

02

1. All costs incurred in a merchandising firm are considered to be period costs.

True False
2. Depreciation is always considered a product cost for external financial reporting purposes in a manufacturing firm.

True False
3. Advertising costs are considered product costs for external financial reports since they are incurred in order to promote specific products.

True False
4. Property taxes and insurance premiums paid on a factory building are examples of manufacturing overhead.

True False
5. Manufacturing overhead combined with direct materials is known as conversion cost.

True False
6. If the ending inventory of finished goods is understated, net income will be overstated.

True False
7. In a manufacturing company, goods available for sale equals the sum of the cost of goods manufactured and the beginning finished goods inventory.

True False
8. Variable costs are costs whose per unit costs vary as the activity level rises and falls.

True False
9. On a per unit basis, a fixed cost varies inversely with the level of activity.

True False

10. All the following would typically be considered indirect costs of manufacturing a particular Boeing 747 to be delivered to Singapore Airlines: electricity to run production equipment, the factory manager's salary, and the cost of the General Electric jet engines installed on the aircraft.
- True False
11. All the following costs should be considered direct costs of providing delivery room services to a particular mother and her baby: the costs of drugs administered in the operating room, the attending physician's fees, and a portion of the liability insurance carried by the hospital to cover the delivery room.
- True False
12. The following costs should be considered by a law firm to be indirect costs of defending a particular client in court: rent on the law firm's offices, the law firm's receptionist's wages, the costs of heating the law firm's offices, and the depreciation on the personal computer in the office of the attorney who has been assigned the client.
- True False
13. A cost that differs from one month to another is known as a differential cost.
- True False
14. Opportunity costs are always recorded as expenses in the accounts of an organization.
- True False
15. Sunk costs are irrelevant in making decisions.
- True False
16. The inventory accounts reported on the balance sheet of a manufacturing company will differ from those of a merchandising company.
- True False

17. The corporate controller's salary would be considered a(n):

- A.
- B.
- C.
- D.

18. The cost of fire insurance for a manufacturing plant is generally considered to be a:

- A.
- B.
- C.
- D.

19. The cost of rent for a manufacturing plant is generally considered to be a:

	<i>Prime cost</i>	<i>Product cost</i>
a.	No	Yes
b.	No	No
c.	Yes	No
d.	Yes	Yes

- A.
- B.
- C.
- D.

20. Each of the following would be a period cost except:

- A.
- B.
- C.
- D.

21. For a manufacturing company, which of the following is an example of a period rather than a product cost?
- A.
 - B.
 - C.
 - D.
22. Which of the following would be considered a product cost for external financial reporting purposes?
- A.
 - B.
 - C.
 - D.
23. Which of the following would NOT be treated as a product cost for external financial reporting purposes?
- A.
 - B.
 - C.
 - D.
24. Transportation costs incurred by a manufacturing company to ship its product to its customers would be classified as which of the following?
- A.
 - B.
 - C.
 - D.
25. The salary of the president of a manufacturing company would be classified as which of the following?
- A.
 - B.
 - C.
 - D.

26. Micro Computer Company has set up a toll-free telephone line for customer inquiries regarding computer hardware produced by the company. The cost of this toll-free line would be classified as which of the following?

- A.
- B.
- C.
- D.

27. The wages of factory maintenance personnel would usually be considered to be:

	<i>Indirect labour</i>	<i>Manufacturing overh</i>
a.	No	Yes
b.	Yes	No
c.	Yes	Yes
d.	No	No

- A.
- B.
- C.
- D.

28. Direct materials are a part of:

	<i>Conversion cost</i>	<i>Manufacturing cost</i>	<i>l</i>
a.	Yes	Yes	
b.	Yes	Yes	
c.	No	Yes	
d.	No	No	

- A.
- B.
- C.
- D.

29. Manufacturing overhead consists of:
- A.
 - B.
 - C.
 - D.
30. Which of the following should NOT be included as part of manufacturing overhead at a company that makes office furniture?
- A.
 - B.
 - C.
 - D.
31. Rossiter Company failed to record a credit sale at the end of the year, although the reduction in finished goods inventories was correctly recorded when the goods were shipped to the customer. Which one of the following statements is correct?
- A.
 - B.
 - C.
 - D.
32. If the cost of goods sold is greater than the cost of goods manufactured, then:
- A.
 - B.
 - C.
 - D.
33. Last month, when 10,000 units of a product were manufactured, the cost per unit was \$60. At this level of activity, variable costs are 50% of total unit costs. If 10,500 units are manufactured next month and cost behaviour patterns remain unchanged the?
- A.
 - B.
 - C.
 - D.

34. Variable cost:
- A.
 - B.
 - C.
 - D.
35. Within the relevant range, the difference between variable costs and fixed costs is:
- A.
 - B.
 - C.
 - D.
36. Which of the following statements regarding fixed costs is incorrect?
- A.
 - B.
 - C.
 - D.
37. Last month, when 10,000 units of a product were manufactured, the cost per unit was \$60. At this level of activity, variable costs are 50% of total unit costs. If 10,500 units are manufactured next month and cost behaviour patterns remain unchanged, the total cost of goods manufactured will be?
- A.
 - B.
 - C.
 - D.
38. Which of the following statements is true?
- A.
 - B.
 - C.
 - D.

39. An opportunity cost is:
- A.
 - B.
 - C.
 - D.
40. The term differential cost refers to:
- A.
 - B.
 - C.
 - D.
41. Which of the following costs is often important in decision making, but is omitted from conventional accounting records?
- A.
 - B.
 - C.
 - D.
42. When a decision is made among a number of alternatives, the potential benefit that is lost by choosing one alternative over another is the:
- A.
 - B.
 - C.
 - D.
43. Conversion cost consists of which of the following?
- A.
 - B.
 - C.
 - D.

44. Prime cost consists of direct materials combined with:
- A.
 - B.
 - C.
 - D.
45. Which one of the following costs should NOT be considered a direct cost of serving a particular customer who orders a customized personal computer by phone directly from the manufacturer?
- A.
 - B.
 - C.
 - D.
46. The sequence of major activities that every organization carries out to fulfill its mission is known as:
- A.
 - B.
 - C.
 - D.
47. Which of the following major activities of a business will result in product costs?
- A.
 - B.
 - C.
 - D.
48. Which one of the following costs should NOT be considered an indirect cost of serving a particular customer at a Dairy Queen fast food outlet?
- A.
 - B.
 - C.
 - D.

49. Green Company's costs for the month of August were as follows: direct materials, \$27,000; direct labour, \$34,000; sales salaries, \$14,000; indirect labour, \$10,000; indirect materials, \$15,000; general corporate administrative cost, \$12,000; taxes on manufacturing facility, \$2,000; and rent on factory, \$17,000. The beginning work in process inventory was \$16,000 and the ending work in process inventory was \$9,000. What was the cost of goods manufactured for the month?
- A.
B.
C.
D.
50. A manufacturing company prepays its insurance coverage for a three-year period. The premium for the three years is \$2,700 and is paid at the beginning of the first year. Eighty percent of the premium applies to manufacturing operations and 20% applies to selling and administrative activities. What amounts should be considered product and period costs respectively for the first year of coverage?
- | | <i>Product</i> | <i>Period</i> |
|----|----------------|---------------|
| a. | \$2,700 | \$ 0 |
| b. | \$2,160 | \$540 |
| c. | \$1,440 | \$360 |
| d. | \$ 720 | \$180 |
- A.
B.
C.
D.

51. Using the following data, calculate the beginning work in process inventory.

Cost of goods sold	\$70
Direct labour	\$20
Direct materials	\$15
Cost of goods manufactured	\$80
Work in process ending	\$10
Finished goods ending	\$15
Manufacturing overhead	\$30

The beginning work in process inventory is:

- A.
- B.
- C.
- D.

52. During the month of May, Bennett Manufacturing Company purchased \$43,000 of raw materials. Total manufacturing overhead was \$27,000 and the total manufacturing costs were \$106,000. Assuming a beginning inventory of raw materials of \$8,000 and an ending inventory of raw materials of \$6,000, direct labour was:

- A.
- B.
- C.
- D.

53.

Using the following data for January, calculate the cost of goods manufactured:

Direct materials	\$38,000
Direct labour	\$24,000
Manufacturing overhead	\$17,000
Beginning work in process inventory	\$10,000
Ending work in process inventory	\$11,000

The cost of goods manufactured was:

- A.
- B.
- C.
- D.

54.

During the month of June, Reardon Company incurred \$17,000 of direct labour, \$8,500 of manufacturing overhead and purchased \$15,000 of raw materials. Between the beginning and the end of the month, the raw materials inventory increased by \$2,000, the finished goods inventory increased by \$1,500, and the work in process inventory decreased by \$3,000. The cost of goods manufactured would be:

- A.
- B.
- C.
- D.

55. Mueller Company reported the following data for the year just ended:
- | | |
|----------------------------------|-------------|
| Raw materials used in production | \$ 800,000 |
| Direct labour | \$ 700,000 |
| Total overhead costs | \$ 900,000 |
| Ending work in process inventory | \$ 400,000 |
| Cost of goods manufactured | \$2,500,000 |

The beginning work in process inventory was:

- A.
- B.
- C.
- D.

56. Williams Company's direct labour cost is 25% of its conversion cost. If the manufacturing overhead cost for the last period was \$45,000 and the direct materials cost was \$25,000, the direct labour cost was:

- A.
- B.
- C.
- D.

57. The Lyons Company's cost of goods manufactured was \$120,000 when its sales were \$360,000 and its gross margin was \$220,000. If the ending inventory of finished goods was \$30,000, the beginning inventory of finished goods must have been:

- A.
- B.
- C.
- D.

58. The gross margin for Cushing Company for the first quarter of last year was \$325,000 when sales were \$700,000. The beginning inventory of finished goods was \$60,000 and the ending inventory of finished goods was \$85,000. The cost of goods manufactured for the first quarter would have been:

- A.
- B.
- C.
- D.

59. Last month a manufacturing company had the following operating results:

Beginning finished goods inventory	\$ 74,000
Ending finished goods inventory	\$ 73,000
Sales	\$ 464,000
Gross margin	\$ 52,000

What was the cost of goods manufactured for the month?

- A.
- B.
- C.
- D.

60.

The following information was provided by Wilson Company for the year just ended:

Beginning finished goods inventory	\$ 150,750
Ending finished goods inventory	\$ 140,475
Sales	\$ 475,000
Gross margin	\$ 150,000

The cost of goods manufactured for the year was:

- A.
- B.
- C.
- D.

61.

The following information was provided by Grand Company for the year just ended:

Beginning finished goods inventory	\$ 130,425
Ending finished goods inventory	\$ 125,770
Sales	\$ 500,000
Gross margin	\$ 100,000

The cost of goods manufactured for the year was:

- A.
- B.
- C.
- D.

62.

The following inventory valuation errors were discovered by Knox Corporation's new controller just after the annual financial statements were published at the end of Year 3.

> The Year 3 ending inventory was understated by \$17,000.

> The Year 2 ending inventory was understated by \$61,000.

> The Year 1 ending inventory was overstated by \$23,000.

The net income for Knox in each of these years was:

	<i>Year 3</i>	<i>Year 2</i>	<i>Year 1</i>
Net income	\$168,000	\$254,000	\$138,000

Assuming there were no income taxes and no corrections were made prior to the discovery of the errors after the end of year 3, the net income in each year should be adjusted to:

	<i>Year 3</i>	<i>Year 2</i>	<i>Year 1</i>
a.	\$212,000	\$170,000	\$161,000
b.	\$124,000	\$338,000	\$115,000
c.	\$ 90,000	\$338,000	\$161,000
d.	\$124,000	\$170,000	\$115,000

A.

B.

C.

D.

63. Delta Merchandising, Inc. has provided the following information for the year just ended:

Net sales	\$128,500
Beginning inventory	24,000
Purchases	80,000
Gross margin	38,550

The ending inventory for the company at year end was:

- A.
- B.
- C.
- D.

64. The beginning balance of the Raw Materials inventory account for May was \$27,500. The ending balance for May was \$28,750 and \$128,900 of raw materials were used during the month. The materials purchased during the month cost:

- A.
- B.
- C.
- D.

65. Gabel Inc. is a merchandising company. Last month the company's merchandise purchases totalled \$63,000. The company's beginning merchandise inventory was \$13,000 and its ending merchandise inventory was \$15,000. What was the company's cost of goods sold for the month?

- A.
- B.
- C.
- D.

66. Haack Inc. is a merchandising company. Last month the company's cost of goods sold was \$84,000. The company's beginning merchandise inventory was \$20,000 and its ending merchandise inventory was \$18,000. What was the total amount of the company's merchandise purchases for the month?
- A.
B.
C.
D.
67. During January, the cost of goods manufactured was \$93,000. The beginning finished goods inventory was \$16,000 and the ending finished goods inventory was \$20,000. What was the cost of goods sold for the month?
- A.
B.
C.
D.
68. An accounting course is taught in two classes per week for one hour and fifty minutes each. The classes are held in a building with 36 classrooms that are used for a variety of courses. The building has an advanced monitoring system which allows electricity costs to be determined for each classroom and for each course. If the cost object is the accounting course, which of the following is an indirect cost?
- A.
B.
C.
D.

69. An accounting course is taught in two classes per week for one hour and fifty minutes each. The classes are held in a building with 36 classrooms that are used for a variety of courses. There are 15 other courses taught in the Accounting Department at this university. If the cost object is the accounting course, which of the following is a direct cost?

- A.
- B.
- C.
- D.

70. The following information was provided by Jimbob Co. for the year just ended:

Cost of goods manufactured	\$ 500,000
Ending finished goods inventory	\$ 100,000
Sales	\$ 800,000
Gross margin	\$ 200,000

What was beginning finished goods inventory?

- A.
- B.
- C.
- D.

71. The following account balances has been extracted from Jimbob Co.'s general ledger:

Direct materials used in production	\$ 20
Depreciation factory building	\$ 1
Depreciation factory equipment	\$ 5
Depreciation sales department automobiles	\$ 1
Direct wages factory employees	\$ 20
Sales department salaries and commissions	\$ 15
Factory manager's salary	\$ 5
Utility costs factory	\$ 5
Utility costs sales office	\$ 2

What was the total of manufacturing overhead?

- A.
- B.
- C.
- D.

72. The following account balances has been extracted from Jimbob Co.'s general ledger:

Direct materials used in production	\$ 20
Depreciation factory building	\$ 1
Depreciation factory equipment	\$ 5
Depreciation sales department automobiles	\$ 1
Direct wages factory employees	\$ 20
Sales department salaries and commissions	\$ 15
Factory manager's salary	\$ 5
Utility costs factory	\$ 5
Utility costs sales office	\$ 2

What was the total of manufacturing costs?

- A.
- B.
- C.
- D.

73. The following account balances has been extracted from Jimbob Co.'s general ledger:

Direct materials used in production	\$ 20
Depreciation factory building	\$ 1
Depreciation factory equipment	\$ 5
Depreciation sales department automobiles	\$ 1
Direct wages factory employees	\$ 20
Sales department salaries and commissions	\$ 15
Factory manager's salary	\$ 5
Utility costs factory	\$ 5
Utility costs sales office	\$ 2

What was the total of nonmanufacturing costs?

- A.
- B.
- C.
- D.

The following data (in thousands of dollars) have been taken from the accounting records of Karling Corporation for the just completed year.

Sales	\$990
Raw materials inventory, beginning	\$ 40
Raw materials inventory, ending	\$ 70
Purchases of raw materials	\$120
Direct labour	\$200
Manufacturing overhead	\$230
Administrative expenses	\$150
Selling expenses	\$140
Work in process inventory, beginning	\$ 70
Work in process inventory, ending	\$ 50
Finished goods inventory, beginning	\$120
Finished goods inventory, ending	\$160

74. The cost of the raw materials used in production during the year (in thousands of dollars) was:

- A.
- B.
- C.
- D.

75. The cost of goods manufactured for the year (in thousands of dollars) was:
- A.
B.
C.
D.
76. The cost of goods sold for the year (in thousands of dollars) was:
- A.
B.
C.
D.
77. The net income for the year (in thousands of dollars) was:
- A.
B.
C.
D.
- The following data (in thousands of dollars) have been taken from the accounting records of Karlana Corporation for the just completed year.

Sales	\$910
Raw materials inventory, beginning	\$ 80
Raw materials inventory, ending	\$ 20
Purchases of raw materials	\$100
Direct labour	\$130
Manufacturing overhead	\$200
Administrative expenses	\$160
Selling expenses	\$140
Work in process inventory, beginning	\$ 40
Work in process inventory, ending	\$ 10
Finished goods inventory, beginning	\$130
Finished goods inventory, ending	\$150

78. The cost of the raw materials used in production during the year (in thousands of dollars) was:
- A.
 - B.
 - C.
 - D.
79. The cost of goods manufactured for the year (in thousands of dollars) was:
- A.
 - B.
 - C.
 - D.
80. The cost of goods sold for the year (in thousands of dollars) was:
- A.
 - B.
 - C.
 - D.
81. The net income for the year (in thousands of dollars) was:
- A.
 - B.
 - C.
 - D.

The following data (in thousands of dollars) have been taken from the accounting records of Karlist Corporation for the just completed year.

Sales	\$800
Raw materials inventory, beginning	\$ 60
Raw materials inventory, ending	\$ 70
Purchases of raw materials	\$180
Direct labour	\$100
Manufacturing overhead	\$190
Administrative expenses	\$110
Selling expenses	\$150
Work in process inventory, beginning	\$ 70
Work in process inventory, ending	\$ 80
Finished goods inventory, beginning	\$120
Finished goods inventory, ending	\$160

82. The cost of the raw materials used in production during the year (in thousands of dollars) was:
- A.
 - B.
 - C.
 - D.
83. The cost of goods manufactured or the year (in thousands of dollars) was:
- A.
 - B.
 - C.
 - D.
84. The cost of goods sold for the year (in thousands of dollars) was:
- A.
 - B.
 - C.
 - D.

85. The net income for the year (in thousands of dollars) was:

- A.
- B.
- C.
- D.

The following data pertain to Harriman Company's operations during July:

	<i>July 1</i>
Raw materials inventory	0
Work in process inventory	?
Finished goods inventory	\$12,000

Other data:

Cost of goods manufactured
Raw materials used
Manufacturing overhead costs
Direct labour costs
Gross profit
Sales

86. The beginning work in process inventory was:

- A.
- B.
- C.
- D.

87. The ending finished goods inventory was:

- A.
- B.
- C.
- D.

Bergeron Inc. reported the following data for last year:

Work in process inventory, beginning	\$1
Work in process inventory, ending	\$1
Finished goods inventory, beginning	\$1
Finished goods inventory, ending	\$2
Direct labour cost	\$2
Direct materials cost	\$2
Manufacturing overhead cost	\$2

88. The prime cost was:

- A.
- B.
- C.
- D.

89. The conversion cost was:

- A.
- B.
- C.
- D.

90. The cost of goods manufactured was:

- A.
- B.
- C.
- D.

Geneva Steel Corporation produces large sheets of heavy gauge steel. The company showed the following amounts relating to its production for the year just completed:

Direct materials used in production	\$110,00
Direct labour costs for the year	55,00
Work in process, beginning	22,00
Finished goods, beginning	45,00
Cost of goods available for sale	288,00
Cost of goods sold	238,00
Work in process, ending	16,00

91. The balance of the finished goods inventory at the end of the year was:
- A.
 - B.
 - C.
 - D.

92. Manufacturing overhead cost for the year was:
- A.
 - B.
 - C.
 - D.

93. Cost of goods manufactured for the year was:
- A.
 - B.
 - C.
 - D.

Boardman Company reported the following data for the month of January:

Inventories:	<i>1/1</i>
Raw materials	\$32,000
Work in process	\$18,000
Finished goods	\$30,000

Additional information:	
Sales revenue	\$210,0
Direct labour costs	40,0
Manufacturing overhead costs	70,0
Selling expenses	25,0
Administrative expenses	35,0

94. If raw materials costing \$35,000 were purchased during January, the total manufacturing costs for the month was?
- A.
B.
C.
D.
95. Assume that cost of goods sold for January was \$124,000. The net income for January was:
- A.
B.
C.
D.
96. Boardman Company's total conversion cost for January was:
- A.
B.
C.
D.
97. Assume that cost of goods sold for Boardman Company for January was \$140,000. What was the cost of goods manufactured for the month?
- A.
B.
C.
D.
- At a sales volume of 32,000 units, CD Company's total fixed costs are \$64,000 and total variable costs are \$60,000. (Do not round intermediate calculations)
98. If CD Company were to sell 43,000 units, the total expected cost would be?
- A.
B.
C.
D.

99. If CD Company were to sell 50,000 units, the total expected cost per unit would be (Do not round intermediate calculations. Round the final answer to two decimal places):

- A.
- B.
- C.
- D.

100. Jimbob Company has two business alternatives - A & B with different total annual costs as set out below:

Total annual costs:	A
Advertising	\$32,000
Other marketing costs	\$18,000
Other expenses	\$30,000

Additionally, if alternative B is chosen the business will have to use some space for its own purposes that is currently being rented to an outside business for \$5,000 per year.
What are the total differential costs between the two alternatives?

- A.
- B.
- C.
- D.

Stony Electronics Corporation manufactures a portable radio designed for mounting on the wall of the bathroom. The following list represents some of the different types of costs incurred in the manufacture of these radios:

- 1) The plant manager's salary.
- 2) The cost of heating the plant.
- 3) The cost of heating executive offices.
- 4) The cost of printed circuit boards used in the radios.
- 5) Salaries and commissions of company salespersons.
- 6) Depreciation on office equipment used in the executive offices.
- 7) Depreciation on production equipment used in the plant.
- 8) Wages of janitorial personnel who clean the plant.
- 9) The cost of insurance on the plant building.
- 10) The cost of electricity to light the plant.
- 11) The cost of electricity to power plant equipment.
- 12) The cost of maintaining and repairing equipment in the plant.
- 13) The cost of printing promotional materials for trade shows.
- 14) The cost of solder used in assembling the radios.
- 15) The cost of telephone service for the executive offices.

Required:

Classify each of the items above as product (inventoriable) cost or period (noninventoriable) costs for the purpose of preparing external financial statements.

Bill Pope has developed a new device that is so exciting he is considering quitting his job in order to produce and market it on a large-scale basis. Bill will rent a garage for \$300 per month for production purposes. Utilities will cost \$40 per month. Bill has already taken an industrial design course at the local community college to help prepare for this venture. The course cost \$300. Bill will rent production equipment at a monthly cost of \$800. He estimates the material cost per unit will be \$5, and the labour cost will be \$3. He will hire workers and spend his time promoting the product. To do this he will quit his job, which pays \$3,000 per month. Advertising and promotion will cost \$900 per month.

Required:

Complete the chart below by placing an "X" under each heading that helps to identify the cost involved. There can be "Xs" placed under more than one heading for a single cost, e.g., a cost might be a sunk cost, an overhead cost and a product cost; there would be an "X" placed under each of these headings opposite the cost.

	Opportunity Cost	Sunk Cost	Variable Cost	Fixed Cost	Manuf. Over- head
General rent					
Utilities					
Cost of the industrial design course					
Equipment rented					
Material cost					
Labour cost					
Present salary					
Advertising					

*Between the alternatives of going into business to make the device or not going into business to make the device.

103.

Logan Products, a small manufacturer, has submitted the items below concerning last year's operations. The president's secretary, trying to be helpful, has alphabetized the list.

Administrative salaries
Advertising expense
Depreciation—factory building
Depreciation—factory equipment
Depreciation—office equipment
Direct labour cost
Raw materials inventory, beginning
Raw materials inventory, ending
Finished goods inventory, beginning
Finished goods inventory, ending
General liability insurance expense
Indirect labour cost
Insurance on factory
Purchases of raw materials
Repairs and maintenance of factory
Sales salaries
Taxes on factory
Travel and entertainment expense
Work in process inventory, beginning
Work in process inventory, ending

Required:

- a. Prepare a schedule of Cost of Goods Manufactured in good form for the year.
- b. Determine the Cost of Goods Sold for the year.

Laco Company acquired its factory building about 20 years ago. For a number of years the company has rented out a small, unused part of the building. The renter's lease will expire soon. Rather than renewing the lease, Laco Company is considering using the space itself to manufacture a new product. Under this option, the unused space will continue to be depreciated on a straight-line basis, as in past years.

Direct materials and direct labour cost for the new product would be \$50 per unit. In order to have a place to store finished units of the new product, the company would have to rent a small warehouse nearby. The rental cost would be \$2,000 per month. It would cost the company an additional \$4,000 each month to advertise the new product. A new production supervisor would be hired to oversee production of the new product who would be paid \$3,000 per month. The company would pay a sales commission of \$10 for each unit of product that is sold.

Required:

Complete the chart below by placing an "X" under each column heading that helps to identify the costs listed to the left. There can be "X's" placed under more than one heading for a single cost. For example, a cost might be a product cost, an opportunity cost, and a sunk cost; there would be an "X" placed under each of these headings on the answer sheet opposite the cost.

	Opportunity Cost	Sunk Cost	Vari- able Cost	Fixed Cost	Prod Cost
Rent on unused factory space					
Depreciation on the factory space					
Direct material and direct labour cost					
Rental cost of the small warehouse					
Advertising cost					
Production supervisor's salary					
Sales commissions					

*Between the alternatives of (1) renting the space out again or (2) using the space to produce the

new product.

105.

A list of accounts for a manufacturing company for an accounting period is given below. Find the unknown amounts indicated by question marks.

Sales	;
Cost of goods sold	
Purchases of direct materials	
Direct labour	
Finished goods inventory, beginning	
Work in process, beginning	
Work in process, ending	
Gross margin	
Finished goods inventory, ending	
Accounts payable, beginning	
Accounts payable, ending	
Direct materials inventory, beginning	
Direct materials inventory, ending	
Indirect labour	
Indirect materials used	
Utilities expense, factory	
Cost of goods manufactured	
Depreciation on factory equipment	

106.

Use the following information to determine the gross margin for Pacific States Manufacturing for the year just ended (all amounts are in thousands (\$000) of dollars):

Sales	4
Purchases of direct materials	
Direct labour	
Work in process inventory, 1/1	
Work in process inventory, 12/31	
Finished goods inventory, 1/1	
Finished goods inventory, 12/31	
Accounts payable, 1/1	
Accounts payable, 12/31	
Direct materials inventory, 1/1	
Direct materials inventory, 12/31	
Indirect labour	
Indirect materials used	
Utilities expense, factory	
Depreciation on factory equipment	

107.

The following information is from Marchant Manufacturing Co. for September:

Direct materials used in production
Direct labour
Total manufacturing cost
Raw materials inventory, Sept. 1
Work in process inventory, Sept. 1
Finished goods inventory, Sept. 1
Purchases of raw materials
Cost of goods manufactured
Administrative expense
Selling expense
Sales
Gross margin
Net income

Required:

- a. Compute the Cost of Goods Sold.
- b. Compute the balance in Finished Goods Inventory at September 30.
- c. Compute the balance in Work in Process Inventory at September 30.
- d. Compute the balance in Raw Materials Inventory at September 30.
- e. Compute the total Manufacturing Overhead.

(Hint: The easiest method of solving this problem is to sketch out the income statement and the schedule of cost of goods manufactured, enter the given amounts, and then enter the unknowns as plug figures.)

108.

The following data (in thousands of dollars) have been taken from the accounting records of Larsen Corporation for the just completed year.

Sales	\$860
Purchases of raw materials	\$150
Direct labour	\$110
Manufacturing overhead	\$210
Administrative expenses	\$130
Selling expenses	\$180
Raw materials inventory, beginning	\$ 40
Raw materials inventory, ending	\$ 80
Work in process inventory, beginning	\$ 20
Work in process inventory, ending	\$ 80
Finished goods inventory, beginning	\$ 80
Finished goods inventory, ending	\$150

Required:

- Prepare a Schedule of Cost of Goods Manufactured in good form.
- Compute the Cost of Goods Sold.
- Using data from your answers above as needed, prepare an Income Statement in good form.

109.

The following data (in thousands of dollars) have been taken from the accounting records of Lerner Corporation for the just completed year.

Sales	\$870
Purchases of raw materials	\$110
Direct labour	\$130
Manufacturing overhead	\$200
Administrative expenses	\$160
Selling expenses	\$140
Raw materials inventory, beginning	\$ 30
Raw materials inventory, ending	\$ 60
Work in process inventory, beginning	\$ 50
Work in process inventory, ending	\$ 10
Finished goods inventory, beginning	\$150
Finished goods inventory, ending	\$140

Required:

- Prepare a Schedule of Cost of Goods Manufactured in good form.
- Compute the Cost of Goods Sold.
- Using data from your answers above as needed, prepare an Income Statement in good form.

110.

The following data (in thousands of dollars) have been taken from the accounting records of Larmont Corporation for the just completed year.

Sales	\$990
Purchases of raw materials	\$100
Direct labour	\$240
Manufacturing overhead	\$210
Administrative expenses	\$100
Selling expenses	\$140
Raw materials inventory, beginning	\$ 20
Raw materials inventory, ending	\$ 80
Work in process inventory, beginning	\$ 50
Work in process inventory, ending	\$ 30
Finished goods inventory, beginning	\$160
Finished goods inventory, ending	\$150

Required:

- Prepare a Schedule of Cost of Goods Manufactured in good form.
- Compute the Cost of Goods Sold.
- Using data from your answers above as needed, prepare an Income Statement in good form.

111.

The following costs relate to one month's activity in Martin Company:

Indirect materials	\$30
Rent on factory building	50
Maintenance of equipment	5
Direct material used	1,20
Utilities on factory	25
Direct labour	1,50
Selling expense	50
Administrative expense	30
Work in process inventory, beginning	60
Work in process inventory, ending	80
Finished goods inventory, beginning	50
Finished goods inventory, ending	25

Required:

- a. Prepare a Schedule of Cost of Goods Manufactured in good form.
- b. Determine the Cost of Goods Sold.

112.

The following data have been taken from the accounting records of Jimbob Co. for the year.

Depreciation factory building	\$ 1
Depreciation factory equipment	\$ 4
Depreciation sales department automobiles	\$ 1
Direct wages factory employees	\$ 20
Direct benefits factory employees	\$ 3
Factory manager's salary and benefits	\$ 4
Finished goods inventory, beginning	\$ 2
Finished goods inventory, ending	\$ 3
Head office salaries and benefits	\$ 30
Other administrative expenses	\$ 4
Other manufacturing overhead expenses	\$ 4
Other selling expenses	\$ 3
Raw materials inventory, beginning	\$ 1
Raw materials inventory, ending	\$ 1
Raw materials purchased	\$ 20
Sales department salaries and commissions	\$ 15
Sales revenue	\$ 1,200
Utility costs factory	\$ 4
Utility costs sales office	\$ 2
Work in process inventory, beginning	\$ 10
Work in process inventory, ending	\$ 11

Required:

- Prepare a Schedule of Cost of Goods Manufactured in good form.
- Compute the Cost of Goods Sold.
- Using data from your answers above as needed, prepare an Income Statement in good form.

02 Key

1. All costs incurred in a merchandising firm are considered to be period costs.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Understand
Brewer - Chapter 02 #1
Difficulty: Easy*

Learning Objective: 02-04 Understand cost classification by function.

2. Depreciation is always considered a product cost for external financial reporting purposes in a manufacturing firm.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Understand
Brewer - Chapter 02 #2
Difficulty: Medium*

Learning Objective: 02-04 Understand cost classification by function.

3. Advertising costs are considered product costs for external financial reports since they are incurred in order to promote specific products.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Understand
Brewer - Chapter 02 #3
Difficulty: Medium*

Learning Objective: 02-04 Understand cost classification by function.

4. Property taxes and insurance premiums paid on a factory building are examples of manufacturing overhead.

TRUE

*Accessibility: Keyboard Navigation
Blooms: Remember
Brewer - Chapter 02 #4
Difficulty: Easy*

Learning Objective: 02-04 Understand cost classification by function.

5. Manufacturing overhead combined with direct materials is known as conversion cost.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Remember
Brewer - Chapter 02 #5
Difficulty: Easy*

Learning Objective: 02-04 Understand cost classification by function.

6. If the ending inventory of finished goods is understated, net income will be overstated.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Understand
Brewer - Chapter 02 #6
Difficulty: Medium*

Learning Objective: 02-06 Understand and prepare manufacturing reports.

7. In a manufacturing company, goods available for sale equals the sum of the cost of goods manufactured and the beginning finished goods inventory.

TRUE

*Accessibility: Keyboard Navigation
Blooms: Remember
Brewer - Chapter 02 #7
Difficulty: Easy*

Learning Objective: 02-06 Understand and prepare manufacturing reports.

8. Variable costs are costs whose per unit costs vary as the activity level rises and falls.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Remember
Brewer - Chapter 02 #8
Difficulty: Easy*

Learning Objective: 02-01 Understand cost classification by behaviour.

9. On a per unit basis, a fixed cost varies inversely with the level of activity.

TRUE

*Accessibility: Keyboard Navigation
Blooms: Remember
Brewer - Chapter 02 #9
Difficulty: Easy*

Learning Objective: 02-01 Understand cost classification by behaviour.

10. All the following would typically be considered indirect costs of manufacturing a particular Boeing 747 to be delivered to Singapore Airlines: electricity to run production equipment, the factory manager's salary, and the cost of the General Electric jet engines installed on the aircraft.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Understand
Brewer - Chapter 02 #10
Difficulty: Medium*

Learning Objective: 02-02 Understand cost classification by traceability.

11. All the following costs should be considered direct costs of providing delivery room services to a particular mother and her baby: the costs of drugs administered in the operating room, the attending physician's fees, and a portion of the liability insurance carried by the hospital to cover the delivery room.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Understand
Brewer - Chapter 02 #11
Difficulty: Medium*

Learning Objective: 02-02 Understand cost classification by traceability.

12. The following costs should be considered by a law firm to be indirect costs of defending a particular client in court: rent on the law firm's offices, the law firm's receptionist's wages, the costs of heating the law firm's offices, and the depreciation on the personal computer in the office of the attorney who has been assigned the client.

TRUE

*Accessibility: Keyboard Navigation
Blooms: Understand
Brewer - Chapter 02 #12
Difficulty: Medium*

Learning Objective: 02-02 Understand cost classification by traceability.

13. A cost that differs from one month to another is known as a differential cost.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Understand
Brewer - Chapter 02 #13
Difficulty: Medium*

Learning Objective: 02-03 Understand cost classification by relevance.

14. Opportunity costs are always recorded as expenses in the accounts of an organization.

FALSE

*Accessibility: Keyboard Navigation
Blooms: Remember
Brewer - Chapter 02 #14
Difficulty: Easy*

Learning Objective: 02-03 Understand cost classification by relevance.

15. Sunk costs are irrelevant in making decisions.

TRUE

*Accessibility: Keyboard Navigation
Blooms: Remember
Brewer - Chapter 02 #15
Difficulty: Easy*

16. The inventory accounts reported on the balance sheet of a manufacturing company will differ from those of a merchandising company.

TRUE

Accessibility: Keyboard Navigation

Blooms: Remember

Brewer - Chapter 02 #16

Difficulty: Easy

Learning Objective: 02-05 Prepare financial reports.

17. The corporate controller's salary would be considered a(n):

A.
B.
C.
D.

Accessibility: Keyboard Navigation

Blooms: Remember

Brewer - Chapter 02 #17

Difficulty: Easy

Learning Objective: 02-04 Understand cost classification by function.

18. The cost of fire insurance for a manufacturing plant is generally considered to be a:

A.
B.
C.
D.

Accessibility: Keyboard Navigation

Blooms: Understand

Brewer - Chapter 02 #18

Difficulty: Medium

Learning Objective: 02-04 Understand cost classification by function.

19. The cost of rent for a manufacturing plant is generally considered to be a:

	<i>Prime cost</i>	<i>Product cost</i>
a.	No	Yes
b.	No	No
c.	Yes	No
d.	Yes	Yes

A.

B.

C.

D.

Blooms: Understand

Brewer - Chapter 02 #19

Difficulty: Medium

Learning Objective: 02-04 Understand cost classification by function.

20. Each of the following would be a period cost except:

A.

B.

C.

D.

Accessibility: Keyboard Navigation

Blooms: Understand

Brewer - Chapter 02 #20

Difficulty: Easy

Learning Objective: 02-04 Understand cost classification by function.

21. For a manufacturing company, which of the following is an example of a period rather than a product cost?

A.

B.

C.

D.

Accessibility: Keyboard Navigation

Blooms: Remember

Brewer - Chapter 02 #21

Difficulty: Easy

Learning Objective: 02-04 Understand cost classification by function.

22. Which of the following would be considered a product cost for external financial reporting purposes?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation
Blooms: Understand
Brewer - Chapter 02 #22
Difficulty: Medium

Learning Objective: 02-04 Understand cost classification by function.

23. Which of the following would NOT be treated as a product cost for external financial reporting purposes?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation
Blooms: Remember
Brewer - Chapter 02 #23
Difficulty: Easy

Learning Objective: 02-04 Understand cost classification by function.

24. Transportation costs incurred by a manufacturing company to ship its product to its customers would be classified as which of the following?

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation
Blooms: Understand
Brewer - Chapter 02 #24
Difficulty: Easy

Learning Objective: 02-04 Understand cost classification by function.

25. The salary of the president of a manufacturing company would be classified as which of the following?

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Remember
Brewer - Chapter 02 #25
Difficulty: Easy

Learning Objective: 02-04 Understand cost classification by function.

26. Micro Computer Company has set up a toll-free telephone line for customer inquiries regarding computer hardware produced by the company. The cost of this toll-free line would be classified as which of the following?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation
Blooms: Understand
Brewer - Chapter 02 #26
Difficulty: Easy

Learning Objective: 02-04 Understand cost classification by function.

27. The wages of factory maintenance personnel would usually be considered to be:

	<i>Indirect labour</i>	<i>Manufacturing overh</i>
a.	No	Yes
b.	Yes	No
c.	Yes	Yes
d.	No	No

- A.
- B.
- C.**
- D.

Blooms: Remember
Brewer - Chapter 02 #27
Difficulty: Medium

Learning Objective: 02-04 Understand cost classification by function.

28.

Direct materials are a part of:

	<i>Conversion cost</i>	<i>Manufacturing cost</i>	<i>1</i>
a.	Yes	Yes	
b.	Yes	Yes	
c.	No	Yes	
d.	No	No	

- A.
- B.
- C.**
- D.

*Blooms: Remember
Brewer - Chapter 02 #28
Difficulty: Medium*

Learning Objective: 02-04 Understand cost classification by function.

29.

Manufacturing overhead consists of:

- A.
- B.**
- C.
- D.

*Accessibility: Keyboard Navigation
Blooms: Remember
Brewer - Chapter 02 #29
Difficulty: Medium*

Learning Objective: 02-04 Understand cost classification by function.

30.

Which of the following should NOT be included as part of manufacturing overhead at a company that makes office furniture?

- A.**
- B.
- C.
- D.

*Accessibility: Keyboard Navigation
Blooms: Understand
Brewer - Chapter 02 #30
Difficulty: Medium*

Learning Objective: 02-04 Understand cost classification by function.

31. Rossiter Company failed to record a credit sale at the end of the year, although the reduction in finished goods inventories was correctly recorded when the goods were shipped to the customer. Which one of the following statements is correct?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation

Blooms: Analyze

Brewer - Chapter 02 #31

Difficulty: Hard

Learning Objective: 02-06 Understand and prepare manufacturing reports.

32. If the cost of goods sold is greater than the cost of goods manufactured, then:

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation

Blooms: Apply

Brewer - Chapter 02 #32

Difficulty: Hard

Learning Objective: 02-06 Understand and prepare manufacturing reports.

33. Last month, when 10,000 units of a product were manufactured, the cost per unit was \$60. At this level of activity, variable costs are 50% of total unit costs. If 10,500 units are manufactured next month and cost behaviour patterns remain unchanged the?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation

Blooms: Remember

Brewer - Chapter 02 #33

Difficulty: Medium

Learning Objective: 02-01 Understand cost classification by behaviour.

34.

Variable cost:

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Remember
Brewer - Chapter 02 #34
Difficulty: Easy

Learning Objective: 02-01 Understand cost classification by behaviour.

35.

Within the relevant range, the difference between variable costs and fixed costs is:

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Remember
Brewer - Chapter 02 #35
Difficulty: Medium

Learning Objective: 02-01 Understand cost classification by behaviour.

36.

Which of the following statements regarding fixed costs is incorrect?

- A.**
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Remember
Brewer - Chapter 02 #36
Difficulty: Medium

Learning Objective: 02-01 Understand cost classification by behaviour.

37. Last month, when 10,000 units of a product were manufactured, the cost per unit was \$60. At this level of activity, variable costs are 50% of total unit costs. If 10,500 units are manufactured next month and cost behaviour patterns remain unchanged, the total cost of goods manufactured will be?

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation

Blooms: Apply

Brewer - Chapter 02 #37

Difficulty: Medium

Learning Objective: 02-01 Understand cost classification by behaviour.

38. Which of the following statements is true?

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Understand

Brewer - Chapter 02 #38

Difficulty: Medium

Learning Objective: 02-02 Understand cost classification by traceability.

39. An opportunity cost is:

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Remember

Brewer - Chapter 02 #39

Difficulty: Easy

Learning Objective: 02-03 Understand cost classification by relevance.

40. The term differential cost refers to:

- A.**
- B.
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Remember

41. Which of the following costs is often important in decision making, but is omitted from conventional accounting records?
- A.
 - B.
 - C.**
 - D.

Accessibility: Keyboard Navigation

Blooms: Remember

Brewer - Chapter 02 #41

Difficulty: Easy

Learning Objective: 02-03 Understand cost classification by relevance.

42. When a decision is made among a number of alternatives, the potential benefit that is lost by choosing one alternative over another is the:
- A.
 - B.**
 - C.
 - D.

Accessibility: Keyboard Navigation

Blooms: Remember

Brewer - Chapter 02 #42

Difficulty: Easy

Learning Objective: 02-03 Understand cost classification by relevance.

43. Conversion cost consists of which of the following?
- A.
 - B.
 - C.
 - D.**

Accessibility: Keyboard Navigation

Blooms: Remember

Brewer - Chapter 02 #43

Difficulty: Easy

Learning Objective: 02-04 Understand cost classification by function.

44. Prime cost consists of direct materials combined with:

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Remember
Brewer - Chapter 02 #44
Difficulty: Easy

Learning Objective: 02-04 Understand cost classification by function.

45. Which one of the following costs should NOT be considered a direct cost of serving a particular customer who orders a customized personal computer by phone directly from the manufacturer?

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Apply
Brewer - Chapter 02 #45
Difficulty: Hard

Learning Objective: 02-02 Understand cost classification by traceability.

46. The sequence of major activities that every organization carries out to fulfill its mission is known as:

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Blooms: Remember
Brewer - Chapter 02 #46
Difficulty: Easy

Learning Objective: 02-04 Understand cost classification by function.

47. Which of the following major activities of a business will result in product costs?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation

Blooms: Understand

Brewer - Chapter 02 #47

Difficulty: Medium

Learning Objective: 02-04 Understand cost classification by function.

48. Which one of the following costs should NOT be considered an indirect cost of serving a particular customer at a Dairy Queen fast food outlet?

- A.**
- B.
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Understand

Brewer - Chapter 02 #48

Difficulty: Medium

Learning Objective: 02-02 Understand cost classification by traceability.

49. Green Company's costs for the month of August were as follows: direct materials, \$27,000; direct labour, \$34,000; sales salaries, \$14,000; indirect labour, \$10,000; indirect materials, \$15,000; general corporate administrative cost, \$12,000; taxes on manufacturing facility, \$2,000; and rent on factory, \$17,000. The beginning work in process inventory was \$16,000 and the ending work in process inventory was \$9,000. What was the cost of goods manufactured for the month?

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Apply

Brewer - Chapter 02 #49

Difficulty: Medium

Learning Objective: 02-04 Understand cost classification by function.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

50.

A manufacturing company prepays its insurance coverage for a three-year period. The premium for the three years is \$2,700 and is paid at the beginning of the first year. Eighty percent of the premium applies to manufacturing operations and 20% applies to selling and administrative activities. What amounts should be considered product and period costs respectively for the first year of coverage?

	<i>Product</i>	<i>Period</i>
a.	\$2,700	\$ 0
b.	\$2,160	\$540
c.	\$1,440	\$360
d.	\$ 720	\$180

- A.
- B.
- C.
- D.**

Blooms: Apply
Brewer - Chapter 02 #50
Difficulty: Medium

Learning Objective: 02-04 Understand cost classification by function.

51.

Using the following data, calculate the beginning work in process inventory.

Cost of goods sold	\$70
Direct labour	\$20
Direct materials	\$15
Cost of goods manufactured	\$80
Work in process ending	\$10
Finished goods ending	\$15
Manufacturing overhead	\$30

The beginning work in process inventory is:

- A.
- B.
- C.**
- D.

Blooms: Apply
Brewer - Chapter 02 #51
Difficulty: Hard

Learning Objective: 02-05 Prepare financial reports
Learning Objective: 02-06 Understand and prepare manufacturing reports.

52.

During the month of May, Bennett Manufacturing Company purchased \$43,000 of raw materials. Total manufacturing overhead was \$27,000 and the total manufacturing costs were \$106,000. Assuming a beginning inventory of raw materials of \$8,000 and an ending inventory of raw materials of \$6,000, direct labour was:

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Apply

Brewer - Chapter 02 #52

Difficulty: Hard

Learning Objective: 02-05 Prepare financial reports

Learning Objective: 02-06 Understand and prepare manufacturing reports.

53.

Using the following data for January, calculate the cost of goods manufactured:

Direct materials	\$38,000
Direct labour	\$24,000
Manufacturing overhead	\$17,000
Beginning work in process inventory	\$10,000
Ending work in process inventory	\$11,000

The cost of goods manufactured was:

- A.
- B.
- C.
- D.

Blooms: Apply

Brewer - Chapter 02 #53

Difficulty: Medium

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

54. During the month of June, Reardon Company incurred \$17,000 of direct labour, \$8,500 of manufacturing overhead and purchased \$15,000 of raw materials. Between the beginning and the end of the month, the raw materials inventory increased by \$2,000, the finished goods inventory increased by \$1,500, and the work in process inventory decreased by \$3,000. The cost of goods manufactured would be:

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation

Blooms: Apply

Brewer - Chapter 02 #54

Difficulty: Hard

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

55. Mueller Company reported the following data for the year just ended:

Raw materials used in production	\$ 800,000
Direct labour	\$ 700,000
Total overhead costs	\$ 900,000
Ending work in process inventory	\$ 400,000
Cost of goods manufactured	\$2,500,000

The beginning work in process inventory was:

- A.
- B.
- C.**
- D.

Blooms: Apply

Brewer - Chapter 02 #55

Difficulty: Hard

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

56. Williams Company's direct labour cost is 25% of its conversion cost. If the manufacturing overhead cost for the last period was \$45,000 and the direct materials cost was \$25,000, the direct labour cost was:

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Apply

Brewer - Chapter 02 #56

Difficulty: Hard

Learning Objective: 02-04 Understand cost classification by function.

57. The Lyons Company's cost of goods manufactured was \$120,000 when its sales were \$360,000 and its gross margin was \$220,000. If the ending inventory of finished goods was \$30,000, the beginning inventory of finished goods must have been:

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Apply

Brewer - Chapter 02 #57

Difficulty: Hard

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

58. The gross margin for Cushing Company for the first quarter of last year was \$325,000 when sales were \$700,000. The beginning inventory of finished goods was \$60,000 and the ending inventory of finished goods was \$85,000. The cost of goods manufactured for the first quarter would have been:

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Apply

Brewer - Chapter 02 #58

Difficulty: Hard

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

59.

Last month a manufacturing company had the following operating results:

Beginning finished goods inventory	\$ 74,000
Ending finished goods inventory	\$ 73,000
Sales	\$ 464,000
Gross margin	\$ 52,000

What was the cost of goods manufactured for the month?

A.

B.

C.

D.

*Blooms: Apply
Brewer - Chapter 02 #59*

Difficulty: Hard

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

60.

The following information was provided by Wilson Company for the year just ended:

Beginning finished goods inventory	\$ 150,750
Ending finished goods inventory	\$ 140,475
Sales	\$ 475,000
Gross margin	\$ 150,000

The cost of goods manufactured for the year was:

A.

B.

C.

D.

*Blooms: Apply
Brewer - Chapter 02 #60*

Difficulty: Hard

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

61.

The following information was provided by Grand Company for the year just ended:

Beginning finished goods inventory	\$ 130,425
Ending finished goods inventory	\$ 125,770
Sales	\$ 500,000
Gross margin	\$ 100,000

The cost of goods manufactured for the year was:

- A.
- B.
- C.**
- D.

*Blooms: Apply
Brewer - Chapter 02 #61*

Difficulty: Hard

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

62.

The following inventory valuation errors were discovered by Knox Corporation's new controller just after the annual financial statements were published at the end of Year 3.

> The Year 3 ending inventory was understated by \$17,000.

> The Year 2 ending inventory was understated by \$61,000.

> The Year 1 ending inventory was overstated by \$23,000.

The net income for Knox in each of these years was:

	<i>Year 3</i>	<i>Year 2</i>	<i>Year 1</i>
Net income	\$168,000	\$254,000	\$138,000

Assuming there were no income taxes and no corrections were made prior to the discovery of the errors after the end of year 3, the net income in each year should be adjusted to:

	<i>Year 3</i>	<i>Year 2</i>	<i>Year 1</i>
a.	\$212,000	\$170,000	\$161,000
b.	\$124,000	\$338,000	\$115,000
c.	\$ 90,000	\$338,000	\$161,000
d.	\$124,000	\$170,000	\$115,000

A.

B.

C.

D.

*Blooms: Apply
Brewer - Chapter 02 #62
Difficulty: Hard*

Learning Objective: 02-06 Understand and prepare manufacturing reports.

63.

Delta Merchandising, Inc. has provided the following information for the year just ended:

Net sales	\$128,500
Beginning inventory	24,000
Purchases	80,000
Gross margin	38,550

The ending inventory for the company at year end was:

- A.
- B.**
- C.
- D.

*Blooms: Apply
Brewer - Chapter 02 #63
Difficulty: Hard*

*Learning Objective: 02-05 Prepare financial reports.
Learning Objective: 02-06 Understand and prepare manufacturing reports.*

64.

The beginning balance of the Raw Materials inventory account for May was \$27,500. The ending balance for May was \$28,750 and \$128,900 of raw materials were used during the month. The materials purchased during the month cost:

- A.
- B.**
- C.
- D.

*Accessibility: Keyboard Navigation
Blooms: Apply
Brewer - Chapter 02 #64
Difficulty: Medium*

*Learning Objective: 02-05 Prepare financial reports.
Learning Objective: 02-06 Understand and prepare manufacturing reports.*

65. Gabel Inc. is a merchandising company. Last month the company's merchandise purchases totalled \$63,000. The company's beginning merchandise inventory was \$13,000 and its ending merchandise inventory was \$15,000. What was the company's cost of goods sold for the month?

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Apply

Brewer - Chapter 02 #65

Difficulty: Easy

Learning Objective: 02-05 Prepare financial reports.

66. Haack Inc. is a merchandising company. Last month the company's cost of goods sold was \$84,000. The company's beginning merchandise inventory was \$20,000 and its ending merchandise inventory was \$18,000. What was the total amount of the company's merchandise purchases for the month?

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Apply

Brewer - Chapter 02 #66

Difficulty: Easy

Learning Objective: 02-05 Prepare financial reports.

67. During January, the cost of goods manufactured was \$93,000. The beginning finished goods inventory was \$16,000 and the ending finished goods inventory was \$20,000. What was the cost of goods sold for the month?

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Apply

Brewer - Chapter 02 #67

Difficulty: Easy

Learning Objective: 02-05 Prepare financial reports.

68.

An accounting course is taught in two classes per week for one hour and fifty minutes each. The classes are held in a building with 36 classrooms that are used for a variety of courses. The building has an advanced monitoring system which allows electricity costs to be determined for each classroom and for each course. If the cost object is the accounting course, which of the following is an indirect cost?

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation

Blooms: Apply

Brewer - Chapter 02 #68

Difficulty: Medium

Learning Objective: 02-02 Understand cost classification by traceability.

69.

An accounting course is taught in two classes per week for one hour and fifty minutes each. The classes are held in a building with 36 classrooms that are used for a variety of courses. There are 15 other courses taught in the Accounting Department at this university. If the cost object is the accounting course, which of the following is a direct cost?

- A.**
- B.
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Apply

Brewer - Chapter 02 #69

Difficulty: Medium

Learning Objective: 02-02 Understand cost classification by traceability.

70.

The following information was provided by Jimbob Co. for the year just ended:

Cost of goods manufactured	\$ 500,000
Ending finished goods inventory	\$ 100,000
Sales	\$ 800,000
Gross margin	\$ 200,000

What was beginning finished goods inventory?

- A.
- B.**
- C.
- D.

*Blooms: Apply
Brewer - Chapter 02 #70
Difficulty: Hard*

*Learning Objective: 02-05 Prepare financial reports.
Learning Objective: 02-06 Understand and prepare manufacturing reports.*

71.

The following account balances has been extracted from Jimbob Co.'s general ledger:

Direct materials used in production	\$ 20
Depreciation factory building	\$ 1
Depreciation factory equipment	\$ 5
Depreciation sales department automobiles	\$ 1
Direct wages factory employees	\$ 20
Sales department salaries and commissions	\$ 15
Factory manager's salary	\$ 5
Utility costs factory	\$ 5
Utility costs sales office	\$ 2

What was the total of manufacturing overhead?

- A.
- B.**
- C.
- D.

*Blooms: Apply
Brewer - Chapter 02 #71
Difficulty: Medium*

Learning Objective: 02-04 Understand cost classification by function.

72. The following account balances has been extracted from Jimbob Co.'s general ledger:

Direct materials used in production	\$ 20
Depreciation factory building	\$ 1
Depreciation factory equipment	\$ 5
Depreciation sales department automobiles	\$ 1
Direct wages factory employees	\$ 20
Sales department salaries and commissions	\$ 15
Factory manager's salary	\$ 5
Utility costs factory	\$ 5
Utility costs sales office	\$ 2

What was the total of manufacturing costs?

- A.
- B.
- C.**
- D.

Blooms: Apply
Brewer - Chapter 02 #72
Difficulty: Medium

Learning Objective: 02-04 Understand cost classification by function.

73. The following account balances has been extracted from Jimbob Co.'s general ledger:

Direct materials used in production	\$ 20
Depreciation factory building	\$ 1
Depreciation factory equipment	\$ 5
Depreciation sales department automobiles	\$ 1
Direct wages factory employees	\$ 20
Sales department salaries and commissions	\$ 15
Factory manager's salary	\$ 5
Utility costs factory	\$ 5
Utility costs sales office	\$ 2

What was the total of nonmanufacturing costs?

- A.
- B.
- C.**
- D.

Blooms: Apply

The following data (in thousands of dollars) have been taken from the accounting records of Karling Corporation for the just completed year.

Sales	\$990
Raw materials inventory, beginning	\$ 40
Raw materials inventory, ending	\$ 70
Purchases of raw materials	\$120
Direct labour	\$200
Manufacturing overhead	\$230
Administrative expenses	\$150
Selling expenses	\$140
Work in process inventory, beginning	\$ 70
Work in process inventory, ending	\$ 50
Finished goods inventory, beginning	\$120
Finished goods inventory, ending	\$160

Brewer - Chapter 02

74.

The cost of the raw materials used in production during the year (in thousands of dollars) was:

- A.
- B.
- C.
- D.

Blooms: Apply

Brewer - Chapter 02 #74

Difficulty: Medium

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

75.

The cost of goods manufactured for the year (in thousands of dollars) was:

- A.
- B.
- C.
- D.

Blooms: Apply

Brewer - Chapter 02 #75

Difficulty: Medium

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

76. The cost of goods sold for the year (in thousands of dollars) was:

- A.**
- B.
- C.
- D.

Blooms: Apply
Brewer - Chapter 02 #76
Difficulty: Medium

Learning Objective: 02-05 Prepare financial reports.

77. The net income for the year (in thousands of dollars) was:

- A.
- B.**
- C.
- D.

Blooms: Apply
Brewer - Chapter 02 #77
Difficulty: Medium

Learning Objective: 02-05 Prepare financial reports.

The following data (in thousands of dollars) have been taken from the accounting records of Karlana Corporation for the just completed year.

Sales	\$910
Raw materials inventory, beginning	\$ 80
Raw materials inventory, ending	\$ 20
Purchases of raw materials	\$100
Direct labour	\$130
Manufacturing overhead	\$200
Administrative expenses	\$160
Selling expenses	\$140
Work in process inventory, beginning	\$ 40
Work in process inventory, ending	\$ 10
Finished goods inventory, beginning	\$130
Finished goods inventory, ending	\$150

Brewer - Chapter 02

78. The cost of the raw materials used in production during the year (in thousands of dollars) was:

- A.
- B.
- C.**
- D.

*Blooms: Apply
Brewer - Chapter 02 #78
Difficulty: Medium*

*Learning Objective: 02-05 Prepare financial reports.
Learning Objective: 02-06 Understand and prepare manufacturing reports.*

79. The cost of goods manufactured for the year (in thousands of dollars) was:

- A.
- B.
- C.**
- D.

*Blooms: Apply
Brewer - Chapter 02 #79
Difficulty: Medium*

*Learning Objective: 02-05 Prepare financial reports.
Learning Objective: 02-06 Understand and prepare manufacturing reports.*

80. The cost of goods sold for the year (in thousands of dollars) was:

- A.**
- B.
- C.
- D.

*Blooms: Apply
Brewer - Chapter 02 #80
Difficulty: Medium*

Learning Objective: 02-05 Prepare financial reports.

81. The net income for the year (in thousands of dollars) was:

- A.
- B.
- C.**
- D.

*Blooms: Apply
Brewer - Chapter 02 #81
Difficulty: Medium*

Learning Objective: 02-05 Prepare financial reports.

The following data (in thousands of dollars) have been taken from the accounting records of Karlist Corporation for the just completed year.

Sales	\$800
Raw materials inventory, beginning	\$ 60
Raw materials inventory, ending	\$ 70
Purchases of raw materials	\$180
Direct labour	\$100
Manufacturing overhead	\$190
Administrative expenses	\$110
Selling expenses	\$150
Work in process inventory, beginning	\$ 70
Work in process inventory, ending	\$ 80
Finished goods inventory, beginning	\$120
Finished goods inventory, ending	\$160

Brewer - Chapter 02

82. The cost of the raw materials used in production during the year (in thousands of dollars) was:

- A.
- B.
- C.
- D.

*Blooms: Apply
Brewer - Chapter 02 #82
Difficulty: Medium*

*Learning Objective: 02-05 Prepare financial reports.
Learning Objective: 02-06 Understand and prepare manufacturing reports.*

83. The cost of goods manufactured or the year (in thousands of dollars) was:

- A.
- B.
- C.
- D.

*Blooms: Apply
Brewer - Chapter 02 #83
Difficulty: Medium*

*Learning Objective: 02-05 Prepare financial reports.
Learning Objective: 02-06 Understand and prepare manufacturing reports.*

84. The cost of goods sold for the year (in thousands of dollars) was:

- A.**
- B.
- C.
- D.

*Blooms: Apply
Brewer - Chapter 02 #84
Difficulty: Medium*

Learning Objective: 02-05 Prepare financial reports.

85. The net income for the year (in thousands of dollars) was:

- A.
- B.**
- C.
- D.

*Blooms: Apply
Brewer - Chapter 02 #85
Difficulty: Medium*

Learning Objective: 02-05 Prepare financial reports.

The following data pertain to Harriman Company's operations during July:

	<i>July 1</i>
Raw materials inventory	0
Work in process inventory	?
Finished goods inventory	\$12,000

Other data:

- Cost of goods manufactured
- Raw materials used
- Manufacturing overhead costs
- Direct labour costs
- Gross profit
- Sales

Brewer - Chapter 02

86. The beginning work in process inventory was:

- A.
- B.
- C.**
- D.

*Blooms: Apply
Brewer - Chapter 02 #86
Difficulty: Hard*

*Learning Objective: 02-05 Prepare financial reports.
Learning Objective: 02-06 Understand and prepare manufacturing reports.*

87. The ending finished goods inventory was:

- A.
- B.**
- C.
- D.

*Blooms: Apply
Brewer - Chapter 02 #87
Difficulty: Hard*

*Learning Objective: 02-05 Prepare financial reports.
Learning Objective: 02-06 Understand and prepare manufacturing reports.*

Bergeron Inc. reported the following data for last year:

Work in process inventory, beginning	\$1
Work in process inventory, ending	\$1
Finished goods inventory, beginning	\$1
Finished goods inventory, ending	\$2
Direct labour cost	\$2
Direct materials cost	\$4
Manufacturing overhead cost	\$4

Brewer - Chapter 02

88. The prime cost was:

- A.
- B.
- C.**
- D.

*Blooms: Apply
Brewer - Chapter 02 #88
Difficulty: Easy*

Learning Objective: 02-04 Understand cost classification by function.

89.

The conversion cost was:

- A.
- B.**
- C.
- D.

*Blooms: Apply
Brewer - Chapter 02 #89
Difficulty: Easy*

Learning Objective: 02-04 Understand cost classification by function.

90.

The cost of goods manufactured was:

- A.**
- B.
- C.
- D.

*Blooms: Apply
Brewer - Chapter 02 #90
Difficulty: Medium*

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

Geneva Steel Corporation produces large sheets of heavy gauge steel. The company showed the following amounts relating to its production for the year just completed:

Direct materials used in production	\$110,00
Direct labour costs for the year	55,00
Work in process, beginning	22,00
Finished goods, beginning	45,00
Cost of goods available for sale	288,00
Cost of goods sold	238,00
Work in process, ending	16,00

Brewer - Chapter 02

91.

The balance of the finished goods inventory at the end of the year was:

- A.
- B.**
- C.
- D.

*Blooms: Apply
Brewer - Chapter 02 #91
Difficulty: Hard*

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

92. Manufacturing overhead cost for the year was:

- A.
- B.**
- C.
- D.

*Blooms: Apply
Brewer - Chapter 02 #92
Difficulty: Hard*

Learning Objective: 02-04 Understand cost classification by function.

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

93. Cost of goods manufactured for the year was:

- A.
- B.
- C.**
- D.

*Blooms: Apply
Brewer - Chapter 02 #93
Difficulty: Hard*

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

Boardman Company reported the following data
for the month of January:

Inventories:	<i>1/1</i>
Raw materials	\$32,000
Work in process	\$18,000
Finished goods	\$30,000

Additional information:	
Sales revenue	\$210,000
Direct labour costs	40,000
Manufacturing overhead costs	70,000
Selling expenses	25,000
Administrative expenses	35,000

Brewer - Chapter 02

94. If raw materials costing \$35,000 were purchased during January, the total manufacturing costs for the month was?

- A.
- B.
- C.**
- D.

*Blooms: Apply
Brewer - Chapter 02 #94
Difficulty: Medium*

Learning Objective: 02-06 Understand and prepare manufacturing reports.

95. Assume that cost of goods sold for January was \$124,000. The net income for January was:

- A.
- B.**
- C.
- D.

*Blooms: Apply
Brewer - Chapter 02 #95
Difficulty: Medium*

Learning Objective: 02-05 Prepare financial reports.

96. Boardman Company's total conversion cost for January was:

- A.**
- B.
- C.
- D.

*Blooms: Remember
Brewer - Chapter 02 #96
Difficulty: Easy*

Learning Objective: 02-04 Understand cost classification by function.

97. Assume that cost of goods sold for Boardman Company for January was \$140,000. What was the cost of goods manufactured for the month?

- A.
- B.
- C.
- D.**

*Blooms: Apply
Brewer - Chapter 02 #97
Difficulty: Medium*

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

At a sales volume of 32,000 units, CD Company's total fixed costs are \$64,000 and total variable costs are \$60,000. (Do not round intermediate calculations)

Brewer - Chapter 02

98.

If CD Company were to sell 43,000 units, the total expected cost would be?

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Apply

Brewer - Chapter 02 #98

Difficulty: Medium

Learning Objective: 02-01 Understand cost classification by behaviour.

99.

If CD Company were to sell 50,000 units, the total expected cost per unit would be (Do not round intermediate calculations. Round the final answer to two decimal places):

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation

Blooms: Apply

Brewer - Chapter 02 #99

Difficulty: Medium

Learning Objective: 02-01 Understand cost classification by behaviour.

100.

Jimbob Company has two business alternatives - A & B with different total annual costs as set out below:

Total annual costs:	A
Advertising	\$32,000
Other marketing costs	\$18,000
Other expenses	\$30,000

Additionally, if alternative B is chosen the business will have to use some space for its own purposes that is currently being rented to an outside business for \$5,000 per year.
What are the total differential costs between the two alternatives?

- A.
- B.**
- C.
- D.

*Blooms: Apply
Brewer - Chapter 02 #100
Difficulty: Medium*

Learning Objective: 02-03 Understand cost classification by relevance.

Stony Electronics Corporation manufactures a portable radio designed for mounting on the wall of the bathroom. The following list represents some of the different types of costs incurred in the manufacture of these radios:

- 1) The plant manager's salary.
- 2) The cost of heating the plant.
- 3) The cost of heating executive offices.
- 4) The cost of printed circuit boards used in the radios.
- 5) Salaries and commissions of company salespersons.
- 6) Depreciation on office equipment used in the executive offices.
- 7) Depreciation on production equipment used in the plant.
- 8) Wages of janitorial personnel who clean the plant.
- 9) The cost of insurance on the plant building.
- 10) The cost of electricity to light the plant.
- 11) The cost of electricity to power plant equipment.
- 12) The cost of maintaining and repairing equipment in the plant.
- 13) The cost of printing promotional materials for trade shows.
- 14) The cost of solder used in assembling the radios.
- 15) The cost of telephone service for the executive offices.

Required:

Classify each of the items above as product (inventoriable) cost or period (noninventoriable) costs for the purpose of preparing external financial statements.

- 1) Product.
- 2) Product.
- 3) Period.
- 4) Product.
- 5) Period.
- 6) Period.
- 7) Product.
- 8) Product.
- 9) Product.
- 10) Product.

- 11) Product.
- 12) Product.
- 13) Period.
- 14) Product.
- 15) Period.

Blooms: Apply

Brewer - Chapter 02 #101

Difficulty: Easy

Learning Objective: 02-04 Understand cost classification by function.

102.

Bill Pope has developed a new device that is so exciting he is considering quitting his job in order to produce and market it on a large-scale basis. Bill will rent a garage for \$300 per month for production purposes. Utilities will cost \$40 per month. Bill has already taken an industrial design course at the local community college to help prepare for this venture. The course cost \$300. Bill will rent production equipment at a monthly cost of \$800. He estimates the material cost per unit will be \$5, and the labour cost will be \$3. He will hire workers and spend his time promoting the product. To do this he will quit his job, which pays \$3,000 per month. Advertising and promotion will cost \$900 per month.

Required:

Complete the chart below by placing an "X" under each heading that helps to identify the cost involved. There can be "Xs" placed under more than one heading for a single cost, e.g., a cost might be a sunk cost, an overhead cost and a product cost; there would be an "X" placed under each of these headings opposite the cost.

	Opportunity Cost	Sunk Cost	Variable Cost	Fixed Cost	Manuf. Over- head
General rent					
Utilities					
Cost of the industrial design course					
Equipment rented					
Material cost					
Labour cost					
Present salary					
Advertising					

*Between the alternatives of going into business to make the device or not going into business to make the device.

	Opportunity Cost	Sunk Cost	Variable Cost	Fixed Cost	Manuf. Over- head
General rent				X	X
Utilities				X	X
Cost of the industrial design course		X			
Equipment rented				X	X
Material cost			X		
Labour cost			X		
Present salary	X				
Advertising				X	

Blooms: Apply

Brewer - Chapter 02 #102

Difficulty: Easy

Learning Objective: 02-01 Understand cost classification by behaviour.

Learning Objective: 02-02 Understand cost classification by traceability.

Learning Objective: 02-03 Understand cost classification by relevance.

Learning Objective: 02-04 Understand cost classification by function.

103.

Logan Products, a small manufacturer, has submitted the items below concerning last year's operations. The president's secretary, trying to be helpful, has alphabetized the list.

Administrative salaries
Advertising expense
Depreciation—factory building
Depreciation—factory equipment
Depreciation—office equipment
Direct labour cost
Raw materials inventory, beginning
Raw materials inventory, ending
Finished goods inventory, beginning
Finished goods inventory, ending
General liability insurance expense
Indirect labour cost
Insurance on factory
Purchases of raw materials
Repairs and maintenance of factory
Sales salaries
Taxes on factory
Travel and entertainment expense
Work in process inventory, beginning
Work in process inventory, ending

Required:

- a. Prepare a schedule of Cost of Goods Manufactured in good form for the year.
- b. Determine the Cost of Goods Sold for the year.

a.

LOGAN PRODUCTS
Schedule of Cost of Goods Manufactured

Raw materials used:
Raw materials inventory, Beginning
Purchases of raw materials
Raw materials available for use
Less Raw materials inventory, ending
Direct labour cost
Manufacturing overhead:
Depreciation—factory building
Depreciation—factory equipment
Indirect labour cost
Insurance on factory
Repairs and maintenance of factory
Taxes on factory
Total manufacturing cost
Add Work in process inventory, beginning

Less Work in process inventory, ending
Cost of goods manufactured

b. Cost of Goods Sold

Finished goods inventory, beginning
Cost of goods manufactured (above)
Finished goods available for sale
Less finished goods inventory, ending
Cost of goods sold

Blooms: Apply
Brewer - Chapter 02 #103
Difficulty: Hard
Learning Objective: 02-05 Prepare financial reports.
Learning Objective: 02-06 Understand and prepare manufacturing reports.

Laco Company acquired its factory building about 20 years ago. For a number of years the company has rented out a small, unused part of the building. The renter's lease will expire soon. Rather than renewing the lease, Laco Company is considering using the space itself to manufacture a new product. Under this option, the unused space will continue to be depreciated on a straight-line basis, as in past years.

Direct materials and direct labour cost for the new product would be \$50 per unit. In order to have a place to store finished units of the new product, the company would have to rent a small warehouse nearby. The rental cost would be \$2,000 per month. It would cost the company an additional \$4,000 each month to advertise the new product. A new production supervisor would be hired to oversee production of the new product who would be paid \$3,000 per month. The company would pay a sales commission of \$10 for each unit of product that is sold.

Required:

Complete the chart below by placing an "X" under each column heading that helps to identify the costs listed to the left. There can be "X's" placed under more than one heading for a single cost. For example, a cost might be a product cost, an opportunity cost, and a sunk cost; there would be an "X" placed under each of these headings on the answer sheet opposite the cost.

	Opportunity Cost	Sunk Cost	Variable Cost	Fixed Cost	Product Cost
Rent on unused factory space					
Depreciation on the factory space					
Direct material and direct labour cost					
Rental cost of the small warehouse					
Advertising cost					
Production supervisor's salary					
Sales commissions					

*Between the alternatives of (1) renting the space out again or (2) using the space to produce the

new product.

	Opportunity Cost	Sunk Cost	Vari- able Cost	Fixed Cost	Proce- ssing Cost
Rent on unused factory space	X				
Depreciation on the factory space		X		X	X
Direct material and direct labour cost			X		X
Rental cost of the small warehouse				X	
Advertising cost				X	
Production supervisor's salary				X	X
Sales commissions			X		

§ We suggest you allow either answers (a blank or an X) in this cell. Some experts would consider an opportunity cost to be a differential cost and others would not. It is all a matter of definition and the definitions given in the text do not really cover this contingency.

*Blooms: Apply
Brewer - Chapter 02 #104*

Difficulty: Easy

Learning Objective: 02-01 Understand cost classification by behaviour.

Learning Objective: 02-02 Understand cost classification by traceability.

Learning Objective: 02-03 Understand cost classification by relevance.

Learning Objective: 02-04 Understand cost classification by function.

105.

A list of accounts for a manufacturing company for an accounting period is given below. Find the unknown amounts indicated by question marks.

Sales
Cost of goods sold
Purchases of direct materials
Direct labour
Finished goods inventory, beginning
Work in process, beginning
Work in process, ending
Gross margin
Finished goods inventory, ending
Accounts payable, beginning
Accounts payable, ending
Direct materials inventory, beginning
Direct materials inventory, ending
Indirect labour
Indirect materials used
Utilities expense, factory
Cost of goods manufactured
Depreciation on factory equipment

Cost of goods sold = $39,000 - 11,700 = 27,300$.

Direct materials used = $1,000 + 11,000 - 3,000 = 9,000$.

Cost of goods manufactured = $9,000 + 5,000 + (2,000 + 4,000 + 3,000 + 7,000) + 800 - 3,000 = 27,800$.

Finished goods inventory, ending = $5,000 + 27,800 - 27,300 = 5,500$.

*Blooms: Apply
Brewer - Chapter 02 #105
Difficulty: Medium
Learning Objective: 02-05 Prepare financial reports.*

Use the following information to determine the gross margin for Pacific States Manufacturing for the year just ended (all amounts are in thousands (\$000) of dollars):

Sales
 Purchases of direct materials
 Direct labour
 Work in process inventory, 1/1
 Work in process inventory, 12/31
 Finished goods inventory, 1/1
 Finished goods inventory, 12/31
 Accounts payable, 1/1
 Accounts payable, 12/31
 Direct materials inventory, 1/1
 Direct materials inventory, 12/31
 Indirect labour
 Indirect materials used
 Utilities expense, factory
 Depreciation on factory equipment

Direct materials used = 6,000 + 7,000 - 1,000 = 12,000.

Cost of goods manufactured = 12,000 + 5,000 + (600 + 500 + 1,900 + 3,500) + 800 - 3,000 = 21,300.

Cost of goods sold = 4,000 + 21,300 - 5,300 = 20,000.

Gross margin = 31,800 - 20,000 = 11,800

Blooms: Apply
Brewer - Chapter 02 #106
Difficulty: Medium

Learning Objective: 02-05 Prepare financial reports.
Learning Objective: 02-06 Understand and prepare manufacturing reports.

107.

The following information is from Marchant Manufacturing Co. for September:

Direct materials used in production
Direct labour
Total manufacturing cost
Raw materials inventory, Sept. 1
Work in process inventory, Sept. 1
Finished goods inventory, Sept. 1
Purchases of raw materials
Cost of goods manufactured
Administrative expense
Selling expense
Sales
Gross margin
Net income

Required:

- a. Compute the Cost of Goods Sold.
- b. Compute the balance in Finished Goods Inventory at September 30.
- c. Compute the balance in Work in Process Inventory at September 30.
- d. Compute the balance in Raw Materials Inventory at September 30.
- e. Compute the total Manufacturing Overhead.

(Hint: The easiest method of solving this problem is to sketch out the income statement and the schedule of cost of goods manufactured, enter the given amounts, and then enter the unknowns as plug figures.)

MARCHANT MANUFACTURING CO
Schedule of Cost of Goods Manufactured

Direct materials used:
 Raw materials inventory, Sept. 1
 Purchases of raw materials

 Raw materials inventory, Sept. 30 (d)
 Direct materials used in production—given
 Direct labour
 Manufacturing overhead (e)
 Total manufacturing cost—given
 Work in process inventory, Sept 1

 Work in process inventory, Sept 30 (c)
 Cost of goods manufactured—given

MARCHANT MANUFACTURING CO
Income Statement

Sales		
Cost of goods sold:		
Finished goods inventory, Sept 1		\$
Cost of goods manufactured—above		—
Goods available for sale		
Finished goods, Sept 30 (b)		—
Cost of goods sold (a)		
Gross margin—given		
Operating expenses:		
Administrative expense		
Selling expense		-
Net income—given		

Blooms: Apply
Brewer - Chapter 02 #107
Difficulty: Hard

Learning Objective: 02-05 Prepare financial reports.
Learning Objective: 02-06 Understand and prepare manufacturing reports.

108.

The following data (in thousands of dollars) have been taken from the accounting records of Larsen Corporation for the just completed year.

Sales	\$860
Purchases of raw materials	\$150
Direct labour	\$110
Manufacturing overhead	\$210
Administrative expenses	\$130
Selling expenses	\$180
Raw materials inventory, beginning	\$ 40
Raw materials inventory, ending	\$ 80
Work in process inventory, beginning	\$ 20
Work in process inventory, ending	\$ 80
Finished goods inventory, beginning	\$ 80
Finished goods inventory, ending	\$150

Required:

- Prepare a Schedule of Cost of Goods Manufactured in good form.
- Compute the Cost of Goods Sold.
- Using data from your answers above as needed, prepare an Income Statement in good form.

a.

Larsen Corporation
Schedule of Cost of Goods Manufactured

Direct materials:

Raw materials inventory, beginning

Add: Purchases of raw materials

Raw materials available for use

Deduct: Raw materials inventory, ending

Raw materials used in production

Direct labour

Manufacturing overhead

Total manufacturing cost

Add: Work in process inventory, beginning

Deduct: Work in process inventory, ending

Cost of goods manufactured

b. Computation of cost of goods sold

Finished goods inventory, beginning

Add: Cost of goods manufactured

Goods available for sale

Deduct: Finished goods inventory, ending

Cost of goods sold

c.

Larsen Corporation
Income Statement

Sales

Less: Cost of goods sold

Gross margin

Less: Administrative expenses

Less: Selling expenses

Net income

Blooms: Apply
Brewer - Chapter 02 #108
Difficulty: Medium

Learning Objective: 02-05 Prepare financial reports.
Learning Objective: 02-06 Understand and prepare manufacturing reports.

The following data (in thousands of dollars) have been taken from the accounting records of Larner Corporation for the just completed year.

Sales	\$870
Purchases of raw materials	\$110
Direct labour	\$130
Manufacturing overhead	\$200
Administrative expenses	\$160
Selling expenses	\$140
Raw materials inventory, beginning	\$ 30
Raw materials inventory, ending	\$ 60
Work in process inventory, beginning	\$ 50
Work in process inventory, ending	\$ 10
Finished goods inventory, beginning	\$150
Finished goods inventory, ending	\$140

Required:

- Prepare a Schedule of Cost of Goods Manufactured in good form.
- Compute the Cost of Goods Sold.
- Using data from your answers above as needed, prepare an Income Statement in good form.

a.

Larner Corporation
Schedule of Cost of Goods Manufactured

Direct materials:

Raw materials inventory, beginning

Add: Purchases of raw materials

Raw materials available for use

Deduct: Raw materials inventory, ending

Raw materials used in production

Direct labour

Manufacturing overhead

Total manufacturing cost

Add: Work in process inventory, beginning

Deduct: Work in process inventory, ending

Cost of goods manufactured

b. Computation of cost of goods sold

Finished goods inventory, beginning
Add: Cost of goods manufactured
Goods available for sale
Deduct: Finished goods inventory, ending
Cost of goods sold

c.

Larner Corporation
Income Statement

Sales
Less: Cost of goods sold
Gross margin
Less: Administrative expenses
Less: Selling expenses
Net income

*Blooms: Apply
Brewer - Chapter 02 #109
Difficulty: Medium*

*Learning Objective: 02-05 Prepare financial reports.
Learning Objective: 02-06 Understand and prepare manufacturing reports.*

110.

The following data (in thousands of dollars) have been taken from the accounting records of Larmont Corporation for the just completed year.

Sales	\$990
Purchases of raw materials	\$100
Direct labour	\$240
Manufacturing overhead	\$210
Administrative expenses	\$100
Selling expenses	\$140
Raw materials inventory, beginning	\$ 20
Raw materials inventory, ending	\$ 80
Work in process inventory, beginning	\$ 50
Work in process inventory, ending	\$ 30
Finished goods inventory, beginning	\$160
Finished goods inventory, ending	\$150

Required:

- Prepare a Schedule of Cost of Goods Manufactured in good form.
- Compute the Cost of Goods Sold.
- Using data from your answers above as needed, prepare an Income Statement in good form.

a.

Larmont Corporation
Schedule of the Cost of Goods Manufactured

Direct materials:
Raw materials inventory, beginning
Add: Purchases of raw materials
Raw materials available for use
Deduct: Raw materials inventory, ending
Raw materials used in production
Direct labour
Manufacturing overhead
Total manufacturing cost
Add: Work in process inventory, beginning

Deduct: Work in process inventory, ending
Cost of goods manufactured

b. Computation of cost of goods sold

Finished goods inventory, beginning
Add: Cost of goods manufactured
Goods available for sale
Deduct: Finished goods inventory, ending
Cost of goods sold

c.

Larmont Corporation
Income Statement

Sales
Less: Cost of goods sold
Gross margin
Less: Administrative expenses
Less: Selling expenses
Net income

111.

The following costs relate to one month's activity in Martin Company:

Indirect materials	\$30
Rent on factory building	50
Maintenance of equipment	5
Direct material used	1,20
Utilities on factory	25
Direct labour	1,50
Selling expense	50
Administrative expense	30
Work in process inventory, beginning	60
Work in process inventory, ending	80
Finished goods inventory, beginning	50
Finished goods inventory, ending	25

Required:

- Prepare a Schedule of Cost of Goods Manufactured in good form.
- Determine the Cost of Goods Sold.

a.

Martin Company
Schedule of Cost of
Goods Manufactured

Direct material used	
Direct labour	
Manufacturing overhead:	
Indirect materials	\$300
Rent on factory building	500
Maintenance of equipment	50
Utilities on factory	<u>250</u>
Total manufacturing costs	
Add: Work in process inventory, beginning	
Deduct: Work in process inventory, ending	
Cost of goods manufactured	

b. Cost of goods sold

Finished goods inventory, beginning
Add: Cost of goods manufactured
Goods available for sale
Finished goods inventory, ending
Cost of goods sold

Blooms: Apply

Brewer - Chapter 02 #111

Difficulty: Medium

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

112.

The following data have been taken from the accounting records of Jimbob Co. for the year.

Depreciation factory building	\$ 1
Depreciation factory equipment	\$ 4
Depreciation sales department automobiles	\$ 1
Direct wages factory employees	\$ 20
Direct benefits factory employees	\$ 3
Factory manager's salary and benefits	\$ 4
Finished goods inventory, beginning	\$ 2
Finished goods inventory, ending	\$ 3
Head office salaries and benefits	\$ 30
Other administrative expenses	\$ 4
Other manufacturing overhead expenses	\$ 4
Other selling expenses	\$ 3
Raw materials inventory, beginning	\$ 1
Raw materials inventory, ending	\$ 1
Raw materials purchased	\$ 20
Sales department salaries and commissions	\$ 14
Sales revenue	\$ 1,200
Utility costs factory	\$ 4
Utility costs sales office	\$ 2
Work in process inventory, beginning	\$ 10
Work in process inventory, ending	\$ 11

Required:

- Prepare a Schedule of Cost of Goods Manufactured in good form.
- Compute the Cost of Goods Sold.
- Using data from your answers above as needed, prepare an Income Statement in good form.

a.

Jimbob Co.
Schedule of the Cost of Goods M

Direct materials:	
Raw materials inventory, beginning	\$ 1
Direct materials purchased	<u>20</u>
Raw materials available for use	21
Raw materials inventory, ending	<u>1</u>
Raw materials used in production	
Direct labour:	
Direct wages factory employees	\$ 20
Direct benefits factory employees	<u>2</u>
Total direct labour	
Manufacturing overhead:	
Depreciation factory building	\$ 1
Depreciation factory equipment	<u>2</u>
Factory manager's salary and benefits	<u>2</u>
Other manufacturing overhead expenses	<u>2</u>
Utility costs factory	<u>2</u>
Total manufacturing overhead	
Total manufacturing costs	
Work in process inventory, beginning	
Work in process inventory, ending	
Cost of goods manufactured	

b. Cost of goods sold

Finished goods inventory, beginning
Cost of goods manufactured
Cost of goods available for sale
Finished goods inventory, ending
Cost of goods sold

c.

Jimbob Co.
Income Statement

Sales revenue
Less: Cost of goods sold
Gross margin
Less: Administrative expenses (\$300,000 + \$50,000)
Less: Selling expenses (\$10,000+\$30,000+\$150,000)
Net income

Blooms: Apply

Brewer - Chapter 02 #112

Difficulty: Medium

Learning Objective: 02-05 Prepare financial reports.

Learning Objective: 02-06 Understand and prepare manufacturing reports.

02 Summary