

Name _____ Class _____ Date _____
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Chapter 01 - Introduction to Managerial Accounting

1. Managerial accounting reports must be prepared according to generally accepted accounting principles.

- a. True
- b. False

ANSWER: False

2. Managerial accounting uses only past data in reports to aid management in the decision-making process.

- a. True
- b. False

ANSWER: False

3. Managerial accounting information includes both historical and estimated data.

- a. True
- b. False

ANSWER: True

4. Although finance and accounting professionals often work within verticals and other horizontals, they do not normally report directly to the heads of those units or departments.

- a. True
- b. False

ANSWER: True

5. A diagram of the operating structure of an organization is called an organization chart.

- a. True
- b. False

ANSWER: True

6. The functions reporting to the CFO sometimes are grouped together and referred to as *corporate finance*.

- a. True
- b. False

ANSWER: True

7. In smaller companies, the term *controller* may be used to refer to the chief financial officer.

- a. True
- b. False

ANSWER: True

8. A staff department or unit is one that provides services, assistance, and advice to the departments with line or other staff responsibilities.

- a. True
- b. False

ANSWER: True

9. Horizontals are departments within a company that are responsible for developing products.

- a. True

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b. False

ANSWER: False

10. While no two company structures are identical, most large companies are organized in terms of verticals and diagonals.

a. True
b. False

ANSWER: False

11. Verticals prepare their own income statements.

a. True
b. False

ANSWER: True

12. Managerial accounting reports are designed to meet the specific needs of a company's management.

a. True
b. False

ANSWER: True

13. Planning is the process of monitoring operating results and comparing actual results with the expected results.

a. True
b. False

ANSWER: False

14. Planning is the process of developing the company's objectives or goals and translating these objectives into courses of action.

a. True
b. False

ANSWER: True

15. Controlling deals with choosing goals and deciding how to achieve them.

a. True
b. False

ANSWER: False

16. Controlling is the process of monitoring operating results and comparing actual results with the expected results.

a. True
b. False

ANSWER: True

17. Managers use managerial information to evaluate performance of a company's operation.

a. True
b. False

ANSWER: True

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18. Managerial information is for external as well as internal stakeholders.

- a. True
- b. False

ANSWER: False

19. A report analyzing how many products need to be sold to cover operating costs is not typically a managerial accounting report.

- a. True
- b. False

ANSWER: False

20. A report analyzing the dollar savings of purchasing new equipment to speed up the production process is a managerial accounting report.

- a. True
- b. False

ANSWER: True

21. A performance report that identifies the amount of employee downtime is a financial accounting report.

- a. True
- b. False

ANSWER: False

22. Managerial accounting provides useful information to managers on product costs.

- a. True
- b. False

ANSWER: True

23. The payment of dividends is an example of a cost.

- a. True
- b. False

ANSWER: False

24. A cost is a sacrifice made to obtain some benefit.

- a. True
- b. False

ANSWER: True

25. Goods that are partway through the manufacturing process, but not yet complete, are referred to as materials inventory.

- a. True
- b. False

ANSWER: False

26. The cost of a manufactured product generally consists of direct materials cost, direct labor cost, and factory overhead

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cost.

- a. True
- b. False

ANSWER: True

27. The cost of materials entering directly into the manufacturing process is classified as factory overhead cost.

- a. True
- b. False

ANSWER: False

28. The cost of wages paid to employees directly involved in converting materials to finished product is classified as direct labor cost.

- a. True
- b. False

ANSWER: True

29. If the cost of employee wages is not a significant portion of the total product cost, the wages are classified as direct materials cost.

- a. True
- b. False

ANSWER: False

30. For a construction contractor, the wages of carpenters would be classified as factory overhead cost.

- a. True
- b. False

ANSWER: False

31. For an automotive repair shop, the wages of mechanics would be classified as direct labor cost.

- a. True
- b. False

ANSWER: True

32. Costs other than direct materials cost and direct labor cost incurred in the manufacturing process are classified as factory overhead cost.

- a. True
- b. False

ANSWER: True

33. Depreciation on factory plant and equipment is an example of factory overhead cost.

- a. True
- b. False

ANSWER: True

34. The cost of oil used to lubricate factory machinery and equipment is an example of a direct materials cost.

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- a. True
- b. False

ANSWER: False

35. If the cost of materials is not a significant portion of the total product cost, the materials may be classified as part of factory overhead cost.

- a. True
- b. False

ANSWER: True

36. Factory overhead cost is sometimes referred to as factory burden.

- a. True
- b. False

ANSWER: True

37. Conversion cost is the combination of direct labor cost and factory overhead cost.

- a. True
- b. False

ANSWER: True

38. Conversion cost is the combination of direct materials cost and factory overhead cost.

- a. True
- b. False

ANSWER: False

39. Factory overhead is an example of a product cost.

- a. True
- b. False

ANSWER: True

40. Direct labor costs are included in the conversion costs of a product.

- a. True
- b. False

ANSWER: True

41. The costs of materials and labor that do not enter directly into the finished product are classified as factory overhead.

- a. True
- b. False

ANSWER: True

42. The costs of materials and labor that do not enter directly into the finished product are classified as cost of goods sold.

- a. True
- b. False

ANSWER: False

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43. Indirect labor would be included in factory overhead.

- a. True
- b. False

ANSWER: True

44. A cost object indicates how costs are related or identified.

- a. True
- b. False

ANSWER: True

45. Direct costs can be specifically traced to a cost object.

- a. True
- b. False

ANSWER: True

46. Indirect costs can be specifically traced to a cost object.

- a. True
- b. False

ANSWER: False

47. Period (nonmanufacturing) costs are classified into two categories: selling and administrative.

- a. True
- b. False

ANSWER: True

48. Prime costs are the combination of direct labor costs and factory overhead costs.

- a. True
- b. False

ANSWER: False

49. Prime costs are the combination of direct materials and direct labor costs.

- a. True
- b. False

ANSWER: True

50. Conversion costs are the combination of direct labor, direct material, and factory overhead costs.

- a. True
- b. False

ANSWER: False

51. Manufacturers use machinery and labor to convert direct materials into finished products.

- a. True
- b. False

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ANSWER: True

52. Period costs include direct materials and direct labor.

- a. True
- b. False

ANSWER: False

53. Period costs can be found on both the balance sheet and the income statement.

- a. True
- b. False

ANSWER: False

54. Product costs are not expensed until the product is sold.

- a. True
- b. False

ANSWER: True

55. The plant manager's salary in a manufacturing business would be considered an indirect cost.

- a. True
- b. False

ANSWER: True

56. Operating expenses are product costs and are expensed when the product is sold.

- a. True
- b. False

ANSWER: False

57. Period costs are operating costs that are expensed in the period in which the goods are sold.

- a. True
- b. False

ANSWER: False

58. Factory overhead includes all manufacturing costs except direct materials and direct labor.

- a. True
- b. False

ANSWER: True

59. Labor costs that are directly traceable to the product are part of factory overhead.

- a. True
- b. False

ANSWER: False

60. Product costs include direct labor and advertising expense.

- a. True

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b. False

ANSWER: False

61. Indirect labor and indirect materials would be part of factory overhead.

a. True

b. False

ANSWER: True

62. Prime costs consist of factory overhead and direct labor.

a. True

b. False

ANSWER: False

63. Conversion costs consist of product costs and period costs.

a. True

b. False

ANSWER: False

64. Prime costs consist of direct materials, indirect materials, and direct labor.

a. True

b. False

ANSWER: False

65. Only the value of the inventory that is sold will appear on the income statement.

a. True

b. False

ANSWER: True

66. On the balance sheet for a manufacturing business, the cost of direct materials, direct labor, and factory overhead are categorized as either materials inventory, work in process inventory, or finished goods inventory.

a. True

b. False

ANSWER: True

67. The statement of cost of goods manufactured is an extension of the income statement for a manufacturing company.

a. True

b. False

ANSWER: True

68. Lower utilization rates are considered favorable, while higher utilization rates are considered unfavorable.

a. True

b. False

ANSWER: False

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69. In order to be useful to managers, managerial accounting reports should possess all of the following characteristics **except**

- a. provide objective measures of past operations and subjective estimates about future decisions
- b. be prepared in accordance with generally accepted accounting principles
- c. be provided at any time management needs information
- d. be prepared to report information for any unit of the business to support decision making

ANSWER: b

70. Which of the following is the primary criterion for the preparation of managerial accounting reports?

- a. relevance of the reports
- b. manager needs
- c. timing of the reports
- d. cost of the reports

ANSWER: b

71. Which of the following is most associated with managerial accounting?

- a. must follow GAAP
- b. may rely on estimates and forecasts
- c. is prepared for users outside the organization
- d. always reports on the entire entity

ANSWER: b

72. Which of the following is most associated with financial accounting reports?

- a. can have both objective and subjective information
- b. can be prepared periodically, or as needed
- c. prepared in accordance with GAAP
- d. can be prepared for the entity or segment

ANSWER: c

73. Which of the following statements is false?

- a. There is no overlap between financial and managerial accounting.
- b. Managerial accounting sometimes relies on past information.
- c. Managerial accounting does not need to conform to GAAP.
- d. Financial accounting must conform to GAAP.

ANSWER: a

74. Managerial accounting reports are

- a. prepared according to GAAP
- b. prepared according to management needs
- c. prepared periodically only
- d. related to the entire business entity only

ANSWER: b

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75. Which of the following individuals are charged with the responsibility for directing the day-to-day operations of a business?

- a. investors
- b. managers
- c. shareholders
- d. customers

ANSWER:

b

76. Which of the following are basic phases of the management process?

- a. supervising and directing
- b. decision making and supervising
- c. organizing and directing
- d. planning and controlling

ANSWER:

d

77. Which of the following terms is used to describe the process of monitoring operating results and comparing actual results with the expected results?

- a. improving
- b. controlling
- c. directing
- d. planning

ANSWER:

b

78. Accounting designed to meet the needs of decision makers inside the business is

- a. general accounting
- b. financial accounting
- c. managerial accounting
- d. external accounting

ANSWER:

c

79. Which of the following terms is used to describe the process of developing the organization's objectives and translating those into courses of action?

- a. supervising
- b. planning
- c. improving
- d. decision making

ANSWER:

b

80. The primary goal of managerial accounting is to provide information to

- a. investors
- b. creditors
- c. management
- d. external auditors

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ANSWER:

c

81. Which of the following is the principal reason for preparing managerial accounting reports?

- a. usefulness to management
- b. cost of preparation
- c. clarity
- d. GAAP

ANSWER:

a

82. Which of the following is **not** a characteristic of useful managerial accounting reports?

- a. accurate
- b. GAAP—adhering
- c. historical and estimated data
- d. prepared as needed

ANSWER:

b

83. Managers use managerial information for all of the following purposes **except**

- a. to evaluate the company's stock performance
- b. to analyze the performance of a company's operations
- c. to support long-term planning decisions
- d. to determine the cost of manufacturing a product

ANSWER:

a

84. Managerial accountants could prepare all of the following reports **except** a(n)

- a. performance report identifying amounts of scrap
- b. control report comparing direct material usage over time
- c. sales report targeting monthly sales and potential bonuses
- d. annual report for external regulators such as the SEC

ANSWER:

d

85. Which of the following would be least likely to be considered a managerial accounting report?

- a. report to analyze potential efficiencies and savings for the purchase of new production equipment
- b. schedule of total manufacturing costs incurred
- c. statement of cost of goods manufactured
- d. statement of stockholders' equity

ANSWER:

d

86. Compute conversion costs given the following data: direct materials, \$347,500; direct labor, \$196,300; factory overhead, \$187,900; and selling expenses, \$45,290.

- a. \$543,800
- b. \$187,900
- c. \$731,700
- d. \$384,200

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ANSWER: d

87. Which of the following is **not** true with regard to direct materials for a bakery?
- a. Flour and sugar would probably be direct materials.
 - b. Eggs would probably be a direct material.
 - c. Oil to lubricate factory machines would not be a direct material.
 - d. Paper cupcake liners, that become part of the product, must be accounted for as direct materials.

ANSWER: d

88. The cost of a manufactured product generally consists of which of the following costs?
- a. direct materials cost and factory overhead cost only
 - b. direct labor cost and factory overhead cost only
 - c. direct labor cost, direct materials cost, and factory overhead cost
 - d. direct materials cost and direct labor cost only

ANSWER: c

89. Which of the following must be true in order for materials to be classified as direct materials?
- a. They must be classified as both prime costs and conversion costs.
 - b. They must be introduced into the process in both work in process inventories and finished goods inventories.
 - c. They must be an integral part of the finished product, but can be an insignificant portion of the total product cost.
 - d. They must be an integral part of the finished product and be a significant portion of the total product cost.

ANSWER: d

90. Which of the following is an example of direct materials cost for an automobile manufacturer?
- a. cost of oil lubricants for factory machinery
 - b. cost of wages of assembly worker
 - c. salary of production supervisor
 - d. cost of interior upholstery

ANSWER: d

91. A plant manager's salary is a(n)
- a. direct cost and an indirect cost
 - b. direct cost
 - c. indirect cost
 - d. period cost

ANSWER: c

92. If the cost of a direct material is a small portion of total production cost, it may be classified as part of
- a. direct labor cost
 - b. selling and administrative costs
 - c. miscellaneous costs
 - d. factory overhead cost

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ANSWER: d

93. The cost of wages paid to employees directly involved in the manufacturing process in converting materials into finished products is classified as

- a. factory overhead cost
- b. direct labor cost
- c. miscellaneous costs
- d. direct materials cost

ANSWER: b

94. Which of the following is an example of direct labor cost for a cell phone manufacturer?

- a. cost of oil lubricants for factory machinery
- b. cost of wages of assembly worker
- c. salary of plant supervisor
- d. cost of phone components

ANSWER: b

95. Costs other than direct materials cost and direct labor cost incurred in the manufacturing process are classified as

- a. factory overhead cost
- b. miscellaneous expense
- c. product costs
- d. period cost

ANSWER: a

96. Which of the following is an example of a factory overhead cost?

- a. repair and maintenance cost on the administrative building
- b. factory heating and lighting cost
- c. insurance premiums on salespersons' automobiles
- d. president's salary

ANSWER: b

97. Period costs include

- a. current assets on the balance sheet
- b. current liabilities on the balance sheet
- c. operating costs that are shown on the income statement when products are sold
- d. operating costs that are shown on the income statement in the period in which they are incurred

ANSWER: d

98. Another term for factory overhead is

- a. surplus
- b. period cost
- c. supervisory cost
- d. factory burden

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ANSWER:

d

99. Which of the following costs are conversion costs?

- a. direct labor cost and factory overhead cost
- b. direct materials cost and direct labor cost
- c. factory overhead cost
- d. direct materials cost and factory overhead cost

ANSWER:

a

100. Which of the following terms refers to the cost of changing direct materials into a finished manufactured product?

- a. factory overhead cost
- b. period cost
- c. conversion cost
- d. direct labor cost

ANSWER:

c

101. Which of the following items would **not** be classified as part of factory overhead?

- a. direct labor used
- b. amortization of manufacturing patents
- c. production supervisors' salaries
- d. factory supplies used

ANSWER:

a

102. Which of the following is part of factory overhead cost?

- a. sales commissions
- b. depreciation of factory equipment and machines
- c. depreciation of sales person's vehicle
- d. direct materials used

ANSWER:

b

103. Which of the following manufacturing costs is an indirect cost of producing a product?

- a. oil lubricants used for factory machinery
- b. commissions for sales personnel
- c. hourly wages of an assembly worker
- d. memory chips for a microcomputer manufacturer

ANSWER:

a

104. All of the following could be considered a direct material **except**

- a. steel
- b. fabric
- c. glue
- d. lumber

ANSWER:

c

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105. Prime costs are

- a. direct materials and factory overhead
- b. direct materials and direct labor
- c. direct labor and factory overhead
- d. period costs and factory overhead

ANSWER:

b

106. A product cost is

- a. expensed in the period in which the product is manufactured
- b. shown with current liabilities on the balance sheet
- c. shown with operating expenses on the income statement
- d. expensed in the period the product is sold

ANSWER:

d

107. Conversion costs are

- a. direct materials and direct labor
- b. direct materials and factory overhead
- c. factory overhead and direct labor
- d. direct materials and indirect labor

ANSWER:

c

108. Which of the following is **not** a prime cost?

- a. plant janitor's wages
- b. direct labor wages
- c. machine operator wages
- d. assembly line wages

ANSWER:

a

109. Darwin Company reports the following information:

Sales	\$76,500
Direct materials used	7,300
Depreciation on factory equipment	4,700
Indirect labor	5,900
Direct labor	10,500
Factory rent	4,200
Factory utilities	1,200
Sales salaries expense	15,600
Office salaries expense	8,900
Indirect materials	1,200

Product costs are

- a. \$24,500
- b. \$30,300

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- c. \$29,200
- d. \$35,000

ANSWER:

d

110. Product costs

- a. appear only on the balance sheet
- b. appear only on the income statement
- c. are expensed as costs are incurred for direct labor, direct materials, and factory overhead
- d. appear on both the income statement and balance sheet

ANSWER:

d

111. The following are all product costs except

- a. direct materials
- b. sales and administrative expenses
- c. direct labor
- d. factory overhead

ANSWER:

b

112. Indirect labor and indirect materials are classified as

- a. factory overhead and product costs
- b. factory overhead and period costs
- c. operating costs and period costs
- d. operating costs and product costs

ANSWER:

a

113. An example of a period cost is

- a. advertising expense
- b. indirect materials
- c. depreciation on factory equipment
- d. property taxes on plant facilities

ANSWER:

a

114. Direct labor and direct materials are

- a. product costs and expensed when the goods are sold
- b. product costs and expensed when incurred
- c. period costs and expensed when incurred
- d. period costs and expensed when the goods are sold

ANSWER:

a

115. Indirect costs incurred in a manufacturing environment that cannot be traced directly to a product are treated as

- a. period costs and expensed when incurred
- b. product costs and expensed when the goods are sold
- c. product costs and expensed when incurred

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- d. period costs and expensed when the goods are sold

ANSWER:

b

116. Rent expense on a factory building would be treated as a(n)

- a. period cost
- b. product cost
- c. indirect cost
- d. direct materials cost

ANSWER:

b

117. Insurance expense incurred on a factory building would be treated as a

- a. direct cost
- b. period cost
- c. product cost
- d. selling cost

ANSWER:

c

Jensen Company reports the following:

Direct materials used	\$345,000
Direct labor incurred	250,000
Factory overhead incurred	400,000
Operating expenses	175,000

118. Jensen Company's period costs are

- a. \$345,000
- b. \$250,000
- c. \$400,000
- d. \$175,000

ANSWER:

d

119. Jensen Company's product costs are

- a. \$995,000
- b. \$920,000
- c. \$825,000
- d. \$770,000

ANSWER:

a

120. Which of the following is **not** a factory overhead cost?

- a. materials used directly in the manufacturing process of the product
- b. insurance on factory equipment
- c. salaries of production supervisors

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- d. property tax on factory building

ANSWER:

a

121. Factory overhead includes

- a. factory rent and direct labor
- b. direct materials and direct labor
- c. indirect materials and direct materials
- d. indirect labor and indirect materials

ANSWER:

d

122. Darwin Company reports the following information:

Sales	\$76,500
Direct materials used	7,300
Depreciation on factory equipment	4,700
Indirect labor	5,900
Direct labor	10,500
Factory rent	4,200
Factory utilities	1,200
Sales salaries expense	15,600
Office salaries expense	8,900
Indirect materials	1,200

Period costs are

- a. \$24,500
- b. \$30,300
- c. \$29,200
- d. \$35,000

ANSWER:

a

123. All of the following are examples of indirect labor **except**

- a. maintenance personnel
- b. janitorial personnel
- c. machine operators
- d. plant managers

ANSWER:

c

124. Which of the following accounts will be found on the income statement?

- a. Inventory
- b. Work in Process
- c. Finished Goods
- d. Cost of Goods Sold

ANSWER:

d

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125. Given the following data:

Cost of materials used	\$45,000
Direct labor costs	48,000
Factory overhead	39,000
Work in process, beginning	28,000
Work in process, ending	18,000
Finished goods, beginning	28,000
Finished goods, ending	18,000

What is cost of goods sold?

- a. \$152,000
- b. \$142,000
- c. \$10,000
- d. \$128,000

ANSWER:

a

126. Given the following data:

Beginning raw materials inventory	\$30,000
Materials purchased	65,000
Ending raw materials inventory	40,000

What is the amount of raw materials used?

- a. \$5,000
- b. \$55,000
- c. \$75,000
- d. \$30,000

ANSWER:

b

127. A company manufactured 50,000 units of a product at a cost of \$450,000. It sold 45,000 units at \$15 each. The gross profit is

- a. \$750,000
- b. \$240,000
- c. \$600,000
- d. \$270,000

ANSWER:

d

128. The following information is taken from the financial records of Gunner Manufacturing:

Cost of materials used	\$45,000
Direct labor costs	48,000
Factory overhead	39,000
Work in process, beginning	18,000
Work in process, ending	28,000

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What is the cost of goods manufactured?

- a. \$178,000
- b. \$132,000
- c. \$122,000
- d. \$142,000

ANSWER:

c

129. Goods that are partially completed by a manufacturer are

- a. merchandise inventory
- b. work in process inventory
- c. finished goods inventory
- d. materials inventory

ANSWER:

b

130. The income statement for both a merchandiser and a manufacturer would include

- a. operating expenses
- b. direct materials
- c. direct labor incurred
- d. cost of goods manufactured

ANSWER:

a

131. On the income statement of a manufacturing company, which of the following replaces purchases in the "Cost of goods sold" section of a retail company?

- a. finished goods
- b. cost of merchandise available
- c. cost of goods manufactured
- d. work in process

ANSWER:

c

132. Cost of goods sold for a manufacturer equals cost of goods manufactured plus

- a. beginning work in process inventory less ending work in process inventory
- b. ending work in process inventory less beginning work in process inventory
- c. beginning finished goods inventory less ending finished goods inventory
- d. ending finished goods inventory less beginning finished goods inventory

ANSWER:

c

133. Given the following data:

Work in process, beginning	\$14,000
Work in process, ending	20,000
Direct labor costs	4,000
Cost of goods manufactured	8,000

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Factory overhead	8,000
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Direct materials used is

- a. \$2,000
- b. \$4,000
- c. \$8,000
- d. \$14,000

ANSWER:

a

134. Cost of goods manufactured is equal to

- a. total manufacturing costs plus ending materials inventory less beginning materials inventory
- b. cost of goods sold plus beginning work in process inventory less ending work in process inventory
- c. total manufacturing costs plus ending work in process inventory less beginning work in process inventory
- d. total manufacturing costs plus beginning work in process inventory less ending work in process inventory

ANSWER:

d

135. Finished goods inventory is reported on the

- a. income statement as a period cost
- b. balance sheet as a long-term asset
- c. balance sheet as a current asset
- d. income statement as revenue

ANSWER:

c

136. Beginning work in process is equal to

- a. cost of goods manufactured plus ending work in process minus manufacturing costs incurred during the current period
- b. cost of goods manufactured minus ending work in process plus manufacturing costs incurred during the current period
- c. ending work in process plus manufacturing costs incurred during the current period
- d. manufacturing costs incurred during the current period minus ending work in process

ANSWER:

a

137. All of the following would be reported on the balance sheet as current assets except

- a. factory overhead
- b. materials inventory
- c. finished goods inventory
- d. work in process inventory

ANSWER:

a

138. Smith Company reports the following information:

Cost of goods manufactured	\$68,250
Direct materials used	27,000
Direct labor incurred	25,000

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Work in process inventory, January 1	11,000
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Factory overhead is 75% of the cost of direct labor. Work in process inventory on December 31 is

- a. \$16,250
- b. \$8,500
- c. \$18,750
- d. \$13,500

ANSWER:

d

139. At the beginning of the current year, Grant Company's work in process inventory account had a balance of \$30,000. During the year, \$68,000 of direct materials were used in production, and \$66,000 of direct labor costs were incurred. Factory overhead for the year amounted to \$90,000. Cost of goods manufactured is \$230,000. The balance in work in process inventory on December 31 is

- a. \$24,000
- b. \$44,000
- c. \$66,000
- d. \$36,000

ANSWER:

a

140. A company used \$35,000 of direct materials, incurred \$73,000 in direct labor cost, and had \$114,000 in factory overhead costs during the period. If beginning and ending work in process inventories were \$28,000 and \$32,000, respectively, the cost of goods manufactured was

- a. \$218,000
- b. \$226,000
- c. \$190,000
- d. \$222,000

ANSWER:

a

141. Cost of goods manufactured during the year is \$240,000, and work in process inventory on December 31 is \$50,000. Work in process inventory during the year decreased by 60%. Total manufacturing costs incurred are

- a. \$190,000
- b. \$165,000
- c. \$290,000
- d. \$315,000

ANSWER:

b

142. Work in process inventory on December 31 of the current year is \$44,000. Work in process inventory increased by 60% during the year. Cost of goods manufactured amounts to \$275,000. The total manufacturing costs incurred in the current year are

- a. \$291,500
- b. \$302,000
- c. \$275,750
- d. \$233,750

ANSWER:

a

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143. Work in process inventory on December 31 is \$42,000. Work in process inventory decreased by 40% during the year. Total manufacturing costs incurred amount to \$260,000. The cost of goods manufactured is

- a. \$232,000
- b. \$302,000
- c. \$288,000
- d. \$190,000

ANSWER:

c

144. Work in process inventory increased by \$20,000 during the current year. Cost of goods manufactured was \$180,000. Total manufacturing costs incurred are

- a. \$198,000
- b. \$160,000
- c. \$189,000
- d. \$200,000

ANSWER:

d

145. Which of the following will **not** be found on the balance sheet of a manufacturing company?

- a. cost of goods sold
- b. materials
- c. work in process
- d. finished goods

ANSWER:

a

146. A company sells goods for \$150,000 that cost \$54,000 to manufacture. Which of the following statements is true?

- a. The company will recognize sales on the balance sheet of \$150,000.
- b. The company will recognize \$96,000 in gross profit on the balance sheet.
- c. The company will decrease finished goods by \$54,000.
- d. The company will increase finished goods by \$54,000.

ANSWER:

c

147. The cost of goods sold for Michaels Manufacturing in the current year was \$233,000. The January 1 finished goods inventory balance was \$31,600, and the December 31 finished goods inventory balance was \$24,200. Cost of goods manufactured during the period was

- a. \$233,000
- b. \$225,600
- c. \$288,800
- d. \$240,400

ANSWER:

b

148. In the hotel industry, the occupancy rate is a measure of

- a. risk
- b. solvency
- c. profitability

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d. utilization

ANSWER:

d

149. Nearly _____ of U.S. economic activity is represented by services.

- a. 40%
- b. 50%
- c. 60%
- d. 80%

ANSWER:

d

150. SunnyRest Hotel has 300 rooms. During the month of March, it had 7,200 guests, each staying a single night. The occupancy rate for SunnyRest Hotel for the month of March was closest to

- a. 70%
- b. 80%
- c. 90%
- d. 120%

ANSWER:

b

151. ShadyPalms Hotel has 100 rooms. During the month of February, it had 500 guests, each staying 5 nights. The occupancy rate for ShadyPalms Hotel for the month of February (not a leap year) was closest to

- a. 70%
- b. 80%
- c. 90%
- d. 120%

ANSWER:

c

Match each description below to the appropriate phase of the manufacturing process (a–e).

- a. Planning
- b. Directing
- c. Controlling
- d. Improving
- e. Decision making

152. Used by managers for continuous improvement

ANSWER:

d

153. Managers must decide how to respond to unfavorable performances

ANSWER:

e

154. Used by management to develop the organization's objectives and goals

ANSWER:

a

155. Monitoring the operating results of implemented plans and comparing actual results to expected results

ANSWER:

c

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156. Process by which managers run day-to-day operations

ANSWER:

b

Match the items below for a lawn mower manufacturer to the type of cost (a–d).

- a. Direct materials
- b. Direct labor
- c. Factory overhead
- d. Nonmanufacturing cost

157. Wheels

ANSWER:

a

158. Depreciation on worker's tools

ANSWER:

c

159. Wages of assemblers

ANSWER:

b

160. Grease for wheel axles

ANSWER:

c

Match the items below for a cake factory to the type of cost (a–c).

- a. Prime cost
- b. Conversion cost
- c. Both prime cost and conversion cost

161. Frosting

ANSWER:

a

162. Wages of the baker

ANSWER:

c

163. Sprinkles for the topping (considered an indirect material)

ANSWER:

b

164. Depreciation on oven

ANSWER:

b

Match the items below to the type of cost (a–c).

- a. Direct
- b. Indirect
- c. Neither direct nor indirect

165. Labor for machine maintenance

ANSWER:

b

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166. Factory equipment depreciation

ANSWER:

b

167. Materials not traceable to specific products

ANSWER:

b

168. Office equipment depreciation

ANSWER:

c

169. Materials traceable to specific products

ANSWER:

a

170. Insurance expired on administrative facilities

ANSWER:

c

171. Product assembly labor incurred

ANSWER:

a

172. Administrative office salaries

ANSWER:

c

173. Salespersons' salaries

ANSWER:

c

174. Utilities on factory building

ANSWER:

b

175. Utilities on administrative facilities

ANSWER:

c

Match the items below to the appropriate term (a–d).

- a. Direct materials
- b. Selling and administrative expense
- c. Factory overhead
- d. Direct labor

176. Rent expense on factory building

ANSWER:

c

177. Sales supplies used

ANSWER:

b

178. Factory supplies used

ANSWER:

c

179. Indirect materials used

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ANSWER: c

180. Wages of assembly line personnel

ANSWER: d

181. Cost of primary material used to make a product

ANSWER: a

182. Depreciation on office equipment

ANSWER: b

183. Rent on office facilities

ANSWER: b

184. Insurance expired on factory equipment

ANSWER: c

185. Utilities incurred in the office

ANSWER: b

186. Advertising expense

ANSWER: b

Match the items below for a cake factory to the type of cost (a or b).

a. Product cost

b. Period cost

187. Frosting

ANSWER: a

188. Baker's wages

ANSWER: a

189. Advertising fees

ANSWER: b

190. Transportation out

ANSWER: b

Match the items below to the type of cost (a or b).

a. Product cost

b. Period cost

191. Direct materials used

ANSWER: a

192. Factory utilities

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ANSWER: a

193. Salespersons' commissions

ANSWER: b

194. Salary of plant manager

ANSWER: a

195. Indirect materials used

ANSWER: a

196. Depreciation on store equipment

ANSWER: b

197. Indirect labor incurred

ANSWER: a

198. Advertising expense

ANSWER: b

199. Direct labor incurred

ANSWER: a

200. Factory machinery repairs and maintenance

ANSWER: a

201. Depreciation on factory machinery

ANSWER: a

202. Plant insurance expired

ANSWER: a

Match the items below for a bakery to the type of cost (a–d).

- a. Direct materials
- b. Direct labor
- c. Factory overhead
- d. Nonmanufacturing cost

203. Salesperson commissions

ANSWER: d

204. Factory rent

ANSWER: c

205. Depreciation expense—factory

ANSWER: c

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206. Frosting

ANSWER:

a

207. Baker's wages

ANSWER:

b

208. Depreciation expense—office

ANSWER:

d

209. Cupcake mix

ANSWER:

a

210. Sprinkles for decoration (indirect material)

ANSWER:

c

The following are some of the costs incurred by Cupcake Company. Identify them as either:

- a. Prime costs
- b. Conversion costs
- c. Both prime and conversion costs
- d. Neither prime nor conversion costs

211. Salesperson commissions

ANSWER:

d

212. Factory rent

ANSWER:

b

213. Depreciation expense—factory

ANSWER:

b

214. Frosting

ANSWER:

a

215. Baker's wages

ANSWER:

c

216. Depreciation expense—office

ANSWER:

d

217. Cupcake mix

ANSWER:

a

218. Sprinkles for decoration (indirect material)

ANSWER:

b

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Bartel Corporation produces bar stools for restaurants. For each of the following, indicate whether the cost would typically be considered a direct or indirect cost for the cost object given.

- a. Direct
b. Indirect

219. The production labor wages for the bar stool assemblers

ANSWER: a

220. The factory supervisor's salary for the bar stool factory

ANSWER: b

221. Lubricants used on the bar stool manufacturing equipment

ANSWER: b

222. Manufacturing costs for wood and steel used in the bar stools

ANSWER: a

223. Nails and screws used in the production of the bar stools

ANSWER: a

Bartow Company manufactures bicycles. For each of the following, indicate whether the cost would typically be considered a product or period cost for the cost object given.

- a. Product
b. Period

224. Tires for the bicycles

ANSWER: a

225. Electricity costs to run the factory

ANSWER: a

226. Selling costs for the period

ANSWER: b

227. Delivery costs to take the bicycles to stores

ANSWER: b

228. Accountant salaries

ANSWER: b

229. Differentiate between financial and managerial accounting, addressing such issues as users, nature of information, guidelines for preparation, timeliness, and focus of reporting.

ANSWER:

	Managerial Accounting	Financial Accounting
Users	Management	External users and company management
Nature of information	Objective and subjective	Objective
Guidelines for	Prepared according to	Prepared according to

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preparation	management needs	GAAP
Timeliness	Prepared at fixed intervals and on an as-needed basis	Prepared at fixed intervals
Focus of reporting	Company as a whole or as a segment	Company as a whole

230. What is decision making? Who is responsible for decision making in a managerial situation?

ANSWER: Decision making is choosing among alternative actions. It is a component inherent in each of the other management processes of planning, directing, controlling, and improving. For example, in directing operations, managers must continually decide on an operating structure, training procedures, and staffing of day-to-day operations.

231. Differentiate between verticals and horizontals.

ANSWER: Verticals are sometimes referred to as business units, because they are often structured as separate businesses within the parent company. These verticals normally develop products that are sold directly to customers. Verticals prepare their own income statements, also referred to as profit and loss (P&L) statements, which report their ongoing performance and profitability.

Horizontals are departments within a company that are not responsible for developing products. The role of horizontals is to provide services to the various verticals and other horizontals. As such, horizontals do not report profit and loss (P&L) statements. Marketing, human resources, information technology, legal, facilities, accounting, and finance are normally horizontal departments within a company.

232. Differentiate between period and product costs and include examples of each type of cost.

ANSWER: Period costs consist of selling and administrative expenses. Selling expenses are incurred in marketing the product and delivering the product to customers. Administrative expenses are incurred in managing the company and are not directly related to the manufacturing or selling functions. Selling expenses include advertising expenses, sales salaries expense, and commissions expense. Administrative expenses include office salaries expense, office supplies expense, and depreciation expense of the office building and equipment.

Product costs consist of manufacturing costs: direct materials, direct labor, and factory overhead. Direct materials are the materials that go into the production of the product. The direct materials for a bakery include flour, sugar, eggs, and shortening. Direct labor costs are the wages or salaries of the employees that are actually assembling the product. Factory overhead would include the salaries of production supervisors, depreciation, insurance, and taxes on the manufacturing building and equipment.

233. Differentiate between:

- direct materials versus indirect materials
- direct labor versus indirect labor

ANSWER: a. Direct materials must become a physical part of the finished product and their costs must be separately and conveniently traceable through the manufacturing process to finished goods inventory. Examples include wood, leather, steel, etc.

Indirect materials become part of the finished product but their minor costs cannot conveniently be traced directly to particular finished products. They are included as part of factory overhead.

- Direct labor cost is the compensation of employees who physically convert materials into the company's

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products and whose effort can be traced directly to finished goods inventory. Examples include machine operators and assemblers.

Indirect labor is factory labor that is difficult to trace to specific products. Instead, the cost is included in factory overhead. Examples include forklift operators, janitors, and plant managers.

234. Putney Company reports the following information:

Sales	\$76,500
Direct materials used	7,300
Depreciation on factory equipment	4,700
Indirect labor	5,900
Direct labor	10,500
Factory rent	4,200
Factory utilities	1,200
Sales salaries expense	15,600
Office salaries expense	8,900
Indirect materials	1,200

Compute:

a. product costs

b. period costs

ANSWER: a. Product Costs = \$7,300 + \$4,700 + \$5,900 + \$10,500 + \$4,200 + \$1,200 + \$1,200 = \$35,000

b. Period Costs = \$15,600 + \$8,900 = \$24,500

235. The following information is available for Carter Corporation:

1. Materials inventory decreased \$4,000.
2. Materials inventory on December 31 was 50% of materials inventory on January 1.
3. Beginning work in process inventory was \$145,000.
4. Ending finished goods inventory was \$65,000.
5. Purchases of direct materials were \$154,700.
6. Direct materials used were 2.5 times the cost of direct labor.
7. Total manufacturing costs incurred were \$246,400, 80% of cost of goods manufactured and \$156,000 less than cost of goods sold.

Compute:

a. Finished goods inventory on January 1

b. Work in process inventory on December 31

c. Direct labor incurred

d. Factory overhead incurred

e. Materials inventory on January 1

f. Materials inventory on December 31

g. Direct materials used

ANSWER: a. Cost of Goods Sold = \$246,400 + \$156,000 = \$402,400

Cost of Goods Manufactured = \$246,400/0.80 = \$308,000

Finished Goods Inventory on January 1 = \$402,400 + \$65,000 – \$308,000 = \$159,400

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- b. Work in Process Inventory on December 31
 $\$246,400 + \$145,000 - \$308,000 = \underline{\$83,400}$
- c. Direct Labor Incurred = $\$158,700 \div 2.5 = \underline{\$63,480}$
- d. Factory Overhead Incurred = $\$246,400 - \$158,700 - \$63,480 = \underline{\$24,220}$
- e. Materials Inventory on January 1
 $X = \text{January 1 Materials Inventory}$
 $\$4,000 = 0.5X$
 $X = \underline{\$8,000}$
- f. Materials Inventory on December 31 = $\$8,000 - \$4,000 = \underline{\$4,000}$
- g. Direct Materials Used = $\$8,000 + \$154,700 - \$4,000 = \underline{\$158,700}$

236. Zoe Corporation has the following information for the month of March. Determine the (a) cost of goods manufactured and (b) cost of goods sold.

Cost of materials placed in production	\$69,000
Direct labor	27,000
Factory overhead	34,000
Work in process, March 1	15,000
Work in process, March 31	19,500
Finished goods inventory, March 1	25,000
Finished goods inventory, March 31	23,000

ANSWER:

a.

Beginning work in process inventory		\$ 15,000
Direct materials	\$69,000	
Direct labor	27,000	
Factory overhead	34,000	
Total manufacturing costs incurred		<u>130,000</u>
Total manufacturing costs		\$145,000
Less ending work in process inventory		<u>(19,500)</u>
Cost of goods		<u>\$125,500</u>

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manufactured		
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b.

Finished goods inventory, March 1	\$ 25,000
Cost of goods manufactured	<u>125,500</u>
Cost of finished goods available for sale	\$150,500
Less finished good inventory, March 31	<u>(23,000)</u>
Cost of goods sold	<u>\$127,500</u>

237. Sienna Company has the following information for January:

Cost of materials used in production	\$20,000
Direct labor	15,000
Factory overhead	24,000
Work in process inventory, January 1	2,900
Work in process inventory, January 31	3,500

Determine the cost of goods manufactured.

ANSWER:

Beginning work in process inventory		\$ 2,900
Direct materials	\$20,000	
Direct labor	15,000	
Factory overhead	<u>24,000</u>	
Total manufacturing costs incurred		<u>59,000</u>
Total manufacturing		\$61,900

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turing costs		
Less ending work in process inventory		(3,500)
Cost of goods manufactured		<u>\$58,400</u>

238. Magnus Industries has the following data:

Beginning raw materials inventory	\$75,000
Materials purchased	40,000
Ending raw materials inventory	60,000

Determine the cost of raw materials used.

ANSWER: Raw Materials Used = \$75,000 + \$40,000 – \$60,000 = \$55,000

239. Watson Company has the following data:

Work in process, beginning	\$18,000
Work in process, ending	25,000
Direct labor costs incurred	5,000
Cost of goods manufactured	9,000
Factory overhead	7,000

Determine the amount of direct materials used.

ANSWER: Direct Materials Used = (\$25,000 – \$18,000 + \$9,000) – (\$7,000 + \$5,000) = \$4,000

240. Laramie Technologies had the following data:

Cost of materials used	\$50,000
Direct labor costs	56,000
Factory overhead	28,000
Work in process, beginning	45,000
Work in process, ending	32,000

Determine the cost of goods manufactured.

ANSWER: Cost of Goods Manufactured = \$50,000 + \$56,000 + \$28,000 + (\$45,000 – \$32,000) = \$147,000

241. Keeton Company had the following data:

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Cost of materials used	\$60,000
Direct labor costs	58,000
Factory overhead	33,000
Work in process, beginning	29,000
Work in process, ending	18,000
Finished goods, beginning	32,000
Finished goods, ending	18,000

Determine the cost of goods sold.

ANSWER: Cost of Goods Sold = \$60,000 + \$58,000 + \$33,000 + (\$29,000 – \$18,000) + (\$32,000 – \$18,000) = \$176,000

242. Zoe Corporation has the following information for the month of March:

Purchases	\$ 92,000
Materials inventory, March 1	6,000
Materials inventory, March 31	8,000
Direct labor	25,000
Factory overhead	37,000
Work in process inventory, March 1	22,000
Work in process inventory, March 31	23,500
Finished goods inventory, March 1	21,000
Finished goods inventory, March 31	30,000
Sales	257,000
Sales and administrative expenses	79,000

Prepare (a) a statement of cost of goods manufactured, (b) an income statement for the month ended March 31, and (c) the "Inventory" section of the balance sheet.

ANSWE a.

R:

Zoe Corporation			
Statement of Cost of Goods Manufactured			
For the Month Ended March 31			
Beginning work in process inventory, March 1			\$ 22,000
Direct materials:			
Beginning materials inventory	\$ 6,000		
Purchases	92,000		
Cost of materials for use	\$98,000		
Less ending materials inventory	(8,000)		
Cost of direct materials used		\$90,000	
Direct labor		25,000	
Factory overhead		37,000	
Total manufacturing costs incurred			<u>152,000</u>
Total manufacturing costs			\$174,000
Less ending work in process inventory			<u>(23,500)</u>
Cost of goods manufactured			<u>\$150,500</u>

b.

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Zoe Corporation		
Income Statement		
For the Month Ended March 31		
Sales		\$257,000
Cost of goods sold:		
Beginning finished goods inventory	\$ 21,000	
Plus cost of goods manufactured	<u>150,500</u>	
Cost of finished goods available for sale	\$171,500	
Less ending finished goods inventory	<u>(30,000)</u>	
Cost of goods sold		<u>(141,500)</u>
Gross profit		\$115,500
Operating expenses:		
Sales and administrative expenses		<u>(79,000)</u>
Net income		<u>\$ 36,500</u>

c.

Inventories:	
Finished goods	\$ 30,000
Work in process	23,500
Materials	<u>8,000</u>
Total inventories	<u>\$61,500</u>

243. The following data (in thousands of dollars) have been taken from the accounting records of Rayburn Corporation for the current year.

Sales	\$1,980
Selling expenses	280
Manufacturing overhead	460
Direct labor	400
Administrative expenses	300
Purchases of direct materials	240
Finished goods inventory, beginning	240
Finished goods inventory, ending	320
Direct materials inventory, beginning	80
Direct materials inventory, ending	140
Work in process inventory, beginning	140
Work in process inventory, ending	100

Required:

- What was the cost of the direct materials used in production during the year?
- What was the cost of goods manufactured for the year?
- What was the cost of goods sold for the year?
- What was the net income for the year?

Present all calculations in thousands of dollars.

ANSWER:

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a. The cost of the direct materials used in production during the year is determined as follows:

Direct materials inventory, beginning	\$ 80
Purchases of direct materials	240
Less direct materials inventory, ending	<u>(140)</u>
Direct materials used in production	<u>\$180</u>

b. The cost of goods manufactured (finished) during the year is determined as follows:

Raw materials used in production	\$ 180
Direct labor	400
Manufacturing overhead	<u>460</u>
Total manufacturing costs	\$1,040
Plus: Work in process inventory, beginning	<u>140</u>
Total manufacturing costs	\$1,180
Less: Work in process inventory, ending	<u>(100)</u>
Cost of goods manufactured	<u>\$1,080</u>

c. The cost of goods sold for the year is determined as follows:

Finished goods inventory, beginning	\$ 240
Cost of goods manufactured	1,080
Less: Finished goods inventory, ending	<u>(320)</u>

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Cost of goods sold \$1,000

d. Net income for the year is determined as follows:

Sales		\$ 1,980
Cost of goods sold		<u>(1,000)</u>
Gross profit		\$ 980
Operating expenses:		
Administrative expenses	\$300	
Selling expenses	<u>280</u>	<u>(580)</u>
Net income		<u>\$ 400</u>

244. Allen Company used \$71,000 of direct materials and incurred \$37,000 of direct labor costs during the current year. Indirect labor amounted to \$2,700 while indirect materials used totaled \$1,600. Other operating costs pertaining to the factory included utilities of \$3,100, maintenance of \$4,500, supplies of \$1,800, depreciation of \$7,900, and property taxes of \$2,600. There was no beginning or ending finished goods inventory, but work in process inventory began the year with a \$5,500 balance and ended the year with a \$7,500 balance.

Prepare a statement of cost of goods manufactured.

ANSWE

R:

Allen Company Statement of Cost of Goods Manufactured For the Year Ended December 31			
Beginning work in process inventory			\$ 5,500
Direct materials		\$71,000	
Direct labor		37,000	
Factory overhead:			
Indirect labor	\$2,700		
Indirect materials	1,600		
Utilities	3,100		
Maintenance	4,500		
Supplies	1,800		
Depreciation	7,900		
Property taxes	<u>2,600</u>	<u>24,200</u>	
Total manufacturing costs incurred			<u>132,200</u>
Total manufacturing costs			\$137,700
Less ending work in process inventory			<u>(7,500)</u>
Cost of goods manufactured			<u>\$130,200</u>

245. Davis Manufacturing Company had the following data:

	January 1	December 31
Accounts receivable	\$27,000	\$33,000
Materials inventory	22,500	6,000
Work in process inventory	70,200	48,000

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Finished goods inventory	3,000	15,000
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Collections on account were \$625,000.

Cost of goods sold was 68% of sales.

Direct materials purchased amounted to \$90,000.

Factory overhead was 300% of the cost of direct labor.

Compute:

- Sales revenue (all sales were on account)
- Cost of goods sold
- Cost of goods manufactured
- Direct materials used
- Direct labor incurred
- Factory overhead incurred

ANSWER: a. Sales Revenue = \$33,000 + \$625,000 – \$27,000 = \$631,000

b. Cost of Goods Sold = \$631,000 × 0.68 = \$429,080

c. Cost of Goods Manufactured = \$15,000 + \$429,080 – \$3,000 = \$441,080

d. Direct Materials Used = \$22,500 + \$90,000 – \$6,000 = \$106,500

e. Direct Labor Incurred = \$441,080 + \$48,000 – \$70,200 = \$418,880 Total Manufacturing Costs Added
 \$418,880 – \$106,500 = \$312,380
 \$312,380 = Factory Overhead + Direct Labor
 Let X = Direct Labor
 3X + X = \$312,380
 4X = \$312,380
 Direct Labor = \$78,095

f. Factory Overhead Incurred = \$78,095 × 3 = \$234,285

246. Taylor Industries had a fire and some of its accounting records were destroyed. Available information is presented below for the year ended December 31.

Materials inventory, December 31	\$ 15,000
Direct materials purchased	28,000
Direct materials used	22,900
Cost of goods manufactured	135,000

Additional information:

Factory overhead is 150% of direct labor cost.

Finished goods inventory decreased by \$18,000 during the year.

Work in process inventory increased by \$12,000 during the year.

Determine:

- Materials inventory, January 1
- Direct labor cost
- Factory overhead incurred

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d. Cost of goods sold

ANSWER: a. Materials Inventory, January 1 = $\$15,000 + \$22,900 - \$28,000 = \underline{\underline{\$9,900}}$

b. Direct Labor Cost = $\$135,000 + \$12,000 = \$147,000$ Total Manufacturing Costs

$\$147,000 - \$22,900 = \$124,100$ Direct Labor and Factory Overhead

Let X = Direct Labor Cost

$X + 1.5X = \$124,100$

$2.5X = \$124,100$

Direct Labor = $\$49,640$

c. Factory Overhead Incurred = $\$49,640 \times 1.5 = \underline{\underline{\$74,460}}$

d. Cost of Goods Sold = $\$135,000 + \$18,000 = \underline{\underline{\$153,000}}$