Managerial Accounting, 2e
Braun/Tietz/Harrison
Test Item File
Chapter 2: Building Blocks of Managerial Accounting

2.1-1 Retailers sell their products to other wholesalers.

Answer: False
LO: 2-1
Diff: 1
EOC: E 2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competenices: Reporting

2.1-2 Merchandising companies include both wholesalers and retailers.

Answer: True
LO: 2-1
Diff: 1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competenices: Reporting

2.1-3 All companies have the same types of inventories.

Answer: False
LO: 2-1
Diff: 1
EOC: S2-2
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competenices: Reporting

2.1-4 Merchandising and manufacturing companies have finished goods inventory.

Answer: False
LO: 2-1
Diff: 2
EOC: S2-2
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competenices: Reporting

2.1-5 Which of the following are merchandising companies?

A. Manufacturers
B. Retailers
C. Wholesalers
D. Both Retailers and Wholesalers

Answer: D
LO: 2-1
Diff: 1
EOC: E2-16
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competenices: Decision Making

2.1-6 Raw materials, work in process and finished goods are the three types of inventory held by which of the following types of companies?

A. Manufacturers
B. Retailers
C. Wholesalers
D. Service companies

Answer: A
LO: 2-1
Diff: 1
EOC: S2-2
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competenices: Reporting

2.1-7 The balance sheet of a service company has:

A. little or no inventory.
B. raw materials inventory.
C. three categories of inventory.
D. two categories of inventory.

Answer: A
LO: 2-1
Diff: 1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competenices: Reporting

2.1-8 H & R Block, an income tax preparation service, is what type of company?
A. Manufacturer
B. Service company
C. Retailer
D. Wholesaler

Answer: B
LO: 2-1
Diff: 1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-9 Among other things, General Mills makes breakfast cereal. Which type of company is General Mills?
A. Manufacturer
B. Service company
C. Retailer
D. Wholesaler

Answer: A
LO: 2-1
Diff: 1
EOC: S2-2
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-10 Which type of company typically produces its own inventory?
A. Manufacturer
B. Service company
C. Retailer
D. Wholesaler

Answer: A
LO: 2-1
Diff: 1
EOC: S2-2
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-11 What type of company resells products it previously purchased ready-made from suppliers?

A. Merchandiser
B. Retailer
C. Wholesaler
D. All of the above

Answer: D
LO: 2-1
Diff: 1
EOC: S2-2
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-12 Before these materials are used to manufacture its cars, Honda classifies steel, glass, and plastic as:

A. finished goods inventory.
B. raw materials inventory.
C. work in process inventory.
D. merchandise inventory.

Answer: B
LO: 2-1
Diff: 1
EOC: S2-2
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-13 Wal-Mart classifies its clothing held for sale as:

A. finished goods inventory.
B. raw materials inventory.
C. work in process inventory.
D. merchandise inventory.

Answer: D
LO: 2-1
Diff: 1
EOC: S2-2
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-14 How would Honda classify its partially completed vehicles?

A. Finished goods
B. Raw materials
C. Supplies
D. Work in process

Answer: D
LO: 2-1
Diff: 1
EOC: S2-2
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-15 Which of the following types of company is the fastest growing in the United States?

A. Service
B. Merchandising
C. Manufacturing
D. None of the above

Answer: A
LO: 2-1
Diff: 1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-16 Which of the following is characteristic of a service company?

A. Service companies generally have no tangible products to sell.
B. Service companies have a single category of inventory.
C. Service companies make a product.
D. Service companies transform raw materials into finished goods.

Answer: A
LO: 2-1
Diff: 1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-17 A lawn mowing business would be classified as a:
A. manufacturing company.
B. merchandising company.
C. service company.
D. simple company.

Answer: C
LO: 2-1
Diff: 1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-18 A law firm would be classified as a:
A. manufacturing company.
B. merchandising company.
C. service company.
D. simple company.

Answer: C
LO: 2-1
Diff: 1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-19 Intel Corporation makes computer chips. Intel Corporation would be classified as a:
A. manufacturing company.
B. merchandising company.
C. service company.
D. simple company.

Answer: A
LO: 2-1
Diff: 1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-20 ____________ has/have three types of inventory.

A. A service company
B. A merchandising company
C. A manufacturing company
D. All of these companies

Answer: C
LO: 2-1
Diff: 1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-21 In ___________, inventory consists of freight-in and the cost of the product which is to be resold.

A. a service company
B. a merchandising company
C. a manufacturing company
D. all of these companies

Answer: B
LO: 2-1
Diff: 1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-22 Which type of company has the highest percentage of labor costs?

A. Service company
B. Merchandising company
C. Manufacturing company
D. All companies have a high percentage of labor costs

Answer: A
LO: 2-1
Diff: 1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-23 Which type(s) of companies prepare income statements and balance sheets?
A. Service company
B. Merchandising company
C. Manufacturing company
D. All types of companies

Answer: D
LO: 2-1
Diff: 1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-24 Which of the following items would NOT be found in raw materials inventory for a furniture manufacturer?
A. Wood
B. Fabric
C. Assembly worker wages
D. Steel framing

Answer: C
LO: 2-1
Diff: 1
EOC: S2-2
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-25 Which of the following costs could be found in work in process inventory for an ice cream manufacturer?
A. Utilities for administrative offices
B. Assembly worker wages
C. Depreciation on sales office
D. Customer order forms

Answer: B
LO: 2-1
Diff: 1
EOC: S 2-2
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-26 Enter the letter of the type of company on the line in front of each statement. Letters may be used more than once or not at all.

A) Service company
B) Merchandising company
C) Manufacturing company

____ Generally has no inventory
____ Has three types of inventory
____ Inventory consists of freight-in and the cost of the product
____ Has the highest percentage of labor costs
____ Wal-Mart is this type of company

Answer:
__A_ Generally has no inventory
__C_ Has three types of inventory
__B_ Inventory consists of freight-in and the cost of the product
__A_ Has the highest percentage of labor costs
__B_ Wal-Mart is this type of company

Diff: 1
LO: 2-1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-27 On the line in front of each statement, enter the letter corresponding to the term that best fits that statement. You may use a letter more than once and some letters may not be used at all.

A.	Materials inventory	E.	Work in process inventory
B.	Service companies	F.	Manufacturing companies
C.	Merchandise inventory	G.	Merchandising companies
D.	Finished goods inventory		

____ Typically have a single category of inventory
____ Resell products they previously purchased ready-made from suppliers
____ Do not have inventory for resale
____ Produce its own inventory
____ Transform raw materials into new finished products
____ Ready to sell inventory of manufacturers
____ Partially completed items of manufacturers

Answer:

__G_ Typically have a single category of inventory
__G_ Resell products they previously purchased ready-made from suppliers
__B_ Do not have inventory for resale
__F_ Produce their own inventory
__F_ Transform raw materials into new finished products
__D_ Ready to sell inventory of manufacturers
__E_ Partially competed items of manufacturers

Diff: 2
LO:2-1
EOC: E2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-28 Describe service, merchandising, and manufacturing companies.

Answer:
Service companies sell intangible services such as insurance, consulting and healthcare. Salaries and wages often are the largest part of their costs. They usually do not have inventory or cost of goods sold accounts, although some service companies will have a small amount of supplies inventory which is used for their own use and not for sale to customers. Merchandising companies resell tangible products they buy from suppliers. Retailers and wholesalers are both types of merchandising companies. Merchandisers have inventory. Manufacturing companies use labor, plant and equipment to convert raw materials into finished products which they sell to other companies. They have three types of inventory–raw materials, work in process, and finished goods.

Diff: 2
LO: 2-1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-29 Explain the difference between raw materials inventory, work in process inventory, and finished goods inventory.

Answer:
Raw materials inventory includes all materials used to make a product including materials that become a part of the product as well as other physical materials used in a plant such as machine lubricants and janitorial supplies. Work in process inventory includes goods that are partway through the manufacturing process but not yet complete. Finished goods inventory includes completed goods that have not yet been sold.

Diff: 1
LO: 2-1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-30 Describe a company that has some elements of all three types of companies. It is part service company, part manufacturer, and part merchandiser.

Answer:
Many restaurants fall into this category. They are a service company since they serve hungry customers. They are a manufacturer since they convert raw ingredients into finished meals and they are a merchandiser since they sell ready-to-serve bottles of beer and wine.

Diff: 2
LO: 2-1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.1-31 Why do service firms not have inventory costs pertaining to items to be sold? What type of costs do they have?

Answer:
Service firms do not have inventory costs because services cannot be produced today and stored up to sell later. They do not have inventory. They only have period costs that are expensed.

Diff: 2
LO: 2-1
EOC: S2-1
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.2-1 All of the components of manufacturing—from research and development through customer service after the sale—are part of a firm's value chain.

Answer: True
LO: 2-2
Diff: 1
EOC: S2-3
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.2-2 The activities in the value chain must take place in a specific order.

Answer: False
LO: 2-2
Diff: 1
EOC: S2-4
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.2-3 The value chain helps companies control costs of products only.

Answer: False
LO: 2-2
Diff: 1
EOC: S2-4
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-4 Research and development is needed to improve products and to design new products.

Answer: True
LO: 2-2
Diff: 1
EOC: S2-4
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.2-5 Receipt of materials is part of the firm's value chain.

Answer: True
LO: 2-2
Diff: 1 EOC: S2-4
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-6 A company's distribution system is an important part of the value chain.

Answer: True
LO: 2-2
Diff: 1
EOC: S2-4
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.2-7 Which of the following is NOT part of a company's value chain?
A. Design
B. Distribution
C. Marketing
D. Administration

Answer: D
LO: 2-2
Diff: 1
EOC: S2-3
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.2-8 All of the following activities are included in the value chain EXCEPT for:
A. customer service.
B. design.
C. production.
D. reporting.

Answer: D
LO: 2-2
Diff: 1
EOC: S2-3
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.2-9 Which of the following would NOT be a cost object?
A. Built-to-order web sales
B. Costs in the legal department
C. Sales of a particular model in the southeast
D. All of these could serve as cost objects

Answer: D
LO: 2-2
Diff: 2
EOC: S2-5
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-10 The value chain is used by:
A. only manufacturing and merchandising businesses.
B. only service and manufacturing businesses.
C. only service and merchandising businesses.
D. service, manufacturing and merchandising businesses.

Answer: D
LO: 2-2
Diff: 2
EOC: S2-4
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.2-11 Collectively, all costs such as design, customer service, etc. are part of:
A. downstream activities.
B. fixed costs.
C. manufacturing costs.
D. the value chain.

Answer: D
LO: 2-2
Diff: 21
EOC: S2-4
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.2-12 The promotion of products and services is known as:
A. customer service.
B. design.
C. distribution.
D. marketing.

Answer: D
LO: 2-2
Diff: 1
EOC: S2-4
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.2-13 Which cost does NOT relate to part of the value chain for a toy company?

A. Administrative costs
B. Cost of advertising the new products
C. Cost of shipping to retailers
D. Salaries of game designers

Answer: A
LO: 2-2
Diff: 2
EOC: S2-4
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-14 Depreciation on a factory would be classified as which part of the value chain?

A. Design
B. Distribution
C. Production
D. Research and development

Answer: C
LO: 2-2
Diff: 1
EOC: E2-2-4
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-15 A technical support hotline for customers would be considered which part of the value chain?

A. Customer service
B. Design
C. Distribution
D. Marketing

Answer: A
LO: 2-2
Diff: 21
EOC: E2--4
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-16 Advertising expenses would be considered which part of the value chain?

A. Customer service
B. Marketing
C. Production
D. Research and development

Answer: B
LO: 2-2
Diff: 2
EOC: S2-4
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-17 The costs associated with reengineering machinery and its location within the factory to increase efficiency would be considered which part of the value chain?

A. Customer service
B. Marketing
C. Design
D. Research and development

Answer: C
LO: 2-2
Diff: 2
EOC: S2-4
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-18 A company decision as to where to locate a new store would be considered:

A. customer service.
B. marketing.
C. production.
D. research and development.

Answer: B
LO: 2-2
Diff: 2
EOC: S2-4
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-19 Farm Fresh Dairy provided the following expense information for May:

Assembly-line workers' wages	$ 72,000
Caps for milk bottles	2,000
Reconfiguring the assembly line	155,000
Customer support hotline	8,000
Delivery expenses	17,000
Depreciation on factory equipment	81,000
Plastic milk bottles	52,000
Salaries of salespeople	63,000
Salaries of research scientists	84,000
Customer toll-free order line	4,000

What is the total cost of research and development?
A. $ 84,000
B. $ 86,000
C. $ 54,000
D. $239,000

Answer: A
LO: 2-2
Diff: 21
EOC: E2-33
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-20 Farm Fresh Dairy provided the following expense information for May:

Assembly-line workers' wages	$ 72,000
Caps for milk bottles	2,000
Reconfiguring the assembly line	155,000
Customer support hotline	8,000
Delivery expenses	17,000
Depreciation on factory equipment	81,000
Plastic milk bottles	52,000
Salaries of salespeople	63,000
Salaries of research scientists	84,000
Customer toll-free order line	4,000

What is the total cost for the production category of the value chain?
A. $538,000
B. $52,000
C. $207,000
D. $374,000

Answer: C

Calculations: $ 72,000 +2,000+81,000+52,000 = $207,000

LO: 2-2
Diff: 2
EOC: E2-23
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-21 Farm Fresh Dairy provided the following expense information for May:

Assembly-line workers' wages	$ 72,000
Caps for milk bottles	2,000
Reconfiguring the assembly line	155,000
Customer support hotline	8,000
Delivery expenses	17,000
Depreciation on factory equipment	81,000
Plastic milk bottles	52,000
Salaries of salespeople	63,000
Salaries of research scientists	84,000
Customer toll-free order line	4,000

What is the total cost for the design category of the value chain?
A. $227,000
B. $218,000
C. $155,000
D. $311,000

Answer: C
LO: 2-2
Diff: 2
EOC: E2-33
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-22 Farm Fresh Dairy provided the following expense information for May:

Assembly-line workers' wages	$ 72,000
Caps for milk bottles	2,000
Reconfiguring the assembly line	155,000
Customer support hotline	8,000
Delivery expenses	17,000
Depreciation on factory equipment	81,000
Plastic milk bottles	52,000
Salaries of salespeople	63,000
Salaries of research scientists	84,000
Customer toll-free order line	4,000

What is the total cost for the distribution category of the value chain?
A. $19,000
B. $17,000
C. $176,000
D. $244,000

Answer: B
LO: 2-2
Diff: 2
EOC: E2-33
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-23 Farm Fresh Dairy provided the following expense information for May:

Assembly-line workers' wages	$ 72,000
Caps for milk bottles	2,000
Reconfiguring the assembly line	155,000
Customer support hotline	8,000
Delivery expenses	17,000
Depreciation on factory equipment	81,000
Plastic milk bottles	52,000
Salaries of salespeople	63,000
Salaries of research scientists	84,000
Customer toll-free order line	4,000

What is the total cost for the marketing category of the value chain?
A. $227,000
B. $218,000
C. $67,000
D. $311,000

Answer: C

Calculations: $63,000 + 4,000 = $67,000

LO: 2-2
Diff: 2
EOC: E2-33
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-24 Farm Fresh Dairy provided the following expense information for May:

Assembly-line workers' wages	$ 72,000
Caps for milk bottles	2,000
Reconfiguring the assembly line	155,000
Customer support hotline	8,000
Delivery expenses	17,000
Depreciation on factory equipment	81,000
Plastic milk bottles	52,000
Salaries of salespeople	63,000
Salaries of research scientists	84,000
Customer toll-free order line	4,000

What is the total cost for the customer service category of the value chain?
A. $80,000
B. $ 8,000
C. $71,000
D. $12,000

Answer: B
LO: 2-2
Diff: 2
EOC: E2-33
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-25 Sunnybrook Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

Depreciation expense on bottling machines	$ 63,000
Glass juice bottles	$ 54,000
Commissions for salespeople	$ 27,000
Salaries of nutrition researchers	$ 89,000
Costs of maintaining website used for customer orders	$ 4,000
Wages of factory workers	$ 75,000
Freshness seals/caps for juice bottles	$ 3,000
Reconfiguring the factory layout	$102,000
Customer help line	$ 2,000
Costs of refrigerated trucks used to deliver juice	$ 17,000

What is the total cost for the research and development category of the value chain?
A. $92,000
B. $57,000
C. $89,000
D. $191,000

Answer: C
LO: 2-2
Diff: 2
EOC: E2-33
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-26 Sunnybrook Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

Depreciation expense on bottling machines	$ 63,000
Glass juice bottles	$ 54,000
Commissions for salespeople	$ 27,000
Salaries of nutrition researchers	$ 89,000
Costs of maintaining website used for customer orders	$ 4,000
Wages of factory workers	$ 75,000
Freshness seals/caps for juice bottles	$ 3,000
Reconfiguring the factory layout	$102,000
Customer help line	$ 2,000
Costs of refrigerated trucks used to deliver juice	$ 17,000

What is the total cost for the production category of the value chain?
A. $436,000
B. $ 54,000
C. $195,000
D. $293,000

Answer: C

Calculations: $ 75,000 + 3,000 + 63,000 + 54,000 = $ 195,000
LO: 2-2
Diff: 2
EOC: E2-33
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-27 Sunnybrook Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

Depreciation expense on bottling machines	$ 63,000
Glass juice bottles	$ 54,000
Commissions for salespeople	$ 27,000
Salaries of nutrition researchers	$ 89,000
Costs of maintaining website used for customer orders	$ 4,000
Wages of factory workers	$ 75,000
Freshness seals/caps for juice bottles	$ 3,000
Reconfiguring the factory layout	$102,000
Customer help line	$ 2,000
Costs of refrigerated trucks used to deliver juice	$ 17,000

What is the total cost for the design category of the value chain?
A. $177,000
B. $129,000
C. $102,000
D. $266,000

Answer: C
LO: 2-2
Diff: 2
EOC: E2-33
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-28 Sunnybrook Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

Depreciation expense on bottling machines	$ 63,000
Glass juice bottles	$ 54,000
Commissions for salespeople	$ 27,000
Salaries of nutrition researchers	$ 89,000
Costs of maintaining website used for customer orders	$ 4,000
Wages of factory workers	$ 75,000
Freshness seals/caps for juice bottles	$ 3,000
Reconfiguring the factory layout	$102,000
Customer help line	$ 2,000
Costs of refrigerated trucks used to deliver juice	$ 17,000

What is the total cost for the distribution category of the value chain?
A. $ 20,000
B. $123,000
C. $ 21,000
D. $194,000

Answer: C
LO: 2-2
Diff: 2
EOC: E2-33
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-29 Sunnybrook Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

Depreciation expense on bottling machines	$ 63,000
Glass juice bottles	$ 54,000
Commissions for salespeople	$ 27,000
Salaries of nutrition researchers	$ 89,000
Costs of maintaining website used for customer orders	$ 4,000
Wages of factory workers	$ 75,000
Freshness seals/caps for juice bottles	$ 3,000
Reconfiguring the factory layout	$102,000
Customer help line	$ 2,000
Costs of refrigerated trucks used to deliver juice	$ 17,000

What is the total cost for the marketing category of the value chain?
A. $177,000
B. $129,000
C. $27,000
D. $266,000

Answer: C

Calculations: $ 27,000 + 4000 = $ 31,000

LO: 2-2
Diff: 2
EOC: E2-33
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-30 Sunnybrook Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

Wages of factory workers	$ 75,000
Freshness seals/caps for juice bottles	$ 3,000
Reconfiguring the factory layout	$102,000
Customer help line	$ 2,000
Costs of refrigerated trucks used to deliver juice	$ 17,000
Depreciation expense on bottling machines	$ 63,000
Glass juice bottles	$ 54,000
Commissions for salespeople	$ 27,000
Salaries of nutrition researchers	$ 89,000
Costs of maintaining website used for customer orders	$ 4,000

What is the total cost for the customer service category of the value chain?
A. $77,000
B. $29,000
C. $ 2,000
D. $ 6,000

Answer: C
LO: 2-2
Diff: 2
EOC: E2-33
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-31 Delivery expenses are charged to which of the following areas?
A. Customer service
B. Distribution
C. Production or purchases
D. Marketing

Answer: B
LO: 2-2
Diff: 2
EOC: S2-3
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-32 A product support hot line would be considered:
A. customer service.
B. distribution.
C. production or purchases.
D. marketing.

Answer: A
LO: 2-2
Diff: 2
EOC: S2-3
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-33 Place the value chain elements in the correct order by numbering them from 1 to 6.

___ Design
___ Customer Service
___ Marketing
___ Research and Development
___ Distribution
___ Production or Purchases

Answer:
_2_ Design
_6_ Customer Service
_4_ Marketing
_1_ Research and Development
_5_ Distribution
_3_ Production or Purchases

Diff: 2
LO: 2-2
EOC: S2-3
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-34 Place the letter for the appropriate value chain activity on the line in front of each item. Letters may be used more than once or not at all. Assume a manufacturer.

A.	Research and development	D.	Marketing
B.	Design	E.	Distribution
C.	Production or purchases	F.	Customer service

____ Depreciation expense on equipment in factory
____ Delivery expense
____ Toll free line for customer orders
____ Customer support hot line
____ Assembly line workers' wages

Answer:
_C_ Depreciation expense on equipment in factory
_E_ Delivery expense
_D_ Toll free line for customer orders
_F_ Customer support hot line
_C_ Assembly line workers' wages

Diff: 2
LO: 2-2
EOC: S2-4
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-35 Name and briefly describe the activities that make up the value chain.

Answer:
The value chain consists of research and development, design, production or purchase, marketing, distribution, and customer service. Research and development refers to researching and developing new or improved products or services and the processes for producing them. Design involves the detailed engineering of products and services and the processes for producing them. Production or purchases refers to the resources used to produce a product or service or to purchase finished merchandise intended for resale. Marketing is the promotion and advertising of products or services. Distribution is the delivery of products or services to customers and customer service provides support for customers after the sale.

Diff: 2
LO: 2-2
EOC: S2-3
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.2-36 Classify each of the following business costs into one of the six value chain elements.

A. Cost of a commercial during a TV program
B. Cost of shipping goods to customers
C. Costs associated with repairing products under warranty
D. Costs of developing a new product
E. Cost of making a prototype of a new product
F. Cost of labor for machine operator in factory

Answer:
A. Marketing
B. Distribution
C. Customer service
D. Research and development
E. Design
F. Production

Diff: 3
LO: 2-2
EOC: S2-4
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-1 If a company wants to determine a product's cost, they must assign only direct costs.

Answer: False
LO: 2-3
Diff: 2
EOC: E2-20
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.3-2 Costs can be either direct or indirect, depending upon the cost object.

Answer: True
LO: 2-3
Diff: 1
EOC: E2-20
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.3-3 Indirect costs can be traced to specific units.

Answer: False
LO: 2-3
Diff: 1
EOC: E2-21
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.3-4 Indirect costs cannot be traced to the cost objects, so they are allocated.

Answer: True
LO: 2-3
Diff: 1
EOC: E2-21
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.3-5 Indirect costs incurred in manufacturing autos include all of the following EXCEPT:
A. cost of the engines.
B. machinery depreciation in the factory.
C. plant utilities.
D. plant supervisor salary.

Answer: A
LO: 2.-3
Diff: 2
EOC: S2-5
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-6 When determining the cost of a manufactured product, a factory janitor's wages would be classified as:
A. a direct cost.
B. an indirect cost.
C. a period cost.
D. none of the above.

Answer: B
LO: 2-3
Diff: 1
EOC: S2-5
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-7 When determining the cost of a manufactured product, a salesperson's salary would be classified as:
A. a direct cost.
B. an indirect cost.
C. a period cost.
D. none of the above.

Answer: C
LO: 2-3
Diff: 1
EOC: S2-6
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-8 When determining the cost of a manufactured product, the cost of lighting the factory would be classified as:

A. a direct cost.
B. an indirect cost.
C. a period cost.
D. none of the above.

Answer: B
LO: 2-3
Diff: 1
EOC: S2-5
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-9 All of the following would be considered a direct material for a mattress EXCEPT:

A. fabric.
B. glue.
C. lumber.
D. steel.

Answer: B
LO: 2-3
Diff: 1
EOC: S2-5
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-10 Prime costs consist of:

A. direct labor and manufacturing overhead.
B. direct materials and direct labor.
C. direct materials and manufacturing overhead.
D. direct materials, direct labor and manufacturing overhead.

Answer: B
LO: 2-3
Diff: 1
EOC: E2-20
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-11 Conversion costs consist of:
A. direct labor and manufacturing overhead.
B. direct materials and direct labor.
C. direct materials and manufacturing overhead.
D. direct materials, direct labor and manufacturing overhead.

Answer: A
LO: 2-3
Diff: 1
EOC: E2-20
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-12 Which of the following is an example of direct labor?
A. Salary of a production manager
B. Salary of the vice-president of operations
C. Wages of assembly line personnel
D. Wages of factory security

Answer: C
LO: 2-3
Diff: 1
EOC: E2-21
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-13 Which statement describes direct materials in a manufacturing setting?
A. Direct materials are used to determine total inventoriable product costs.
B. Direct materials are used to determine total manufacturing overhead.
C. Direct materials cannot be separately and conveniently traced.
D. Direct materials do not become part of the finished product.

Answer: A
LO: 2-3
Diff: 2
EOC: S2-5
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-14 In a manufacturing plant, which is an example of indirect labor?

A. Chief operating officer
B. Machine operators
C. Plant managers
D. Salesmen

Answer: C
LO: 2-3
Diff: 1
EOC: S2-5
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-15 Which of the following are classified as manufacturing overhead?

A. Direct materials and direct labor
B. Indirect labor and indirect materials
C. All materials
D. Factory rent and direct labor

Answer: B
LO: 2-3
Diff: 2
EOC: S2-6
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-16 Which of the following is an example of overhead in a factory?

A. Wages of machine operators
B. Wages of factory maintenance personnel
C. Wages of administrators in the corporate office
D. Salaries of salespersons

Answer: B
LO: 2-3
Diff: 2
EOC: E2-21
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-17 Comfy Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	$	11,000
Depreciation on factory equipment	$	16,000
Factory supervisor salary	$	52,500
Sales commissions	$	23,000
Lubricants used in factory equipment	$	3,000
Insurance costs for factory	$	21,000
Wages paid to maintenance workers	$	115,000
Fabric used to upholster furniture	$	7,000
Freight-in (on raw materials)	$	2,500
Costs of delivery to customers	$	9,000
Wages paid to assembly-line workers	$	132,500
Lumber used to build product	$	72,000
Utilities in factory	$	44,500
Utilities in sales office	$	26,500

Prime costs for Comfy Furniture Company totaled:
A. $ 79,000.
B. $ 214,000.
C. $ 211,500.
D. $ 332,000.

Answer: B

Calculations: $ 7,000 + 2,500 + 132,500 + 72,000 = $ 214.000

LO: 2-3
Diff: 2
EOC: E2-21
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-18 Comfy Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	$ 11,000
Depreciation on factory equipment	$ 16,000
Factory supervisor salary	$ 52,500
Sales commissions	$ 23,000
Lubricants used in factory equipment	$ 3,000
Insurance costs for factory	$ 21,000
Wages paid to maintenance workers	$ 115,000
Fabric used to upholster furniture	$ 7,000
Freight-in (on raw materials)	$ 2,500
Costs of delivery to customers	$ 9,000
Wages paid to assembly-line workers	$ 132,500
Lumber used to build product	$ 72,000
Utilities in factory	$ 44,500
Utilities in sales office	$ 26,500

Conversion costs for Comfy Furniture Company totaled:
A. $ 319,500.
B. $ 460,500.
C. $ 214,000.
D. $ 384,500.

Answer: D

Calculations: $ 16,000 + 53,500 + 3,000 + 21,000 +115,000 + 132,500 + 44,500 = $384,500

LO: 2-3
Diff: 2
EOC: E2-21
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-19 Comfy Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	$	11,000
Depreciation on factory equipment	$	16,000
Factory supervisor salary	$	52,500
Sales commissions	$	23,000
Lubricants used in factory equipment	$	3,000
Insurance costs for factory	$	21,000
Wages paid to maintenance workers	$	115,000
Fabric used to upholster furniture	$	7,000
Freight-in (on raw materials)	$	2,500
Costs of delivery to customers	$	9,000
Wages paid to assembly-line workers	$	132,500
Lumber used to build product	$	72,000
Utilities in factory	$	44,500
Utilities in sales office	$	26,500

Direct material costs for Comfy Furniture Company totaled:
A. $ 81,500.
B. $ 79,000.
C. $ 7,000.
D. $ 72,000.

Answer: A

Calculations: $ 7,000 + 2,500 + 72,000 = $ 81,500

LO: 2-3
Diff: 2
EOC: E2-21
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-20 Comfy Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	$	11,000
Depreciation on factory equipment	$	16,000
Factory supervisor salary	$	52,500
Sales commissions	$	23,000
Lubricants used in factory equipment	$	3,000
Insurance costs for factory	$	21,000
Wages paid to maintenance workers	$	115,000
Fabric used to upholster furniture	$	7,000
Freight-in (on raw materials)	$	2,500
Costs of delivery to customers	$	9,000
Wages paid to assembly-line workers	$	132,500
Lumber used to build product	$	72,000
Utilities in factory	$	44,500
Utilities in sales office	$	26,500

Direct labor costs for Comfy Furniture Company totaled:
A. $ 300,000.
B. $ 132,500.
C. $ 115,000.
D. $ 323,000.

Answer: B
LO: 2-3
Diff: 2
EOC: E2-21
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-21 Comfy Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	$ 11,000
Depreciation on factory equipment	$ 16,000
Factory supervisor salary	$ 52,500
Sales commissions	$ 23,000
Lubricants used in factory equipment	$ 3,000
Insurance costs for factory	$ 21,000
Wages paid to maintenance workers	$ 115,000
Fabric used to upholster furniture	$ 7,000
Freight-in (on raw materials)	$ 2,500
Costs of delivery to customers	$ 9,000
Wages paid to assembly-line workers	$ 132,500
Lumber used to build product	$ 72,000
Utilities in factory	$ 44,500
Utilities in sales office	$ 26,500

Manufacturing overhead costs for Comfy Furniture Company totaled:
A. $ 324,000.
B. $ 122,000.
C. $ 228,000.
D. $ 252,000.

Answer: D

Calculations: $16,000 + $52,500 + $3,000 + $21,000 + $115,000 + $44,500 = $252,000

LO: 2-3
Diff: 2
EOC: E2-21
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-22 Use the correct number to designate each item below. Assume a manufacturer.

1. Direct materials
2. Selling and general expenses
3. Manufacturing overhead
4. Direct labor

A) ____ Rent expense on factory building
B) ____ Sales supplies used
C) ____ Factory supplies used
D) ____ Indirect materials used
E) ____ Wages of assembly line personnel
F) ____ Cost of primary material used to make product
G) ____ Depreciation expense on office equipment
H) ____ Rent expense on office facilities
I) ____ Insurance expired on factory equipment
J) ____ Utilities incurred in the office
K) ____ Advertising expense
L) ____ Taxes paid on factory building

Answer:
A) 3
B) 2
C) 3
D) 3
E) 4
F) 1
G) 2
H) 2
I) 3
J) 2
K) 2
L) 3

Diff: 2
LO:2-3
EOC: E2-18
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.3-23 Differentiate between:

A. Direct materials versus indirect materials

B. Direct labor versus indirect labor

Answer:

Student responses will vary but should include the following points:

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 specific units of the finished product. Examples for a furniture manufacturer include wood, leather, steel, etc. Indirect materials become part of the finished product, but their minor costs cannot conveniently be traced directly to individual units of the finished products. They are included as part of manufacturing overhead. Examples for a furniture manufacturer include thread, glue, snaps, etc.

B. Direct labor cost is the compensation of employees who physically convert raw materials into the company's products and whose efforts can be traced directly to specific units of finished goods. Examples for a furniture manufacturer include machine operators and assemblers. Indirect labor is factory labor that is difficult to trace to individual units of specific products. Instead, the cost is included in manufacturing overhead. Examples for a furniture manufacturer include costs for forklift operators, janitors, and plant managers.

Diff: 2
LO: 2-3
EOC: E2-21
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.4-1 An inventoriable cost could be the cost of the marketing and distribution of a product.

Answer: False
LO: 2-4
Diff: 2
EOC: S2-8
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.4-2 Inventoriable product costs consist of manufacturing overhead, direct labor and direct materials.

Answer: True
LO: 2-4
Diff: 2
EOC: S2-8
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.4-3 All of the following are product costs for a manufacturer EXCEPT:
A. direct labor.
B. direct materials.
C. freight out.
D. manufacturing overhead.

Answer: C
LO: 2-4
Diff: 2
EOC: S2-7
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.4-4 Period costs are:
A. always considered part of the inventory.
B. always recorded as an expense.
C. expensed only when the inventory is sold.
D. none of the above.

Answer: B
LO: 2-4
Diff: 2
EOC: S2-8
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-5 Which of the following is NOT a period cost?
A. Direct labor expenses
B. Distribution expenses
C. Marketing expenses
D. Research and development expenses

Answer: A
LO: 2-4
Diff: 2
EOC: S2-8
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-6 Which of the following describes full product costs for a product?

A. Full product costs are narrower in scope than inventoriable product costs.
B. Full product costs consist of direct materials, direct labor and manufacturing overhead.
C. Full product costs include all costs of the value chain.
D. Both A and B are correct.

Answer: C
LO: 2-4
Diff: 2
EOC: S2-8
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-7 Inventoriable product costs for a manufactured product include:

A. marketing and research and development costs.
B. the costs of direct materials, direct labor and manufacturing overhead.
C. the costs of direct materials and direct labor only.
D. none of the above.

Answer: B
LO: 2-4
Diff: 2
EOC: S2-4
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-8 Which of the following statements describes inventoriable product costs?

A. They are expensed on the income statement when incurred.
B. They are used for external reporting purposes.
C. They include marketing and distribution costs.
D. Both A and C are correct.

Answer: B
LO: 2-4
Diff: 2
EOC: E2-22
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-9 Where would period costs be found on the financial statements?

A. Under current assets on the balance sheet
B. Under current liabilities on the balance sheet
C. As operating expenses on the income statement for a previous period
D. As operating expenses on the income statement in the period incurred

Answer: D
LO: 2-4
Diff: 2
EOC: E2-22
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-10 Which of the following statements is correct concerning product costs?

A. Product costs are expensed in the period incurred.
B. Product costs are expensed in the period the related product is sold.
C. Product costs are shown with operating expenses on the income statement.
D. Product costs are shown with current liabilities on the balance sheet.

Answer: B
LO: 2-4
Diff: 2
EOC: E2-22
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-11 ____________ costs include all costs associated with the production of a product.

A. Direct
B. Inventoriable
C. Mixed
D. Overhead

Answer: B
LO: 2-4
Diff: 2
EOC: E2-22
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-12 Manufacturing overhead costs for a product include:
A. direct material.
B. operating expenses.
C. prime costs.
D. indirect manufacturing costs.

Answer: D
LO: 2-4
Diff: 2
EOC: E2-21
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-13 When do inventoriable costs become expenses?
A. When direct materials are purchased
B. When the manufacturing process begins
C. When the manufacturing process is completed
D. None of the above

Answer: D
LO: 2-4
Diff: 2
EOC: E2-22
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-14 For a manufactured product, indirect materials and indirect labor are:
A. overhead and period costs.
B. overhead and product costs.
C. operating and period costs.
D. operating and product costs.

Answer: B
LO: 2-4
Diff: 2
EOC: E2-21
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-15 Manufacturers consider selling and administrative costs to be:
A. prime costs.
B. conversion costs.
C. inventoriable costs.
D. period costs.

Answer: D
LO: 2-4
Diff: 2
EOC: E2-21
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-16 When manufacturing products, which of the following is an example of a period cost?
A. Advertising expense
B. Depreciation expense on factory equipment
C. Indirect materials used in the factory
D. Property taxes on the plant

Answer: A
LO: 2-4
Diff: 2
EOC: E2-21
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-17 When manufacturing products, which of the following is an example of an inventoriable cost?
A. Depreciation on office equipment
B. Depreciation on store building
C. Depreciation on factory equipment
D. Sales salaries expenses

Answer: C
LO: 2-4
Diff: 2
EOC: E2-21
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-18 When manufacturing products, direct labor and direct materials are classified as:
A. period costs and expensed when incurred.
B. period costs and expensed when the goods are sold.
C. product costs and expensed when incurred.
D. product costs and expensed when the goods are sold.

Answer: D
LO: 2-4
Diff: 2
EOC: E2-21
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-19 Certain materials used in a manufacturing plant cannot be traced to a specific unit. These materials are called ____________ materials.
A. general
B. direct
C. finished
D. indirect

Answer: D
LO: 2-4
Diff: 2
EOC: E2-21
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-20 Rent on a factory building would be considered to be:
A. a direct cost.
B. a period cost.
C. a product cost.
D. none of the above.

Answer: C
LO: 2-4
Diff: 2
EOC: E2-21
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-21 Which element in the value chain would contain inventoriable costs for a manufacturer?

A. Research and development
B. Design
C. Production
D. Distribution

Answer: C
LO: 2-4
Diff: 2
EOC: 2-18
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-22 Uniquely Me Shoppe, a clothing retailer, had the following total costs as grouped by value chain element:

Research and development	$ 53,000
Design	$ 17,000
Purchases	$ 99,000
Marketing	$ 42,000
Distribution	$ 68,000
Customer service	$ 27,000

What were the company's inventoriable costs?

A. $ 99,000
B. $ 116,000
C. $ 17,000
D. $ 169,000

Answer: A
LO: 2-4
Diff: 2
EOC: E2-18
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-23 Uniquely Me Shoppe, a clothing retailer, had the following total costs as grouped by value chain element:

Research and development	$ 53,000
Design	$ 17,000
Purchases	$ 99,000
Marketing	$ 42,000
Distribution	$ 68,000
Customer service	$ 27,000

What were the company's period costs?
A. $ 306,000
B. $ 137,000
C. $ 110,000
D. $ 207,000

Answer: D

Calculations: $ 53,000+17,000+42,000 + 68,000 + 27,000 = $207,000

LO: 2-4
Diff: 2
EOC: E2-18
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-24 Comfy Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	$ 11,000
Depreciation on factory equipment	$ 16,000
Factory supervisor salary	$ 52,500
Sales commissions	$ 23,000
Lubricants used in factory equipment	$ 3,000
Insurance costs for factory	$ 21,000
Wages paid to maintenance workers	$ 115,000
Fabric used to upholster furniture	$ 7,000
Freight-in (on raw materials)	$ 2,500
Costs of delivery to customers	$ 9,000
Wages paid to assembly-line workers	$ 132,500
Lumber used to build product	$ 72,000
Utilities in factory	$ 44,500
Utilities in sales office	$ 26,500

Product costs for Comfy Furniture Company totaled:
A. $ 351,000.
B. $ 442,500.
C. $ 466,000.
D. $ 482,000.

Answer: C

Calculations: $ 16,000 + 52,500 + 3,000 + 21,000 + 115,000 + 7,000 + 2,500 + 132,500 + 72,000 + 44,500 = $ 466,000

LO: 2-4
Diff: 2
EOC: E2-21
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-25 Comfy Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

Depreciation on sales office	$	11,000
Depreciation on factory equipment	$	16,000
Factory supervisor salary	$	52,500
Sales commissions	$	23,000
Lubricants used in factory equipment	$	3,000
Insurance costs for factory	$	21,000
Wages paid to maintenance workers	$	115,000
Fabric used to upholster furniture	$	7,000
Freight-in (on raw materials)	$	2,500
Costs of delivery to customers	$	9,000
Wages paid to assembly-line workers	$	132,500
Lumber used to build product	$	72,000
Utilities in factory	$	44,500
Utilities in sales office	$	26,500

Period costs for Comfy Furniture Company totaled:
A. $ 43,000.
B. $ 46,500.
C. $ 69,500.
D. $ 121,000.

Answer: C

Calculations: $ 11,000 + 23,000 + 9,000 + 26,500 = $ 69,500

LO: 2-4
Diff: 2
EOC: E2-21
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-26 First Sporting Equipment manufactures sporting goods. Selected costs from the past year include:

Plastics used to make products	$ 151,000
Heating and lighting costs for factory	$ 73,000
Factory janitor wages	$ 67,000
Costs of shipping to customers	$ 11,000
Lubricants used in factory equipment	$ 2,000
Lighting costs for sales office	$ 17,000
Depreciation on factory equipment	$ 23,000
Office supplies for sales office	$ 4,000
Insurance costs for factory	$ 15,000
Maintenance worker wages	$ 99,000
Freight-in (on plastics)	$ 8,000
Aluminum used to make products	$ 175,000
Assembly-line worker wages	$ 142,000
Salaries of salespeople	$ 84,000

Product costs for First Sporting Equipment totaled:
A. $ 620,000.
B. $ 732,000.
C. $ 755,000.
D. $ 827,000.

Answer: C

Calculations: $ 151,000 + 73,000 + 67,000 + 2,000 + 23,000 + 15,000 + 99,000 + 8,000 + 175,000 + 142,000 = $ 755,000

LO: 2-4
Diff: 3
EOC: E2-21
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-27 First Sporting Equipment manufactures sporting goods. Selected costs from the past year include:

Plastics used to make products	$ 151,000
Heating and lighting costs for factory	$ 73,000
Factory janitor wages	$ 67,000
Costs of shipping to customers	$ 11,000
Lubricants used in factory equipment	$ 2,000
Lighting costs for sales office	$ 17,000
Depreciation on factory equipment	$ 23,000
Office supplies for sales office	$ 4,000
Insurance costs for factory	$ 15,000
Maintenance worker wages	$ 99,000
Freight-in (on plastics)	$ 8,000
Aluminum used to make products	$ 175,000
Assembly-line worker wages	$ 142,000
Salaries of salespeople	$ 84,000

Period costs for First Sporting Equipment totaled:
A. $ 116,000.
B. $ 99,000.
C. $ 201,000.
D. $ 32,000.

Answer: A

Calculations: $ 11,000 + 17,000 + 4,000 + 84,000 = $ 116,000

LO: 2-4
Diff: 23
EOC: E2-21
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-28 ABC Company makes wooden furniture. Identify each of the following as either an inventoriable product cost or a period cost. If it is an inventoriable product cost, classify it as direct materials, direct labor, or manufacturing overhead.

A.__________ Insurance on the plant building
B.__________ Cost of shipping the furniture to the customers
C.__________ Assembly line workers' wages
D.__________ Depreciation on plant equipment
E.__________ Salesmen's salaries
F.__________ Cost of various types of wood
G.__________ Insurance on delivery trucks
H.__________ Plant forklift operator's salary

Answer:

A. Inventoriable product cost, manufacturing overhead
B. Period cost
C. Inventoriable product cost, direct labor
D. Inventoriable product cost, manufacturing overhead
E. Period cost
F. Inventoriable product cost, direct materials
G. Period cost
H. Inventoriable product cost, manufacturing overhead

Diff: 3
LO: 2-4
EOC: S2-8
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.4-29 Indicate whether each of the following costs is a product cost or a period cost. Assume a manufacturer.

A) _________ Direct materials used in factory
B) _________ Factory utilities
C) _________ Salespersons' commissions
D) _________ Salary of plant manager
E) _________ Indirect materials used in factory
F) _________ Depreciation expense on store equipment
G) _________ Indirect labor incurred in factory
H) _________ Advertising expense
I) _________ Direct labor incurred in factory
J) _________ Factory machinery repairs and maintenance
K) _________ Depreciation expense on factory machinery
L) _________ Supplies used in store
M) _________ Plant insurance expired

Answer:
A) Product
B) Product
C) Period
D) Product
E) Product
F) Period
G) Product
H) Period
I) Product
J) Product
K) Product
L) Period
M) Product

Diff: 2
LO: 2-4
EOC: S2-7
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.5-1 The income statements of manufacturing companies are much less complex than those of service or merchandising companies.

Answer: False
LO: 2-5
Diff: 2
EOC: S2-13
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.5-2 The financial statements of a merchandiser are more complex than those of a manufacturer.

Answer: False
LO: 2-5
Diff: 2
EOC: E2-23
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.5-3 Service companies have the simplest accounting with regard to the income statement.

Answer: True
LO: 2-5
Diff: 2
EOC: S2-2
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.5-4 Cost of goods sold is a major expense of service companies.

Answer: False
LO: 2-5
Diff: 1
EOC: S2-2
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.5-5 The schedule of cost of goods manufactured is prepared before the income statement for a manufacturing company.

Answer: True
LO: 2-5
Diff: 2
EOC: E2-25
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.5-6 Which of the following is calculated before operating income can be determined for a manufacturer?

A. Cost of goods available for sale
B. Cost of goods manufactured
C. Cost of goods sold
D. All of the above

Answer: D
LO: 2-5
Diff: 2
EOC: E2-24
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.5-7 The only difference in the balance sheets of various types of businesses (for example, manufacturing vs. service) is:

A. current assets.
B. current liabilities.
C. investments.
D. equity.

Answer: A
LO: 2-5
Diff: 2
EOC: E2-25
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.5-8 Which of the following would be on the balance sheet of a service company?

A. Factory equipment depreciation
B. Cost of goods manufactured
C. Cost of goods sold
D. Accounts receivable

Answer: D
LO: 2-5
Diff: 1
EOC: S2-1
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.5-9 Which of the following would be on the income statement of a retailer?
A. Value of inventory
B. Cost of goods sold
C. Accounts payable
D. Accounts receivable

Answer: B
LO: 2-5
Diff: 1
EOC: E2-23
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.5-10 Which of the following costs would appear on the income statements for both a merchandiser and manufacturer?
A. Cost of goods manufactured
B. Direct labor incurred
C. Direct materials used
D. Operating expenses

Answer: D
LO: 2-5
Diff: 2
EOC: E2-24
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.5-11 A merchandiser's purchases are equivalent to a manufacturer's:
A. cost of goods manufactured.
B. cost of goods sold.
C. raw materials inventory.
D. work in process inventory.

Answer: A
LO: 2-5
Diff: 2
EOC: E2-25
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.5-12 Olde Tyme Beverage Company's operating activities for the year are listed below.

Purchases	$132,000
Operating expenses	80,000
Beginning inventory	12,000
Ending inventory	16,000
Sales revenue	275,000

What is the cost of goods available for sale?
A. $128,000
B. $132,000
C. $ 63,000
D. $144,000

Answer: D

Calculations: Beginning Inventory $ 12,000 + Purchases 132,000 = Goods Available $ 144,000

LO: 2-5
Diff: 2
EOC: P2-27
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-13 Olde Tyme Beverage Company's operating activities for the year are listed below.

Purchases	$132,000
Operating expenses	80,000
Beginning inventory	12,000
Ending inventory	16,000
Sales revenue	275,000

What is the cost of goods sold for the year?
A. $144,000
B. $132,000
C. $128,000
D. $ 63,000

Answer: C

Calculations: Beginning Inventory $ 12,000 + Purchases 132,000 = Goods Available
$ 144,000 – Ending Inventory 16,000 = 128,000

LO: 2-5
Diff: 2
EOC: P2-27
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-14 Olde Tyme Beverage Company's operating activities for the year are listed below.

Purchases	$126,000
Operating expenses	90,000
Beginning inventory	14,000
Ending inventory	10,000
Sales revenue	250,000

What is the gross profit for the year?
A. $147,000
B. $143,000
C. $ 63,000
D. $275,000

Answer: A

Calculations: Beg Inv $ 14,000 + Purchases 126,000 = Goods available 140,000 – ending inventory 10,000 = Cost of Goods Sold $130,000
Now Sales 250,000 – CGS 130,000 = Gross Profit $ 120,000

LO: 2-5
Diff: 3
EOC: P2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-15 Towpath Tennis & Recreation's operating activities for the year are listed below (000s omitted).

Purchases	$150,000
Operating expenses	62,000
Beginning inventory	27,000
Ending inventory	32,000
Sales revenue	302,000

What is the cost of goods available for sale?
A. $145,000
B. $150,000
C. $ 90,000
D. $177,000

Answer: D

Calculations: $ 27,000 + 150,000 = $177,000

LO: 2-5
Diff: 2
EOC: P2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-16 Towpath Tennis & Recreation's operating activities for the year are listed below.

Purchases	$150,000
Operating expenses	62,000
Beginning inventory	27,000
Ending inventory	32,000
Sales revenue	302,000

What is the cost of goods sold for the year?
A. $177,000
B. $150,000
C. $145,000
D. $ 90,000

Answer: C

Calculations: $ 27,000 + 150,000 = 177,000 – 32,000 = $145,000

LO: 2-5
Diff: 2
EOC: P2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-17 Towpath Tennis & Recreation's operating activities for the year are listed below.

Purchases	$150,000
Operating expenses	62,000
Beginning inventory	27,000
Ending inventory	32,000
Sales revenue	302,000

What is the gross profit for the year?
A. $157,000
B. $152,000
C. $ 90,000
D. $302,000

Answer: A

Calculations: $ 27,000 + 150,000 = 177,000 -32,000 = $145,000.
Then $ 302,000 = 145,000= $ 157,000

LO: 2-5
Diff: 3
EOC: P2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-18 Which of the following, in addition to cost of goods manufactured, is needed to compute the cost of goods sold for a manufacturer?

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 less ending finished goods
D. Ending finished goods less beginning finished goods

Answer: C
LO: 2-5
Diff: 23
EOC: E2-25A
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.5-19 For a manufacturer, beginning work in process would be equal to:

A. cost of goods manufactured + ending work in process inventory – manufacturing costs incurred in the period.
B. cost of goods manufactured – ending work in process inventory + manufacturing costs incurred in the period.
C. ending work in process inventory + manufacturing costs incurred in the period.
D. manufacturing costs incurred in the period – ending work in process inventory.

Answer: A
LO: 2-5
Diff: 3
EOC: E2-25A
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.5-20 Express Company reports the following data for its first year of operation.

Cost of goods manufactured	$475,000
Work in process inventory, beginning	0
Work in process inventory, ending	140,000
Direct materials used	110,000
Manufacturing overhead	185,000
Finished goods inventory, ending	101,000

What are the total manufacturing costs for the year?
A. $615,000
B. $475,000
C. $770,000
D. $529,000

Answer: A

Calculations: $475,000 + 140,000 = $615,000

LO: 2-5
Diff: 3
EOC: E2-25A
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-21 Express Company reports the following data for its first year of operation.

Cost of goods manufactured	$475,000
Work in process inventory, beginning	0
Work in process inventory, ending	140,000
Direct materials used	110,000
Manufacturing overhead	185,000
Finished goods inventory, ending	101,000

What is the cost of goods sold?
A. $475,000
B. $374,000
C. $770,000
D. $514,000

Answer: B

Calculations: $475,000 -101,000 = $374,000

LO: 2-5
Diff: 3
EOC: E2-25A
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-22 Active Apparel Company reports the following data for its first year of operation.

Cost of goods manufactured	$500,000
Work in process inventory, beginning	0
Work in process inventory, ending	120,000
Direct materials used	85,000
Manufacturing overhead	100,000
Finished goods inventory, ending	72,000

What are the total manufacturing costs for the year?
A. $620,000
B. $500,000
C. $685,000
D. $493,000

Answer: A

Calculations: $ 500,000 + 120,000 =$620,000

LO: 2-5
Diff: 3
EOC: E2-25A
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-23 Active Apparel Company reports the following data for its first year of operation.

Cost of goods manufactured	$500,000
Work in process inventory, beginning	0
Work in process inventory, ending	120,000
Direct materials used	85,000
Manufacturing overhead	100,000
Finished goods inventory, ending	72,000

What is the cost of goods sold?
A. $500,000
B. $428,000
C. $685,000
D. $548,000

Answer: B

Calculations: $500,000 – 72,000 = $428,000

LO: 2-5
Diff: 3
EOC: E2-25A
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-24 Direct labor for a company was $132,000; manufacturing overhead was $275,000; and direct materials were $253,000. Conversion costs would total:

A. $385,000.
B. $660,000.
C. $407,000.
D. $528,000.

Answer: C

Calculations: $ 275,000 + 132,000 = $407,000

LO: 2-5
Diff: 2
EOC: E2-21
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.5-25 Direct labor for a company was $132,000; manufacturing overhead was $275,000; and direct materials were $253,000. Prime costs would total:

A. $407,000.
B. $385,000.
C. $660,000.
D. $528,000.

Answer: B

Calculations: $ 132,000 + 253,000 = $385,000

LO: 2-5
Diff: 2
EOC: E2-21
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.5-26 Readers Unlimited sells books. The following information summarizes the company's operating expenses for the year:

Purchases	$ 90,000
Operating expenses	$ 53,000
Beginning merchandise inventory	$ 12,000
Ending merchandise inventory	$ 15,000
Sales revenue	$ 172,000

What is cost of goods available for sale?
A. $105,000
B. $ 82,000
C. $ 87,000
D. $102,000

Answer: D

Calculations: $ 90,000 + 12,000 = $102,000

LO: 2-5
Diff: 32
EOC: E2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-27 Readers Unlimited sells books. The following information summarizes the company's operating expenses for the year:

Purchases	$ 90,000
Operating expenses	$ 53,000
Beginning merchandise inventory	$ 12,000
Ending merchandise inventory	$ 15,000
Sales revenue	$ 172,000

What is operating income?
A. $32,000
B. $87,000
C. $93,000
D. $29,000

Answer: A

Calculations: $90,000 + 12,000 = 102,000 – 15,000 = 87,000;
Next $ 172,000 -87,000 =85,000 -53,000 = $ 32,000

LO: 2-5
Diff: 3
EOC: E2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-28 Readers Unlimited sells books. The following information summarizes the company's operating expenses for the year:

Purchases	$ 90,000
Operating expenses	$ 53,000
Beginning merchandise inventory	$ 12,000
Ending merchandise inventory	$ 15,000
Sales revenue	$ 172,000

What is gross profit?
A. $ 32,000
B. $ 82,000
C. $ 85,000
D. $119,000

Answer: C

Calculations: $90,000 + 12,000 = 102,000 – 15,000 = $87,000.
Next $ 172,000 -87,000 =85,000

LO: 2-5
Diff: 3
EOC: E2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-29 Summerville Company sells office supplies. The following information summarizes the company's operating activities for the year:

Utilities for the store	$ 8,000
Sales commissions	11,000
Sales revenue	151,000
Purchases of merchandise	73,000
January 1 inventory	27,000
Rent for store	12,000
December 31 inventory	23,000

What is cost of goods sold?
A. $ 73,000
B. $ 93,000
C. $100,000
D. $ 77,000

Answer: D

Calculations: $27,000 + 73,000 = 100,000 - 23,000 = $77,000

LO: 2-5
Diff: 3
EOC: E2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-30 Summerville Company sells office supplies. The following information summarizes the company's operating activities for the year:

Utilities for the store	$ 8,000
Sales commissions	11,000
Sales revenue	151,000
Purchases of merchandise	73,000
January 1 inventory	27,000
Rent for store	12,000
December 31 inventory	23,000

What is operating income?
A. $143,000
B. $ 43,000
C. $ 58,000
D. $ 47,000

Answer: B

Calculations: $ 151,000 -77,000 =74,000 -8,000 -11,000 -12,000 = $43,000

LO: 2-5
Diff: 3
EOC: E2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-31 Summerville Company sells office supplies. The following information summarizes the company's operating activities for the year:

Utilities for the store	$ 8,000
Sales commissions	11,000
Sales revenue	151,000
Purchases of merchandise	73,000
January 1 inventory	27,000
Rent for store	12,000
December 31 inventory	23,000

What is gross profit?
A. $43,000
B. $82,000
C. $74,000
D. $58,000

Answer: C

Calculations: $ 151,000 -77,000 =74,000

LO: 2-5
Diff: 3
EOC: E2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-32 Summerville Company sells office supplies. The following information summarizes the company's operating activities for the year:

Utilities for the store	$ 8,000
Sales commissions	11,000
Sales revenue	151,000
Purchases of merchandise	73,000
January 1 inventory	27,000
Rent for store	12,000
December 31 inventory	23,000

What is total operating expense?
A. $20,000
B. $19,000
C. $31,000
D. $23,000

Answer: C

Calculations: $ 8,000 + 11,000 + 12,000 = $31,000

LO: 2-5
Diff: 2
EOC: E2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-33 Backyards, Inc., sells lawn furniture. Selected financial information for the most recent year follows.

Beginning merchandise inventory on January 1 was $32,000.
Ending merchandise inventory on December 31 was $37,000.
Purchases during the year were $101,000.
Selling and administrative expenses were $75,000.
Sales for year were $257,000.

What was cost of goods sold?
A. $133,000
B. $96,000
C. $106,000
D. $ 81,000

Answer: B

Calculations: $ 101,000 + 32,000 = 133,000 -37,000 = $96,000

LO: 2-5
Diff: 2
EOC: E2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-34 Backyards, Inc., sells lawn furniture. Selected financial information for the most recent year follows.

Beginning merchandise inventory on January 1 was $32,000.
Ending merchandise inventory on December 31 was $37,000.
Purchases during the year were $101,000.
Selling and administrative expenses were $75,000.
Sales for year were $257,000.

What was gross profit?
A. $(171,000)
B. $156,000
C. $161,000
D. $182,000

Answer: C

Calculations: $ 101,000 + 32,000 = 133,000 -37,000 = $96,000.
Next $ 257,000 -96,000=$161,000

LO: 2-5
Diff: 2
EOC: E2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-35 Backyards, Inc., sells lawn furniture. Selected financial information for the most recent year follows:

Beginning merchandise inventory on January 1 was $32,000.
Ending merchandise inventory on December 31 was $37,000.
Purchases during the year were $101,000.
Selling and administrative expenses were $75,000.
Sales for year were $257,000.

What was operating income for the year?
A. $86,000
B. $81,000
C. $96,000
D. $76,000

Answer: A

Calculations: $ 101,000 + 32,000 = 133,000 -37,000 = $96,000.
Next $ 257,000 -96,000=$161,000 – 75,000 = $86,000

LO: 2-5
Diff: 2
EOC: E2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-36 Backyards, Inc., sells lawn furniture. Selected financial information for the most recent year follows.

Beginning merchandise inventory on January 1 was $32,000.
Ending merchandise inventory on December 31 was $37,000.
Purchases during the year were $101,000.
Selling and administrative expenses were $75,000.
Sales for year were $257,000.

What was the value of goods available for sale?
A. $138,000
B. $156,000
C. $133,000
D. $ 96,000

Answer: C

Calculations: $ 101,000 + 32,000 = $133,000

LO: 2-5
Diff: 2
EOC: E2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-37 Selected financial information for Sunnydale Manufacturing is presented in the following table (000s omitted).

Sales revenue	$	4,000
Purchases of direct materials	$	500
Direct labor	$	450
Manufacturing overhead	$	620
Operating expenses	$	700
Beginning raw materials inventory	$	150
Ending raw materials inventory	$	170
Beginning work in process inventory	$	320
Ending work in process inventory	$	310
Beginning finished goods inventory	$	250
Ending finished goods inventory	$	200

What was direct materials used?
A. $500
B. $480
C. $650
D. $520

Answer: B

Calculations: $ 150 + 500= 650 -170 = $480

LO: 2-5
Diff: 2
EOC: E2-27
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-38 Selected financial information for Sunnydale Manufacturing is presented in the following table (000s omitted).

Sales revenue	$	4,000
Purchases of direct materials	$	500
Direct labor	$	450
Manufacturing overhead	$	620
Operating expenses	$	700
Beginning raw materials inventory	$	150
Ending raw materials inventory	$	170
Beginning work in process inventory	$	320
Ending work in process inventory	$	310
Beginning finished goods inventory	$	250
Ending finished goods inventory	$	200

What was cost of goods manufactured?
A. $1,560
B. $1,540
C. $1,580
D. $1,550

Answer: A

Calculations: $ 480 + 450 + 620= 1,550 +320 – 310 = $ 1,560

LO: 2-5
Diff: 3
EOC: E2-27
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-39 Selected financial information for Sunnydale Manufacturing is presented in the following table (000s omitted).

Sales revenue	$	4,000
Purchases of direct materials	$	500
Direct labor	$	450
Manufacturing overhead	$	620
Operating expenses	$	700
Beginning raw materials inventory	$	150
Ending raw materials inventory	$	170
Beginning work in process inventory	$	320
Ending work in process inventory	$	310
Beginning finished goods inventory	$	250
Ending finished goods inventory	$	200

What was cost of goods sold?
A. $ 680
B. $1,570
C. $1,510
D. $1,610

Answer: D

Calculations: $ 480 + 450 + 620= 1,550 +320 – 310 = $ 1,560 + 250 – 200 = $1,610

LO: 2-5
Diff: 3
EOC: E2-27
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-40 Selected financial information for Sunnydale Manufacturing is presented in the following table (000s omitted).

Sales revenue	$	4,000
Purchases of direct materials	$	500
Direct labor	$	450
Manufacturing overhead	$	620
Operating expenses	$	700
Beginning raw materials inventory	$	150
Ending raw materials inventory	$	170
Beginning work in process inventory	$	320
Ending work in process inventory	$	310
Beginning finished goods inventory	$	250
Ending finished goods inventory	$	200

What was operating income?
A. $1,690
B. $2,430
C. $3,300
D. $4,000

Answer: A

Calculations: $ 4,000 – 1,610 = 2,390 – 700 = $ 1,690

LO: 2-5
Diff: 3
EOC: E2-27
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-41 Selected information regarding a company's most recent quarter follows (all data in thousands).

Beginning work in process inventory	$ 130
Cost of goods manufactured	$ 320
Direct materials used	$ 170
Direct labor	$ 90
Ending work in process inventory	$ 140

What was manufacturing overhead for the quarter?
A. $ 70
B. $260
C. $310
D. $ 60

Answer: A

Calculations: $320 -130+140 = 330 -170 -90 = $ 70

LO: 2-5
Diff: 3
EOC: E2-27
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-42 Selected information regarding a company's most recent quarter follows (all data in thousands).

Direct labor	$ 450
Beginning work in process inventory	$ 320
Ending work in process inventory	$ 310
Cost of goods manufactured	$ 1,560
Manufacturing overhead	$ 620

What was direct materials used for the quarter?
A. $ 770
B. $1,570
C. $ 460
D. $ 480

Answer: D

Calculations: $ 1,560 – 320 +310 = 1,550 -450 – 620 = $480
LO: 2-5
Diff: 3
EOC: E2-27
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-43 Selected information regarding a company's most recent quarter follows (all data in thousands).

Operating expenses	$ 700
Gross profit	$ 2,390
Sales revenue	$ 4,000
Ending finished goods inventory	$ 200
Cost of goods manufactured	$ 1,560

What was cost of goods sold?
A. $ 1,610
B. $ 1,740
C. $ 1,060
D. $ 860

Answer: A

Calculations: $ 4,000 – 2,390 = $ 1,610

LO: 2-5
Diff: 2
EOC: E2-27
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-44 Selected information regarding a company's most recent quarter follows (all data in thousands).

Operating expenses	$ 700
Gross profit	$ 2,390
Sales revenue	$ 4,000
Ending finished goods inventory	$ 200
Cost of goods manufactured	$ 1,560

What was the beginning finished goods inventory?
A. $ 1,740
B. $ 250
C. $ 1,060
D. $ 860

Answer: B

Calculations: $ 4,000 – 2,390 = $ 1,610 +200 = 1,810 -1560 = $250

LO: 2-5
Diff: 3
EOC: E2-27
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-45 Selected information regarding a company's most recent quarter follows (all data in thousands).

Sales revenue	$	4,000
Beginning raw materials inventory	$	150
Direct materials used	$	350
Purchases of direct materials	$	500
Direct labor	$	450
Manufacturing overhead	$	620

What was the ending raw materials inventory?
A. $300
B. $ 970
C. $ 350
D. $ 850

Answer: A

Calculations: $ 150 + 500 = 650 -350 = 300

LO: 2-5
Diff: 3
EOC: E2-27
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-46 Use the appropriate letter(s) to indicate if the following costs would be found on the income statement of a:
A. service company.
B. merchandising company.
C. manufacturing company.

You may use more than one letter for each answer.
____ Revenue
____ Salaries expense
____ Customer service expense
____ Cost of goods manufactured
____ Cost of goods sold

Answer:

_A,B,C_ Revenue
_A,B,C__ Salaries expense
_A,B,C__ Customer service expense
___C___ Cost of goods manufactured
__B, C___ Cost of goods sold

LO:2-5
Diff: 2
EOC: P2-23
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.5-47 Compute the missing amounts.

	Miami Company	Orlando Company
Sales	$ 200,000	(D)
Cost of Goods Sold		
Beginning Inventory	(A)	60,000
Purchases and Freight-In	118,000	(E)
Cost of goods available for sale	(B)	180,000
Ending inventory	4,000	4,000
Cost of goods sold	120,000	(F)
Gross Margin	80,000	224,000
Selling and Administrative Expenses	(C)	170,000
Operating Income	24,000	(G)

Answer:
A) 124,000-118,000 = 6,000
B) 124,000 120,000 +4,000 = 124,000
C) 56,000 80,000 – 24,000 = 56,000
D) 400,000224,000+176,000 = 400,000
E) 120,000 180,000 -60,000 = 120,000
F) 176,000 180,000 – 4,000 = 176,000
G) 54,000 224,000 – 170,000 = 54,000

LO: 2-5
Diff: 3
EOC: P2-27A
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-48 Dino Company sells collectibles. The following information summarizes Dino's operating activities for the most recent year:

Merchandise inventory, beginning	$ 10,000
Merchandise inventory, ending	7,000
Purchases	95,000
Operating expenses	65,000
Sales revenue	180,000

Required: Prepare an income statement for the most recent year.

Answer:

Dino Company		
Income Statement		
Year Ended December 31		
Sales revenue		$ 180,000
Cost of good sold:		
Beginning inventory	$ 10,000	
Purchases	95,000	
Cost of goods available for sale	105,000	
Ending inventory	7,000	
Cost of good sold:		98,00 0
Gross profit		$ 82,000
Selling and administrative expenses		65,00 0
Operating income		$ 17,000

LO: 2-5
Diff: 3
EOC: P2-26
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-49 Swirzoff Company sells office supplies. The following information summarizes Swirzoff's operating activities for the past year:

Utilities for store	6,000
Rent for store	8,000
Sales commissions	4,500
Purchases of merchandise	54,000
Inventory, ending	20,500
Inventory, beginning	30,000
Sales revenue	108,000

Required: Prepare an income statement for Swirzoff Company, a merchandiser, for the year ended December 31.

Answer:

Swirzoff Company		
Income Statement		
Year Ended December 31		
Sales revenue		$ 108,000
Cost of goods sold:		
Beginning inventory	$ 30,000	
Purchases of merchandise	54,000	
Cost of goods available for sale	84,000	
Ending inventory	20,500	
Cost of goods sold:		63,500
Gross profit		$ 44,500
Operating expenses:		
Utilities expense	$ 6,000	
Rent expense	8,000	
Sales commissions expense	4,500	18,500
Operating income		$ 26,000

LO: 2-5
Diff: 3
EOC: P2-27A
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-50 South State Company used $71,000 of direct materials and incurred $37,000 of direct labor costs during 20X9. 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 expense of $7,900; and property taxes of $2,600.
There was no beginning or ending finished goods inventory, but work in process inventory
began they ear with a $5,500 balance and ended the year with a $7,500 balance.

Required: Prepare a schedule of cost of goods manufactured for South State Company for the year ended December 31.

South State Company			
Schedule of Cost of Goods Manufactured			
Year Ended December 31			
Beginning work in process inventory			$ 5,500
Add:			
Direct materials used		$ 71,000	
Direct labor		37,000	
Manufacturing overhead:			
Indirect labor	$ 2,700		
Indirect materials	1,600		
Utilities	3,100		
Maintenance	4,500		
Supplies	1,800		
Depreciation expense	7,900		
Property taxes	2,600	24,200	
Total manufacturing costs incurred during the year			132,200
Total manufacturing costs to account for			137,700
Less: Ending work in process inventory			(7,500)
Cost of goods manufactured			$130,200

LO: 2-5
Diff: 3
EOC: P2-25
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-51 The following information is available for the Petree Corporation for last year:

- Raw materials inventory decreased $4,000 from the beginning of the year to the end of the year.
- Raw materials inventory on December 31 (end of year) was 50% of raw materials inventory on January 1 (beginning of year).
- Beginning work in process inventory was $145,000.
- Ending finished goods inventory was $65,000.
- Purchases of direct materials were $154,700.
- Manufacturing overhead was 50% of the cost of direct labor.
- 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 (beginning of year)
b) Work in process inventory on December 31 (end of year)
c) Direct labor incurred
d) Manufacturing overhead incurred
e) Direct materials used
f) Raw materials inventory on January 1 (beginning of year)
g) Raw materials inventory on December 31 (end of year)

Note to students: The solutions to this problem are not necessarily calculated in alphabetical order.

Answer:
a) Cost of goods sold = $246,400 + $156,000 = $402,400
$402,400 + $65,000 - $308,000 = $159,400

b) Cost of goods manufactured = $246,400/.80 = $308,000
$246,400 + $145,000 - $308,000 = $83,400

c) $158,700 + x + 0.5x = $246,400
1.5x = $877,700
x = $58,467

d) $58,467 X .5 = $29,233

e) $8,000 + $154,700 - $4,000 = $158,700

f) x = January 1 materials inventory
$4,000 = .5X
X = $8,000

g) $8,000 - $4,000 = $4,000

LO: 2-5
Diff: 3
EOC: P2-28A
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.5-52 The following amounts were taken from the general ledger of the Excellent Manufacturing Company. Compute the cost of goods manufactured and the cost of goods sold for the company for the year.

Raw materials inventory – beg. of year	$50,000	Depreciation – plant & equipment	$26,000
Raw materials inventory – end of year	56,000	Repairs and maintenance – plant	8,000
Work in process inv. – beg. of year	100,000	Insurance on plant	18,000
Work in process inv. – end of year	70,000	General and administration exp.	25,000
Finished goods inv. – beg. of year	36,000	Indirect labor	30,000
Finished goods inv. – end of year	50,000	Direct labor	164,000
Purchase of direct materials	30,000	Marketing expenses	40,000

Answer:

Excellent Manufacturing Company			
Schedule of Cost of Goods Manufactured			
Beginning work in process inventory			$ 100,000
Add: Direct materials used			
Beginning raw materials inventory	$ 50,000		
Purchase of direct materials	30,000		
Available for use	80,000		
Ending raw materials inventory	(56,000)		
Direct materials used		$ 24,000	
Direct labor		164,000	
Manufacturing overhead:			
Indirect labor	$ 30,000		
Insurance on plant	18,000		
Depreciation - plant & equipment	26,000		
Repairs and maintenance - plant	8,000	82,000	
Total manufacturing costs			
incurred during the year			270,000
Total manufacturing costs to			
account for			370,000
Less: Ending work in process inventory			(70,000)
Cost of goods manufactured			$ 300,000

Excellent Manufacturing Company	
Schedule of Cost of Goods Sold	
Beginning finished goods inventory	$ 36,000
Cost of goods manufactured*	300,000
Cost of goods available for sale	336,000
Ending finished goods inventory	(50,000)
Cost of good sold	$ 286,000
*From schedule of cost of goods manufactured	

LO: 2-5
Diff: 3
EOC: P2-24
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.6-1 Differential cost is the difference in cost between two alternatives.

Answer: True
LO: 2-6
Diff: 1
EOC 2-29
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making:

2.6-2 Decision making is guided only by differential costs.

Answer: False
LO: 2-6
Diff: 2
EOC: E2-29
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.6-3 Irrelevant factors should be considered when making decisions.

Answer: False
LO: 2-6
Diff: 1
EOC: E2-29
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.6-4 You are trying to decide whether or not to sell back your accounting textbook at the end of the class. The cost you paid for the book is relevant to your decision.

Answer: False
LO: 2-6
Diff: 2
EOC: E2-29
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.6-5 Sunk costs are a major part of the decision making process.

Answer: False
LO: 2-6
Diff: 1
EOC: E2-29
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.6-6 ____________ information is that which differs between alternatives and can affect the future.

A. Historical
B. Irrelevant
C. Predictable
D. Relevant

Answer: D
LO: 2-6
Diff: 1
EOC: E2-29
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.6-7 Which of the following represents a sunk cost?

A. A historical cost that is never relevant
B. A historical cost that is always relevant
C. An outlay expected to be incurred in the future
D. A cost that is relevant to any decision

Answer: A
LO: 2-6
Diff: 2
EOC: E2-29
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.6-8 Subtracting the costs of one alternative from the costs of the other alternative would be called the ____________ cost.

A. sunk
B. imported
C. differential
D. alternative

Answer: C
LO: 2-6
Diff: 2
EOC: E2-29
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.6-9 When deciding to buy a new computer, all of the following should be considered EXCEPT for the:

A. cost of the new computer.
B. cost of the old computer.
C. games that come with the new computer.
D. warranty on the new computer.

Answer: B
LO: 2-6
Diff: 2
EOC: E2-29
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.6-10 When making a decision to buy a new computer, all of the following should be considered EXCEPT for:

A. differential costs.
B. relevant costs.
C. qualitative characteristics.
D. sunk costs.

Answer: D
LO: 2-6
Diff: 2
EOC: E2-29
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.6-11 A company is deciding whether to purchase production equipment which can produce units more quickly than the current equipment. Which of the following costs would be relevant to its decision?

A. The cost of the new equipment
B. The salary of the factory manager
C. The cost of raw materials
D. The original purchase price of the current machinery

Answer: A
LO: 2-6
Diff: 1
EOC: E2-29
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.6-12 A restaurant is facing a decision about whether it should bake its own dinner rolls or whether it should continue to purchase the dinner rolls from a local bakery. Which of the following costs would be relevant to its decision?

A. The salary of the restaurant manager
B. The purchase price of the dinner rolls purchased from the local bakery
C. The price the restaurant sells the dinner rolls for
D. The original purchase price of the current machinery

Answer: B
LO: 2-6
Diff: 1
EOC: E2-29
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.6-13 A company is deciding whether to purchase hybrid cars for its salespeople or gasoline-engine cars. Which of the following costs would NOT be relevant to its decision?

A. The cost per gallon of gasoline
B. The purchase price of the hybrid model
C. The purchase price of the gasoline-engine model
D. The book value of the current fleet of sales vehicles

Answer: D
LO: 2-6
Diff: 1
EOC: E2-29
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.6-14 Label each item below as relevant or irrelevant in making a decision.

A. ____ Cost of insurance on a new vehicle when evaluating purchase of new vehicle
B. ____ Cost of roof repair made on rental property last year when evaluating sale of rental property
C. ____ Original cost of old equipment that is being evaluated for replacement
D. ____ Cost of new equipment that is under evaluation to replace used equipment
E. ____ Accumulated depreciation on old equipment being evaluated for replacement
F. ____ Cost of previous year's insurance policy on old equipment being evaluated for replacement

Answer:
A. Relevant
B. Irrelevant
C. Irrelevant
D. Relevant
E. Irrelevant
F. Irrelevant

LO: 2-6
Diff: 2
EOC: E2-28
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.6-15 Differentiate between relevant and irrelevant costs and give an example using both.

Answer:
When making a decision, those costs that differ between alternatives are relevant costs. Costs that do not differ between alternatives are irrelevant. For example, when deciding to buy a new car, the cost of the cars under consideration is relevant as is the insurance cost for each car. If they both have the same fuel economy ratings, then the cost of gasoline is irrelevant to the decision.

LO: 2-6
Diff: 2
EOC: P2-28
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.6-16 On the line in front of each statement, enter the letter corresponding to the term that best fits that statement. You may use a letter more than once and some letters may not be used at all.

A.	Direct costs	F.	Variable costs
B.	Marginal cost	G.	Indirect cost
C.	Average cost	H.	Sunk cost
D.	Conversion costs	I.	Differential cost
E.	Prime costs		

___ The combination of direct materials and direct labor
___ Costs that change in total in direct proportion to changes in volume
___ A cost that relates to the cost object, but cannot be traced to it
___ A cost that has already been incurred

Solution:
_E_ The combination of direct materials and direct labor
_F_ Costs that change in total in direct proportion to changes in volume
_G_ A cost that relates to the cost object, but cannot be traced to it
_H_ A cost that has already been incurred

LO: 2-1
Diff: 2
EOC: E 2-15
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.7-1 Fixed costs stay constant in total over a wide range of activity levels.

Answer: True
LO: 2-7
Diff: 1
EOC: E2-15
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.7-2 All costs contain both a fixed and a variable part.

Answer: False
LO: 2-7
Diff: 2
EOC: E2-15
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.7-3 The total cost of a product equals the total fixed costs plus the average variable costs.

Answer: False
LO: 2-7
Diff: 2
EOC: E2-15
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.7-4 A marginal cost is the cost of making one more unit of a product.

Answer: True
LO: 2-7
Diff: 2
EOC: E2-15
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.7-5 Average variable costs:
A. remain the same as production decreases.
B. remain the same as production increases.
C. go down as production decreases.
D. remain the same no matter if production increases or decreases.

Answer: D
LO: 2-7
Diff: 1
EOC: P2-46
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.7-6 The cost of making one more unit is called:
A. marginal cost.
B. unit cost.
C. variable cost.
D. none of the above

Answer: A
LO: 2-7
Diff: 1
EOC: P2-45
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.7-7 Farm Supply plans to make 10,000 tractors at its plant. Fixed costs are $1,000,000 and variable costs are $500 per tractor. What is the average cost per tractor?

A. $600
B. $500
C. $100
D. None of the above

Answer: A
LO: 2-7
Diff: 1
EOC: P2-46
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.7-8 A(n) ____________ cost is one whose total amount changes in direct proportion to a change in volume.

A. fixed
B. irrelevant
C. mixed
D. variable

Answer: D
LO: 2-7
Diff: 1
EOC: P2-46
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.7-9 Which of the following is an example of a fixed cost for a manufacturer?

A. Salary of plant manager
B. Sales commissions
C. Direct materials
D. Delivery costs

Answer: A
LO: 2-7
Diff: 1
EOC: P2-46
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.7-10 Which of the following describes the way in which variable costs per unit behave?

A. They will decrease as production increases.
B. They will increase as production decreases.
C. They will remain the same throughout production levels.
D. They will decrease as production decreases.

Answer: C
LO: 2-7
Diff: 3
EOC: P2-47
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.7-11 Which of the following describes the way in which total variable costs behave?

A. They remain the same throughout production levels.
B. They will decrease as production decreases.
C. They will decrease as production increases.
D. They will increase as production decreases.

Answer: B
LO: 2-7
Diff: 3
EOC: P2-47
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.7-12 Which of the following describes the way in which total fixed costs behave?

A. They will remain the same throughout production levels.
B. They will decrease as production decreases.
C. They will decrease as production increases.
D. They will increase as production decreases.

Answer: A
LO: 2-7
Diff: 2
EOC: P2-47
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.7-13 Which of the following describes the way fixed costs per unit behave?

A. They will remain the same throughout production levels.
B. They will decrease as production decreases.
C. They will increase as production increases.
D. They will increase as production decreases.

Answer: D
LO: 2-7
Diff: 3
EOC: P2-47
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.7-14 Variable costs:

A. are fixed in total as production levels change.
B. are fixed per unit and vary in total as productions levels change.
C. decrease per unit as production volume increases.
D. vary per unit of output as production levels change.

Answer: B
LO: 2-7
Diff: 3
EOC: P2-47
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.7-15 A company has monthly fixed costs of $112,000. The variable costs are $5.00 per unit. If the sales price of a unit is $20.00 and we sell 8,000 units, the company's average fixed costs per unit will be:

A. $19.00 per unit.
B. $ 5.00 per unit.
C. $14.00 per unit.
D. $15.00 per unit.

Answer: C

Calculations: 112,000/8,000 = 14
LO: 2-7
Diff: 2
EOC: P2-47
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.7-16 A company has monthly fixed costs of $112,000. The variable costs are $5.00 per unit. If the sales price of a unit is $20.00 and we sell 8,000 units, the company's total variable costs will be:

A. $112,000.
B. $160,000.
C. $120,000.
D. $40,000.

Answer: D

Calculations: 8,000 X $5.00 = $ 40,000
LO: 2-7
Diff: 2
EOC: P2-47
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.7-17 A company has monthly fixed costs of $112,000. The variable costs are $5.00 per unit. If the sales price of a unit is $20.00 and we sell 8,000 units, the total sales revenue will be:

A. $160,000.
B. $120,000.
C. $112,000.
D. $ 8,000.

Answer: A

Calculations: $ 20.00 X 8,000 = $160,000
LO: 2-7
Diff: 2
EOC: P2-47
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.7-18 Paris Plastics has monthly fixed costs of $90,000, while its variable costs are $4.00 per unit. If the sales price of a unit is $16.00 and Paris Plastics sell 12,000 units, the company's average fixed costs per unit will be:

A. $11.50 per unit.
B. $4.00 per unit.
C. $7.50 per unit.
D. $12.00 per unit.

Answer: C

Calculations: 90,000/12,000 = $ 7.50
LO: 2-7
Diff: 2
EOC: P2-47
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.7-19 Paris Plastics has monthly fixed costs of $90,000, while its variable costs are $4.00 per unit. If the sales price of a unit is $16.00 and Paris Plastics sell 12,000 units, the company's total variable costs will be:

A. $ 90,000.
B. $192,000.
C. $144,000.
D. $ 48,000.

Answer: D

Calculations: $4.00 X 12,000 = $ 48,000

LO: 2-7
Diff: 2
EOC: P2-47
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.7-20 Paris Plastics has monthly fixed costs of $90,000, while its variable costs are $4.00 per unit. If the sales price of a unit is $16.00 and Paris Plastics sell 12,000 units, the total sales revenue will be:

A. $192,000.
B. $144,000.
C. $ 90,000.
D. $ 54,000.

Answer: A

Calculations: 12,000 X $16.00 = $192,000

LO: 2-7
Diff: 2
EOC: P2-47
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.7-21 A company has fixed costs of $75,000 per month. If sales double from 5,000 to 10,000 units during the month, fixed costs will:

A. remain the same.
B. double.
C. be cut in half.
D. be none of the above.

Answer: A
LO: 2-7
Diff: 2
EOC: P2-47
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.7-22 A company produces toy airplanes at a variable cost of $21 per toy. If 6,000 toys are produced at a total variable cost of $126,000, the total variable cost at 4,000 toys will be:

A. $126,000.
B. $ 84,000.
C. $210,000.
D. none of the above.

Answer: B

Calculations: 4,000 X $ 21.00 = $84,000

LO: 2-7
Diff: 2
EOC: P2-47
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.7-23 Smythe Manufacturing produces food processors. Their total fixed costs are $50,000. Its variable costs are $75.00 per food processor. As production of food processors increases, fixed costs will:

A. stay the same per unit.
B. decrease as sales increase.
C. increase as sales decrease.
D. decrease per unit as sales increase.

Answer: D
LO: 2-7
Diff: 2
EOC: E2-47
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.7-24 A company's total costs are calculated by:

A. subtracting total fixed costs from total variable costs.
B. subtracting total variable costs from total fixed costs.
C. adding total fixed costs to total variable costs.
D. subtracting total fixed costs and total variable costs from sales.

Answer: C
LO: 2-7
Diff: 1
EOC: E2-47
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.7-25 On the line in front of each statement, enter the letter corresponding to the term that best fits that statement. You may use a letter more than once and some letters may not be used at all.

A.	Direct costs	E.	Variable costs
B.	Marginal cost	F.	Indirect cost
C.	Average cost	G.	Sunk cost
D.	Conversion costs	H.	Differential cost

___ The total cost divided by the total volume
___ The difference in cost between two alternative courses of action
___ The combination of direct labor and manufacturing overhead costs
___ The cost of producing one more unit
___ Costs that can be traced to the cost object

Answer:

_C_ The total cost divided by the total volume
_H_ The difference in cost between two alternative courses of action
_D_ The combination of direct labor and manufacturing overhead costs
_B_ The cost of producing one more unit
_A_ Costs that can be traced to the cost object

LO: 2-7
Diff: 2
EOC E2-19
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Reporting

2.7-26 Differentiate between fixed and variable costs and give an example of each.

Answer:
Fixed costs stay constant in total over a wide range of activity levels. For instance, the rent on a factory is the same whether 10,000 products are produced each month or 1,000 products are produced. Variable costs change in total in direct proportion to changes in volume. If the variable cost of producing one item is $1, and if 10,000 units are produced, the cost will be $10,000 and if only 1,000 units are produced, the cost will be only $1,000.

LO: 2-7
Diff: 2
EOC: P2-30A
AACSB: Reflective Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making

2.7-27 Getting to school for your 8 A.M. class doesn't leave much time for breakfast, and you are quite hungry by the time class ends. It is a long walk to the cafeteria, the lines are long once you get there, and you find yourself having to decide between having breakfast and getting to your next class on time. Many of your friends have expressed the same problem. The administration has agreed to let you set up a table just outside the building where you will sell various snacks for $1 each. You have agreed to pay the administration $500 per month and salaries to your friends to run the business will be another $500 per month. It will cost you 50 cents each to buy the pre-packaged snacks. You believe you can sell 2,000 snack packs per month.

a. What are the total fixed costs per month?
b. What are the total variable costs per month?
c. What is the fixed cost per snack pack?
d. What is the variable cost per snack pack?
e. What is the average cost per snack pack?
f. What is the average profit margin per snack pack?
g. Based on your analysis, should you start the snack pack business?

Answer:
a. $1,000 ($500 + $500)
b. $1,000 (50 cents x 2,000 snack packs)
c. 50 cents ($1,000/2,000 snack packs)
d. 50 cents (given in the problem)
e. $1.00
f. $0 ($1 – 50 cents – 50 cents)
g. No, if looked at only from a financial viewpoint. Unless the selling price can be increased or the costs decreased, no profit is being generated. There could be other reasons to start the business such as learning about running a business, helping out your friends, or generating good will among the other students.

LO: 2-7
Diff: 2
EOC: P2-47
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making, Measurement

2.7-28 How are average cost and marginal cost computed?

Answer:
The average cost is the total cost divided by the number of units produced. Marginal cost is the cost of making one more unit.

LO: 2-7
Diff: 1
EOC: E2-29
AACSB: Analytical Thinking
AICPA Business Perspective Competencies: Critical Thinking
AICPA Functional Competencies: Decision Making