Chapter 2

Student: _____

1. What would be the classification of corporate controller's salary?

A.
B.
C.
D.

2. How should the cost of the fire insurance for a manufacturing plant be classified?

A.
B.
C.
D.

3. How would the cost of rent for a manufacturing plant generally be classified?

A.
B.
C.
D.

4. For a lamp manufacturing company, the cost of the insurance on its vehicles that deliver lamps to customers is best described as a:

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

8. What would be the classification of the transportation costs incurred by a manufacturing company to ship its product to its customers?

A.
B.
C.
D.

9. The advertising costs incurred by Pepsi to air its commercials during the hockey season can best be described as a:

A.
B.
C.
D.

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

A.
B.
C.
D.

11. How would the wages of factory maintenance personnel usually be classified?

A.
B.
C.
D.

12. Prime costs consist of:

A.
B.
C.
D.

13. What does manufacturing overhead cost consist of?

A.
B.
C.
D.

14. A brewery produces many variety of beer. If the cost object is a particular brand of beer the factory supervisor salary is classified a/an _____ cost of the brand of beer and a _____ cost of the entire division.

A.
B.
C.
D.

15. 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.

16. What is the outcome if the cost of goods sold is greater than the cost of goods manufactured?

A.
B.
C.
D.

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

A.
B.
C.
D.

18. Which of the following statements regarding variable cost is true?

A.
B.
C.
D.

19. Within the relevant range, what is the difference between variable costs and fixed costs?

A.
B.
C.
D.

20. The Target store in your home town is one of many Target department stores across the province. Some of the costs associated with the store in your home town last month appear below:

Shoe Department Cost of Sales	$8
Other Department Salaries	6
Store Managers Salary	1
Shoe Department Sales Commissions	
Store Utilities	1
Shoe Department Manager's Salary	
Store Lease Cost	1
Store Janitorial Costs	1
Other Store Costs	9

The Shoe Department is one of many departments in the home town store. The direct costs of the Shoe Department total:

A.
B.
C.
D.

21. Which of the following best defines an opportunity cost?

A.
B.
C.
D.

22. To what does the term differential cost refer?

A.
B.
C.
D.

23. Which of the following costs is often important in decision making, but is omitted from conventional accounting records?

A.
B.
C.
D.

24. When a decision is made among a number of alternatives, the benefit that is lost by choosing one alternative over another is called what?

A.
B.
C.
D.

25. What does conversion cost consist of?

A.
B.
C.
D.

26. Prime cost consists of direct materials and what?

A.
B.
C.
D.

27. 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.

28. 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.

29. Green Company's costs for the month of August are as follows:

Direct materials used	$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
Rent on factory	$17,000

The beginning work-in-process inventory is $16,000 and the ending work-in-process inventory is $9,000. What is the cost of goods manufactured for the month?

A.
B.
C.
D.

30. 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 costs and period costs respectively for the first year of coverage?

	Product Costs	Period Costs
A)	$2,700	$0
B)	$2,160	$540
C)	$1,440	$360
D)	$720	$180

A.
B.
C.
D.

31. You have the following data:

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

Which of the following represents the beginning work-in-process inventory?

A.
B.
C.
D.

32. During the month of May, Bennett Manufacturing Company purchases $43,000 of raw materials. The manufacturing overhead totals $27,000 and the total manufacturing costs are $106,000. Assuming a beginning inventory of raw materials of $8,000 and an ending inventory of raw materials of $6,000, what must be the total for direct labour?

A.
B.
C.
D.

33. You are given the following data for January:

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

Which of the following is the cost of goods manufactured?

A.
B.
C.
D.

34. During the month of June, Reardon Company incurs $17,000 of direct labour and $8,500 of manufacturing overhead, and purchases $15,000 of raw materials. Between the beginning and the end of the month, the raw-materials inventory increases by $2,000, the finished goods inventory increases by $1,500, and the work-in-process inventory decreases by $3,000. What is the cost of goods manufactured?

A.
B.
C.
D.

35. Mueller Company reports the following data for the year just ended:

Raw materials used in production	$
Direct labour	$
Total overhead costs	$
Ending work-in-process inventory	$
Cost of goods manufactured	$2,

What was the beginning work-in-process inventory?

A.
B.
C.
D.

36. Williams Company's direct labour cost is 25% of its conversion cost. If the manufacturing overhead cost for the last period is $45,000 and the direct materials cost is $25,000, what is the direct labour cost?

A.
B.
C.
D.

37. 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, what was the beginning inventory of finished goods?

A.
B.
C.
D.

38. 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. What was the cost of goods manufactured for the first quarter?

A.
B.
C.
D.

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

Beginning finished goods inventory	$74,0
Ending finished goods inventory	$73,0
Sales	$464,0
Gross margin	$52,0

What was the cost of goods manufactured for the month?

A.
B.
C.
D.

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

Beginning finished goods inventory	$150,7
Ending finished goods inventory	$140,4
Sales	$475,0
Gross margin	$150,0

What was the cost of goods manufactured for the year?

A.
B.
C.
D.

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

Decrease in finished goods inventory	$4,655
Sales	$500,000
Gross margin	$100,000

What was the cost of goods manufactured for the year?

A.
B.
C.
D.

42. 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 $17,0
The Year 2 ending inventory was understated by $61,0
The Year 1 ending inventory was overstated by $23,00

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

	Year 3	Year 2	Y
Net income	$168,000	$254,000	$13

Assuming there were no income taxes, what was the adjusted net income in each year?

	Year 3	Year 2	Year 1
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.

43. 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

What was the ending inventory for the company at year-end?

A.
B.
C.
D.

44. 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. What was the cost of the materials purchased during the month?

A.
B.
C.
D.

45. 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.

46. 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.

47. 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.

48. Sally Smith is employed in the production of various electronic products, and she earns $8 per hour. She is paid time-and-a-half for work in excess of 40 hours per week. During a given week, she worked 45 hours and had no idle time. How much of her week's wages would be charged to manufacturing overhead?

A.
B.
C.
D.

49. During the first week of April, Gillian worked a total of 50 hours assembling products and had no idle time. Gillian is paid $15 per hour for regular time, and is paid time-and-a-half for all hours in excess of a 40-hour week. How much of Gillian's wages for the week should be charged to direct labour?

A.
B.
C.
D.

50. Robert Smith earns $16 per hour assembling products. For each hour over 40 he works in a week he is paid time-and-a-half. During a given week, he worked 40 hours for which 3 hours were idle time. How much of his weekly wages would be charged to direct labour?

A.
B.
C.
D.

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

Sales
Raw materials inventory, beginning
Raw materials inventory, ending
Purchases of raw materials
Direct labour
Manufacturing overhead
Administrative expenses
Selling expenses
Work-in-process inventory, beginning
Work-in-process inventory, ending
Finished goods inventory, beginning
Finished goods inventory, ending

51. What was the cost (in thousands of dollars) of the raw materials used in production during the year?

A.
B.
C.
D.

52. What was the cost of goods manufactured (finished) for the year (in thousands of dollars)?

A.
B.
C.
D.

53. What was the cost of goods sold (in thousands of dollars) for the year?

A.
B.
C.
D.

54. What was the net income (in thousands of dollars) for the year?

A.
B.
C.
D.

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

Sales	
Raw materials inventory, beginning	
Raw materials inventory, ending	
Purchases of raw materials	
Direct labour	
Manufacturing overhead	
Administrative expenses	
Selling expenses	
Work-in-process inventory, beginning	
Work-in-process inventory, ending	
Finished goods inventory, beginning	
Finished goods inventory, ending	

55. What was the cost of the raw materials used in production (in thousands of dollars) during the year?

A.
B.
C.
D.

56. What was the cost of goods manufactured (finished) for the year (in thousands of dollars)?

A.
B.
C.
D.

57. What was the net income (in thousands of dollars) for the year?

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	
Raw materials inventory, beginning	
Raw materials inventory, ending	
Purchases of raw materials	
Direct labour	
Manufacturing overhead	
Administrative expenses	
Selling expenses	
Work-in-process inventory, beginning	
Work-in-process inventory, ending	
Finished goods inventory, beginning	
Finished goods inventory, ending	

58. What was the cost of the raw materials used in production (in thousands of dollars) during the year?

A.
B.
C.
D.

59. What was the cost of goods manufactured (finished) for the year (in thousands of dollars)?

A.
B.
C.
D.

60. What was the cost of goods sold (in thousands of dollars) for the year?

A.
B.
C.
D.

61. What was the Gross Margin (in thousands of dollars) for the year?

A.
B.
C.
D.

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

	July 1
Raw materials inventory	0
Work-in-process inventory	?
Finished goods inventory	$12,000

Other data:	
Cost of goods manufactured	$105,000
Raw materials used	$40,000
Manufacturing overhead costs	$20,000
Direct labour costs	$39,000
Gross Margin	$100,000
Sales	$210,000

62. What was the beginning work-in-process inventory?

A.
B.
C.
D.

63. What was the ending finished goods inventory?

A.
B.
C.
D.

Bergeron Inc. reported the following data for last year:

Work-in-process inventory, beginning	
Work-in-process inventory, ending	
Finished goods inventory, beginning	
Finished goods inventory, ending	
Direct labour cost	
Direct materials cost	
Manufacturing overhead cost	

64. Which of the following is the prime cost?

A.
B.
C.
D.

65. Which of the following is the conversion cost?

A.
B.
C.
D.

66. Which of the following is the cost of goods manufactured?

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	
Direct labour costs for the year	
Work in process, beginning	
Finished goods, beginning	
Cost of goods available for sale	
Cost of goods sold	
Work in process, ending	

67. What was the balance of the finished goods inventory at the end of the year?

A.
B.
C.
D.

68. What was the cost of goods manufactured for the year?

A.
B.
C.
D.

69. What was the manufacturing overhead cost for the year?

A.
B.
C.
D.

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

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

Additional information:	
Sales revenue	$
Direct labour costs	
Manufacturing overhead costs	
Selling expenses	
Administrative expenses	

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

A.
B.
C.
D.

71. Assuming that cost of goods sold for January was $124,000, what was the net income for January?

A.
B.
C.
D.

72. Which of the following is Boardman Company's total conversion cost for January?

A.
B.
C.
D.

73. Assuming 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. The relevant range is 30,000 to 55,000 units.

74. If CD Company sells 43,000 units, what is the total expected cost (Do not round your intermediate calculations)?

A.
B.
C.
D.

75. If CD Company sells 50,000 units, what is the total expected cost per unit? (Do not round intermediate computations). Round final answer to the nearest cent.

A.
B.
C.
D.

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

True False

77. In a manufacturing firm, depreciation is always considered a product cost for external financial reporting purposes.

True False

78. In external financial reports, factory utilities costs may be included in an asset account on the balance sheet at the end of the period.

True False

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

True False

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

True False

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

True False

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

True False

83. 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

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

True False

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

True False

86. 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

87. When raw materials are used in production, their costs are transferred to the work in process inventory account as direct materials.

True False

88. 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

89. As goods are completed their cost is transferred from the Work in Process account to the Finished Goods account where they await sale to customer.

True False

90. Some companies classify labour fringe benefits for direct labour workers as part of the direct labour cost and some classify these costs as manufacturing overhead.

True False

91. 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.

92.

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 will be $5 per unit, and the labour cost will be $3 per unit. 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. You can place an "X" under more than one heading for a single cost: for example, a cost may be a sunk cost, an overhead cost, and a product cost; you would place an "X" under each of these headings opposite the cost.

*** Between the alternatives of going into business to make the device or not going into business to make the device**. **See column heading "Differential Cost"**.

	Oppor-tunity Cost	Sunk Cost	Vari-able Cost	Fixed Cost	Mfg. Over-head	
Garage rent						
Utilities						
Cost of the industrial design course						
Equipment rented						
Material cost						
Labor cost						
Present salary						
Advertising						

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

93. 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	$2,4
Advertising expense	$1,2
Depreciation—factory building	$8
Depreciation—factory equipment	$1,6
Depreciation—office equipment	$1
Direct labour cost	$21,9
Raw materials inventory, beginning	$2,1
Raw materials inventory, ending	$3,2
Finished goods inventory, beginning	$46,9
Finished goods inventory, ending	$44,4
General liability insurance expense	$2
Indirect labour cost	$11,8
Insurance on factory	$1,4
Purchases of raw materials	$14,6
Repairs and maintenance of factory	$9
Sales salaries	$2,0
Taxes on factory	$4
Travel and entertainment expense	$1,4
Work-in-process inventory, beginning	$1,6
Work-in-process inventory, ending	$1,1

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.

94. Lake Company recorded the following data for the month of January 20xx:

Inventories	January 1, 20
Direct Material	$24,0
Work in Process	18,0
Finished Goods	22,0

All raw materials are direct material.

Additional Data:

Net Sales Revenue	$
Direct Labour Costs	
Indirect Labour Costs	
Sales Commissions	
Administrative Expenses	
Direct Materials Purchased during January	
Depreciation, factory	
Factory Maintenance and Supplies	
Utilities, (80% factory , 20% office)	
General Office Salaries	

Required:

a) Compute the amount of direct materials used in January.
b) List and total the Manufacturing Overhead costs for the month of January.
c) Compute the Cost of Goods Manufactured.
Note: It may be helpful to prepare a Cost of Goods Manufactured statement in rough form but it is not required. You may use short forms in your answers for DM, DL etc.

95. The accounts for a manufacturing company for an accounting period are listed below. Find the unknown amounts indicated by question marks.

Sales	$39,(
Cost of goods sold	
Purchases of direct materials	$11,(
Direct labour	$5,(
Finished goods inventory, beginning	$5,(
Work in process, beginning	$8
Work in process, ending	$3,(
Gross margin	$11,7
Finished goods inventory, ending	
Accounts payable, beginning	$4,(
Accounts payable, ending	$2,8
Direct materials inventory, beginning	$1,(
Direct materials inventory, ending	$3,(
Indirect labour	$2,(
Indirect materials used	$4,(
Utilities expense, factory	$3,(
Depreciation on factory equipment	$7,(

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

Sales	$3
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 factory	$
Depreciation on factory equipment	$

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

Direct materials used in production	$95,00
Direct labour	$67,00
Total manufacturing cost	$234,00
Raw materials inventory, Sept. 1	$24,00
Work-in-process inventory, Sept. 1	$6,00
Finished goods inventory, Sept. 1	$101,00
Purchases of raw materials	$102,00
Cost of goods manufactured	$233,00
Administrative expense	$41,00
Selling expense	$56,00
Sales	$344,00
Gross margin	$127,00
Net income	$30,00

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.)

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

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:

(a.) Prepare a schedule of cost of goods manufactured in good form.
(b.) Compute the cost of goods sold.
(c.) Using data from your answers above as needed, prepare an income statement in good form.

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

Sales	
Purchases of raw materials	
Direct labour	
Manufacturing overhead	
Administrative expenses	
Selling expenses	
Raw materials inventory, beginning	
Raw materials inventory, ending	
Work-in-process inventory, beginning	
Work-in-process inventory, ending	
Finished goods inventory, beginning	
Finished goods inventory, ending	

Required:

(a.) Prepare a schedule of cost of goods manufactured in good form.
(b.) Compute the cost of goods sold.
(c.) Using data from your answers above as needed, prepare an income statement in good form.

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

Sales	$990
Purchases of raw materials*	$100
Direct labour	$240
Indirect labour	$100
Indirect Material	$10
Other Factory Overhead	$100
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

*Raw Materials Inventory consist of both direct and indirect materials.

Required:

(a.) Prepare a schedule of cost of goods manufactured in good form.
(b.) Compute the cost of goods sold.
(c.) Using data from your answers above as needed, prepare an income statement in good form.

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

Indirect materials	
Rent on factory building	
Maintenance of equipment	
Direct material used	$1
Utilities on factory	
Direct labour	$1
Selling expense	
Administrative expense	
Work-in-process inventory, beginning	
Work-in-process inventory, ending	
Finished goods inventory, beginning	
Finished goods inventory, ending	

Required:

(a.) Prepare a schedule of cost of goods manufactured in good form.
(b.) Determine the cost of goods sold.
(c.) Assume Martin Company produced the equivalent of 500 units during this particular month. What was the average cost per unit for direct materials? For rent on factory building?
(d.) Assume next month Martin Company plans to produce 600 units of product. What average cost per unit and total cost would you expect to be incurred for direct material?, for rent?

102.

Brooke Foster is employed by Wong Laboratories, Inc., and is directly involved in preparing and packaging the company's leading sleep aid, RestWell. Brooke's basic wage rate is $15 per hour, and she is paid time-and-a-half for any work in excess of 40 hours per week. Additionally, Wong Laboratories provides a fringe benefit package that costs the company $5 for each hour of employee time (regular or overtime). During a recent week, Brooke worked 49 hours but was idle for 3 hours due to materials shortages.

Required:

(a.) Assume that Wong Laboratories treats all fringe benefits as part of manufacturing overhead. Compute Brooke's total wages and fringe benefits for the week and indicate how much of her wages and fringe benefits for the week would be allocated to direct labour and how much would be allocated to manufacturing overhead.
(b.) Assume that Wong Laboratories treats the part of fringe benefits related to direct labour as a component of direct labour cost. Compute Brooke's total wages and fringe benefits for the week and indicate how much of her wages and fringe benefits would be allocated to direct labour and how much would be allocated to manufacturing overhead.

103.

Fred Adams is employed by the Cedar Manufacturing Company on their assembly line. Fred is paid $15 per hour for regular time, and time-and-a-half for all work in excess of 40 hours per week. During the two weeks of the pay period just completed, Fred reported the following:

Week 1:	
Idle time due to machine breakdowns	3 hours
Idle time due to material shortages	2 hours
Overtime	None
Week 2:	
Idle time	None
Overtime	9 hours

Required:

Compute Fred's wages for each week and allocate Fred's wages for each week between direct labour cost and manufacturing overhead.

104. The following inventory and cost data for the just completed year are taken from the accounting records of Sankar Company:

Inventories	
Increase in raw materials	$4,00
Increase in work in process	30,0(
Decrease in finished goods	90,0(
Costs incurred	
Advertising expense	$200,0(
Direct labour cost	180,0(
Purchases of raw materials	264,0(
Rent, factory building	60,0(
Indirect factory labour	112,6(
Sales commissions	70,0(
Utilities, factory	18,0(
Maintenance, factory equipment	48,0(
Supplies, factory	1,4(
Depreciation, office equipment	16,0(
Depreciation, factory equipment	80,0(

Required:

(a.) Calculate the cost of goods manufactured.
(b.) Calculate the cost of goods sold

105. The following selected account balances for the year ended December 31 are provided for Amita Company:

Purchases of raw materials	$260,0(
Direct labour	65,0(
Maintenance, factory	74,0(
Selling and administrative salaries	179,0(
Depreciation, factory equipment	110,0(
Cleaning supplies	6,0(
Sales commissions	350,0(
Utilities, factory building	52,0(
Rent, factory	90,0(
Depreciation, sales equipment	80,0(
Insurance, factory equipment	8,0(
Advertising expense	300,0(

In addition, you have the following information about inventories during the year:

Increase in raw materials	$10,0(
Decrease in work in process	$15,0(
Beginning finished goods	$30,0(
Ending finished goods	$
Equivalent units produced	$

Cleaning supplies are in the factory.
Assume the company uses FIFO.

Required:

(a.) Calculate the cost of the 27,600 equivalent units that were produced during the year.
(b.) Calculate the cost of the ending finished goods inventory.
(c.) Calculate the cost of goods sold.

106.

Mary Tappin, an assistant Vice President at Galaxy Toys, was disturbed to find on her desk a memo from her boss, Gary Resnick, to the controller of the company. The memo appears below:

Galaxy Toys Internal Memo

Sept 15

To: Harry Wilson, Controller
Fm: Gary Resnick, Executive Vice President

As you know, we won't start recording many sales until October when stores start accepting shipments from us for the Christmas season. Meanwhile, we are producing flat-out and are building up our finished goods inventories so that we will be ready to ship next month. Unfortunately, we are in a bind right now since it looks like the net income for the quarter ending on Sept 30 is going to be pretty awful. This may get us in trouble with the bank since they always review the quarterly financial reports and may call in our loan if they don't like what they see. Is there any possibility that we could change the classification of some of our period costs to product costs--such as the rent on the finished goods warehouse? Please let me know as soon as possible. The President is pushing for results.
Mary didn't know what to do about the memo. It wasn't intended for her, but its contents were alarming.

Required:

a. Why has Gary Resnick suggested reclassifying some period costs as product costs?
b. Why do you think Mary was alarmed about the memo?

107.

For the majority of manufacturing companies, the distinction between period costs and product costs is essential because of its effect on net income for a period. Failure to make the distinction can affect the cost of goods manufactured and cost of goods sold.

Required:

Would the need to make the distinction between product costs and period costs still be essential if a manufacturing company were to adopt the just-in-time technique in the lean thinking model? Explain.

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

Sales	
Direct Materials Used	
Direct labour	
Manufacturing overhead	
Administrative expenses	
Selling expenses	
Work-in-process inventory, beginning	
Work-in-process inventory, ending	
Finished goods inventory, beginning	
Finished goods inventory, ending	

Required:

a) Compute the Cost of Goods Manufactured
b) Compute Cost of Goods Sold
c) What is the Gross Margin for the Year?
d) Compute Net Operating Income.

109. Manufacturing overhead is one of the three elements of manufacturing costs. Unlike direct materials and direct labour costs, assigning manufacturing overhead cost to products can be a very difficult task.

Required:

Do you agree with this aspect of manufacturing overhead? Why or why not?

Chapter 2 Key

1. What would be the classification of corporate controller's salary?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Understand
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Easy
Garrison - Chapter 02 #1
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Topic: 02-06 Non-manufacturing Costs.

2. How should the cost of the fire insurance for a manufacturing plant be classified?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Understand
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Medium
Garrison - Chapter 02 #2
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-04 Manufacturing Overhead.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

3. How would the cost of rent for a manufacturing plant generally be classified?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Understand
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Medium
Garrison - Chapter 02 #3
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-04 Manufacturing Overhead.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

4. For a lamp manufacturing company, the cost of the insurance on its vehicles that deliver lamps to customers is best described as a:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Understand
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Medium
Garrison - Chapter 02 #4
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

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

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Understand
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Easy
Garrison - Chapter 02 #5
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

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

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Understand
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Medium
Garrison - Chapter 02 #6
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

7. 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: Understand
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Easy
Garrison - Chapter 02 #7
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

8. What would be the classification of the transportation costs incurred by a manufacturing company to ship its product to its customers?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Understand
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Easy
Garrison - Chapter 02 #8
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

9. The advertising costs incurred by Pepsi to air its commercials during the hockey season can best be described as a:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #9
Learning Objective: 02-05 Explain the differences between variable and fixed costs.
Topic: 02-14 Variable Cost.
Topic: 02-15 Fixed Cost.

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

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Apply
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Easy
Garrison - Chapter 02 #10
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

11. How would the wages of factory maintenance personnel usually be classified?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Understand
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #11
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Learning Objective: 02-06 Identify the differences between direct and indirect costs.
Topic: 02-04 Manufacturing Overhead.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.
Topic: 02-16 Direct Cost
Topic: 02-17 Indirect Cost.

12. Prime costs consist of:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Understand
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Easy
Garrison - Chapter 02 #12
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

13. What does manufacturing overhead cost consist of?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Understand
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #13
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Learning Objective: 02-06 Identify the differences between direct and indirect costs.
Topic: 02-04 Manufacturing Overhead.
Topic: 02-16 Direct Cost
Topic: 02-17 Indirect Cost.

14. A brewery produces many variety of beer. If the cost object is a particular brand of beer the factory supervisor salary is classified a/an _____ cost of the brand of beer and a _____ cost of the entire division.

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #14
Learning Objective: 02-06 Identify the differences between direct and indirect costs.
Topic: 02-16 Direct Cost
Topic: 02-17 Indirect Cost.

15. 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
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #15
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-10 The Income Statement.

Topic: 02-12 Inventoriable Costs.

16. What is the outcome if the cost of goods sold is greater than the cost of goods manufactured?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #16
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.
Topic: 02-12 Inventoriable Costs.

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

A.
B.
C.
D.

The average cost per unit will decrease as activity increases due to the presence of fixed costs. Refer to page 41 of text.

Accessibility: Keyboard Navigation
Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #17
Learning Objective: 02-05 Explain the differences between variable and fixed costs.
Topic: 02-14 Variable Cost.
Topic: 02-15 Fixed Cost.

18. Which of the following statements regarding variable cost is true?

A.
B.
C.
D.

Accessibility: Keyboard Navigation

Blooms: Understand
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Easy
Garrison - Chapter 02 #18
Learning Objective: 02-05 Explain the differences between variable and fixed costs.
Topic: 02-14 Variable Cost.

19. Within the relevant range, what is the difference between variable costs and fixed costs?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Understand
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #19
Learning Objective: 02-05 Explain the differences between variable and fixed costs.
Topic: 02-14 Variable Cost.
Topic: 02-15 Fixed Cost.

20. The Target store in your home town is one of many Target department stores across the province. Some of the costs associated with the store in your home town last month appear below:

Shoe Department Cost of Sales	$8
Other Department Salaries	6
Store Managers Salary	1
Shoe Department Sales Commissions	
Store Utilities	1
Shoe Department Manager's Salary	
Store Lease Cost	1
Store Janitorial Costs	1
Other Store Costs	9

The Shoe Department is one of many departments in the home town store. The direct costs of the Shoe Department total:

A.
B.
C.
D.

80,000 + 8,000 + 9,000 = $97,000.

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.

Difficulty: Medium
Garrison - Chapter 02 #20
Learning Objective: 02-06 Identify the differences between direct and indirect costs.
Topic: 02-16 Direct Cost
Topic: 02-17 Indirect Cost.

21. Which of the following best defines an opportunity cost?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Remember
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Easy
Garrison - Chapter 02 #21
Learning Objective: 02-07 Describe the cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.
Topic: 02-19 Opportunity Cost.

22. To what does the term differential cost refer?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Understand
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #22
Learning Objective: 02-07 Describe the cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.
Topic: 02-18 Differential Cost and Revenue.

23. 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: Understand
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Easy
Garrison - Chapter 02 #23
Learning Objective: 02-07 Describe the cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.
Topic: 02-19 Opportunity Cost.

24. When a decision is made among a number of alternatives, the benefit that is lost by choosing one alternative over another is called what?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Remember
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Easy
Garrison - Chapter 02 #24
Learning Objective: 02-07 Describe the cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.
Topic: 02-19 Opportunity Cost.

25. What does conversion cost consist of?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Remember
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Easy
Garrison - Chapter 02 #25
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-04 Manufacturing Overhead.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

26. Prime cost consists of direct materials and what?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Blooms: Remember
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Easy
Garrison - Chapter 02 #26
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-04 Manufacturing Overhead.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

27. 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
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #27
Learning Objective: 02-06 Identify the differences between direct and indirect costs.
Topic: 02-16 Direct Cost
Topic: 02-17 Indirect Cost.

28. 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: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #28
Learning Objective: 02-06 Identify the differences between direct and indirect costs.
Topic: 02-16 Direct Cost
Topic: 02-17 Indirect Cost.

29. Green Company's costs for the month of August are as follows:

Direct materials used	$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
Rent on factory	$17,000

The beginning work-in-process inventory is $16,000 and the ending work-in-process inventory is $9,000. What is the cost of goods manufactured for the month?

A.
B.
C.
D.

DM + DL + MOH + WIP B.I. - WIP E.I.
27,000 + 34,000 + (10,000 + 15,000 + 2,000 + 17,000) + 16,000 - 9,000 = $112,000.

Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #29
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.

30. 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 costs and period costs respectively for the first year of coverage?

	Product Costs	Period Costs
A)	$2,700	$0
B)	$2,160	$540
C)	$1,440	$360
D)	$720	$180

A.
B.
C.
D.

($2,700/3) * 80% and ($2,700/3) * 20%

Blooms: Analyze
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Medium
Garrison - Chapter 02 #30
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

31. You have the following data:

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

Which of the following represents the beginning work-in-process inventory?

A.
B.
C.
D.

CGM + EI - Manufacturing Costs = 80 + 10 - (15 + 20 + 30) = $25

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #31
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

32. During the month of May, Bennett Manufacturing Company purchases $43,000 of raw materials. The manufacturing overhead totals $27,000 and the total manufacturing costs are $106,000. Assuming a beginning inventory of raw materials of $8,000 and an ending inventory of raw materials of $6,000, what must be the total for direct labour?

A.
B.
C.
D.

DM used = 8,000 + 43,000 - 6,000 = $45,000.
DL = 106,000 - 45,000 - 27,000 = $34,000.

Accessibility: Keyboard Navigation
Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.

Difficulty: Hard
Garrison - Chapter 02 #32
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.

33. You are given the following data for January:

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

Which of the following is the cost of goods manufactured?

A.
B.
C.
D.

38,000 + 24,000 + 17,000 + 10,000 - 11,000 = $78,000.

Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #33
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.

34. During the month of June, Reardon Company incurs $17,000 of direct labour and $8,500 of manufacturing overhead, and purchases $15,000 of raw materials. Between the beginning and the end of the month, the raw-materials inventory increases by $2,000, the finished goods inventory increases by $1,500, and the work-in-process inventory decreases by $3,000. What is the cost of goods manufactured?

A.
B.
C.
D.

RM purchased	$15,000
LESS: Increase in RM inv.	2,000
RM used	$13,000
+ DL	17,000
+ MOH	8,500
=Total Man. Costs	$38,500
ADD: Decrease in WIP inv.	3,000
CGM	$41,500

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #34
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.

35. Mueller Company reports the following data for the year just ended:

Raw materials used in production	$
Direct labour	$
Total overhead costs	$
Ending work-in-process inventory	$
Cost of goods manufactured	$2,

What was the beginning work-in-process inventory?

A.
B.
C.
D.

C.G.M. + E.I. - Man. Costs
(2,500,000 + 400,000 - 800,000) - 700,000 - 900,000 = $500,000

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #35
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.

36. Williams Company's direct labour cost is 25% of its conversion cost. If the manufacturing overhead cost for the last period is $45,000 and the direct materials cost is $25,000, what is the direct labour cost?

A.
B.
C.
D.

Let x = CC (conversion costs)
CC = DL + OH
x = .25x + 45,000
x = 60,000 Therefore DL 60,000 * .25 = $15,000

Accessibility: Keyboard Navigation
Blooms: Analyze

CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #36
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

37. 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, what was the beginning inventory of finished goods?

A.
B.
C.
D.

CGS = Sales - gross margin = $360,000 - $220,000 = 140,000
B.I. = CGS + E.I. - CGM
B.I. = 140,000 + 30,000 - 120,000 = $50,000

Accessibility: Keyboard Navigation
Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #37
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

38. 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. What was the cost of goods manufactured for the first quarter?

A.
B.
C.
D.

CGM = CGS + EI - BI
= (700,000 - 325,000) + 85,000 - 60,000 = $400,000.

Accessibility: Keyboard Navigation
Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #38
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.

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

Beginning finished goods inventory	$74,0
Ending finished goods inventory	$73,0
Sales	$464,0
Gross margin	$52,0

What was the cost of goods manufactured for the month?

A.
B.
C.
D.

CGM = CGS + EI -BI
= (464,000 - 52,000) + 73,000 - 74,000 = $411,000

Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #39
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

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

Beginning finished goods inventory	$150,7
Ending finished goods inventory	$140,4
Sales	$475,0
Gross margin	$150,0

What was the cost of goods manufactured for the year?

A.
B.
C.
D.

CGM = CGS + EI - BI
(475,000 - 150,000) + 140,475 - 150,750 = $314,725

Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #40
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

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

Decrease in finished goods inventory	$4,655
Sales	$500,000
Gross margin	$100,000

What was the cost of goods manufactured for the year?

A.
B.
C.
D.

CGM = CGS - decrease in FG inventory
CGM = (500,000 - 100,000) - 4,655 = $395,345

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #41
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

42. 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 $17,0
The Year 2 ending inventory was understated by $61,0
The Year 1 ending inventory was overstated by $23,00

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

	Year 3	Year 2	Y
Net income	$168,000	$254,000	$13

Assuming there were no income taxes, what was the adjusted net income in each year?

	Year 3	Year 2	Year 1
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.

When BI is overstated Net Income is understated.
When EI is overstated Net Income is overstated.

Year 1	NI = 138,000 -23,000 = $115,000
Year 2	BI is overstated by 23,000, EI understat
	NI = 254,000 + 84,000 = $338,000
Year 3	BI is understated by 61,000, EI understa
	NI = 168,000 – 61,000 + 17,000 = $124

Blooms: Evaluate
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #42
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-10 The Income Statement.
Topic: 02-12 Inventoriable Costs.

43. 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

What was the ending inventory for the company at year-end?

A.
B.
C.
D.

EI = BI + Purchases - CGS
EI = 24,000 + 80,000 - (128,500 - 38,550) = $14,050

Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #43
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

44. 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. What was the cost of the materials purchased during the month?

A.
B.
C.
D.

RM purchased = RM used + EI - BI
= 128,900 + 28,750 - 27,500 = $130,150

Accessibility: Keyboard Navigation
Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #44
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.

45. 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.

CGS = BI + Purchases - EI = 13,000 + 63,000 - 15,000 = $61,000

Accessibility: Keyboard Navigation
Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Easy
Garrison - Chapter 02 #45
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

46. 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.

Purchases = CGS + EI - BI = 84,000 + 18,000 - 20,000 = $82,000

Accessibility: Keyboard Navigation
Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #46
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

47. 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.

CGS = BI + CGM - EI = 16,000 + 93,000 - 20,000 = $89,000

Accessibility: Keyboard Navigation
Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Easy
Garrison - Chapter 02 #47
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

48. Sally Smith is employed in the production of various electronic products, and she earns $8 per hour. She is paid time-and-a-half for work in excess of 40 hours per week. During a given week, she worked 45 hours and had no idle time. How much of her week's wages would be charged to manufacturing overhead?

A.
B.
C.
D.

(45 - 40) hours = 5 hours overtime. MOH = 5 × 8 × 0.5 = $20.

Accessibility: Keyboard Navigation
Blooms: Apply
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Medium
Garrison - Chapter 02 #48
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Topic: 02-03 Direct Labour
Topic: 02-04 Manufacturing Overhead.
Topic: 02-05 Classification of Labour Costs of Manufacturing.

49. During the first week of April, Gillian worked a total of 50 hours assembling products and had no idle time. Gillian is paid $15 per hour for regular time, and is paid time-and-a-half for all hours in excess of a 40-hour week. How much of Gillian's wages for the week should be charged to direct labour?

A.
B.
C.
D.

50 hours * $15/hr. = $750

Accessibility: Keyboard Navigation
Blooms: Apply
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Easy
Garrison - Chapter 02 #49
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Topic: 02-03 Direct Labour
Topic: 02-04 Manufacturing Overhead.
Topic: 02-05 Classification of Labour Costs of Manufacturing.

50. Robert Smith earns $16 per hour assembling products. For each hour over 40 he works in a week he is paid time-and-a-half. During a given week, he worked 40 hours for which 3 hours were idle time. How much of his weekly wages would be charged to direct labour?

A.
B.
C.
D.

37 hrs. * $16/hr = $592

Accessibility: Keyboard Navigation
Blooms: Apply
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Medium
Garrison - Chapter 02 #50
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Topic: 02-05 Classification of Labour Costs of Manufacturing.

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

Sales
Raw materials inventory, beginning
Raw materials inventory, ending
Purchases of raw materials
Direct labour
Manufacturing overhead
Administrative expenses
Selling expenses
Work-in-process inventory, beginning
Work-in-process inventory, ending
Finished goods inventory, beginning
Finished goods inventory, ending

Garrison - Chapter 02

51. What was the cost (in thousands of dollars) of the raw materials used in production during the year?

A.
B.
C.
D.

Cost of RM used = RM BI + Purchases RM - RM EI = 40 + 120 - 70 = $90

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Easy
Garrison - Chapter 02 #51
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

52. What was the cost of goods manufactured (finished) for the year (in thousands of dollars)?

A.
B.
C.
D.

CGM = Cost of RM used + DL + OH + WIP BI - WIP EI
= 90 + 200 + 230 + 70 - 50 = $540

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #52
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

53. What was the cost of goods sold (in thousands of dollars) for the year?

A.
B.
C.
D.

CGS = BI + CGM - EI = 120 + 540 - 160 = $500

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #53
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

54. What was the net income (in thousands of dollars) for the year?

A.
B.
C.
D.

NI = Sales - CGS - Admin. Expenses - Selling Expenses
= 990 - 500 - 150 - 140 = $200

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.

Difficulty: Hard
Garrison - Chapter 02 #54
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

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

Sales
Raw materials inventory, beginning
Raw materials inventory, ending
Purchases of raw materials
Direct labour
Manufacturing overhead
Administrative expenses
Selling expenses
Work-in-process inventory, beginning
Work-in-process inventory, ending
Finished goods inventory, beginning
Finished goods inventory, ending

Garrison - Chapter 02

55. What was the cost of the raw materials used in production (in thousands of dollars) during the year?

A.
B.
C.
D.

RM used = RM BI + RM Purchases - RM EI = 80 + 100 - 20 = $160

Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Easy
Garrison - Chapter 02 #55
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

56. What was the cost of goods manufactured (finished) for the year (in thousands of dollars)?

A.
B.
C.
D.

CGM = DM used + DL + OH + BI WIP - EI WIP
= 160 + 130 + 200 + 40 - 10 = $520

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #56
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

57. What was the net income (in thousands of dollars) for the year?

A.
B.
C.
D.

NI = Sales - CGS - Admin. Expenses - Selling expenses
= 910 - (130 + 520 - 150) - 160 - 140 = $110

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #57
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

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

Sales
Raw materials inventory, beginning
Raw materials inventory, ending
Purchases of raw materials
Direct labour
Manufacturing overhead
Administrative expenses
Selling expenses
Work-in-process inventory, beginning
Work-in-process inventory, ending
Finished goods inventory, beginning
Finished goods inventory, ending

Garrison - Chapter 02

58. What was the cost of the raw materials used in production (in thousands of dollars) during the year?

A.
B.
C.
D.

Cost of RM used = RM BI + RM Purchases - RM EI = 60 + 180 - 70 = $170

Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Easy
Garrison - Chapter 02 #58
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

59. What was the cost of goods manufactured (finished) for the year (in thousands of dollars)?

A.
B.
C.
D.

CGM = RM used + DL + OH + BI WIP - EI WIP
= 170 + 100 + 190 + 70 - 80 = $450

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #59
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

60. What was the cost of goods sold (in thousands of dollars) for the year?

A.
B.
C.
D.

CGS = BI + CGM - EI = 120 + 450 - 160 = $410

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #60
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

61. What was the Gross Margin (in thousands of dollars) for the year?

A.
B.
C.
D.

GM = Sales - CGS = 800 - 410 = $390

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #61
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

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

	July 1
Raw materials inventory	0
Work-in-process inventory	?
Finished goods inventory	$12,000

Other data:	
Cost of goods manufactured	$105,000
Raw materials used	$40,000
Manufacturing overhead costs	$20,000
Direct labour costs	$39,000
Gross Margin	$100,000
Sales	$210,000

Garrison - Chapter 02

62. What was the beginning work-in-process inventory?

A.
B.
C.
D.

BI WIP = CGM + EI WIP - RM used - DL - OH
= 105,000 + 4,000 - 40,000 - 39,000 - 20,000 = $10,000

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #62
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

63. What was the ending finished goods inventory?

A.
B.
C.
D.

EI = BI + CGM - CGS
= 12,000 + 105,000 - (210,000 - 100,000) = $7,000

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #63
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

Bergeron Inc. reported the following data for last year:

Work-in-process inventory, beginning	
Work-in-process inventory, ending	
Finished goods inventory, beginning	
Finished goods inventory, ending	
Direct labour cost	
Direct materials cost	
Manufacturing overhead cost	

Garrison - Chapter 02

64. Which of the following is the prime cost?

A.
B.
C.
D.

Prime cost = DM + DL = 500 + 300 = $800

Blooms: Apply
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Easy
Garrison - Chapter 02 #64
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

65. Which of the following is the conversion cost?

A.
B.
C.
D.

CC = DL + OH = 300 + 400 = $700

Blooms: Apply
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Easy
Garrison - Chapter 02 #65
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

66. Which of the following is the cost of goods manufactured?

A.
B.
C.
D.

CGM = DM + DL + OH + WIP BI - WIP EI
= 500 + 300 + 400 + 100 - 150 = $1,150

Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #66
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

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	
Direct labour costs for the year	
Work in process, beginning	
Finished goods, beginning	
Cost of goods available for sale	
Cost of goods sold	
Work in process, ending	

67. What was the balance of the finished goods inventory at the end of the year?

A.
B.
C.
D.

EI = Cost of Goods Available for sale - Cost of Goods Sold
= 288,000 - 238,000 = $50,000

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #67
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

68. What was the cost of goods manufactured for the year?

A.
B.
C.
D.

CGM = Cost of Goods Available for sale - Finished Goods B.I.
= 288,000 - 45,000 = $243,000

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #68
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

69. What was the manufacturing overhead cost for the year?

A.
B.
C.
D.

Compute Total Manufacturing Costs = CGM + EI WIP - BI WIP
= 243,000 + 16,000 - 22,000 = $237,000
Then compute manufacturing overhead = Total Man. Costs - DM - DL
Manufacturing overhead = 237,000 - 110,000 - 55,000 = $72,000

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #69
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

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

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

Additional information:	
Sales revenue	$
Direct labour costs	
Manufacturing overhead costs	
Selling expenses	
Administrative expenses	

Garrison - Chapter 02

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

A.
B.
C.
D.

TMC = DM used + DL + MOH
= (32,000 + 35,000 - 31,000) + 40,000 + 70,000 = $146,000

Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #70
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

71. Assuming that cost of goods sold for January was $124,000, what was the net income for January?

A.
B.
C.
D.

NI = Sales - CGS - Selling Exp. - Admin. Exp.
= 210,000 - 124,000 - 25,000 - 35,000 = $26,000.

Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #71
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

72. Which of the following is Boardman Company's total conversion cost for January?

A.
B.
C.
D.

CC = DL + OH = 40,000 + 70,000 = $110,000

Blooms: Apply
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.

Difficulty: Easy
Garrison - Chapter 02 #72
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

73. Assuming 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.

CGM = COGS + EI - BI = 140,000 + 35,000 - 30,000 = $145,000

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #73
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

At a sales volume of 32,000 units, CD Company's total fixed costs are $64,000 and total variable costs are $60,000. The relevant range is 30,000 to 55,000 units.

Garrison - Chapter 02

74. If CD Company sells 43,000 units, what is the total expected cost (Do not round your intermediate calculations)?

A.
B.
C.
D.

VC/unit = $60,000/32,000 units = $1.875/unit
Total Cost = VC + FC
= 43,000 * 1.875 + 64,000 = $144,625

Accessibility: Keyboard Navigation
Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #74
Learning Objective: 02-05 Explain the differences between variable and fixed costs.
Topic: 02-14 Variable Cost.
Topic: 02-15 Fixed Cost.

75. If CD Company sells 50,000 units, what is the total expected cost per unit? (Do not round intermediate computations). Round final answer to the nearest cent.

A.
B.
C.
D.

VC/unit = 60,000/32,000 = $1.875/unit
TC = VC + FC = 50,000 * 1.875 + 64,000 = $157,750
Expected Cost/unit = 157,750/50,000 = 3.155 = $3.16/unit

Accessibility: Keyboard Navigation
Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #75
Learning Objective: 02-05 Explain the differences between variable and fixed costs.
Topic: 02-14 Variable Cost.
Topic: 02-15 Fixed Cost.

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

FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Easy
Garrison - Chapter 02 #76
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

77. In a manufacturing firm, depreciation is always considered a product cost for external financial reporting purposes.

FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Medium
Garrison - Chapter 02 #77
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

78. In external financial reports, factory utilities costs may be included in an asset account on the balance sheet at the end of the period.

TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Medium
Garrison - Chapter 02 #78
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Topic: 02-04 Manufacturing Overhead.
Topic: 02-05 Classification of Labour Costs of Manufacturing.

79. 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
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Medium
Garrison - Chapter 02 #79
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-06 Non-manufacturing Costs.
Topic: 02-07 Product Costs.

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

TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Easy
Garrison - Chapter 02 #80
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Topic: 02-04 Manufacturing Overhead.

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

FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Easy
Garrison - Chapter 02 #81
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-04 Manufacturing Overhead.
Topic: 02-07 Product Costs.

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

FALSE

Accessibility: Keyboard Navigation

Blooms: Understand
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #82
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

83. 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: Understand
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #83
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-10 The Income Statement.

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

FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Easy
Garrison - Chapter 02 #84
Learning Objective: 02-05 Explain the differences between variable and fixed costs.
Topic: 02-14 Variable Cost.

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

TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Easy
Garrison - Chapter 02 #85
Learning Objective: 02-05 Explain the differences between variable and fixed costs.
Topic: 02-15 Fixed Cost.

86. 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: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Easy
Garrison - Chapter 02 #86
Learning Objective: 02-06 Identify the differences between direct and indirect costs.
Topic: 02-16 Direct Cost
Topic: 02-17 Indirect Cost.

87. When raw materials are used in production, their costs are transferred to the work in process inventory account as direct materials.

TRUE

Accessibility: Keyboard Navigation
Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #87
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-11 Product Costs—A Closer Look.
Topic: 02-12 Inventoriable Costs.

88. 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: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #88
Learning Objective: 02-06 Identify the differences between direct and indirect costs.
Topic: 02-17 Indirect Cost.

89. As goods are completed their cost is transferred from the Work in Process account to the Finished Goods account where they await sale to customer.

TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #89
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-11 Product Costs—A Closer Look.

90. Some companies classify labour fringe benefits for direct labour workers as part of the direct labour cost and some classify these costs as manufacturing overhead.

TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Easy
Garrison - Chapter 02 #90
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Topic: 02-05 Classification of Labour Costs of Manufacturing.

91. 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: Understand
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Easy
Garrison - Chapter 02 #91
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.

92. 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 will be $5 per unit, and the labour cost will be $3 per unit. 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. You can place an "X" under more than one heading for a single cost: for example, a cost may be a sunk cost, an overhead cost, and a product cost; you would place an "X" under each of these headings opposite the cost.

*** Between the alternatives of going into business to make the device or not going into business to make the device**. **See column heading "Differential Cost"**.

	Oppor-tunity Cost	Sunk Cost	Vari-able Cost	Fixed Cost	Mfg. Over-head	
Garage rent						
Utilities						
Cost of the industrial design course						
Equipment rented						
Material cost						
Labor 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	Mfg. Overhead
Garage rent				X	X
Utilities				X	X
Cost of the industrial design course		X			
Equipment rented				X	X
Material cost			X		
Labor cost			X		
Present salary	X				
Advertising				X	

Blooms: Apply
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #92
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Learning Objective: 02-05 Explain the differences between variable and fixed costs.
Learning Objective: 02-06 Identify the differences between direct and indirect costs.
Learning Objective: 02-07 Describe the cost classifications used in making decisions: differential costs; opportunity costs; and sunk costs.
Topic: 02-07 Product Costs.
Topic: 02-14 Variable Cost.
Topic: 02-16 Direct Cost
Topic: 02-18 Differential Cost and Revenue.

93. 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	$2,4
Advertising expense	$1,2
Depreciation—factory building	$8
Depreciation—factory equipment	$1,6
Depreciation—office equipment	$1
Direct labour cost	$21,9
Raw materials inventory, beginning	$2,1
Raw materials inventory, ending	$3,2
Finished goods inventory, beginning	$46,9
Finished goods inventory, ending	$44,4
General liability insurance expense	$2
Indirect labour cost	$11,8
Insurance on factory	$1,4
Purchases of raw materials	$14,6
Repairs and maintenance of factory	$9
Sales salaries	$2,0
Taxes on factory	$4
Travel and entertainment expense	$1,4
Work-in-process inventory, beginning	$1,6
Work-in-process inventory, ending	$1,1

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 COMPANY
Schedule of Cost of Goods Manufactur

Raw materials used:	
Beginning inventory	
Purchases	
Available	
Less ending inventory	
Direct labor	
Manufacturing overhead:	
Depreciation -- factory building	
Depreciation -- factory equipment	
Indirect labor cost	
Insurance on factory	
Repairs and maintenance	
Taxes on factory	
Total manufacturing cost	
Add work in process inventory, beginning	
Less work in process inventory, ending	
Cost of goods manufactured	

b.)

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

Blooms: Apply
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #93
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.

94. Lake Company recorded the following data for the month of January 20xx:

Inventories	January 1, 20
Direct Material	$24,0
Work in Process	18,0
Finished Goods	22,0

All raw materials are direct material.

Additional Data:

Net Sales Revenue	$
Direct Labour Costs	
Indirect Labour Costs	
Sales Commissions	
Administrative Expenses	
Direct Materials Purchased during January	
Depreciation, factory	
Factory Maintenance and Supplies	
Utilities, (80% factory , 20% office)	
General Office Salaries	

Required:

a) Compute the amount of direct materials used in January.
b) List and total the Manufacturing Overhead costs for the month of January.
c) Compute the Cost of Goods Manufactured.
Note: It may be helpful to prepare a Cost of Goods Manufactured statement in rough form but it is not required. You may use short forms in your answers for DM, DL etc.

a:

D.M. Jan. 1	$24,00
Add: D.M purchased	30,00
	$54,00
Less: D.M. Jan. 31	23,00
Direct Material Used	$31,00

b:

Indirect Labour	$45,000
Depreciation, factory	10,000
Factory Maintenance and Supplies	8,000
Utilities, factory (25,000 * 80%)	20,000
Total Man. Overhead	$83,000

c:

DM	$31,000
DL	40,000
MOH	83,000
Total Man, costs	$154,000
Add: WIP, Jan. 1	18,000
	$172,000
Less: WIP, Jan. 31	15,000
Cost Goods Man.	$157,000

Blooms: Analyze
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #94
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.
Topic: 02-10 The Income Statement.

95. The accounts for a manufacturing company for an accounting period are listed below. Find the unknown amounts indicated by question marks.

Sales	$39,(
Cost of goods sold	
Purchases of direct materials	$11,(
Direct labour	$5,(
Finished goods inventory, beginning	$5,(
Work in process, beginning	$8
Work in process, ending	$3,(
Gross margin	$11,7
Finished goods inventory, ending	
Accounts payable, beginning	$4,(
Accounts payable, ending	$2,8
Direct materials inventory, beginning	$1,(
Direct materials inventory, ending	$3,(
Indirect labour	$2,(
Indirect materials used	$4,(
Utilities expense, factory	$3,(
Depreciation on factory equipment	$7,(

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: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #95
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.

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

Sales	$31
Purchases of direct materials	$7
Direct labour	$5
Work-in-process inventory, 1/1	
Work-in-process inventory, 12/31	$3
Finished goods inventory, 1/1	$4
Finished goods inventory, 12/31	$5
Accounts payable, 1/1	$1
Accounts payable, 12/31	$1
Direct materials inventory, 1/1	$6
Direct materials inventory, 12/31	$1
Indirect labour	
Indirect materials used	
Utilities factory	$1
Depreciation on factory equipment	$3

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
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #96
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.

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

Direct materials used in production	$95,00
Direct labour	$67,00
Total manufacturing cost	$234,00
Raw materials inventory, Sept. 1	$24,00
Work-in-process inventory, Sept. 1	$6,00
Finished goods inventory, Sept. 1	$101,00
Purchases of raw materials	$102,00
Cost of goods manufactured	$233,00
Administrative expense	$41,00
Selling expense	$56,00
Sales	$344,00
Gross margin	$127,00
Net income	$30,00

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
Schedule of Cost of Goods Manufactu

Direct materials used:	
Inventory, Sept. 1	
Purchases	
Inventory, Sept. 30 (d) – plug	
Direct materials used – given	
Direct labor	
Manufacturing overhead (e) – plug	
Total manufacturing cost – given	
Inventory of work in process, Sept 1	
Inventory of work in process, Sept 30 (c) – plug	
Cost of goods manufactured – given	

MARCHANT MANUFACTURING
Income Statement

Sales	
Cost of goods sold:	
Finished goods, Sept 1	$1(
Cost of goods manufactured – above	2
Available for sale	
Finished goods, Sept 30 (b) – plug	
Cost of goods sold (a) – plug	
Gross margin – given	
Operating expenses:	
Administrative expenses	
Selling expenses	
Net income – given	

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #97
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.

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

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:

(a.) Prepare a schedule of cost of goods manufactured in good form.
(b.) Compute the cost of goods sold.
(c.) Using data from your answers above as needed, prepare an income statement in good form.

(a.) 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.) Income statement

Sales	
Deduct: Cost of goods sold	
Gross margin	
Operating Expenses:	
Administrative expenses	$13
Selling expenses	$18
Net income	

Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #98
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.

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

Sales	
Purchases of raw materials	
Direct labour	
Manufacturing overhead	
Administrative expenses	
Selling expenses	
Raw materials inventory, beginning	
Raw materials inventory, ending	
Work-in-process inventory, beginning	
Work-in-process inventory, ending	
Finished goods inventory, beginning	
Finished goods inventory, ending	

Required:

(a.) Prepare a schedule of cost of goods manufactured in good form.
(b.) Compute the cost of goods sold.
(c.) Using data from your answers above as needed, prepare an income statement in good form.

(a.) 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.) Income statement

Sales		$870
Deduct: Cost of goods sold		460
Gross margin		$410
Operating Expenses:		
Administrative expenses	$160	
Deduct: Selling expenses	140	200
Net income		$110

Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #99
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.

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

Sales	$990
Purchases of raw materials*	$100
Direct labour	$240
Indirect labour	$100
Indirect Material	$10
Other Factory Overhead	$100
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

*Raw Materials Inventory consist of both direct and indirect materials.

Required:

(a.) Prepare a schedule of cost of goods manufactured in good form.
(b.) Compute the cost of goods sold.
(c.) Using data from your answers above as needed, prepare an income statement in good form.

(a.) Schedule of cost of goods manufactured

Note: For calculation of Direct Materials used you must remember to take out the portion that is indirect material.

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	
Less: Indirect Material	
Direct Material Used	
Direct labour	
Manufacturing overhead:	
Indirect Labour	
Indirect Material	
Other Manufacturing Overhead	
Total 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	$160
Add: Cost of goods manufactured	$500
Goods available for sale	$660
Deduct: Finished goods inventory, ending	$150
Cost of goods sold	$510

(c.) Income statement

Sales	
Deduct: Cost of goods sold	
Gross margin	
Operating Expenses:	
Administrative expenses	$100
Selling expenses	$140
Net income	

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #100
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-04 Manufacturing Overhead.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.

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

Indirect materials	
Rent on factory building	
Maintenance of equipment	
Direct material used	$1
Utilities on factory	
Direct labour	$1
Selling expense	
Administrative expense	
Work-in-process inventory, beginning	
Work-in-process inventory, ending	
Finished goods inventory, beginning	
Finished goods inventory, ending	

Required:

(a.) Prepare a schedule of cost of goods manufactured in good form.
(b.) Determine the cost of goods sold.
(c.) Assume Martin Company produced the equivalent of 500 units during this particular month. What was the average cost per unit for direct materials? For rent on factory building?
(d.) Assume next month Martin Company plans to produce 600 units of product. What average cost per unit and total cost would you expect to be incurred for direct material?, for rent?

(a.) Direct materials	
Direct labor	
Manufacturing overhead:	
Indirect materials	$300
Rent	500
Maintenance	50
Utilities	250
Total manufacturing costs	
Add: WIP, beginning	
Deduct: WIP, ending	
Cost of goods manufactured	
(b.) Finished goods, beginning	
Add: Cost of goods manufactured	
Goods available for sale	
Finished goods, ending	
Cost of goods sold	

c. Direct material $1,200/500 units = $2.40 per unit
Rent $500/500 = $1.00 per unit
d. Average cost per unit for Direct Material remains at $2.40 for a total of $1,440 (600 * $2.40). Average cost per unit for Rent will be $0.83 ($500/600) and the total remains at $500. Fixed costs per unit decrease as activity increases.

Blooms: Apply
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #101
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Learning Objective: 02-05 Explain the differences between variable and fixed costs.
Topic: 02-05 Classification of Labour Costs of Manufacturing.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.
Topic: 02-14 Variable Cost.

102. Brooke Foster is employed by Wong Laboratories, Inc., and is directly involved in preparing and packaging the company's leading sleep aid, RestWell. Brooke's basic wage rate is $15 per hour, and she is paid time-and-a-half for any work in excess of 40 hours per week. Additionally, Wong Laboratories provides a fringe benefit package that costs the company $5 for each hour of employee time (regular or overtime). During a recent week, Brooke worked 49 hours but was idle for 3 hours due to materials shortages.

Required:

(a.) Assume that Wong Laboratories treats all fringe benefits as part of manufacturing overhead. Compute Brooke's total wages and fringe benefits for the week and indicate how much of her wages and fringe benefits for the week would be allocated to direct labour and how much would be allocated to manufacturing overhead.
(b.) Assume that Wong Laboratories treats the part of fringe benefits related to direct labour as a component of direct labour cost. Compute Brooke's total wages and fringe benefits for the week and indicate how much of her wages and fringe benefits would be allocated to direct labour and how much would be allocated to manufacturing overhead.

(a.)

Regular time:	40 hours x $15	$ 600.00
Overtime:	9 hours x $22.50	202.50
Fringe benefits:	49 hours x $5	245.00
Total wages and fringe benefits		$ 1,047.50
Allocation of wages and fringe benefits:		
Direct labour:	46 hrs. x $15	$ 690.00
Manufacturing overhead:		
Idle time:	3 hrs. x $15	45.00
Overtime premium:	9 hrs. x $7.50	67.50
Fringe benefit:	49 hrs. x $5	245.00
Total wages and fringe benefits		$ 1,047.50

(b.) Total wages and fringe benefits would be $1,047.50 as shown in (a.) above.
Allocation of wages and fringe benefits:

Direct labour:		
Wage cost:	46 hrs. x $15	$ 690.00
Fringe benefit:	46 hrs. x $5	230.00
Total direct labour		$ 920.00
Manufacturing overhead:		
Idle time:	3 hrs. x $15	$ 45.00
Overtime premium:	9 x $7.50	67.50
Fringe benefits: .	3 hrs. x $5	15.00
Total manufacturing overhead		$ 127.50
Total wages and fringe benefits		$ 1,047.50

Blooms: Analyze
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Hard
Garrison - Chapter 02 #102
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Topic: 02-03 Direct Labour
Topic: 02-05 Classification of Labour Costs of Manufacturing.

103. Fred Adams is employed by the Cedar Manufacturing Company on their assembly line. Fred is paid $15 per hour for regular time, and time-and-a-half for all work in excess of 40 hours per week. During the two weeks of the pay period just completed, Fred reported the following:

Week 1:	
Idle time due to machine breakdowns	3 hours
Idle time due to material shortages	2 hours
Overtime	None
Week 2:	
Idle time	None
Overtime	9 hours

Required:

Compute Fred's wages for each week and allocate Fred's wages for each week between direct labour cost and manufacturing overhead.

Week 1:
Fred's wages equal 40 hours x $15 per hour, or $600.
Fred's wages would be allocated between direct labour and manufacturing overhead as follows:

Direct labour cost: 35 hours x $15	$525.00
Manufacturing overhead: 5 hours x $15	75.00
Total	$600.00

Week 2:
Fred's wages equal:

40 hours x $15 per hour	$600.00
9 hours x $22.50 per hour	202.50
Total wages for Week 2	$802.50

Fred's wages would be allocated between direct labour and manufacturing overhead as follows:

Direct labour cost: 49 hours x $15 per hour	$735.0
Manufacturing overhead: 9 hours x $7.50	67.5
Total	$802.5

Blooms: Analyze
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
Difficulty: Medium
Garrison - Chapter 02 #103
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Topic: 02-03 Direct Labour
Topic: 02-05 Classification of Labour Costs of Manufacturing.

104. The following inventory and cost data for the just completed year are taken from the accounting records of Sankar Company:

Inventories	
Increase in raw materials	$4,00
Increase in work in process	30,0(
Decrease in finished goods	90,0(
Costs incurred	
Advertising expense	$200,0(
Direct labour cost	180,0(
Purchases of raw materials	264,0(
Rent, factory building	60,0(
Indirect factory labour	112,6(
Sales commissions	70,0(
Utilities, factory	18,0(
Maintenance, factory equipment	48,0(
Supplies, factory	1,4(
Depreciation, office equipment	16,0(
Depreciation, factory equipment	80,0(

Required:

(a.) Calculate the cost of goods manufactured.
(b.) Calculate the cost of goods sold

(a.)

Direct material used:	
Purchases of raw materials	$264,000
Deduct: Increase in raw materials	4,000
Direct labour cost	
Manufacturing overhead cost incurred:	
Rent, factory building	$60,000
Indirect factory labour	112,600
Utilities, factory	18,000
Maintenance, factory equipment	48,000
Supplies, factory	1,400
Depreciation, factory equipment	80,000
Total manufacturing cost added	
Deduct: Increase in work in process inventory	
Cost of goods manufactured	

(b.)

Cost of goods manufactured
Add: Decrease in finished goods inventory
Cost of goods sold

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #104
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.

105. The following selected account balances for the year ended December 31 are provided for Amita Company:

Purchases of raw materials	$260,0(
Direct labour	65,0(
Maintenance, factory	74,0(
Selling and administrative salaries	179,0(
Depreciation, factory equipment	110,0(
Cleaning supplies	6,0(
Sales commissions	350,0(
Utilities, factory building	52,0(
Rent, factory	90,0(
Depreciation, sales equipment	80,0(
Insurance, factory equipment	8,0(
Advertising expense	300,0(

In addition, you have the following information about inventories during the year:

Increase in raw materials	$10,0(
Decrease in work in process	$15,0(
Beginning finished goods	$30,0(
Ending finished goods	
Equivalent units produced	

Cleaning supplies are in the factory.
Assume the company uses FIFO.

Required:

(a.) Calculate the cost of the 27,600 equivalent units that were produced during the year.
(b.) Calculate the cost of the ending finished goods inventory.
(c.) Calculate the cost of goods sold.

(a.) This is the same as calculating the cost of goods manufactured during the year.

Direct material used:	
Purchases of raw materials	$ 260,00
Deduct: Increase in raw materials	10,00
Direct labour cost	
Manufacturing overhead cost incurred:	
Maintenance, factory	$ 74,00
Depreciation, factory equipment	110,00
Cleaning supplies, factory	6,00
Utilities, factory	52,00
Rent, factory building	90,00
Insurance, factory equipment	8,00
Total manufacturing cost added	
Add: Decrease in work in process inventory	
Cost of goods manufactured	

(b.) Because the company uses FIFO, the entire 3,400 units in ending finished goods inventory are from the 27,600 equivalent units produced during the year. The average manufacturing cost per unit is $24.28 per unit rounded to the nearest cent, that is, $670,000/27,600. The cost of the ending finished goods inventory **is $82,522**, that is, 3,400 × $24.28 per unit.

(c.)

Beginning Inventory
Add: Cost of goods manufactured (a)
Cost of Goods Available for Sale
Less: Ending Inventory (b)
Cost of Goods Sold

Blooms: Analyze
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #105
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.

106.

Mary Tappin, an assistant Vice President at Galaxy Toys, was disturbed to find on her desk a memo from her boss, Gary Resnick, to the controller of the company. The memo appears below:

Galaxy Toys Internal Memo

Sept 15

To: Harry Wilson, Controller
Fm: Gary Resnick, Executive Vice President

As you know, we won't start recording many sales until October when stores start accepting shipments from us for the Christmas season. Meanwhile, we are producing flat-out and are building up our finished goods inventories so that we will be ready to ship next month. Unfortunately, we are in a bind right now since it looks like the net income for the quarter ending on Sept 30 is going to be pretty awful. This may get us in trouble with the bank since they always review the quarterly financial reports and may call in our loan if they don't like what they see. Is there any possibility that we could change the classification of some of our period costs to product costs--such as the rent on the finished goods warehouse? Please let me know as soon as possible. The President is pushing for results.
Mary didn't know what to do about the memo. It wasn't intended for her, but its contents were alarming.

Required:

a. Why has Gary Resnick suggested reclassifying some period costs as product costs?
b. Why do you think Mary was alarmed about the memo?

a. Gary Resnick has suggested reclassifying some period costs as product costs since the company is building up large finished goods inventories in anticipation of the Christmas selling season. Product costs are inventoried and flow through to the income statement only when products are sold. Period expenses, in contrast, flow directly to the income statement. Since most of the finished

goods inventories will be held over to the next quarter, reclassifying period costs as product costs will effectively defer recognition of expenses until next quarter and therefore will improve the current quarter's net operating income.

b. Mary Tappin is probably alarmed by both the economic situation the company finds itself in and by the apparent willingness of top management to bend the rules. Improperly reclassifying costs is an indication that top management does not feel like it has to play by the rules or be honest in its dealings with the bank. With such loose ethical standards, Mary may wonder what other things they are doing that are unethical and/or illegal.

Blooms: Evaluate
CPA Competency: 3.1.2 Evaluates the types of information systems used and the role they play in an organization
CPA Competency: 3.3.1 Evaluates cost classifications and costing methods for management of ongoing operations.
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #106
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-08 Period Costs.
Topic: 02-10 The Income Statement.
Topic: 02-11 Product Costs—A Closer Look.
Topic: 02-12 Inventoriable Costs.

107. For the majority of manufacturing companies, the distinction between period costs and product costs is essential because of its effect on net income for a period. Failure to make the distinction can affect the cost of goods manufactured and cost of goods sold.

Required:

Would the need to make the distinction between product costs and period costs still be essential if a manufacturing company were to adopt the just-in-time technique in the lean thinking model? Explain.

The need for the distinction would not be essential in terms of its impact on net income. There will literally be no inventories of any kind (raw materials, work-in-process, and finished goods). Cost of goods manufactured will equal all the manufacturing costs incurred (nothing to be held back as product costs or assets in either raw materials inventory or work-in-process inventory). Cost of goods sold will also equal cost of goods manufactured (again because nothing will be held back as product cost in finished goods inventory). All manufacturing costs will be released to the income statement and therefore, in essence, treated as period costs.

Blooms: Evaluate
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #107
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.
Topic: 02-10 The Income Statement.
Topic: 02-12 Inventoriable Costs.

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

Sales	
Direct Materials Used	
Direct labour	
Manufacturing overhead	
Administrative expenses	
Selling expenses	
Work-in-process inventory, beginning	
Work-in-process inventory, ending	
Finished goods inventory, beginning	
Finished goods inventory, ending	

Required:

a) Compute the Cost of Goods Manufactured
b) Compute Cost of Goods Sold
c) What is the Gross Margin for the Year?
d) Compute Net Operating Income.

a. CGM = DM + DL + MOH + WIP beg. - WIP end. =
90 + 200 + 230 +70 - 50 = $540
b. CGS = Fin. Goods beg. + CGM - Fin. Goods end =
120 + 540 - 160 = $500
c. GM = Sales - CGS = 990 - 500 = $490
d. Net Op. Income = GM - Operating Expenses = 490 - (150 + 140) = $200

Blooms: Apply
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Medium
Garrison - Chapter 02 #108
Learning Objective: 02-02 Distinguish between product costs and period costs; and give examples of each.
Learning Objective: 02-03 Prepare an income statement; including the calculation of cost of goods sold.
Learning Objective: 02-04 Prepare a schedule of cost of goods manufactured.
Topic: 02-07 Product Costs.
Topic: 02-08 Period Costs.
Topic: 02-10 The Income Statement.

109. Manufacturing overhead is one of the three elements of manufacturing costs. Unlike direct materials and direct labour costs, assigning manufacturing overhead cost to products can be a very difficult task.

Required:

Do you agree with this aspect of manufacturing overhead? Why or why not?

The response is an emphatic yes (note: this response may not be so obvious to many students at this stage of the course). Manufacturing overhead costs are indirect in the sense that they cannot be conveniently traced to particular products. Some of these costs are consumed in very small amounts and therefore tracing is not cost-effective. Others may be common costs because they are consumed jointly by several products. An example is the straight-line depreciation cost of factory equipment used to manufacture multiple products. It is almost impossible to trace such cost to individual products.
Manufacturing overhead costs are, therefore, assigned to products only by using some allocation base, such as some aspects of direct labour (for example; direct labour hours and direct labour cost). Choosing an appropriate allocation is not easy since there are usually several competing ones. Overhead application is covered in more detail in chapter 5. It should be noted that recent advances in technology and managerial accounting techniques are making it possible to conveniently (and economically) trace some of the so-called overhead costs to products. Some of these advances (for example, activity-based costing and bar coding) will be covered in later topics.

Blooms: Create
CPA Competency: 3.3.2 Evaluates and applies cost management techniques appropriate for specific costing decisions.
Difficulty: Hard
Garrison - Chapter 02 #109
Learning Objective: 02-01 Identify and give examples of each of the three basic manufacturing cost categories.
Learning Objective: 02-06 Identify the differences between direct and indirect costs.
Topic: 02-04 Manufacturing Overhead.
Topic: 02-05 Classification of Labour Costs of Manufacturing.
Topic: 02-16 Direct Cost
Topic: 02-17 Indirect Cost.

Chapter 2 Summary