Chapter 01
Managerial Accounting Concepts and Principles

True / False Questions

[Question]
1. Much of managerial accounting is directed at gathering useful information about costs for planning and control decisions.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Managerial Accounting

[Question]
2. Control is the process of setting goals and determining ways to achieve them.
Answer: FALSE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Control

[Question]
3. Managerial accounting is an activity that provides financial and nonfinancial information to an organization's managers and other internal decision makers.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Managerial Accounting

[Question]
4. One of the usual differences between financial and managerial accounting is the time dimension of the information reported.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Communication

AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Time Dimension

[Question]
5. Managerial accounting information can be forwarded to the managers of a company quickly since external auditors do not have to review it, and estimates and projections are acceptable.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Time Dimension

[Question]
6. One difference between financial and managerial accounting is that the external users that use financial information must plan a company's future, but the internal users of managerial accounting information generally must decide whether to invest in or lend to a company.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective:01- C1
Topic: Financial Accounting
Topic: Managerial Accounting

[Question]
7. Financial accounting relies on accepted principles that are enforced through an extensive set of rules and guidelines; managerial accounting systems are flexible.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Financial Accounting
Topic: Managerial Accounting

[Question]
8. The focus of financial accounting is on an organization's projects, processes, and subdivisions, and the focus of managerial accounting is on the whole organization.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Financial Accounting
Topic: Managerial Accounting

[Question]
9. Both financial and managerial accounting report monetary information; managerial accounting also reports considerable nonmonetary information.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Financial Accounting
Topic: Managerial Accounting

[Question]
10. Both financial and managerial accounting affect people's decisions and actions.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Financial Accounting
Topic: Managerial Accounting

[Question]
11. The concept of total quality management focuses on continuous improvement.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C6
Topic: Total Quality Management

[Question]
12. The orientation of just-in-time manufacturing is that products are "pulled" through the manufacturing process by the orders received from customers.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 01-C6
Topic: Just In Time Manufacturing

[Question]
13. When the attitude of continuous improvement exists throughout an organization, every manager and employee seeks to continuously experiment with new and improved business practices.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 01-C6
Topic: Continuous Improvement

[Question]
14. The main principle of the lean business model is the elimination of waste of every kind while satisfying the customer and providing a positive return to the company.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: Medium
Learning Objective: 01-C6
Topic: Lean Business Model

[Question]
15. The management concept of customer orientation causes a company to spend large amounts on advertising to convince customers to buy the company's standard products.
Answer: FALSE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Marketing
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C6
Topic: Customer Orientation

[Question]
16. The management concept of customer orientation encourages a company to set up its production system to produce large quantities of the same product for all customers.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Marketing
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 01-C6
Topic: Customer Orientation

[Question]
17. Total quality management and just-in-time manufacturing are two modern systems designed to improve the quality of management and the products and services offered.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 01-C6
Topic: Just In Time Manufacturing
Topic: Total Quality Management

[Question]
18. Under a just-in-time manufacturing system, large quantities of inventory are accumulated throughout the factory to be certain that needed components are available each time that they are needed.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 01-C6
Topic: Just In Time Manufacturing

[Question]
19. The balanced scorecard aids in continuous improvement by augmenting financial measures with drivers or indicators of future financial performance.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Analytic
Difficulty: 2 Medium
AICPA BB: Resource Management
AICPA FN: Decision Making
Learning Objective: 01-C6
Topic: Balanced Scorecard

[Question]
20. The Lean Business Model should have no effect on cost in a modern manufacturing environment.
Answer: FALSE

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 3 Hard
Learning Objective: 01-C6
Topic: Lean Business Model

[Question]
21. Fraud affects all business.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Fraud

[Question]
22. Fraud involves the deliberate or accidental misuse of the employer's assets.
Answer: FALSE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Fraud

[Question]
23. Direct materials are not usually easily traced to a product.
Answer: FALSE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Direct Materials

[Question]

24. Costs may be classified by many different cost classifications.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Cost Classification

[Question]
25. Product costs can be classified as one of three types: direct materials, direct labor, or overhead.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Product Costs

[Question]
26. Whether a cost is controllable or not controllable by an employee depends on the employee's level of responsibility.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Controllable Costs

[Question]
27. Indirect materials are accounted for as factory overhead because they are not easily traced to specific units or batches of production.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Indirect Materials

[Question]

28. A variable cost changes in proportion to changes in the volume in activity.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Variable Costs

[Question]
29. Direct costs are incurred for the benefit of more than one cost object.
Answer: FALSE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Direct Costs

[Question]
30. A sunk cost has already been incurred and cannot be avoided or changed, so it is irrelevant to decision making.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C2
Topic: Sunk Cost

[Question]
31. An out-of-pocket cost requires a future cash outlay and is relevant for decision making.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Out Of Pocket Cost

[Question]

32. An opportunity cost requires a future cash outlay and is relevant for decision making.
Answer: FALSE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Opportunity Cost

[Question]
33. Period costs are incurred by purchasing merchandise or manufacturing finished goods.
Answer: FALSE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C3
Topic: Period Costs

[Question]
34. Product costs are expenditures necessary and integral to finished products.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C3
Topic: Product Costs

[Question]
35. Cost concepts such as variable, fixed, mixed, direct, and indirect apply only to manufacturers and not to service companies.
Answer: FALSE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C3
Topic: Cost Classification

[Question]

36. Although direct labor and raw materials costs are treated as manufacturing costs and therefore make up part of the finished goods inventory cost, factory overhead is charged to expense as it is incurred because it is a period cost.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C3
Topic: Factory Overhead

[Question]
37. Selling and administrative expenses are normally product costs.
Answer: FALSE

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-C3
Topic: Product Costs

[Question]
38. The cost of partially completed products is included in the balance of the Goods in Process Inventory account.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Goods In Process

[Question]
39. Raw materials that become part of a product and are identified with specific units or batches of a product are called direct materials.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Direct Materials

[Question]

40. Manufacturers usually have three inventories: raw materials, goods in process, and finished goods.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Manufacturer Inventories

[Question]
41. Raw materials inventory includes only direct materials.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Raw Materials Inventory

[Question]
42. The Goods in Process Inventory account is found only in the ledgers of merchandising companies.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Goods In Process

[Question]
43. The main difference between the income statement of a manufacturer and a merchandiser is that the merchandiser includes cost of goods manufactured rather than cost of goods purchased.
Answer: FALSE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Cost of Goods Manufactured
Topic: Cost of Goods Purchased

[Question]

44. Raw materials purchased plus beginning raw materials inventory equals the ending balance of raw materials inventory.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C5
Topic: Raw Materials Inventory

[Question]
45. Newly completed units are combined with beginning finished goods inventory to make up total ending goods in process inventory.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C5
Topic: Goods In Process

[Question]
46. The series of activities that add value to a company's products or services is called a value chain.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C6
Topic: Value Chain

[Question]
47. Raw materials inventory turnover equals raw materials used divided by average raw materials inventory.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-A1
Topic: Raw Materials Inventory Turnover

[Question]

48. A manufacturer's cost of goods manufactured is the sum of direct materials, direct labor, and factory overhead costs incurred in producing products.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P1
Topic: Cost of Goods Manufactured

[Question]
49. Indirect labor refers to the cost of the workers whose efforts are directly traceable to specific units or batches of product.
Answer: FALSE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-P1
Topic: Indirect Labor

[Question]
50. Factory overhead includes selling and administrative expenses because they are indirect costs of a product.
Answer: FALSE

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Factory Overhead

[Question]
51. Prime costs consist of direct labor and factory overhead.
Answer: FALSE

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-P1
Topic: Prime Costs

[Question]

52. The manufacturing statement is also known as the schedule of manufacturing activities or the schedule of cost of goods manufactured.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Manufacturing Statement

[Question]
53. The manufacturing statement must be prepared monthly as it is a required general-purpose financial statement.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Manufacturing Statement

Multiple Choice Questions

[Question]
54. Managerial accounting information:
A. Is used mainly by external users.
B. Involves gathering information about costs for planning and control decisions.
C. Is generally the only accounting information available to managers.
D. Can be used for control purposes but not for planning purposes.
E. Has little to do with controlling costs.
Answer: B

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Managerial Accounting

[Question]

55. Managerial accounting is different from financial accounting in that:
A. Managerial accounting is more focused on the organization as a whole and financial accounting is more focused on subdivisions of the organization.
B. Managerial accounting never includes nonmonetary information.
C. Managerial accounting includes many projections and estimates whereas financial accounting has a minimum of predictions.
D. Managerial accounting is used extensively by investors, whereas financial accounting is used only by creditors.
E. Managerial accounting is mainly used to set stock prices.
Answer: C

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Managerial Accounting
Topic: Financial Accounting

[Question]
56. Flexibility of practice when applied to managerial accounting means that:
A. The information must be presented in electronic format so that it is easily changed.
B. Managers must be willing to accept the information as the accountants present it to them, rather than in the format they ask for.
C. The managerial accountants need to be on call 24 hours a day.
D. The design of a company's managerial accounting system largely depends on the nature of the business and the arrangement of the internal operations of the company.
E. Managers must be flexible with information provided in varying forms and using inconsistent measures.
Answer: D

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Flexibility Of Practice

[Question]
57. The Malcolm Baldrige Award was established by:
A. The United Nations.
B. The U. S. Chamber of Commerce.
C. The Malcolm Baldrige Foundation.
D. The U. S. Congress.
E. The SEC.
Answer: D

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C6
Topic: Malcolm Baldrige Award

[Question]
58. Continuous improvement:
A. Is a measure of profits.
B. Is a measure of costs.
C. Rejects the notion of "good enough."
D. Is not applicable to most businesses.
E. Is possible only in service businesses.
Answer: C

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 01-C6
Topic: Continuous Improvement

[Question]
59. An attitude of constantly seeking ways to improve company operations, including customer service, product quality, product features, the production process, and employee interactions, is called:
A. Continuous improvement.
B. Customer orientation.
C. Just-in-time.
D. Theory of constraints.
E. Total quality measurement.
Answer: A

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C6
Topic: Continuous Improvement

[Question]

60. A management concept that encourages all managers and employees to be in tune with the wants and needs of customers, and which leads to flexible product designs and production processes, is called:
A. Continuous improvement.
B. Customer orientation.
C. Just-in-time.
D. Theory of constraints.
E. Total quality management.
Answer: B

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Marketing
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C6
Topic: Customer Orientation

[Question]
61. An approach to managing inventories and production operations such that units of materials and products are obtained and provided only as they are needed is called:
A. Continuous improvement.
B. Customer orientation.
C. Just-in-time manufacturing.
D. Theory of constraints.
E. Total quality management.
Answer: C

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C6
Topic: Just In Time Manufacturing

[Question]
62. A management concept that applies quality improvement to all aspects of business activities is called:
A. Continuous operations.
B. Customer orientation.
C. Just-in-time.
D. Managerial accounting.
E. Total quality management.
Answer: E

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making

Difficulty: 1 Easy
Learning Objective: 01-C6
Topic: Total Quality Management

[Question]
63. The way of doing business whose goal is to eliminate waste while satisfying the customer and providing a positive return to the company is:
A. Total quality management.
B. Managerial accounting.
C. Customer orientation.
D. Continuous improvement.
E. Lean business model.
Answer: E

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Marketing
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C6
Topic: Lean Business Model

[Question]
64. Which of the following is not a characteristic of all fraud?
A. It is done to provide direct or indirect benefit to the employee.
B. It violates the employee's duties to his employer.
C. It costs the employer money.
D. It is secret.
E. Can be intentional or unintentional.
Answer: E

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Fraud

[Question]
65. Which of the following statements regarding fraud is true?
A. Fraud is a deliberate act.
B. Fraud can be deliberate or unintentional.
C. A company with a strong code of ethics can eliminate fraud.
D. A company with strong internal controls can eliminate fraud.
E. The most common type of fraud is financial statement fraud.
Answer: A

Blooms Taxonomy: Understand
AACSB: Analytic

AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Fraud

[Question]
66. Which of the following statements is true?
A. The IMA's Statement of Ethical Professional Practice requires management accountants to be incompetent, maintain confidentiality, act with integrity, and communicate information in a fair and credible manner.
B. The IMA's Statement of Ethical Professional Practice requires management accountants to be competent, maintain confidentiality, eliminate all fraud, and communicate information in a fair and credible manner.
C. The IMA's Statement of Ethical Professional Practice requires management accountants to be incompetent, maintain confidentiality, act with integrity, and miscommunicate information in a credible manner.
D. The IMA's Statement of Ethical Professional Practice requires management accountants to be competent, maintain confidentiality, act with integrity, and communicate information in a fair and credible manner.
E. The IMA's Statement of Ethical Professional Practice requires management accountants to perform certain checks for fraud, act with integrity, and communicate information in a fair and credible manner.
Answer: D

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Statement of Ethical Professional Practice

[Question]
67. The Institute of Management Accountants has developed a code of ethics that requires management accountants to behave in certain ways. Which of the following behaviors is not required?
A. Competence.
B. Integrity.
C. Maintenance of confidentiality.
D. Communication of information in credible manner.
E. Timeliness.
Answer: E

Blooms Taxonomy: Understand
AACSB: Ethics
AICPA BB: Legal
AICPA FN: Decision Making
Difficulty: 2 Medium

Learning Objective: 01-C1
Topic: Statement of Ethical Professional Practice

[Question]
68. A direct cost is a cost that is:
A. Identifiable as controllable.
B. Recorded as part of manufacturing overhead.
C. Fixed with respect to the volume of activity.
D. Traceable to a cost object.
E. Sunk with respect to a cost object.
Answer: D

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Direct Costs

[Question]
69. An opportunity cost is:
A. An uncontrollable cost.
B. A cost of potential benefit lost.
C. A change in the cost of a component.
D. A direct cost.
E. A sunk cost.
Answer: B

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Opportunity Cost

[Question]
70. Labor costs that are clearly associated with specific units or batches of product because the labor is used to convert raw materials into finished products called are:
A. Sunk labor
B. Direct labor
C. Indirect labor
D. Finished labor
E. Supervisory labor
Answer: B

Blooms Taxonomy: Apply
AACSB: Analytic

AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-C2
Topic: Direct Labor

[Question]
71. Costs that are incurred as part of the manufacturing process but are not clearly associated with specific units of product or batches of production, including all manufacturing costs other than direct material and direct labor costs, are called:
A. Administrative expenses
B. Nonmanufacturing costs
C. Sunk costs
D. Factory overhead
E. Preproduction costs
Answer: D

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-P1
Topic: Factory Overhead

[Question]
72. Materials that are used in support of the production process but that do not become a part of the product and are not clearly identified with units or batches of product are called:
A. Secondary materials
B. General materials
C. Direct materials
D. Indirect materials
E. Materials inventory
Answer: D

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Indirect Materials

[Question]
73. The salary paid to the supervisor of an assembly line would normally be classified as:
A. Direct labor
B. Indirect labor
C. A period cost
D. A general cost
E. An assembly cost
Answer: B

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Indirect Labor

[Question]
74. Classifying costs by behavior involves:
A. Identifying fixed cost and variable cost.
B. Identifying cost of goods sold and operating costs.
C. Identifying all costs.
D. Identifying costs in a physical manner.
E. Identifying both quantitative and qualitative cost factors.
Answer: A

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-C2
Topic: Cost Classification

[Question]
75. Costs classified by controllability are useful for:
A. The balance sheet
B. The income statement
C. The budgeting process
D. Evaluation reports
E. Determining product cost
Answer: D

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-C2
Topic: Cost Classification

[Question]
76. Which of the following is never included in direct materials costs?
A) Invoice costs of direct materials.
B) Outgoing delivery charges.
C) Materials storage costs.
D) Materials handling costs.
E) Insurance on stored material.
Answer: B

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-C2
Topic: Direct Material

[Question]
77. Raw materials that physically become part of the product and can be traced to specific units or batches of product are called:
A. Raw materials sold
B. Chargeable materials
C. Goods in process
D. Indirect materials
E. Direct materials
Answer: E

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Direct Material

[Question]
78. The following costs are included in a recent summary of data for a company: advertising expense, $85,000; depreciation expense – factory building, $133,000; direct labor, $250,000; direct material used, $300,000; factory utilities, $105,000; and sales salaries expense, $150,000. Determine the dollar amount of prime costs.
A. $1,023,000
B. $550,000
C. $488,000
D. $235,000
E. $238,000
Answer: B
Feedback: Direct material $300,000 + Direct labor $250,000 = $550,000

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Prime Costs

[Question]
79. The following costs are included in a recent summary of data for a company: advertising expense, $85,000; depreciation expense – factory building, $133,000; direct labor, $250,000; direct material used, $300,000; factory utilities, $105,000; and sales salaries expense, $150,000. Determine the dollar amount of conversion costs.
A. $1,023,000
B. $550,000
C. $488,000
D. $235,000
E. $238,000
Answer: C
Feedback: Direct labor $250,000 + Overhead $133,000 + $105,000 = $488,000

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C2
Topic: Conversion Costs

[Question]
80. A fixed cost:
A. Requires the future outlay of cash and is relevant for future decision making.
B. Does not change with changes in the volume of activity within the relevant range.
C. Is directly traceable to a cost object.
D. Changes with changes in the volume of activity within the relevant range.
E. Has already been incurred and cannot be avoided so it is irrelevant for decision making.
Answer: B

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Fixed Cost

[Question]
81. Which of the following costs is not included in factory overhead?
A. Payroll taxes on the wages of supervisory factory workers.
B. Indirect labor.
C. Depreciation of manufacturing equipment.
D. Manufacturing supplies used.
E. Direct materials.
Answer: E

Blooms Taxonomy: Medium
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C3
Topic: Factory Overhead

[Question]
82. The three major cost components of a manufactured product are:
A. Marketing, selling, and administrative costs.
B. Indirect labor, indirect materials, and miscellaneous factory expenses.
C. Direct materials, direct labor, and factory overhead.
D. Differential costs, opportunity costs, and sunk costs.
E. General, selling, and administrative costs.
Answer: C

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Cost of Goods Manufactured

[Question]
83. Which of the following costs would not be classified as factory overhead?
A. Property taxes on maintenance machinery.
B. Expired insurance on factory equipment.
C. Wages of the factory janitor.
D. Metal doorknobs used on wood cabinets produced.
E. Small tools used in production.
Answer: D

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C3
Topic: Factory Overhead

[Question]
84. Period costs for a manufacturing company would flow directly to:
A, The current income statement.
B, Factory overhead.
C, The current balance sheet.
D, Job cost sheet.
E, The current manufacturing statement.
Answer: A

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C3
Topic: Period Costs

[Question]
85. Costs that are first assigned to inventory are called:
A. Period costs
B. Product costs
C. General costs
D. Administrative costs
E. Fixed costs
Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C3
Topic: Product Costs

[Question]
86. Costs that flow directly to the current income statement are called:
A. Period costs.
B. Product costs.
C. General costs.
D. Balance sheet costs.
E. Capitalized costs.
Answer: A

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C3

[Question]
87. Product costs:
A. Are expenditures necessary and integral to finished products.
B. Are expenditures identified more with a time period rather than with finished products.
C. Include selling and administrative expenses.
D. Are only costs that vary with the volume of activity.
E. Are only costs that do not vary with the volume of activity.
Answer: A

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C3
Topic: Product Costs

[Question]
88. The following are all examples of product costs:
A. Direct material, direct labor and indirect labor.
B. Direct labor, VP of sales salary, and insurance on the factory.
C. Depreciation on the factory equipment, depreciation on the office building, and depreciation on the factory building.
D. Factory insurance, interest expense, and property taxes on the factory.
E. Office supplies, sales commissions, and maintenance costs on office copier.
Answer: A

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C3
Topic: Product Costs

[Question]
89. Products that have been completed and are ready to be sold by the manufacturer are called:
A. Finished goods inventory.
B. Goods in process inventory.
C. Raw materials inventory.
D. Cost of goods sold.
E. Factory supplies.
Answer: A

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4

Topic: Finished Goods Inventory

[Question]
90. Goods a company acquires to use in making products are called:
A. Cost of goods sold.
B. Raw materials inventory.
C. Finished goods inventory.
D. Goods in process inventory.
E. Conversion costs.
Answer: B

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Raw Materials Inventory

[Question]
91. Products that are in the process of being manufactured but are not yet complete are called:
A. Raw materials inventory.
B. Conversion costs.
C. Cost of goods sold.
D. Goods in process inventory.
E. Finished goods inventory.
Answer: D

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Goods In Process

[Question]
92. Another title for goods in process inventory is:
A. Indirect materials inventory.
B. Work in process inventory.
C. Conversion costs.
D. Direct materials inventory.
E. Raw materials inventory.
Answer: B

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy

Learning Objective: 01-C4
Topic: Goods In Process

[Question]
93. Days' sales in raw materials inventory is a measure of:
A. How much raw materials are needed for the company to earn a profit.
B. How long it takes the company to pay for raw materials..
C. How many times a company turns over its raw materials during a period.
D. How long it takes raw materials to be used in production.
E. The product costs a company has incurred during a period.
Answer: D

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Days Sales in Raw Materials Inventory

[Question]
94. Assuming production needs can be met, companies usually prefer:
A. A lower number of days' sales in raw materials inventory.
B. A higher number of days' sales in raw materials inventory.
C. That days' sales in inventory be higher than the days in the accounting period.
D. That days' sales in inventory be greater than the operating cycle
E. That days' sales in inventory be equal to the days in the accounting period
Answer: A

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Days Sales In Raw Materials Inventory

[Question]
95. A company reports raw materials used of $42,750 for a year, with beginning raw materials inventory of $4,000 and an ending raw materials inventory of $4,500. Compute days' sales in raw materials inventory based on this data.

A. 10.52 days.
B. 34.15 days
C. 10.06 days
D. 38.42 days
E. 9.35 days
Answer: D

Feedback: ($4,500/$42,750) * 365 = 38.42 days

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Days Sales In Raw Materials Inventory

[Question]
96. Companies A, B, C, and D are competitors in the same industry. Assume that all have adequate quantities of raw materials to meet production needs.

	Company AA	Company BB	Company CC	Company DD	Company EE
Raw materials used in a year	$10,000	$20,000	$30,000	$30,000	$40,000
Beginning raw materials inventory	$700	$600	$500	$400	$800
Ending raw materials inventory	$1,100	$1,000	$900	$800	$1,000

Which company has the best raw materials inventory turnover?
A. Company A
B. Company B
C. Company C
D. Company D
E. Company E
Answer: D
Feedback:
Company A = $10,000/[($700 + $1,100)/2] = 11.11
Company B = $20,000/[($600 + $1,000)/2] = 25.00
Company C = $30,000/[($500 + $900)/2] = 42.86
Company D = $30,000/[($400 + $800)/2] = 50.00
Company E = $40,000/[($800 + $1,000)/2] = 44.44

Blooms Taxonomy: Analyze
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Raw Materials Inventory Turnover

[Question]
97. The cost of labor that is not clearly associated with specific units or batches of product is called:
A. Unspecified labor
B. Direct labor
C. Indirect labor
D. Basic labor
E. Joint labor
Answer: C

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-P1
Topic: Indirect Labor

[Question]
98. Factory overhead costs normally include all of the following except:
A. Indirect labor costs
B. Indirect material costs
C. Selling costs
D. Factory machinery oil
E. Factory rent
Answer: C

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Factory Overhead

[Question]
99. The following costs are included in a recent summary of data for a company: advertising expense, $85,000; depreciation expense – factory building, $133,000; direct labor, $250,000; direct material used, $300,000; factory utilities, $105,000; and sales salaries expense, $150,000. Determine the dollar amount of overhead costs.
A. $1,023,000
B. $550,000
C. $488,000
D. $235,000
E. $238,000
Answer: E
Feedback: $133,000 + $105,000 = $238,000

Blooms Taxonomy: Apply
AACSB: Analytic

AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-P1
Topic: Factory Overhead

[Question]
100. Which of the following items appears only in a manufacturing company's financial statements?
A. Cost of goods sold.
B. Cost of goods manufactured.
C. Goods available for sale.
D. Gross profit.
E. Net income.
Answer: B

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P1
Topic: Cost of Goods Manufactured

[Question]
101. The total cost of goods completed during the accounting period for a manufacturer is called:
A, Ending finished goods inventory.
B, Total manufacturing costs.
C, Ending goods in process inventory.
D, Cost of goods manufactured.
E, Cost of goods sold.
Answer: D

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-P1
Topic: Cost of Goods Manufactured

[Question]
102. A manufacturing firm's cost of goods manufactured is equivalent to a merchandising firm's:
A. Cost of goods sold.
B. Cost of goods purchased.
C. Cost of goods available.
D. Beginning merchandise inventory.
E. Ending merchandise inventory.
Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-P1
Topic: Cost of Goods Manufactured
Topic: Cost of Goods Purchased

[Question]
103. Which one of the following items is normally not a manufacturing cost?
A. Direct materials.
B. Factory overhead.
C. General and administrative expenses.
D. Direct labor.
E. Conversion cost.
Answer: C

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Cost of Goods Manufactured

[Question]
104. Juliet Corporation has accumulated the following accounting data for the year:

Finished goods inventory, January 1	$3,200
Finished goods inventory, December 31	4,000
Total cost of goods sold	4,200

The cost of goods manufactured for the year is:
A. $200
B. $1,000
C. $5,000
D. $6,400
E. $8,200
Answer: C
Feedback: Beg FG +COGM - END FG =COGS
COGM = COGS - Beg FG + End FG
COGM = $4,200 - $3,200 + $4,000
COGM = $5,000

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1

Topic: Cost of Goods Manufactured

[Question]
105. A manufacturing company has a beginning finished goods inventory of $14,600, raw material purchases of $18,000, cost of goods manufactured of $32,500, and an ending finished goods inventory of $17,800. The cost of goods sold for this company is:
A. $21,200
B. $29,300
C. $32,500
D. $47,100
E. $27,600
Answer: B
Feedback: Beg FG + COGM - End FG = COGS
$14,600 + $32,500 - $17,800 = $29,300

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Cost Of Goods Sold

[Question]
106. The beginning and ending finished goods inventories of the Prize Ring manufacturing company were $75,000 and $73,000 respectively. If cost of goods sold equaled $66,000, what is the amount of cost of goods manufactured for this period?
A. $2,000
B. $64,000
C. $68,000
D. $82,000
E. $214,000
Answer: B
Feedback:
Beg FG + COGM - End FG = COGS
$75,000 + COGM - $73,000 = $66,000
$2,000 + COGM = $66,000
COGM = $64,000

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Cost of Goods Manufactured

[Question]
107. Compute cost of goods manufactured for this period given the following amounts.

Ending finished goods inventory	$66,000
Cost of goods sold	54,000
Beginning finished goods inventory	60,000

A. $72,000
B. $48,000
C. $60,000
D. $66,000
E. $180,000.
Answer: C
Feedback: Beg FG + COGM - End FG = COGS
$60,000 + COGM - $66,000 = $54,000
$(6,000) + COGM = $54,000
COGM= $60,000

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Cost of Goods Manufactured

[Question]
108. The beginning and ending finished goods inventories of a company were $91,000 and $94,000 respectively. If cost of goods sold equaled $800,000, what is the amount of cost of goods manufactured for this period?
A. $706,000
B. $709,000
C. $797,000
D. $803,000
E. $3,000
Answer: D
Feedback: Beg FG + COGM - End FG = COGS
$91,000 + COGM - $94,000 = $800,000
$(3,000) + COGM= $800,000
COGM= $803,000

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Cost of Goods Manufactured

[Question]
109. A manufacturing statement is also known as a schedule or listing of the:
A. Raw materials processed.
B. Factory supplies used.
C. Cost of goods manufactured.
D. Total finished goods.
E. Cost of goods sold.
Answer: C

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P2
Topic: Manufacturing Statement

[Question]
110. The following information relates to the manufacturing operations of the IMH Publishing Corporation for the year:

	Beginning	Ending
Raw materials inventory	$ 57,000	$60,000
Finished goods	68,000	60,000

The raw materials used in manufacturing during the year totaled $118,000. Raw materials purchased during the year amount to:
A. $107,000
B. $115,000
C. $118,000
D. $121,000
E. $126,000
Answer: D
Feedback: Beg RM + Purch - End RM = RM used
Purch = RM used - Beg RM + End RM
Purch = $118,000 - $57,000 + $60,000
Purch = $121,000

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P2

[Question]
111. Ajax Company accumulated the following account information for the year:

Beginning raw materials inventory	$6,000
Indirect materials cost	2,000
Indirect labor cost	5,000
Maintenance of factory equipment	2,800
Direct labor cost	7,000

Using the above information, total factory overhead costs would be:
A. $9,800
B. $16,800
C. $15,800
D. $13,000
E. $7,800
Answer: A
Feedback: FOH = Indirect materials + Indirect labor + Maintenance
FOH = $2,000 + $5,000 + $2,800
FOH = $9,800

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Factory Overhead

[Question]
112. The following information is available for the year ended December 31:

Beginning raw materials inventory	$2,500
Raw materials purchases	4,000
Ending raw materials inventory	3,000
Office supplies expense	1,000

The amount of raw materials used in production for the year is:
A. $4,100
B. $5,100
C. $3,500
D. $6,500
E. $4,000

Answer: C
Feedback: Beg RM + Purch - End RM = RM used
$2,500 + $4,000 - $3,000 = $3,500

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Raw Materials Inventory

[Question]
113. A financial report that summarizes the amounts and types of costs that were incurred in the manufacturing process during the period is a:
A. Materiality statement
B. Managerial statement
C. Manufacturing statement
D. Merchandise statement
E. Monetary statement
Answer: C

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P2
Topic: Manufacturing Statement

[Question]
114. Which of the following accounts would appear on a manufacturing statement?
A. Raw materials, factory insurance expired, indirect labor.
B. Raw materials, goods in process, finished goods.
C. Factory buildings, delivery equipment, and depreciation on factory equipment.
D. Direct labor, indirect labor, sales salaries.
E. Direct labor, factory repairs and maintenance, wages payable.
Answer: A

Blooms Taxonomy: Apply
AACSB: Reporting
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Manufacturing Statement

Reference: 01_01
Use the following information from Hardy Co. for the current year:

Direct materials used	$5,000
Direct Labor	7,000
Total Factory overhead	5,100
Beginning goods in process	3,000
Ending goods in process	4,000

[Question]
115. The total of Hardy Co.'s manufacturing costs added during the current year is:
A. $12,000
B. $16,100
C. $17,100
D. $18,100
E. $13,600
Answer: C
Feedback: RM used + DL + FOH = Mfg. costs added
$5,000 + $7,000 + $5,100 = $17,100
Reference To: 01_01

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Manufacturing Costs
Refer To: 01_01

[QUESTION]
116. Hardy Co.'s cost of goods manufactured for the current year is:
A) $12,000
B) $16,100
C) $17,100
D) $18,100
E) $13,600
Answer: B
Feedback: COGM = Manufacturing Costs added + BGIP - EGIP
COGM = ($5,000 + $7,000 + $5,100) + $3,000 - $4,000
COGM = $16,100

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Cost of Goods Manufactured
Refer To:014_01

[Question]
117. Total manufacturing costs incurred during the year do not include:
A. Direct materials used.
B. Factory supplies used.
C. Goods in process inventory, beginning balance.
D. Direct labor.
E. Depreciation of factory machinery.
Answer: C

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-P2

[Question]
118. If beginning and ending goods in process inventories are $5,000 and $15,000, respectively, and cost of goods manufactured is $170,000, what is the total manufacturing cost for the period?
A. $180,000
B. $155,000
C. $160,000
D. $175,000
E. $165,000
Answer: A
Feedback: Mfg. costs + BGIP - EGIP = COGM
Mfg. costs = COGM - BGIP + EGIP
Mfg. costs = $170,000 - $5,000 + $15,000
Mfg. costs = $180,000

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Cost of Goods Manufactured

Reference: 01_02
The following information is available for Talking Toys, Inc. for the current year:

Direct materials used	$12,500
Goods in process, January 1	50,000
Goods in process, December 31	37,000
Total Factory overhead	5,500
Direct labor used	26,500

[Question]
119. The total manufacturing costs incurred during the year were:
A. $13,000
B. $44,500
C. $57,500
D. $94,500
E. $89,000
Answer: B
Feedback: Costs added = DM used + DL + FOH
Costs added = $12,500 + $26,500 + $5,500
Costs added = $44,500
Reference To: 14_02

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Manufacturing Costs
Refer To: 01_02

[Question]
120. The total cost of goods manufactured for the year was:
A. $13,000
B. $44,500
C. $57,500
D. $94,500.
E. $52,000
Answer: C
Feedback: COGM = Costs added + BGIP - EGIP
COGM = ($12,500 + $26,500 + $5,500) + $50,000 - $37,000
COGM = $57,500
Reference To: 14_02

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Cost of Goods Manufactured
Refer To: 01_02

[Question]

121. Current information for the Austin Company follows:

Beginning raw materials inventory	$15,200
Beginning goods in process inventory	22,400
Ending raw materials inventory	16,600
Ending goods in process inventory	28,000
Direct labor	42,800
Total factory overhead	30,000
Raw material purchases	60,000

All raw materials used were traceable to specific batches of product. Austin Company's cost of goods manufactured for the year is:
A. $125,800
B. $128,600
C. $131,400
D. $137,000
E. $139,000
Answer: A
Feedback: RM used = Beg RM + RM purchases – End RM
RM used = $15,200 + $60,000 - $16,600
RM used = $58,600
COGM = RM used + DL + FOH + BGIP – EGI
COGM = $58,600 + $42,800 + $30,000 + $22,400 - $28,000
COGM = $125,800

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Cost of Goods Manufactured

[Question]

122. Use the following data to determine the cost of goods manufactured:

Beginning finished goods inventory	$10,800
Direct labor	30,600
Beginning goods in process inventory	7,200
General and administrative expenses	13,500
Direct materials used	40,500
Ending goods in process inventory	9,000
Indirect labor	6,300
Ending finished goods inventory	9,500
Indirect materials	13,500
Depreciation – factory equipment	7,500

A. $102,000
B. $110,100
C. $ 96,600
D. $113,700
E. $100,200
Answer: C
Feedback: FOH = Ind. labor + Ind. materials + Depreciation factory equip
FOH = $6,300 + $13,500 + $7,500
FOH = $27,300
COGM = DM + DL + FOH + BGIP – EGIP
COGM = $40,500 + $30,600 + $27,300 + $7,200 - $9,000
COGM = $96,600

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Cost of Goods Manufactured

[Question]

123. Use the following data to determine the cost of goods manufactured.

Beginning finished goods inventory	$ 6,200
Direct labor	15,100
Beginning goods in process inventory	1,500
General and administrative expenses	20,000
Direct materials used	20,500
Ending goods in process inventory	4,000
Indirect labor	7,300
Ending finished goods inventory	5,000
Indirect materials	3,400
Depreciation – factory equipment	2,000

A. $65,800
B. $45,800
C. $49,500
D. $52,300
E. $47,100
Answer: B
Feedback: FOH = Ind. labor + Ind. materials + Depreciation factory equip
FOH = $7,300 + $3,400 + $2,000
FOH = $12,700
COGM = DM + DL + FOH + BGIP – EGIP
COGM + $20,500 + $15,100 + $12,700 + $1,500 - $4,000
COGM = $45,800

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Cost of Goods Manufactured

[Question]

124. Use the following information to compute the cost of goods manufactured:

Beginning raw materials	$ 5,500
Ending raw materials	4,000
Direct labor	12,250
Raw material purchases	7,400
Depreciation on factory equipment	6,500
Factory repairs and maintenance	3,300
Beginning finished goods inventory	10,200
Ending finished goods inventory	8,900
Beginning goods in process inventory	5,700
Ending goods in process inventory	6,300

A. $36,650
B. $30,950
C. $30,650
D. $30,350
E. $31,650
Answer: D
Feedback: RM used = Beg RM + RM purchases – End RM
RM used = $5,500 + $7,400 - $4,000
RM used = $8,900
FOH = Deprec. on factory equip. + Factory repairs./Maint.
FOH = $6,500 + $3,300
FOH $9,800
COGM = RM used + DL + FOH + BGIP – EGIP
COGM = $8,900 + $12,250 + $9,800 + $5,700 - $6,300
COGM = $30,350

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Cost of Goods Manufactured

[Question]

125. Use the following information to compute the total manufacturing costs incurred during the period:

Beginning raw materials	$ 5,500
Ending raw materials	4,000
Direct labor	12,250
Raw material purchases	7,400
Depreciation on factory equipment	6,500
Factory repairs and maintenance	3,300
Beginning finished goods inventory	10,200
Ending finished goods inventory	8,900
Beginning goods in process inventory	5,700
Ending goods in process inventory	6,300

A. $36,650
B. $30,950
C. $30,650
D. $30,350
E. $31,650
Answer: B
Feedback:
Raw materials used = ($5,500 + $7,400 - $4,000) = $8,900
Factory OH = $6,500 + $3,300 = $9,800
Current mfg costs = $8,900 + $12,250 + $9,800 = $30,950

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Manufacturing Costs

[Question]

126. Use the following information to compute the cost of goods sold for the period:

Beginning raw materials	$ 5,500
Ending raw materials	4,000
Direct labor	12,250
Raw material purchases	7,400
Depreciation on factory equipment	6,500
Factory repairs and maintenance	3,300
Beginning finished goods inventory	10,200
Ending finished goods inventory	8,900
Beginning goods in process inventory	5,700
Ending goods in process inventory	6,300

A. $36,650
B. $30,950
C. $30,650
D. $30,350
E. $31,650
Answer: E
Feedback:
Raw materials used = $5,500 +$7,400 - $4,000 = $8,900
Factory OH = $6,500 + $3,300 = $9,800
Current mfg costs = $8,900 + $12,250 + $9,800 = $30,950
Cost of goods man = $5,700 + $30,950 - $6,300 = $30,350
Cost of goods sold = Beg finished goods + Cost of goods manf - End finished goods
$10,200 + $30,350 - $8,900 = $31,650

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Cost Of Goods Sold

[Question]

127. Use the following information to compute the cost of goods manufactured:

Beginning finished goods inventory	$65,000
Beginning goods in process inventory	81,000
Beginning raw materials	73,000
Depreciation on factory equipment	7,000
Direct labor	25,000
Ending finished goods inventory	67,000
Ending goods in process inventory	79,000
Ending raw materials	60,000
Factory repairs and maintenance	12,000
Raw material purchases	50,000

A. $63,000
B. $105,000
C. $107,000
D. $90,000
E. $109,000
Answer: E
Feedback: RM used = Beg RM + RM purchases – End RM
RM used = $73,000 + $50,000 - $60,000
RM used = $63,000
FOH = Deprec. on factory equip. + Factory repairs and maintenance
FOH = $7,000 + $12,000
FOH = $19,000
COGM = RM used + DL + FOH + BGIP – EGIP
COGM = $63,000 + $25,000 + $19,000 + $81,000 - $79,000
COGM = $109,000

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Cost of Goods Manufactured

[Question]

128. Use the following information to compute the cost of goods manufactured:

Beginning finished goods inventory	$ 9,250
Beginning goods in process inventory	8,700
Beginning raw materials	7,500
Depreciation on factory equipment	6,000
Direct labor	75,000
Ending finished goods inventory	8,750
Ending goods in process inventory	9,300
Ending raw materials	8,500
Factory Supervisor’s salary	50,000
Raw material purchases	14,000

A. $143,400
B. $13,000
C. $143,000
D. $144,500
E. $93,400
Answer: A
Feedback: RM used = Beg RM + RM Purchases – End RM
RM used = $7,500 + $14,000 - $8,500
RM used = $13,000
FOH = Deprec. on factory equip. + Factory supervisor’s salary
FOH = $6,000 + $50,000
FOH = $56,000
COGM = RM used + DL + FOH + BGIP – EGIP
COGM = $13,000 + $75,000 + $56,000 + $8,700 - $9,300
COGM = $143,400

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Cost of Goods Manufactured

Refer to: 01_03

Use the following information for Acme, Inc., as of December 31 to answer the next questions:

Administrative salaries	$ 32,000
Depreciation of factory equipment	25,000
Depreciation of delivery vehicles	9,000
Direct labor	68,000
Factory supplies used	12,000
Finished goods inventory, January 1	57,000
Finished goods inventory, December 31	68,000
Factory insurance	15,500
Interest expense	12,000
Factory utilities	14,000
Factory maintenance	7,500
Raw materials inventory, January 1	8,000
Raw materials inventory, December 31	4,000
Raw material purchases	125,000
Rent on factory building	25,000
Repairs of factory equipment	11,500
Sales commissions	37,500
Goods in process inventory, January 1	3,500
Goods in process inventory, December 31	2,000

[Question]
129. What is the correct amount of direct materials used?
A. $141,000.
B. $125,000.
C. $137,000.
D. $129,000.
E. $138,000.
Answer: D
Feedback: $8,000 + $125,000 - $4,000 = $129,000
Refer to: 01_03

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Direct Materials
Refer to: Fig. 14_03

[Question]

130. What is the correct amount of overhead?
A. $192,000.
B. $110,500.
C. $200,000.
D. $150,000.
E. $ 77,500.
Answer: B
Feedback: $25,000 + $12,000 + $15,500 + $14,000 + $7,500 + $25,000 + $11,500 = $110,500
Refer to: Fig. 14_03

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Factory Overhead
Refer to: 0 1_03

[Question]
131. What is the total amount of manufacturing costs added to Goods In Process?
A. $393,000.
B. $325,000.
C. $389,500.
D. $397,000.
E. $307,500.
Answer: E
Feedback:
Direct materials used = $8,000 + $125,000 - $4,000 = $129,000
Overhead = $25,000 + $12,000 + $15,500 + $14,000 + $7,500 + $25,000 + $11,500 = $110,500
Manufacturing costs = $129,000 + $110,500 + $68,000 = $307,500
Refer to: Fig. 14_03

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Manufacturing Costs
Refer to: 0 1_03

[Question]

132. What is the correct amount of cost of goods manufactured?
A. $398,500.
B. $386,000.
C. $309,000.
D. $306,000.
E. $296,500.
Answer: C
Feedback:
Direct materials used = $8,000 + $125,000 - $4,000 = $129,000
Overhead = $25,000 + $12,000 + $15,500 + $14,000 + $7,500 + $25,000 + $11,500 = $110,500
Manufacturing costs = $129,000 + $110,500 + $68,000 = $307,500
Cost of goods manufactured = $3,500 + $307,500 - $2,000
Refer to: 01_03

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Cost of Goods Manufactured
Refer to: 01_03

Matching Questions

[Question]
133. Match the following terms with the appropriate definition.
___________ (1) Sunk costs
___________ (2) Indirect costs
___________ (3) Product costs
___________ (4) Prime costs
___________ (5) Fixed costs
___________ (6) Opportunity costs
___________ (7) Period costs
___________ (8) Conversion costs
___________ (9) Factory overhead
___________ (10) Variable costs
(a) Costs that flow directly to the current income statement as expenses.
(b) Costs that change in proportion to changes in volume of activity.
(c) The potential benefit lost by choosing a specific action from two or more alternatives.
(d) Manufacturing expenditures that cannot be separately or readily traced to finished goods.
(e) Expenditures necessary and integral to finished products.
(f) Expenditures incurred in the process of converting raw materials to finished products; include direct labor and factory overhead.
(g) Costs that have already been incurred and cannot be avoided or changed.
(h) Expenditures directly associated with the manufacture of finished products; include direct materials and direct labor.
(i) Costs that do not change with changes in the volume of activity.
(j) Costs that are incurred for the benefit of more than one cost object.
Answer: (1) g (2) j (3) e (4) h (5) i (6) c (7) a (8) f (9) d (10) b

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C2
Learning Objective: 01-C3
Topic: Sunk costs
Topic: Indirect costs
Topic: Product costs
Topic: Prime costs
Topic: Fixed costs
Topic: Opportunity costs
Topic: Period costs
Topic: Conversion costs
Topic: Factory overhead
Topic: Variable costs

[Question]

134. Match the following terms to the appropriate definitions.
___________ (1) Managerial accounting
___________ (2) Continuous improvement
___________ (3) Raw materials inventory
___________ (4) Customer orientation
___________ (5) Just-in-time manufacturing
___________ (6) Goods in process inventory
___________ (7) Lean business model
___________ (8) Balanced scorecard
___________ (9) Prime costs
___________(10) Raw Materials Inventory Turnover

(a) An idea that rejects the notions of "good enough" and "acceptable" and challenges employees and managers to continually experiment with new and improved business practices.
(b) Goods a company acquires to use in making products.
(c) The ratio which computes how many times a company turns over its raw materials inventory in a period.
(d) A system that acquires inventory and produces only when needed.
(e) An approach that aids continuous improvement by augmenting financial measures with information on the drivers or indicators of future financial performance along the four dimensions of (1) financial; (2) customer; (3) internal business processes; (4) learning and growth.
(f) Expenditures directly associated with the manufacture of finished goods; includes direct materials and direct labor.
(g) An idea that means that employees understand the changing needs and wants of their customers and align their management and operating practices accordingly.
(h) Products in the process of being manufactured but not yet complete.
(i) A model whose goal is to eliminate waste while satisfying the customer and providing a positive return to the company.
(j) An activity that provides financial and nonfinancial information to an organization's managers and other internal decision makers.

Answer: (1) j, (2) a, (3) b, (4) g, (5) d, (6) h, (7) i, (8) e, (9) f, (10) c

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C1
Learning Objective: 01-C6
Learning Objective: 01-A1
Learning Objective: 01-P1
Topic: Managerial accounting
Topic: Continuous improvement
Topic: Raw materials inventory
Topic: Customer orientation
Topic: Just-in-time manufacturing
Topic: Goods in process inventory
Topic: Lean business model
Topic: Balanced scorecard
Topic: Prime costs
Topic: Raw Materials Inventory Turnover

Short Essay Questions

[Questions]
135. What is managerial accounting and how is it used to aid decision makers?
Answer: Managerial accounting is an activity that provides financial and nonfinancial information to an organization's managers and other internal decision makers. Much of managerial accounting involves gathering information about costs for planning and control decisions. In addition, it helps managers plan and control business activities. In particular, it helps managers identify problems that require corrective actions.

Blooms Taxonomy: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Managerial Accounting

[Question]
136. There are many differences between financial and managerial accounting. Identify and explain at least three of these.
Answer: (Students would need to choose any three of the seven differences described below.) The differences include: (1) Users and decision makers – Financial accounting focuses on external decision makers and managerial accounting focuses on internal decision makers. (2) Purpose of information – External users of financial accounting information must often decide whether to invest in, or lend to a company or whether to continue to own or carry the company's debt. Internal users of managerial accounting must plan a company's future, so the information must help them make planning and control decisions. (3) Flexibility of practice – Financial accounting relies on accepted principles that are enforced through an extensive set of rules and guidelines (GAAP); managerial accounting systems are flexible to meet the differing needs of managers in different situations. (4) Timeliness of information – Generally, financial information is not immediately available to external users because it must be audited; internal users can usually obtain managerial accounting information quickly because it does not need to be audited and estimates and projections are acceptable. (5) Time dimension – External financial reports deal primarily with the results of both past activities and current conditions and avoid predictions whenever possible; managerial accounting regularly includes prediction of conditions and events. (6) Focus of information – Financial accounting generally focuses on the entire organization; managerial accounting focuses on an organization's projects, processes, and subdivisions. (7) Nature of information – Both financial and managerial accounting report monetary information; managerial accounting also reports nonmonetary information.

Blooms Taxonomy: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Financial Accounting
Topic: Managerial Accounting

[Question]
137. Explain what is meant by the "lean business model" and why many businesses have adopted it.
Answer: The lean business model is a model whose main principle is the elimination of waste while satisfying the customer and providing a positive return to the company. It is based on the changes in the business environment—including an increased emphasis on customers and the expanding global economy. A primary force behind its adoption is competition—both domestic and international.

Blooms Taxonomy: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C6
Topic: Lean Business Model

[Question]
138. What is fraud as it relates to the business environment?
Answer: Fraud involves the use of one’s job for personal gain through deliberate misuse of the employer’s assets.

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Fraud

[Question]
139. List the four elements found in all fraud schemes.
Answer: All fraud: (1)Is done to provide direct or indirect benefit to the employee. (2)Violates the employee’s duties to his or her employer. (3)Costs the employer money. (4)Is secret.

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Fraud

[Question]
140. How does fraud affect managerial accounting?
Answer: Fraud increases a business’s costs which can lead to poor pricing decisions, an improper product mix, and faulty performance evaluations.

Blooms Taxonomy: Understand

AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Fraud

[Question]
141. Braintree Ltd. manufactures coats in a large facility. One area in the production facility is an underused storage space. The company has twice turned down offers to lease out this facility. This situation is an example of what costing concept? How should Braintree handle the costing for this situation?
Answer: The situation raises an opportunity cost, i.e., the impact of a lost benefit. It would be accounted for only in considering alternative decisions. It is not a financial cost. Still, good management procedures and information systems would want estimates of such costs and would need such data for effective business decision making.

Blooms Taxonomy: Apply
AACSB: Communication
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-C2
Topic: Opportunity Cost

[Question]
142. Identify the three categories of manufacturing costs.
Answer: The three basic cost elements in accounting for manufactured goods are direct material costs, direct labor costs, and factory overhead costs.

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-P2
Topic: Manufacturing Costs

[Question]
143. Define and contrast period costs and product costs. How are they reported in the financial statements of a manufacturing company?
Answer: Period costs are the costs that are charged to expense because they are more identified with a time period than with finished products. Product costs are costs that are first assigned to inventory. Period costs are expensed and reported on the current income statement. Product costs are assigned to inventory on the balance sheet until the product is sold; when sold, they are expensed as cost of goods sold on the income statement.

Blooms Taxonomy: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium

Learning Objective: 01-C3
Topic: Period Costs
Topic: Product Costs

[Question]
144. Describe the three types of inventories that are carried by manufacturers..
Answer: Manufacturers carry three types of inventories: raw materials inventory, goods in process inventory, and finished goods inventory. Raw materials inventory consists of goods a company acquires to use in making products. It can include both direct materials – those items that are used directly in a product and are clearly identified with a single unit or batch of product – and indirect materials – those items that cannot be clearly identified with specific units or batches of products. Goods in process, also called work in process, are products in the process of being manufactured but are not yet complete. Finished goods are completed products ready for sale.

Blooms Taxonomy: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Raw Materials Inventory
Topic: Goods In Process
Topic: Finished Goods Inventory

[Question]
145. What is the main difference between the income statement of a manufacturer and that of a merchandiser?
Answer: In the calculation of cost of goods sold, the merchandiser adds cost of goods purchased to beginning merchandise inventory, then subtracts the ending merchandise inventory to get cost of goods sold. Since a manufacturer has three types of inventories – raw materials, goods in process, and finished goods—the manufacturer replaces "merchandise inventory" with "finished goods" inventory. In addition, the manufacturer does not purchase its items for resale but instead manufactures them, so replaces "cost of goods purchased" in the above calculation with "cost of goods manufactured."

Blooms Taxonomy: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Cost of Goods Purchased
Topic: Cost of Goods Manufactured

[Question]
146. What are raw materials inventory turnover and days' sales in raw materials inventory?

What is the purpose of these measures?
Answer: To assess how effectively a company manages its raw materials inventory, a business manager can compute raw materials inventory turnover. This computation takes raw materials used divided by average raw materials inventory for a given period. In general a high ratio of raw materials inventory turnover is preferred as long as the company's demand for raw materials is being met.

Days' sales in raw materials inventory computes how much raw materials inventory is available in terms of the number of days' sales. The computation for this measure is end raw materials inventory divided raw materials used during the year multiplied by 365. It is a measure of how long it takes raw materials to be used in production.

Blooms Taxonomy: Understand
AACSB: Communication
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Raw Materials Inventory Turnover
Topic: Days' Sales in Raw Materials Inventory

[Question]
147. What are prime costs? What are conversion costs?
Answer: Prime costs are expenditures directly associated with the manufacture of finished goods and include direct materials and direct labor. Conversion costs are expenditures incurred in the converting raw materials into finished goods and include direct labor and factory overhead.

Blooms Taxonomy: Remember
AACSB: Communication
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-P1
Topic: Prime Costs
Topic: Conversion Costs

[Question]
148. What are the components of the manufacturing statement? Describe each component.
Answer: The components of the manufacturing statement are direct materials, direct labor, factory overhead, and computation of the cost of goods manufactured. Direct materials used is computed by adding beginning raw materials inventory, adding raw materials purchased, and subtracting the ending raw materials inventory (assuming all of the raw materials are direct materials). Direct labor is the cost of the workers whose efforts can be traced to individual units or batches of products. Factory overhead lists all of the indirect manufacturing costs. Finally, the direct materials, direct labor, and factory overhead are added to determine total manufacturing costs. Beginning goods in process is added to total manufacturing costs, and ending goods in process are subtracted to determine the cost of goods manufactured.

Blooms Taxonomy: Understand
AACSB: Communication

AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Manufacturing Statement

Problems

[Question]
149. Classify each of the following cost items as a variable cost, a fixed cost, or a mixed cost by placing an X in the appropriate column. Each cost should be evaluated in terms of the volume of units of finished products produced. Also indicate with an X for each item if it is a product cost or a period cost.

	Variable, Fixed, or Mixed Cost			**Product or Period Cost**	
Cost Item	**Variable**	**Fixed**	**Mixed**	**Product**	**Period**
Executive salary					
Direct labor					
Direct materials					
Depreciation of manufacturing equipment					
Indirect labor					
Factory utilities					
Delivery expense					
Television advertising					
Indirect materials					

Answer:

	Variable, Fixed, or Mixed Cost			**Product or Period Cost**	
Cost Item	**Variable**	**Fixed**	**Mixed**	**Product**	**Period**
Executive salary		X			X
Direct labor	X			X	
Direct materials	X			X	
Depreciation of manufacturing equipment		X		X	
Indirect labor	X			X	
Factory utilities			X	X	
Delivery expense	X				X
Television advertising		X			X
Indirect materials	X			X	

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-C2
Topic: Variable Cost
Topic: Fixed Cost

Topic: Mixed Cost

[Question]
150. For each item shown below, indicate whether it is a product cost or a period cost, by placing an X in the appropriate column. For each item that is a product cost, also indicate whether it is a direct cost or an indirect cost with respect to a unit of finished product.

	Product or Period Cost?		**Direct or Indirect Cost?**	
Cost Item	**Product**	**Period**	**Direct**	**Indirect**
Administrative salaries				
Direct labor				
Advertising				
Property tax on the factory				
Factory maintenance				
Direct materials				
Depreciation on factory equipment				
Interest expense				
Factory supplies				

Answer:

	Product or Period Cost		**Direct or Indirect Cost**	
Cost Item	**Product**	**Period**	**Direct**	**Indirect**
Administrative salaries		X		
Direct labor	X		X	
Advertising		X		
Property tax on the factory	X			X
Factory maintenance	X			X
Direct materials	X		X	
Depreciation on factory equipment	X			X
Interest expense		X		
Factory supplies	X			X

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-C3
Topic: Product Cost
Topic: Period Cost

[Question]
151. Ringle Company is a manufacturer of compact disks (CDs). Place each of the following costs in the

appropriate column.

		Product Cost		
Cost Item	**Period Cost**	**Direct Materials**	**Direct Labor**	**Factory Overhead**
a. Factory maintenance salary, $40,000				
b. Salary of factory supervisor, $70,000				
c. Salary of production worker, $42,000				
d. Salary of the company's president, $100,000				
e. Television advertising, $25,000				
f. Property tax on factory, $15,000				
g. Sales commissions, $65,000				
h. Depreciation on factory equipment, $17,000				
i. Plastic used in the manufacture of the CDs, $14,000				

Answer:

		Product Cost		
Cost Item	**Period Cost**	**Direct Materials**	**Direct Labor**	**Factory Overhead**
a. Factory maintenance salary, $40,000				$40,000
b. Salary of factory supervisor, $70,000				$70,000
c. Salary of production worker, $42,000			$42,000	
d. Salary of the company's president, $100,000	$100,000			
e. Television advertising, $25,000	$25,000			
f. Property tax on factory, $15,000				$15,000
g. Sales commissions, $65,000	$65,000			
h. Depreciation on factory equipment, $17,000				$17,000
i. Plastic used in the manufacture of the CDs, $14,000		$14,000		

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C2
Learning Objective: 01-C3
Topic: Product Cost
Topic: Period Cost
Topic: Direct Materials
Topic: Direct Labor
Topic: Factory Overhead

[Question]
152. HiFi Sound Systems produces speakers for movie theaters that sell for $1,200 each. Listed below are selected cost items for the production of 600 units.

		Cost by Behavior		Cost by Function	
		Variable	**Fixed**	**Product**	**Period**
Plastic for speaker casings	$150,000				
Assembly labor	200,000				
Factory property taxes	22,000				
Accounting staff salaries	75,000				
Sales office rent	10,000				
Sales manager's salary	60,000				
Depreciation on factory equipment	23,000				
Sales commissions	36,000				

Classify each cost as either fixed or variable, and either a product or a period cost.
Answer:

		Cost by Behavior		Cost by Function	
		Variable	**Fixed**	**Product**	**Period**
Plastic for speaker casings	$150,000	$150,000		$150,000	
Assembly labor	200,000	200,000		200,000	
Factory property taxes	22,000		22,000	22,000	
Accounting staff salaries	75,000		75,000		75,000
Sales office rent	10,000		10,000		10,000
Sales manager's salary	60,000		60,000		60,000
Depreciation on factory equipment	23,000		23,000	23,000	
Sales commissions	36,000	36,000			36,000

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C2
Learning Objective: 01-C3
Topic: Product Cost
Topic: Period Cost
Topic: Variable Cost
Topic: Fixed Cost

[Question]
153. The following costs are incurred by a manufacturing company. Classify each cost item as either a period cost or a product cost. If the cost is a product cost, identify it as a prime and/or conversion cost.

Product Cost

	Period Cost	Prime Cost	Conversion Cost
Factory property taxes			
Payroll taxes for assembly labor			
Depreciation of factory equipment			
Insurance on delivery vehicles			
Indirect materials used			
Wages of production workers			
Production supervisor's salary			
Advertising			
Direct materials used			
Sales salaries			

Answer:

		Product Cost	
	Period Cost	**Prime Cost**	**Conversion Cost**
Factory property taxes			X
Payroll taxes for assembly labor			X
Depreciation of factory equipment			X
Insurance on delivery vehicles	X		
Indirect materials used			X
Wages of production workers		X	X
Production supervisor's salary			X
Advertising	X		
Direct materials used		X	
Sales salaries	X		

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C3
Learning Objective: 01-P1
Topic: Period Cost
Topic: Prime Cost
Topic: Conversion Cost

[Question]
154. Assume Back to the Roots used 1 million pounds of raw materials in their most recent accounting year. They started the year with 20,000 pounds of raw materials and ended with 40,000 pounds.

(a) Compute Back to the Roots' raw materials inventory turnover.
(b) Compute Back to the Roots' days' sales in raw materials inventory.
(c) Interpret these results. What can the company do to improve these measures?
Answer:
(a) Raw materials inventory turnover:
1,000,000 lbs/[(20,000 lbs + 40,000 lbs)/2] = 33.33

(b) Days' sales in raw materials inventory:
40,000 lbs/1,000,000 lbs * 365 = 14.6 days

(c) These results show that Back to the Roots turns over its raw materials inventory 33.33 times a year. Generally a high raw materials inventory turnover is preferred, assuming production demands are met. The results also show that it would take approximately 14.6 days for Back to the Roots' raw materials inventory to be used in production. Assuming production needs are met, the company would prefer a lower number of days' sales in inventory. If the company was able to lower the amount of raw materials on hand and still meet production needs, both measures would improve.

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Days' sales in raw materials inventory
Topic: Raw materials inventory turnover

[Question]
155. M-Bot, Incorporated produces automatic car starters. The company used $700,000 of raw materials in their most recent accounting year. They started the year with $25,000 of raw materials and ended with $40,000.
(a) Compute the company's raw materials inventory turnover.
(b) Compute the company's days' sales in raw materials inventory.

Answer:
(a) Raw materials inventory turnover:
$700,000/[($25,000 + $40,000)/2] = 21.54

(b) Days' sales in raw materials inventory:
$40,000 /$700,000 * 365 = 20.86 days

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Days' sales in raw materials inventory
Topic: Raw materials inventory turnover

[Question]
156. Whitman Products and Rockland Industries report the following information at December 31:

	WHITMAN	ROCKLAND
Accounts receivable	$41,000	$68,000
Cash	6,000	7,000
Finished goods inventory		25,000
Goods in process inventory		40,000
Merchandise inventory	48,000	
Prepaid expenses	1,000	2,000
Raw materials inventory		21,000

Required:
(a) Which company is a manufacturer? Explain.
(b) Prepare the current asset section of the balance sheet for the manufacturer.
Answer:
(a) Rockland Industries is the manufacturer. It has three types of inventories: raw materials, goods in process, and finished goods. It converts materials to finished goods.
(b) Current Assets—Rockland Industries:

Cash	$ 7,000
Accounts receivable	68,000
Raw materials inventory	21,000
Goods in process inventory	40,000
Finished goods inventory	25,000
Prepaid expenses	2,000

$163,000

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C4
Topic: Manufacturer Inventories

[Question]
157. Horton Foods bakes and sells 1,000 dozen bagels each week to food service operations. Among the costs are bakers' salaries, $24,000; production management salaries, $16,000; production equipment operating costs, $32,000; and flour and ingredient costs, $15,000.
Required:
(a) Calculate prime costs
(b) Calculate conversion costs.
Answer:

(a) Prime Costs	
Bakers' salaries	$24,000
Flour & ingredients	15,000
Prime cost	$39,000

(b) Conversion Costs	
Bakers' salaries	$24,000
Management salaries	16,000
Production equipment.	32,000
Conversion cost	$72,000

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Prime Costs
Topic: Conversion Costs

[Question]
158. A manufacturing company's finished goods inventory on January 1 was $68,000; cost of goods manufactured was $147,000; and the December 31 finished goods inventory was $77,000. What is the cost of goods sold for that year?
Answer:

Beginning finished goods inventory	$ 68,000
Plus cost of goods manufactured	147,000
Less ending finished goods inventory	(77,000)
Cost of goods sold	$138,000

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-P1
Topic: Cost of Goods Sold

[Question]
159. Calculate cost of goods sold for the following two companies:

	CARVER LTD.	PEMBROKE, INC.

Beginning inventory:		
Merchandise	$250,000	
Finished goods		$550,000
Cost of goods purchased	460,000	
Cost of goods manufactured		688,000
Ending inventory:		
Merchandise	128,000	
Finished goods		350,000

Answer: CARVER, LTD.:

Beginning merchandise inventory	$250,000
Plus cost of goods purchased	460,000
Less ending merchandise inventory	(128,000)
Cost of goods sold	$582,000

PEMBROKE, INC.:

Beginning finished goods inventory	$ 550,000
Plus cost of goods manufactured	688,000
Less ending finished goods inventory	(350,000)
Cost of goods sold	$888,000

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Cost of Goods Sold

[Question]
160. The Ticky Company manufactures tacks. Costs for September were direct labor, $84,000; indirect labor, $36,700; direct materials, $55,900; factory maintenance, $4,800; factory utilities, $3,200; and insurance on plant and equipment, $700. What is Ticky Company's factory overhead for September?
Answer:

Indirect labor	$36,700
Factory maintenance	4,800
Factory utilities	3,200
Insurance on plant and equipment	700
Total factory overhead	$45,400

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Factory Overhead

[Question]
161. The following information for Baldwin Company, as of December 31, is provided.

Administrative salaries	$ 24,000
Depreciation of factory equipment	18,750
Depreciation of delivery vehicles	6,000

Direct labor	51,000
Factory supplies used	9,000
Finished goods inventory, January 1	42,750
Finished goods inventory, December 31	52,000
Factory insurance	11,625
Interest expense	10,000
Factory utilities	10,500
Factory maintenance	5,625
Raw materials inventory, January 1	7,000
Raw materials inventory, December 31	3,500
Raw material purchases	94,000
Rent on factory equipment	18,750
Repairs of factory equipment	8,600
Sales commissions	28,150
Goods in process inventory, January 1	4,000
Goods in process inventory, December 31	2,500

A. Calculate the direct material used during the period.
B. Calculate the total manufacturing costs incurred during the period.
C. Calculate the Cost of Goods Manufactured during the period.
D. Calculate the Cost of Goods Sold during the period.

Answer:
A. $7,000 + $94,000 - $3500 = $97,500
B.
$97,500 + $51,000 + ($18,750 + $9,000 + $11,625 + $10,500 + $5,625 + $18,750 + $8,600) = $231,350
C. $4,000 + $231,350 -$2,500 = $232,850
D. $42,750 + $232,850 - $52,000 = $223,600

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1
Learning Objective: 01-P2
Topic: Direct Material
Topic: Manufacturing Costs
Topic: Cost of Goods Manufactured
Topic: Cost of Goods Sold

[Question]
162. The following list indicates costs as they flow through the business as a product is manufactured. Some items are missing. Compute the missing amounts.
Materials Inventory:

Beginning materials inventory		$ 295,000
Raw materials purchased	1,065,400	

Ending materials inventory	315,750	
Direct materials used in production	____A____	
Goods in process:		
Beginning GIP balance		____B____
Direct labor	700,000	
Factory overhead	1,475,000	
Cost of goods manufactured	3,150,700	
Ending GIP balance	265,000	
Finished goods inventory:		
Beginning FG balance	284,000	
Ending FG balance	268,500	
Cost of goods sold	____C____	

Answer:
A. $295,000 + $1,065,400 - $315,750 = $1,044,650
B. X + $1,044,650 + $700,000 + $1,475,000 - $3,150,700 = $265,000
X=196,050
C. $284,000 + $3,150,700 – X = $268,500
X = $3,166,200

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-C5
Learning Objective: 01-P1
Topic: Direct Materials
Topic: Goods in Process
Topic: Cost Of Goods Sold

[Question]
163. The following list indicates costs as they flow through the business as a product is manufactured. Some items are missing. Compute the missing amounts.

Materials Inventory:		
Beginning materials inventory		$ 37,500
Raw materials purchased	567,400	

Ending materials inventory	31,570	
Direct materials used in production	____A____	
Goods in process:		
Beginning GIP balance	93,250	
direct labor	_____B___	
Factory overhead	742,500	(Note: 2 times the amount of direct labor cost)
Cost of goods manufactured	____C____	
Ending GIP balance	87,600	
Finished goods inventory:		
Beginning FG balance	49,000	
Ending FG balance	_____D____	
Cost of goods sold	1,625,000	

Answer:

A. $37,500 + $567,400 – X =$31,570
X = $573,330

B. $742,500(.5) = $371,250

C. $93,250 + $573,330 + $742,500 + $371,250 - $87,600 = X
X=$1,692,730

D. $49,000 + $1,692,730 - $1,625,000 = X
X = $116,730

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-C5
Learning Objective: 01-P1
Topic: Direct Materials
Topic: Direct Labor
Topic: Cost of Goods Manufactured
Topic: Finished Goods

[Question]
164. Information for Reedy Manufacturing follows:

Beginning raw materials inventory	$46,800
Beginning goods in process inventory	21,200
Direct labor	81,000
Beginning finished goods inventory	64,000
Total factory overhead	106,000
Raw materials purchased	21,500
Ending raw materials inventory	40,000
Ending goods in process inventory	20,000
Ending finished goods inventory	46,000

Calculate both the cost of goods manufactured and the cost of goods sold for Reedy

Manufacturing.
Answer:

Cost of Goods Manufactured and Sold:		
Beginning raw materials inventory	$ 46,800	
Add: Raw materials purchased	21,500	
Raw materials available	$ 68,300	
Less: Ending raw materials inventory	(40,000)	
Raw materials used		$ 28,300
Direct labor		81,000
Factory overhead		106,000
Total manufacturing costs		$215,300
Add: Beginning goods in process inventory		21,200
Total goods in process		236,500
Less: Ending goods in process inventory		(20,000)
Cost of Goods Manufactured		**$216,500**
Add beginning finished goods inventory		64,000
Cost of goods available		$280,500
Less: Ending finished goods inventory		(46,000)
Cost of Goods Sold		**$234,500**

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P1
Learning Objective: 01-P2
Topic: Cost of Goods Manufactured
Topic: Cost of Goods Sold

[Question]
165. Use the following information to prepare the manufacturing statement for Forsythe Company for the month ended June 30:

Goods in process inventory, May 31	$12,600
Goods in process inventory, June 30	16,500
Direct materials used during June	21,000

Direct labor used during June	31,000
Factory overhead:	
Indirect material	6,400
Indirect labor	9,200
Factory rent	12,000
Factory depreciation	15,000
Factory utilities	18,400

Answer:

FORSYTHE COMPANY
Manufacturing Statement
For Month Ended June 30

Direct materials		$ 21,000
Direct labor		31,000
Factory overhead:		
Indirect material	$ 6,400	
Indirect labor	9,200	
Factory rent	12,000	
Factory depreciation	15,000	
Factory utilities	18,400	
Total factory overhead costs		61,000
Total manufacturing costs		$113,000
Add goods in process inventory, May 31		12,600
Total goods in process		$125,600
Deduct goods in process inventory, June 30		16,500
Cost of goods manufactured		$109,100

Blooms Taxonomy: Apply
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Manufacturing Statement

[Question]
166. Bourne Crafts manufactures specialty key chains for tourist attractions. On December 31, 2013, the firm had 200 souvenir attraction disks used in the production of the chains that cost $3 each; and 600 completed key chains that cost $6 each. During year 2013 Bourne Crafts purchased 1,500 souvenir disks costing $3 each and produced 1,100 key chains.
Required:
Determine the total cost of raw materials inventory at December 31, 2013.

Answer:

Raw Materials (Disks)	Units	Cost		
Beginning balance	200	@$3	=	$600
+Purchased	1,500	@$3	=	4,500
Available	1,700	@$3	=	5,100
-Used	(1,100	@$3)	=	3,300
Ending balance	600	@$3	=	$1,800

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Raw Materials

[Question]
167. The following items for Titus Company are used to compute the cost of goods manufactured and the cost of goods sold. Indicate how each item should be used in the calculations by filling in the blanks with "+" if the item is to be added, "-" if the item is to be subtracted, or "0" if the item is not used in the calculation. The first item is completed as an example.

	Cost of Goods Manu-factured	Cost of Goods Sold
Beginning finished goods inventory	0	+
Ending finished goods inventory		
Direct labor		
Indirect labor		
Beginning goods in process inventory		
Ending goods in process inventory		
General and administrative expenses		
Indirect materials		
Beginning raw materials inventory		
Ending raw materials inventory		
Raw material purchases		
Depreciation of factory building		
Cost of goods manufactured		

Answer:

	Cost of Goods Manu-factured	Cost of Goods Sold
Beginning finished goods inventory	0	+
Ending finished goods inventory	0	-
Direct labor	+	0
Indirect labor	+	0
Beginning goods in process inventory	+	0
Ending goods in process inventory	-	0
General and administrative expenses	0	0
Indirect materials	+	0
Beginning raw materials inventory	+	0
Ending raw materials inventory	-	0
Raw material purchases	+	0
Depreciation of factory building	+	0
Cost of goods manufactured	0	+

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Manufacturing Costs

[Question]
168. Information for Gifford, Inc., as of December 31 follows:

Administrative salaries	$ 35,000
Depreciation of factory equipment	25,000
Depreciation of delivery vehicles	6,000
Direct labor	68,000
Factory supplies used	9,000
Finished goods inventory, January 1	57,000
Finished goods inventory, December 31	?
Factory insurance	15,500
Interest expense	12,000
Factory utilities	14,000
Factory maintenance	7,500
Raw materials inventory, January 1	5,000
Raw materials inventory, December 31	4,000
Raw material purchases	125,000
Rent on factory building	25,000
Repairs of factory equipment	11,500
Sales commissions	37,500
Goods in process inventory, January 1	3,500
Goods in process inventory, December 31	2,700

Prepare a manufacturing statement for the year ended December 31.

Answer:

GIFFORD, INC.
Manufacturing Statement
For Year Ended December 31

Direct materials:		
Raw materials, January 1	$ 5,000	
Raw material purchases	125,000	

Raw materials available	$130,000	
Raw materials, December 31	(4,000)	
Direct materials used		$126,000
Direct labor		68,000
Factory overhead costs:		
Depreciation of factory equipment	$ 25,000	
Factory supplies used	9,000	
Factory insurance	15,500	
Factory utilities	14,000	
Factory maintenance	7,500	
Rent on factory building	25,000	
Repairs of factory equipment	11,500	
Total factory overhead costs		107,500
Total manufacturing costs		$301,500
Goods in process inventory, January 1		3,500
Total goods in process		$305,000
Goods in process inventory, December 31		(2,700)
Cost of goods manufactured		$302,300

Blooms Taxonomy: Apply
AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Manufacturing Costs

[Question]
169. Information for the Ace Manufacturing Company follows:

Beginning raw materials inventory	$ 53,200
Beginning goods in process, inventory	78,400
Ending raw materials inventory	58,100
Ending goods in process, inventory	98,000
Direct labor	149,800
Total factory overhead	105,000
Raw material purchases	210,000

Calculate the cost of goods manufactured for this company.
Answer:

Cost of Goods Manufactured

Direct materials:		
Raw materials, beginning	$ 53,200	
Raw materials purchases	210,000	
Raw materials available	$263,200	

Less: Raw materials, ending	(58,100)	
Direct materials used		$205,100
Direct labor		149,800
Total factory overhead		105,000
Total manufacturing costs		$459,900
Plus: Beginning goods in process inventory		78,400
Total manufacturing costs		$538,300
Less: Ending goods in process inventory		(98,000)
Cost of goods manufactured		$440,300

Blooms Taxonomy: Apply
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Cost of Goods Manufactured

Completion Problems

[Question]
170. ________________________ is an activity that provides financial and nonfinancial information to an organization's managers and other internal decision makers.
Answer: Managerial accounting

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Managerial Accounting

[Question]
171. ___________________ is the process of setting goals and making plans to achieve them.
Answer: Planning

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Planning

[Question]
172. The focus of managerial accounting is on providing ________________ reports while the focus of financial accounting is on providing _____________reports.
Answer: internal; external

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Financial Accounting
Topic: Managerial Accounting

[Question]
173. A ______________________ system means that a company acquires or produces inventory only when needed.
Answer: just-in-time (JIT) or just-in-time-manufacturing

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C6
Topic: Just In Time Manufacturing

[Question]
174. The model whose goal is to eliminate waste while satisfying the customer and providing a positive return to the company is the _____________________.
Answer: lean business model

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C6
Topic: Lean Business Model

[Question]
175. _____________________ rejects the notions of "good enough" or "acceptable" and challenges employees and managers to continuously experiment with new and improved business practices.
Answer: Continuous improvement

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C6
Topic: Continuous Improvement

[Question]
176. The ________________________ aids continuous improvement by augmenting financial measures with information on the drivers or indicators of future financial performance along four

dimensions: (1) financial, (2) customer, (3) internal business processes, and (4) learning and growth.
Answer: balanced scorecard

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C6
Topic: Balanced Scorecard

[Question]
177. _____________________ involves the use of one's job for personal gain through the deliberate misuse of employer's assets.
Answer: Fraud

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Fraud

[Question]
178. _____________________ are beliefs that distinguish right from wrong.
Answer: Ethics

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Decision Making
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Ethics

[Question]
179. A manufacturer's inventory that is not completely finished is called __________________ .
Answer: goods in process

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Goods In Process

[Question]

180. For a manufacturer, the cost of goods sold can be computed by adding the beginning finished goods inventory to ________________________ and then subtracting the ending finished goods inventory.
Answer: cost of goods manufactured

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-P1
Topic: Cost of Goods Manufactured

[Question]
181. The process of identifying costs as direct or indirect is referred to as classifying costs by _______________.
Answer: traceability

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C2
Topic: Traceability

[Question]
182. The potential benefit lost by taking a specific action from two or more choices is an _____________________________.
Answer: opportunity cost

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Opportunity Cost

[Question]
183. A _________________ cost changes in proportion to changes in the volume of activity.
Answer: variable

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Variable Costs

[Question]

184. A _________________ cost does not change in proportion to changes in the volume of activity within the relevant range.
Answer: Fixed

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Fixed Cost

[Question]
185. A _________________ cost contains a combination of fixed and variable costs.
Answer: mixed

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Mixed Cost

[Question]
186. A ___________________ cost has already been incurred and cannot be avoided or changed, so it irrelevant to decision making.
Answer: sunk

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Sunk Cost

[Question]
187. An _____________________ cost requires the future outlay of cash and is relevant for decision making.
Answer: out-of-pocket

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Out Of Pocket Cost

[Question]

188. Expenditures necessary and integral to the manufacture of finished products are ________________ costs.
Answer: product

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C3
Topic: Product Costs

[Question]
189. Expenditures that flow directly to the current income statement and are not reported as assets are ___________________ costs.
Answer: period

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C3
Topic: Period Costs

[Question]
190. _____________________ inventory consists of goods a company acquires to use in making products.
Answer: Raw materials

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Raw Materials Inventory

[Question]
191. ____________________ inventory consists of products in the process of being manufactured but not yet complete.
Answer: Goods in process or work in process

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Goods In Process

[Question]

192. ____________________ inventory consists of completed products ready for sale by a manufacturer.
Answer: Finished goods

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Finished Goods Inventory

[Question]
193. One of the main differences between the calculation of cost of goods sold for a merchandiser and that of a manufacturer is that the calculation includes cost of goods purchased for the merchandiser, but the manufacturer replaces that with ______________________________.
Answer: cost of goods manufactured

Blooms Taxonomy: Understand
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Cost of Goods Manufactured

[Question]
194. Raw materials used divided by average raw materials inventory is the ____________________.
Answer: raw materials inventory turnover

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-A1
Topic: Raw Materials Inventory Turnover

[Question]
195. Ending raw materials inventory divided by raw materials used multiplied by 365 is the __________________________.
Answer: days' sales in raw materials inventory

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-A1
Topic: Days Sales In Raw Materials Inventory

[Question]
196. Expenditures incurred in the process of converting raw materials to finished goods, that include direct labor and factory overhead are known as ________________________.
Answer: conversion costs

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-P1
Topic: Conversion Costs

[Question]
197. Expenditures directly associated with the manufacture of finished goods that include direct materials and direct labor are ____________________ costs.
Answer: prime

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Difficulty: 1 Easy
Learning Objective: 01-P1
Topic: Prime Costs

[Question]
198. The manufacturing statement is also known as ___________________________.
Answer: schedule of manufacturing activities, or schedule of cost of goods manufactured.

Blooms Taxonomy: Remember
AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P2
Topic: Manufacturing Statement