000

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.



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

148) What is the cost of ending finished goods inventory?

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

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

149) What is the amount of gross margin?

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

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

150) What is the average manufacturing cost per unit?

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

Answer: A

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex



Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

Answer the following questions using the information below:

Beginning finished goods, 1/1/2018	\$40 000
Ending finished goods, 12/31/2018	33 000
Cost of goods sold	250 000
Sales revenue	600 000
Operating expenses	120 000

151) What is cost of goods manufactured for 2018?

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

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

152) What is gross margin for 2018?

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

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

153) What is operating profit for 2018?

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

Answer: A

AACSB: Able to translate knowledge of business and management into practice



Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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	<u>16</u>
Total	<u>\$140</u>

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

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

Answer: A

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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



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

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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	<u>\$98</u>

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

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

Answer: D



AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

A) \$15

B) \$6

C) \$27

D) \$9

Answer: A

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

A) \$60

B) \$48

C) \$66

D) \$83

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

A) \$44

B) \$32

C) \$35

D) \$23

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

Answer the following questions using the information below:



Beginning finished goods, 1/1/2018	\$80 000
Ending finished goods, 12/31/2018	67 000
Cost of goods sold	270 000
Sales revenue	500 000
Operating expenses	145 000

162) What is cost of goods manufactured for 2018?

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

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

163) What is gross margin for 2018?

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

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

164) What is operating profit for 2018?

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

Answer: A

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.



165) 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:

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

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

166) 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:

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

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

167) For last year, Deniliquin Manufacturing reported the following:

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) \$317 000
C) \$152 000
D) \$268 000

Answer: A

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

168) For last year, Deniliquin Manufacturing reported the following:

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 gross margin (or gross profit)?

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

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

169) For last year, Lewisburn Manufacturing reported the following:

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 operating profit?

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

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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



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

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

174) Variable costing is a method of inventory costing in which all variable manufacturing costs (direct and indirect) are included as:

- A) period costs.
- B) conversion costs.
- C) prime costs.
- D) inventoriable costs.

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

175) _____ is a method of inventory costing in which only variable manufacturing costs are included as inventoriable costs.

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

Answer: D



AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

Answer the following questions using the information below:

Alice Opals produces and sells a mantel clock for \$100 per unit. In 2018, 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

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

A) \$32

B) \$35

C) \$40

D) \$60

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

A) \$32

B) \$35

C) \$60

D) \$80

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

Answer the following questions using the information below:



Leongatha Motors produces and sells an auto part for \$30.00 per unit. In 2018, 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

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

- A) \$14.25
- B) \$15.00
- C) \$18.00
- D) \$21.75

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

180) What is 'cost of goods sold' per unit using variable costing?

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

Answer: A

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

181) What is 'cost of goods sold' using variable costing?

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

Answer: A

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

182) What is contribution margin using variable costing?

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

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs



Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

183) What is 'operating profit' using variable costing?

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

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

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

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

185) What is gross margin when using absorption costing?



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

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

186) What is operating profit when using absorption costing?

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

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: A



AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

Answer the following questions using the information below:

Wangaratta Corporation incurred fixed manufacturing costs of \$6000 during 2018. Other information for 2018 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.

189) Operating profit using absorption costing will be _____ than operating profit if using variable costing.

A) \$2400 lower

B) \$3600 lower

C) \$900 higher

D) \$2400 higher

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

A) \$3600

B) 0

C) \$6000

D) \$4800

Answer: A

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs



Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

191) Fixed manufacturing costs included in ending inventory total:

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

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

192) The production-volume variance is:

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

Answer: B

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

Answer the following questions using the information below:

Queanbeyan Company incurred fixed manufacturing costs of \$7200 during 2018. Other information for 2018 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.

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

- A) 0



- B) \$7200
- C) \$9000
- D) \$8550

Answer: B

Difficulty: Complex AACSB: Able to translate knowledge of business and management into practice
Learning Objective 5: Distinguish between inventoriable costs and period costs. Topic: Illustrating the flow of inventoriable costs and period costs

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

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

Answer: A

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

196) Operating profit using absorption costing will be _____ operating profit if using variable costing.

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

Answer: A

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs



Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

198) Woggoon Nature Corporation has provided the following information:

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



AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

199) 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:

A) will increase by \$2000.

B) will not be affected.

C) will increase by \$2000 only if the additional 100 units of inventory are sold.

D) is indeterminable.

Answer: A

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

200) 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:

A) is indeterminable.

B) will increase by \$2000.

C) will not be affected.

D) will increase by \$2000 only if the 100 additional units of inventory are sold.

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex



Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

203) Variable costing is a less than perfect term to describe this inventory costing method because not all variable costs are inventoriable costs; only _____ manufacturing costs are inventoriable.

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

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

204) Absorption costing:

- 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

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

205) Which of the following relates to absorption costing?

- 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

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

- A) Absorption costing
- B) Throughput costing
- C) Direct costing
- D) Variable costing

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

207) Which of the following statements is FALSE?

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

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

208) An unfavourable production-volume variance occurs when:

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

Answer: C



AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

209) When does an unfavourable production-volume variance occur?

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

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

- 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

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

211) For which of the following reasons explains why companies have recently been able to reduce inventory levels?

- 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

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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



- 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

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: C



AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

216) What is the practice of switching production to products that absorb the highest amount of fixed manufacturing costs called?

- A) cost reduction
- B) throughput costing
- C) producing for sales
- D) cherry picking

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

217) To discourage producing for inventory, management can:

- A) incorporate a carrying charge for inventory in the internal accounting system
- B) evaluate performance over a three- to five-year period rather than a single year
- C) evaluate non-financial measures such as units in ending inventory compared to units in sales
- D) All of these answers are correct.

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

- A) Include non-financial measures when evaluating performance
- B) Evaluate performance on a quarterly basis only
- C) Incorporate a carrying charge for inventory
- D) Focus on careful budgeting and inventory planning

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

219) Under absorption costing, if a manager's bonus is tied to operating profit, then increasing inventory



levels compared to last year would result in:

- 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

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

221) Which of the following is NOT an example of the drawbacks of using absorption costing?

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

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

- A) Absorption costing
- B) Direct costing
- C) Variable costing



D) Throughput costing

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

223) Which of the following is a costing system that variable and absorption costing CANNOT be combined with?

A) Normal costing

B) Standard costing

C) Mixed costing

D) Actual costing

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

224) The contribution-margin format of the income statement:

A) calculates gross margin.

B) is used with absorption costing.

C) is used with variable costing.

D) distinguishes between manufacturing and nonmanufacturing costs.

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

225) The gross-margin format of the income statement:

A) is used with variable costing.

B) distinguishes variable costs from fixed costs.

C) is used with absorption costing.

D) calculates contribution margin.

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.



226) The contribution-margin format of the income statement:

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

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

227) The gross-margin format of the income statement:

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

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

228) _____ are subtracted from sales to calculate contribution margin.

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

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

229) _____ are subtracted from sales to calculate gross margin.

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

Answer: D



AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

230) 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:

- 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

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

231) 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 _____.

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

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

232) 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:

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



Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

Answer the following questions using the information below:

Hewitt Corporation incurred fixed manufacturing costs of \$6000 during 2018. Other information for 2018 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.

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

A) \$3600

B) 0

C) \$6000

D) \$4800

Answer: C

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

234) Fixed manufacturing costs included in ending inventory total:

A) \$900

B) \$1200

C) \$1500

D) 0

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs



Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

235) The production-volume variance totals:

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

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

236) Operating profit using variable costing will be _____ than operating profit if using absorption costing.

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

Answer: D

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

- 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

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

238) _____ are commonly divided into many subclassifications.

- A) Indirect labour costs
- B) Direct material costs
- C) Direct labour costs



D) Fixed costs

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: The use of judgement in measuring costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

Write 'True' if the statement is correct and 'False' if the statement is incorrect.

239) Retail sector companies purchase and then sell tangible products without changing their basic form.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

240) Manufacturing sector companies purchase raw materials and components to convert them via a process known as the manufacturing process into saleable, finished products.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

241) Retail sector companies only hold two types of inventories: retail inventory, and direct material.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

242) Period costs are all costs in the income statement other than cost of goods sold.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

Answer: True

AACSB: Able to analyse and frame problems



Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

244) For manufacturing sector companies, period costs in the income statement are all manufacturing costs.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

246) Retail sector companies purchase materials and components and convert them into various finished goods.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

247) For retail sector companies, period costs in the income statement are all costs not related to the cost of goods purchased for resale.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

248) Direct manufacturing labour includes wages and fringe benefits paid to machine operators.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs



Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

249) Because there are no inventoriable costs for service sector companies, all costs in the income statement are period costs.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

250) Manufacturing sector companies purchase and then sell tangible products without changing their basic form.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

252) Retail sector companies provide only services or intangible products and so do not hold inventories of tangible products.

Answer:

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

253) Insurance on a factory can be classified as a period cost.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.



254) Period costs are all costs of a product that are considered as assets in the balance sheet when they are incurred and that become cost of goods sold only when the product is sold.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

255) Product costs are treated as expenses of the accounting period in which they are incurred because they are expected to benefit revenues in that period and are not expected to benefit revenues in future periods (because there is not sufficient evidence to conclude that such future benefit exists).

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

256) For service sector companies, period costs in the income statement are all costs not related to the cost of goods purchased for resale.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

258) Inventoriable costs and period costs flow through the income statement of a service company in a similar way to those of a manufacturing company.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.



259) Cost of goods manufactured refers to the cost of goods brought to completion, whether they were started before or during the current accounting period.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

260) Prime costs are all direct manufacturing costs.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

261) Conversion costs represent all manufacturing costs incurred to convert direct materials into finished goods.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

262) Direct manufacturing labour costs are a part of both prime costs and conversion costs.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

264) Conversion costs include all direct manufacturing costs.

Answer: False



AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

265) Direct costing is a perfect way to describe the variable costing inventory method.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

266) The two most common methods of costing inventories in manufacturing companies are variable costing and fixed costing.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

267) Absorption costing 'absorbs' only variable manufacturing costs.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

268) Variable costing is a method of inventory costing in which all variable manufacturing costs (direct and indirect) are included as inventoriable costs.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

269) The main difference between variable costing and absorption costing is the way in which fixed manufacturing costs are accounted for.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic



Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

270) Under both variable costing and absorption costing, all variable manufacturing costs are inventoriable costs and all non-manufacturing costs in the value chain (e.g. R&D, marketing), whether variable or fixed, are period costs and are recorded as expenses when incurred.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

271) Absorption costing is a method of inventory costing in which all variable manufacturing costs and all fixed manufacturing costs are included as period costs.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

272) The income under variable costing will always be the same as the income under absorption costing.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

274) When production deviates from the denominator level, a production-volume variance always exists under absorption costing.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic



Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

276) The production-volume variance only exists under absorption costing and not under variable costing.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

277) 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.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

278) A common problem reported by companies using variable costing is the difficulty of classifying costs into fixed or variable categories.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

279) Under absorption costing, managers can increase operating profit by holding more inventories at the end of the period.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic



Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

280) The only inventoriable cost for a retailer is the cost of merchandise, which corresponds to the cost of finished goods manufactured for a manufacturing company.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

281) 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.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

282) Non-financial measures such as comparing units in ending inventory this period to units in ending inventory last period can help reduce build-up of excess inventory.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

283) Managers can increase operating profit when absorption costing is used by producing more inventory.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

284) A manager can increase operating profit by deferring maintenance beyond the current accounting period when absorption costing is used.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic



Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

285) 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.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

286) 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.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

287) When the unit level of inventory increases during an accounting period, operating profit is greater under variable costing than absorption costing.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

289) Overtime premium is normally considered as a component of direct labour.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: The use of judgement in measuring costs



Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

Write your answer in the space provided or on a separate sheet of paper.

290) 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.

AACSB: Able to communicate effectively orally and in writing

Difficulty: Complex

Topic: Business sectors, types of inventory, inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

291) The following information has come from Bill Lawrie Inc. accounting records for 2018:

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:

- What is the cost of direct materials used during 2018?
- What is cost of goods manufactured for 2018?
- What is cost of goods sold for 2018?
- What amount of prime costs was added to production during 2018?
- What amount of conversion costs was added to production during 2018?

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. $\$32\,000 + \$24\,000 = \$56\,000$

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

292) Perth Production Company manufactured 100 000 units in 2018 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 labour	275 200	Fire insurance-equipment	16 000
Direct manufacturing labour	2 176 000	Direct material purchases	3 136 000
Direct materials, 1/1/18	384 000	Direct materials, 12/31/18	275 200
Finished goods, 1/1/18	672 000	Sales revenue	12 800 000
Finished goods, 12/31/18	1 280 000	Sales commissions	640 000
Work-in-process, 1/1/18	96 000	Sales salaries	576 000
Work-in-process, 12/31/18	64 000	Advertising costs	480 000
		Administration costs	800 000

Required:

- a. What is the amount of direct materials used during 2018?
- b. What manufacturing costs were added to WIP during 2018?
- c. What is cost of goods manufactured for 2018?
- d. What is cost of goods sold for 2018?

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

AACSB: Able to translate knowledge of business and management into practice



Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

Work-in-process inventory (1 January)	\$140 400
Work-in-process inventory (31 March)	171 000
Finished goods inventory (1 January)	540 000
Finished goods inventory (31 March)	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:

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

Answer:

- a. **Gosford Manufacturing Company**
Cost of Goods Manufactured Schedule
For quarter ending 31 March

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

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>

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

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:

$$\$40\,000 + \$122\,000 - \$124\,000 = \$38\,000$$

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

295) 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 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

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

296) 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:

- 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.

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

297) Ruggles Company has provided the following data for the year ended 30 September 2018.

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:

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

Answer:

- $24\,000 \times \$50 = \$1\,200\,000$ sales
 $(\$525\,000/30\,000) \times 24\,000 = \$420\,000$ variable manufacturing cost
 $\$1\,200\,000 - \$420\,000 - \$144\,800 = \$635\,200$ contribution margin
 $\$635\,200 - \$372\,000 - \$77\,400 = \$185\,800$ operating profit
- $(\$372\,000/30\,000) \times 24\,000 = \$297\,600$ 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 $\times$ \$12.40 per unit of fixed manufacturing cost.

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

298) For 2018, Baggy Green Caps Inc., had sales of 75 000 units and production of 100 000 units. Other information for the year included:

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:

- Compute the ending finished goods inventory under both absorption and variable costing.
- Compute the cost of goods sold under both absorption and variable costing.

Answer:

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	<u>200 000</u>	<u>0</u>
Total	<u>\$637 500</u>	<u>\$437 500</u>

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

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

299) Sutcliffe Corporation manufactures and sells top-of-the-line saxophones 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.

Required:

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

Answer:

Revenues (1250 × \$1850)	\$2 312 500
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Variable costs

Beginning inventory	\$0	
Variable manufacturing costs (1500 × \$770)	<u>1 155 000</u>	
Cost of goods available	1 155 000	
Deduct ending inventory (250 × \$770)	<u>(192 500)</u>	
Variable cost of goods sold	962 500	
Variable operating costs (1250 × \$625)	<u>781 250</u>	
Total variable costs		<u>1 743 750</u>

Contribution margin	568 750
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Fixed costs

Fixed manufacturing costs	450 000
Fixed operating costs	<u>75 000</u>



Total fixed costs	<u>525 000</u>
Operating profit	\$43 750

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

300) 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.

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:

- Prepare an income statement using absorption costing.
- 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*)		<u>924 000</u>
Gross margin		396 000
Marketing:		
Variable (20 000 × \$6)	\$120 000	
Fixed	<u>60 000</u>	<u>180 000</u>
Operating profit		<u>\$216 000</u>

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

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)	<u>120 000</u>	<u>900 000</u>
Contribution margin		420 000
Fixed costs:		
Manufacturing	\$180 000	
Marketing	<u>60 000</u>	<u>240 000</u>
Operating profit		<u>\$180 000</u>

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

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

- During the first year, 2016, it had no sales but incurred \$120 000 in variable manufacturing expenses and \$40 000 in fixed manufacturing expenses.
- In 2017, it sold half of the finished goods inventory from 2016 for \$100 000 but it had no manufacturing costs.
- In 2018, 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 totalled \$20 000 each year.

Required:

- Prepare an income statement for each year using absorption costing.
- Prepare an income statement for each year using variable costing.

Answer:

- Absorption-costing income statements:*

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Sales	\$0	\$100 000	\$120 000
Cost of goods sold	<u>0</u>	<u>80 000</u>	<u>80 000</u>



Gross margin	0	20 000	40 000
Marketing and administrative	<u>20 000</u>	<u>20 000</u>	<u>20 000</u>
Operating profit	<u>\$(20 000)</u>	<u>\$0</u>	<u>\$20 000</u>

b. *Variable-costing income statements:*

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Sales	\$0	\$100 000	\$120 000
Variable expenses	<u>0</u>	<u>60 000</u>	<u>60 000</u>
Contribution margin	<u>0</u>	<u>40 000</u>	<u>60 000</u>

Fixed expenses:

Manufacturing	\$40 000	\$0	\$0
Marketing and administrative	<u>20 000</u>	<u>20 000</u>	<u>20 000</u>
Total fixed	<u>60 000</u>	<u>20 000</u>	<u>20 000</u>
Operating profit	<u>\$(60 000)</u>	<u>\$20 000</u>	<u>\$40 000</u>

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

302) 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 1 March. Production information for March was:

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.	<u>Absorption</u>	<u>Variable</u>
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)	<u>4.40</u>	<u>0</u>
Total cost per unit	<u>\$16.40</u>	<u>\$12.00</u>

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

c. *Absorption-costing income statement:*

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



Variable-costing income statement:

Sales (28 000 × \$20)		\$560 000
Variable COGS (28 000 × \$12)	\$336 000	
Variable selling expenses (28 000 × \$2)	<u>56 000</u>	<u>392 000</u>
Contribution margin		168 000
Fixed costs:		
Manufacturing	\$132 000	
Selling and administrative	<u>40 000</u>	<u>172 000</u>
Operating profit		<u>\$(4000)</u>

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

303) Coonabarabran Realty bought a 2000-hectare island for \$10 000 000 and divided it into 200 equal size lots.

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 2017 when 50 lots were sold.

During 2018, the company bought another 2000-hectare island for \$10 000 000 and developed it exactly the same way. Lot sales in 2018 totalled 300 with an average selling price of \$160 000. All costs were the same as in 2017.

Required:

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

Answer:

Cost per site:	<u>Absorption</u>	<u>Variable</u>
Land cost \$10 000 000/200 sites	\$50 000	\$0
Clearing costs	5000	5000
Improvements	<u>8000</u>	<u>8000</u>



Total	<u>\$63 000</u>	<u>\$13 000</u>
<i>Absorption-costing income statements:</i>	<u>2017</u>	<u>2018</u>
Sales	\$8 000 000	\$48 000 000
Cost of goods sold:		
$50 \times (\$50\,000 + \$8\,000 + \$5\,000)$	3 150 000	
$300 \times (\$50\,000 + \$8\,000 + \$5\,000)$	<u> </u>	<u>18 900 000</u>
Gross margin	\$4 850 000	\$29 100 000
Variable marketing	800 000	4 800 000
Fixed administrative	<u>850 000</u>	<u>850 000</u>
Operating profit	<u>\$3 200 000</u>	<u>\$23 450 000</u>
<i>Variable-costing income statements:</i>	<u>2017</u>	<u>2018</u>
Sales	\$8 000 000	\$48 000 000
Variable expenses:		
Cost of operations:		
$50 \times \$13\,000$	650 000	
$300 \times \$13\,000$		3 900 000
Selling expenses	<u>800 000</u>	<u>4 800 000</u>
Contribution margin	\$6 550 000	\$39 300 000
Fixed expenses:		
Land	10 000 000	10 000 000
Administrative	<u>850 000</u>	<u>850 000</u>
Operating profit	<u>\$(4 300 000)</u>	<u>\$28 450 000</u>

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

304) Tamworth Company prepared the following absorption-costing income statement for the year ended 31 May 2018.

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



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	<u>24 000</u>	<u>200 000</u>
Contribution margin		\$120 000
Fixed expenses:		
Fixed factory overhead ³	\$43 750	
Fixed selling and administrative ⁴	<u>22 000</u>	<u>65 750</u>
Operating profit		<u>\$54 250</u>

1 16 000 units × \$11 = \$176 000

2 16 000 units × \$1.50 = \$24 000

3 $[(\$216\,000/16\,000\text{ units}) - \$11] \times 17\,500\text{ units} = \$43\,750$

4 \$46 000 - \$24 000 = \$22 000

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

305) Booti Booti Bottling Works manufactures glass bottles. January and February operations were identical in every way except for the planned production.

January had a production denominator of 35 000 units.

February had a production denominator of 36 000 units.

Fixed manufacturing costs totalled \$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)	<u>3.60</u>
Total per unit	<u>\$7.60</u>

February manufacturing cost per unit:

Variable costs	\$4.00
Fixed costs \$126 000/36 000	<u>3.50</u>
Total per unit	<u>\$7.50</u>

January Income Statement

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

February Income Statement

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

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

306) Lillee-Walker Company was concerned that increased sales did not result in increased profits for 2018. Both variable unit and total fixed manufacturing costs for 2017 and 2018 remained constant at \$20 and \$2 000 000, respectively.

In 2017, the company produced 100 000 units and sold 80 000 units at a price of \$50 per unit. There was no beginning inventory in 2017. In 2018, 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:

- Prepare income statements for each year using absorption costing.
- Prepare income statements for each year using variable costing.
- Explain why the income was different each year using the two methods. Show computations.

Answer:

- a. *Absorption-costing income statements:*

	<u>2017</u>	<u>2018</u>
Sales	\$4 000 000	\$4 500 000
Cost of goods sold:		
Beginning inventory	0	800 000
Variable	2 000 000	1 400 000
Fixed	<u>2 000 000</u>	<u>2 000 000</u>
Subtotal	4 000 000	4 200 000
Ending inventory	<u>800 000</u>	<u>0</u>
Total COGS	3 200 000	4 200 000
Gross margin	800 000	300 000
Selling and administrative	<u>100 000</u>	<u>100 000</u>
Operating profit	<u>\$700 000</u>	<u>\$200 000</u>

- b. *Variable-costing income statements:*

	<u>2017</u>	<u>2018</u>
Sales	\$4 000 000	\$4 500 000
Variable expenses	<u>1 600 000</u>	<u>1 800 000</u>
Contribution margin	2 400 000	2 700 000
Fixed expenses:		
Manufacturing	2 000 000	2 000 000



Selling and administrative	<u>100 000</u>	<u>100 000</u>
Operating profit	<u>\$300 000</u>	<u>\$600 000</u>

- c. Budgeted fixed manufacturing overhead rate for 2017 = $\$2\,000\,000/100\,000 = \20

2017 difference of $\$400\,000 = (100\,000 - 80\,000) \times \$20 = \$400\,000$ (favours absorption method)

2018 difference of $\$400\,000 = (70\,000 - 90\,000) \times \$20 = \$400\,000$ (favours variable method)

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

307) The following information pertains to Ball Company:

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:

- What is the average manufacturing cost per unit?
- What is the cost of ending finished goods inventory?
- What is the gross margin?

Answer:

- $\$2\,400\,000/40\,000 = \60.00
- $(40\,000 - 39\,800) \times \$60 = \$12\,000$
- $39\,800 \times (\$100 - \$60) = \$1\,592\,000$

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

308) During 2018, 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.

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 amount that will be reported on the balance sheet for ending inventory?

Answer:

- $\$20\,000\,000 / 400\,000 = \50.00
- $370\,000 \text{ units} \times \$50 = \$18\,500\,000$
- $30\,000 \text{ units} \times \$50 = \$1\,500\,000$

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

309) 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.

Required:

- What is Vicky's total compensation for the week?
- What amount of compensation would be reported as direct manufacturing labour?
- What amount of compensation would be reported as manufacturing overhead?

Answer:

- Direct labour ($43 \text{ hours} \times \20) + Overtime premium ($3 \text{ hrs} \times \$10$) = \$890
- Direct manufacturing labour ($43 \text{ hours} \times \20) = \$860
- Manufacturing overhead costs = Overtime premium ($3 \text{ hrs} \times \$10$) = \$30

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

310) 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.

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 $\times$ \$20) + Idle time (4 hrs $\times$ \$20) + Overtime premium (6 hrs $\times$ \$10) = \$980
- b. Direct manufacturing labour (42 hours $\times$ \$20) = \$840
- c. Manufacturing overhead costs = Idle time (4 hrs $\times$ \$20) + Overtime premium (6 hrs $\times$ \$10) = \$140

AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

311) 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.

AACSB: Able to communicate effectively orally and in writing

Difficulty: Complex

Topic: Illustrating the flow of inventoriable costs and period costs

Learning Objective: 2.5 Distinguish between inventoriable costs and period costs.

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

312) 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:

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

Answer: C



AACSB: Able to translate knowledge of business and management into practice

Difficulty: Complex

Topic: The use of judgement in measuring costs

Learning Objective: 2.6 Explain why product costs are calculated in different ways for different purposes.

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

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

Answer: E

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: The use of judgement in measuring costs

Learning Objective: 2.6 Explain why product costs are calculated in different ways for different purposes.

314) Which of the following reflects what products costs for financial statement purposes may include?

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

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: The use of judgement in measuring costs

Learning Objective: 2.6 Explain why product costs are calculated in different ways for different purposes.

315) Which of the following reflects product costs?

- 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

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: The use of judgement in measuring costs

Learning Objective: 2.6 Explain why product costs are calculated in different ways for different purposes.

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



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

Answer: C

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: The use of judgement in measuring costs

Learning Objective: 2.6 Explain why product costs are calculated in different ways for different purposes.

317) Product costs used for external reporting generally include:

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

Answer: B

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: The use of judgement in measuring costs

Learning Objective: 2.6 Explain why product costs are calculated in different ways for different purposes.

318) Inventoriable costs for external reporting purposes are also called:

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

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: The use of judgement in measuring costs

Learning Objective: 2.6 Explain why product costs are calculated in different ways for different purposes.

319) For external reporting:

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

Answer: B

AACSB: Able to analyse and frame problems



Difficulty: Moderate

Topic: The use of judgement in measuring costs

Learning Objective: 2.6 Explain why product costs are calculated in different ways for different purposes.

320) Which of the following statements is FALSE?

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

Answer: A

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: The use of judgement in measuring costs

Learning Objective: 2.6 Explain why product costs are calculated in different ways for different purposes.

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

- A) holiday pay.
- B) fringe benefits.
- C) training time.
- D) All of these answers are correct.

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: The use of judgement in measuring costs

Learning Objective: 2.6 Explain why product costs are calculated in different ways for different purposes.

Write 'True' if the statement is correct and 'False' if the statement is incorrect.

322) A product cost is the sum of the costs assigned to a product for a specific purpose.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: The use of judgement in measuring costs

Learning Objective: 2.6 Explain why product costs are calculated in different ways for different purposes.

323) For the purposes of making decisions about pricing and which products provide the most profits, the manager is interested in the overall (total) profitability of different products and, consequently, assigns costs incurred in all business functions of the value chain to the different products.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic



Topic: The use of judgement in measuring costs

Learning Objective: 2.6 Explain why product costs are calculated in different ways for different purposes.

324) Under Australian Accounting Standards, only manufacturing costs can be assigned to inventories in the financial statements.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: The use of judgement in measuring costs

Learning Objective: 2.6 Explain why product costs are calculated in different ways for different purposes.

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

325) When making decisions:

A) it is best to use unit costs.

B) it is best to use total costs rather than unit costs.

C) it is best to use average costs.

D) All of these types of costs can be used for decision making; it varies depending on the decision required.

Answer: D

AACSB: Able to analyse and frame problems

Difficulty: Moderate

Topic: A framework for cost accounting and activity management

Learning Objective: 2.7 Describe a framework for cost accounting and activity management.

Write 'True' if the statement is correct and 'False' if the statement is incorrect.

326) Budgeting is the most commonly used tool for planning and control.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: A framework for cost accounting and activity management

Learning Objective: 2.7 Describe a framework for cost accounting and activity management.

327) Budgeting often plays a major role in affecting behaviour and decisions because managers strive to meet budget targets.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: A framework for cost accounting and activity management

Learning Objective: 2.7 Describe a framework for cost accounting and activity management.



328) When making decisions about strategy design and strategy implementation, managers must understand which revenues and costs to consider and which ones to ignore.

Answer: True

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: A framework for cost accounting and activity management

Learning Objective: 2.7 Describe a framework for cost accounting and activity management.

329) 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.

Answer: False

AACSB: Able to analyse and frame problems

Difficulty: Basic

Topic: A framework for cost accounting and activity management

Learning Objective: 2.7 Describe a framework for cost accounting and activity management.