Chapter 2--Cost Terminology and Cost Behaviors

Student: _____

1. A cost object is anything for which management wants to collect or accumulate costs.
True False

2. A production plant could be a cost object.
True False

3. A specific product **cannot** be a cost object.
True False

4. The portion of an asset's value on the balance sheet is referred to as an expired cost.
True False

5. The portion of an asset that was consumed during a period is referred to an expired cost.
True False

6. A variable cost remains constant on a per-unit basis as production increases.
True False

7. A fixed cost remains constant on a per-unit basis as production changes.
True False

8. The relevant range is valid for all levels of activity.
True False

9. An indirect cost can be easily traced to a cost object.
True False

10. Both accountants and economists view variable costs as linear in nature.
True False

11. Fixed cost per unit varies directly with production.
True False

12. Variable cost per unit remains constant within the relevant range.
True False

13. A cost that shifts upward or downward when activity changes by a certain interval is referred to as a mixed cost.
True False

14. A cost that shifts upward or downward when activity changes by a certain interval is referred to as a step cost.
True False

15. If the cost of an additive is $5,000 + $0.50 for every unit of solvent produced, the cost is classified as a mixed cost.
True False

16. If the cost of an additive is $5,000 + $0.50 for every unit of solvent produced, the cost is classified as a step cost.
True False

17. A predictor which has an absolute cause and effect relationship to a cost is referred to a cost driver.
True False

18. A mixed cost will be an effective cost driver.
True False

19. A variable cost will be an effective cost driver.
True False

20. Unexpired costs are reflected on the balance sheet.
True False

21. Expired costs are reflected on the balance sheet.
True False

22. Distribution costs are an example of product costs.
True False

23. Distribution costs are an example of period costs.
True False

24. Retailers generally have a much higher degree of conversion than do manufacturing or professional firms.
True False

25. Retailers generally have a much lower degree of conversion than do manufacturing or professional firms.
True False

26. In a service industry, direct materials are usually insignificant in amount and can **not** easily be traced to a cost object.
True False

27. In a service industry, direct materials are usually significant in amount and can be easily traced to a cost object.
True False

28. There is typically an inverse relationship between prevention costs and failure costs.
True False

29. There is typically a direct relationship between prevention costs and failure costs.
True False

30. In an actual cost system, actual production overhead costs are typically accumulated in an Overhead Control account and assigned to Work in Process at the end of the period.
True False

31. In a normal cost system, actual production overhead costs are typically accumulated in an Overhead Control account and assigned to Work in Process at the end of the period.
True False

32. In a normal cost system, factory overhead is applied to Work in Process using a predetermined overhead rate.
True False

33. In an actual cost system, factory overhead is applied to Work in Process using a predetermined overhead rate.
True False

34. In an actual cost system, overhead is assigned to Work in Process Inventory with a debit entry to the account.
True False

35. In an actual cost system, overhead is assigned to Work in Process Inventory with a credit entry to the account.
True False

36. It is **not** necessary to prepare the Cost of Goods Manufactured statement prior to preparing the Cost of Goods Sold statement.
True False

37. Anything for which management wants to accumulate or collect costs is known as a _____.
_____

38. Costs that can be conveniently traced to a cost object are referred to as _____ costs.
_____

39. Costs that **cannot** be conveniently traced to a cost object are known as _____ costs.
_____

40. A cost that remains unchanged in total within the relevant range is known as a _____ cost.
_____

41. A cost that varies in total in direct proportion to changes in activity is known as a _____ cost
_____

42. The assumed range of activity that reflects the company's normal operating range is referred to as the _____.
_____

43. A cost that remains constant on a per unit basis within the relevant range is a _____ cost.
_____

44. A cost that varies inversely with the level of production is known as a _____ cost.
_____

45. A cost that has both fixed and variable components is known as a _____ cost.
_____

46. A cost that shifts upward or downward when activity changes by a certain interval is referred to as a _____ cost.
_____

47. Another name for inventoriable costs is _____ costs.
_____

48. The three stages of production for a manufacturing firm are _____, _____, and _____.
_____

49. Costs that are incurred to improve quality by precluding defects and improper processing are referred to as _____ costs.
_____

50. Costs incurred for monitoring or inspecting products are known as _____ costs.
_____

51. Costs that result from defective units, product returns, and complaints are referred to as _____ costs.
_____

52. The term "relevant range" as used in cost accounting means the range over which
A. costs may fluctuate.
B. cost relationships are valid.
C. production may vary.
D. relevant costs are incurred.

53. Which of the following defines variable cost behavior?

Total cost reaction to increase in activity	Cost per unit reaction to increase in activity

A. remains constant		remains constant
B. remains constant		increases
C. increases		increases
D. increases		remains constant

54. When cost relationships are linear, total variable prime costs will vary in proportion to changes in
A. direct labor hours.
B. total material cost.
C. total overhead cost.
D. production volume.

55. Which of the following would generally be considered a fixed factory overhead cost?

	Straight-line depreciation	Factory insurance	Units-of-production depreciation
A.	no	no	no
B.	yes	no	yes
C.	yes	yes	no
D.	no	yes	no

56. An example of a fixed cost is
A. total indirect material cost.
B. total hourly wages.
C. cost of electricity.
D. straight-line depreciation.

57. A cost that remains constant in total but varies on a per-unit basis with changes in activity is called a(n)
A. expired cost.
B. fixed cost.
C. variable cost.
D. mixed cost.

58. A(n) ____ cost increases or decreases in intervals as activity changes.
A. historical cost
B. fixed cost
C. step cost
D. budgeted cost

59. When the number of units manufactured increases, the most significant change in unit cost will be reflected as a(n)
A. increase in the fixed element.
B. decrease in the variable element.
C. increase in the mixed element.
D. decrease in the fixed element.

60. Which of the following always has a direct cause-effect relationship to a cost?

	Predictor	Cost driver
A.	yes	yes
B.	yes	no
C.	no	yes
D.	no	no

61. A cost driver
A. causes fixed costs to rise because of production changes.
B. has a direct cause-effect relationship to a cost.
C. can predict the cost behavior of a variable, but not a fixed, cost.
D. is an overhead cost that causes distribution costs to change in distinct increments with changes in production volume.

62. Product costs are deducted from revenue
A. as expenditures are made.
B. when production is completed.
C. as goods are sold.
D. to minimize taxable income.

63. A selling cost is a(n)

	product cost	period cost	inventoriable cost
A.	yes	yes	no
B.	yes	no	no
C.	no	yes	no
D.	no	yes	yes

64. Which of the following is **not** a product cost component?
A. rent on a factory building
B. indirect production labor wages
C. janitorial supplies used in a factory
D. commission on the sale of a product

65. Period costs
A. are expensed in the same period in which they are incurred.
B. are always variable costs.
C. remain unchanged over a given period of time.
D. are associated with the periodic inventory method.

66. Period costs include

	distribution costs	outside processing costs	sales commissions
A.	yes	no	yes
B.	no	yes	yes
C.	no	no	no
D.	yes	yes	yes

67. The three primary inventory accounts in a manufacturing company are
A. Merchandise Inventory, Supplies Inventory, and Finished Goods Inventory.
B. Merchandise Inventory, Work in Process Inventory, and Finished Goods Inventory.
C. Supplies Inventory, Work in Process Inventory, and Finished Goods Inventory.
D. Raw Material Inventory, Work in Process Inventory, and Finished Goods Inventory.

68. Cost of Goods Sold is an
A. unexpired product cost.
B. expired product cost.
C. unexpired period cost.
D. expired period cost.

69. The indirect costs of converting raw material into finished goods are called
A. period costs.
B. prime costs.
C. overhead costs.
D. conversion costs.

70. Which of the following would need to be allocated to a cost object?
A. direct material
B. direct labor
C. direct production costs
D. indirect production costs

71. Conversion cost does **not** include
A. direct labor.
B. direct material.
C. factory depreciation.
D. supervisors' salaries.

72. The distinction between direct and indirect costs depends on whether a cost
A. is controllable or non-controllable.
B. is variable or fixed.
C. can be conveniently and physically traced to a cost object under consideration.
D. will increase with changes in levels of activity.

73. Moore Company is a construction company that builds greenhouses on special request. What is the proper classification of the carpenters' wages?

	Product	Period	Direct
A.	yes	yes	no
B.	yes	no	yes
C.	no	no	no
D.	no	yes	yes

74. Moore Company is a construction company that builds greenhouses on special request. What is the proper classification of the cost of the cement building slab used?

	Direct	Fixed
A.	no	no
B.	no	yes
C.	yes	yes
D.	yes	no

75. Moore Company is a construction company that builds greenhouses on special request. What is the proper classification of indirect material used?

	Prime	Conversion	Variable
A.	no	no	no
B.	no	yes	yes
C.	yes	yes	yes
D.	yes	no	no

76. Which of the following costs would be considered overhead in the production of chocolate chip cookies?
A. flour
B. chocolate chips
C. sugar
D. oven electricity

77. All costs related to the manufacturing function in a company are
A. prime costs.
B. direct costs.
C. product costs.
D. conversion costs.

78. Prime cost consists of

	direct material	direct labor	overhead
A.	no	yes	no
B.	yes	yes	no
C.	yes	no	yes
D.	no	yes	yes

79. Plastic used to manufacture dolls is a

	prime cost	product cost	direct cost	fixed cost
A.	no	yes	yes	yes
B.	yes	no	yes	no
C.	yes	yes	no	yes
D.	yes	yes	yes	no

80. The term "prime cost" refers to
A. all manufacturing costs incurred to produce units of output.
B. all manufacturing costs other than direct labor and raw material costs.
C. raw material purchased and direct labor costs.
D. the raw material used and direct labor costs.

81. Conversion of inputs to outputs is recorded in the
A. Work in Process Inventory account.
B. Finished Goods Inventory account.
C. Raw Material Inventory account.
D. both a and b.

82. In a perpetual inventory system, the sale of items for cash consists of two entries. One entry is a debit to Cash and a credit to Sales. The other entry is a debit to
A. Work in Process Inventory and a credit to Finished Goods Inventory.
B. Finished Goods Inventory and a credit to Cost of Goods Sold.
C. Cost of Goods Sold and a credit to Finished Goods Inventory.
D. Finished Goods Inventory and a credit to Work in Process Inventory.

83. The formula to compute cost of goods manufactured is
A. beginning Work in Process Inventory plus purchases of raw material minus ending Work in Process Inventory.
B. beginning Work in Process Inventory plus direct labor plus direct material used plus overhead incurred minus ending Work in Process Inventory.
C. direct material used plus direct labor plus overhead incurred.
D. direct material used plus direct labor plus overhead incurred plus beginning Work in Process Inventory.

84. The final figure in the Schedule of Cost of Goods Manufactured represents the
A. cost of goods sold for the period.
B. total cost of manufacturing for the period.
C. total cost of goods started and completed this period.
D. total cost of goods completed for the period.

85. The formula for cost of goods sold for a manufacturer is
A. beginning Finished Goods Inventory plus Cost of Goods Manufactured minus ending Finished Goods Inventory.
B. beginning Work in Process Inventory plus Cost of Goods Manufactured minus ending Work in Process Inventory.
C. direct material plus direct labor plus applied overhead.
D. direct material plus direct labor plus overhead incurred plus beginning Work in Process Inventory.

86. Which of the following replaces the retailing component "Purchases" in computing Cost of Goods Sold for a manufacturing company?
A. direct material used
B. cost of goods manufactured
C. total prime cost
D. cost of goods available for sale

87. Costs that are incurred to preclude defects and improper processing are:
A. prevention costs
B. detection costs
C. appraisal costs
D. failure costs

88. Costs that are incurred for monitoring and inspecting are:
A. prevention costs
B. detection costs
C. appraisal costs
D. failure costs

89. Costs that are incurred when customers complain are:
A. prevention costs
B. detection costs
C. appraisal costs
D. failure costs

90. **Jordan Company**

The following information has been taken from the cost records of Jordan Company for the past year:

Raw material used in production	$326
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 60% of direct labor cost)	686
Cost of goods available for sale	826
Selling and Administrative expenses	25

Inventories	Beginning	Ending
Raw Material	$75	$ 85
Work in Process	80	30
Finished Goods	90	110

Refer to Jordan Company. The cost of raw material purchased during the year was

A. $316.
B. $336.
C. $360.
D. $411.

91. **Jordan Company**

The following information has been taken from the cost records of Jordan Company for the past year:

Raw material used in production	$326
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 60% of direct labor cost)	686
Cost of goods available for sale	826
Selling and Administrative expenses	25

Inventories	Beginning	Ending
Raw Material	$75	$ 85
Work in Process	80	30
Finished Goods	90	110

Refer to Jordan Company. Direct labor cost charged to production during the year was

A. $135.
B. $216.
C. $225.
D. $360.

92. **Jordan Company**

The following information has been taken from the cost records of Jordan Company for the past year:

Raw material used in production	$326
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 60% of direct labor cost)	686
Cost of goods available for sale	826
Selling and Administrative expenses	25

Inventories	Beginning	Ending
Raw Material	$75	$ 85
Work in Process	80	30
Finished Goods	90	110

Refer to Jordan Company. Cost of Goods Manufactured was

A. $636.
B. $716.
C. $736.
D. $766.

93. **Jordan Company**

The following information has been taken from the cost records of Jordan Company for the past year:

Raw material used in production	$326
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 60% of direct labor cost)	686
Cost of goods available for sale	826
Selling and Administrative expenses	25

Inventories	Beginning	Ending
Raw Material	$75	$ 85
Work in Process	80	30
Finished Goods	90	110

Refer to Jordan Company. Cost of Goods Sold was

A. $691.
B. $716.
C. $736.
D. $801.

94. **Horner Corporation**

The following information has been taken from the cost records of Horner Corporation for the past year:

Raw material used in production	$336
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 50% of direct labor cost)	711
Cost of goods available for sale	851
Selling and Administrative expenses	35

Inventories	Beginning	Ending
Raw Material	$80	$ 90
Work in Process	85	25
Finished Goods	80	105

Refer to Horner Corporation. The cost of raw material purchased during the year was

A. $326.
B. $346
C. $375
D. $426

95. **Horner Corporation**

The following information has been taken from the cost records of Horner Corporation for the past year:

Raw material used in production	$336
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 50% of direct labor cost)	711
Cost of goods available for sale	851
Selling and Administrative expenses	35

Inventories	Beginning	Ending
Raw Material	$80	$ 90
Work in Process	85	25
Finished Goods	80	105

Refer to Horner Company. Direct labor cost charged to production during the year was

A. $125
B. $188
C. $250
D. $375.

96. **Horner Corporation**

The following information has been taken from the cost records of Horner Corporation for the past year:

Raw material used in production	$336
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 50% of direct labor cost)	711
Cost of goods available for sale	851
Selling and Administrative expenses	35

Inventories	Beginning	Ending
Raw Material	$80	$ 90
Work in Process	85	25
Finished Goods	80	105

Refer to Horner Company. Cost of Goods Manufactured was

A. $651
B. $736
C. $771
D. $796

97. **Horner Corporation**

The following information has been taken from the cost records of Horner Corporation for the past year:

Raw material used in production	$336
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 50% of direct labor cost)	711
Cost of goods available for sale	851
Selling and Administrative expenses	35

Inventories	Beginning	Ending
Raw Material	$80	$ 90
Work in Process	85	25
Finished Goods	80	105

Refer to Horner Company. Cost of Goods Sold was

A. $711
B. $746
C. $796
D. $816

98. **Perry Company.**

Perry Company manufactures wood file cabinets. The following information is available for June of the current year.

	Beginning	Ending
Raw Material Inventory	$ 6,000	$ 7,500
Work in Process Inventory	17,300	11,700
Finished Goods Inventory	21,000	16,300

The direct labor rate is $9.60 per hour and overhead for the month was $9,600.

Refer to Perry Company. Compute total manufacturing costs for June, if there were 1,500 direct labor hours and $21,000 of raw material was purchased.

A. $58,500
B. $46,500
C. $43,500
D. $43,100

99. **Perry Company.**

Perry Company manufactures wood file cabinets. The following information is available for June of the current year.

	Beginning	Ending
Raw Material Inventory	$ 6,000	$ 7,500
Work in Process Inventory	17,300	11,700
Finished Goods Inventory	21,000	16,300

The direct labor rate is $9.60 per hour and overhead for the month was $9,600.

Refer to Perry Company. What are prime costs and conversion costs, respectively if there were 1,500 direct labor hours and $21,000 of raw material was purchased?

A. $29,100 and $33,900
B. $33,900 and $24,000
C. $33,900 and $29,100
D. $24,000 and $33,900

100. **Perry Company.**

Perry Company manufactures wood file cabinets. The following information is available for June of the current year.

	Beginning	Ending
Raw Material Inventory	$ 6,000	$ 7,500
Work in Process Inventory	17,300	11,700
Finished Goods Inventory	21,000	16,300

The direct labor rate is $9.60 per hour and overhead for the month was $9,600.

Refer to Perry Company. If there were 1,500 direct labor hours and $21,000 of raw material purchased, Cost of Goods Manufactured is:
A. $49,100.
B. $45,000.
C. $51,000.
D. $49,500.

101. **Perry Company.**

Perry Company manufactures wood file cabinets. The following information is available for June of the current year.

	Beginning	Ending
Raw Material Inventory	$ 6,000	$ 7,500
Work in Process Inventory	17,300	11,700
Finished Goods Inventory	21,000	16,300

The direct labor rate is $9.60 per hour and overhead for the month was $9,600.

Refer to Perry Company. If there were 1,500 direct labor hours and $21,000 of raw material purchased, how much is Cost of Goods Sold?
A. $64,500.
B. $59,800.
C. $38,800.
D. $53,800.

102. Roberson Company manufactures desks. The beginning balance of Raw Material Inventory was $4,500; raw material purchases of $29,600 were made during the month. At month end, $7,700 of raw material was on hand. Raw material used during the month was
A. $26,400.
B. $34,100.
C. $37,300.
D. $29,600.

103. Gallagher Company manufactures tables. The beginning balance of Raw Material Inventory was $5,500; raw material purchases of $31,500 were made during the month. At month end, $8,200 of raw material was on hand. Raw material used during the month was
A. $28,800
B. $31,500
C. $37,000.
D. $39,200

104. Marley Company manufactures tables. If raw material used was $80,000 and Raw Material Inventory at the beginning and end of the period, respectively, was $17,000 and $21,000, what was amount of raw material was purchased?
A. $76,000
B. $118,000
C. $84,000
D. $101,000

105. Sheets Company manufactures chairs. If raw material used was $100,000 and Raw Material Inventory at the beginning and end of the period, respectively, was $27,000 and $31,000, what was amount of raw material was purchased?
A. $ 96,000
B. $104,000
C. $158,000
D. $131,000

106. Terrell Company manufactures computer stands. What is the beginning balance of Finished Goods Inventory if Cost of Goods Sold is $107,000; the ending balance of Finished Goods Inventory is $20,000; and Cost of Goods Manufactured is $50,000 less than Cost of Goods Sold?
A. $70,000
B. $77,000
C. $157,000
D. $127,000

107. **Anderson Enterprises**

Inventories:	March 1	March 31
Raw material	$18,000	$15,000
Work in process	9,000	6,000
Finished goods	27,000	36,000
Additional information for March:		
Raw material purchased	$42,000	
Direct labor payroll	$30,000	
Direct labor rate per hour	$ 7.50	
Overhead rate per direct labor hour	$ 10.00	

Refer to Anderson Enterprises. For March, prime cost incurred was
A. $75,000.
B. $69,000.
C. $45,000.
D. $39,000.

108. **Anderson Enterprises**

Inventories:	March 1	March 31
Raw material	$18,000	$15,000
Work in process	9,000	6,000
Finished goods	27,000	36,000
Additional information for March:		
Raw material purchased	$42,000	
Direct labor payroll	$30,000	
Direct labor rate per hour	$ 7.50	
Overhead rate per direct labor hour	$ 10.00	

Refer to Anderson Enterprises. For March, conversion cost incurred was

A. $30,000.
B. $40,000.
C. $70,000.
D. $72,000.

109. **Anderson Enterprises**

Inventories:	March 1	March 31
Raw material	$18,000	$15,000
Work in process	9,000	6,000
Finished goods	27,000	36,000
Additional information for March:		
Raw material purchased	$42,000	
Direct labor payroll	$30,000	
Direct labor rate per hour	$ 7.50	
Overhead rate per direct labor hour	$ 10.00	

Refer to Anderson Enterprises. For March, Cost of Goods Manufactured was

A. $118,000.
B. $115,000.
C. $112,000.
D. $109,000.

110. **Goodwin Enterprises**

Inventories:	April 1	April 30
Raw material	$20,000	$17,000
Work in process	12,000	8,000
Finished goods	30,000	39,000
Additional information for April:		
Raw material purchased	$45,000	
Direct labor payroll	$36,000	
Direct labor rate per hour	$ 8.00	
Overhead rate per direct labor hour	$ 10.00	

Refer to Goodwin Enterprises. For April, prime cost incurred was

A. $78,000.
B. $84,000
C. $51,000.
D. $45,000.

111. **Goodwin Enterprises**

Inventories:	April 1	April 30
Raw material	$20,000	$17,000
Work in process	12,000	8,000
Finished goods	30,000	39,000
Additional information for April:		
Raw material purchased	$45,000	
Direct labor payroll	$36,000	
Direct labor rate per hour	$ 8.00	
Overhead rate per direct labor hour	$ 10.00	

Refer to Goodwin Enterprises. For April, conversion cost incurred was

A. $36,000
B. $45,000.
C. $81,000.
D. $84,000.

112. **Goodwin Enterprises**

Inventories:	April 1	April 30
Raw material	$20,000	$17,000
Work in process	12,000	8,000
Finished goods	30,000	39,000
Additional information for April:		
Raw material purchased	$45,000	
Direct labor payroll	$36,000	
Direct labor rate per hour	$ 8.00	
Overhead rate per direct labor hour	$ 10.00	

Refer to Goodwin Enterprises. For April, Cost of Goods Manufactured was

A. $141,000
B. $133,000.
C. $125,000.
D. $121,000.

113. Define the relevant range and explain its significance.

114. Define a variable cost and a fixed cost. What causes changes in these costs? Give two examples of each.

115. What is the difference between a product cost and a period cost? Give three examples of each. What is the difference between a direct cost and indirect cost? Give two examples of each.

116. What are three reasons that overhead must be allocated to products?

117. Why should predetermined overhead rates be used?

118. List and explain three types of quality costs.

119. Given the following information for Graves Corporation, prepare the necessary journal entries, assuming that the Raw Material Inventory account contains both direct and indirect material.

a. Purchased raw material on account $28,500.
b. Put material into production: $15,000 of direct material and $3,000 of indirect material.
c. Accrued payroll of $90,000, of which 70 percent was direct and the remainder was indirect.
d. Incurred and paid other overhead items of $36,000.
e. Transferred items costing $86,500 to finished goods.
f. Sold goods costing $71,300 on account for $124,700.

120. Given the following information for Moore Corporation, prepare the necessary journal entries, assuming that the Raw Material Inventory account contains both direct and indirect material.

a. Purchased raw material on account $45,500.
b. Put material into production: $28,000 of direct material and $5,000 of indirect material.
c. Accrued payroll of $95,000, of which 65 percent was direct and the remainder was indirect.
d. Incurred and paid other overhead items of $42,000.
e. Transferred items costing $92,500 to finished goods.
f. Sold goods costing $79,900 on account for $134,200.

121. Using the information below, prepare a Schedule of Cost of Goods Manufactured (in good form) for the Gibbs Company for June 20y0:

Inventories	Beginning	Ending
Raw Material	$ 6,700	$ 8,900
Work in Process	17,700	22,650
Finished Goods	29,730	19,990

Additional information: purchases of raw material were $46,700; 19,700 direct labor hours were worked at $11.30 per hour; overhead costs were $33,300.

122. Using the information below, prepare a Schedule of Cost of Goods Manufactured (in good form) for the Ezell Company for June 20y0:

Inventories	Beginning	Ending
Raw Material	$ 8,500	$ 9,700
Work in Process	20,400	25,800
Finished Goods	31,350	21,375

Additional information: purchases of raw material were $51,900; 21,560 direct labor hours were worked at $12.50 per hour; overhead costs were $39,800.

123. In June 20y0, the Thompson Company has Cost of Goods Manufactured of $296,000; beginning Finished Goods Inventory of $29,730; and ending Finished Goods Inventory of $19,990. Prepare an income statement in good form. (Ignore taxes.) The following additional information is available:

Selling Expenses	$ 40,500
Administrative Expenses	19,700
Sales	475,600

124. The following information is for the Lawton Manufacturing Company for November.

Inventories	Beginning	Ending
Raw Material	$17,400	$13,200
Work in Process	31,150	28,975
Finished Goods	19,200	25,500

Direct Labor (21,000 DLH @ $13)			
Raw Material Purchases	$120,000	Insurance-Office	2,570
Indirect Labor	11,200	Office Supplies Expense	900
Factory Supplies Used	350	Insurance-Factory	1,770
Other Expenses:		Depr. Office Equipment	3,500
Depr.-Factory Equipment	17,300	Repair/Maintenance-Factory	7,400

Calculate total manufacturing costs, cost of goods manufactured, and cost of goods sold.

125. The following information is for the Guthrie Manufacturing Company for November.

Inventories	Beginning	Ending
Raw Material	$19,750	$15,400
Work in Process	35,350	32,200
Finished Goods	21,300	27,900

Direct Labor (22,000 DLH @ $14)			
Raw Material Purchases	$155,000	Insurance-Office	2,750
Indirect Labor	11,600	Office Supplies Expense	1,050
Factory Supplies Used	475	Insurance-Factory	1,825
Other Expenses:		Depr. Office Equipment	3,900
Depr.-Factory Equipment	18,100	Repair/Maintenance-Factory	7,800

Calculate total manufacturing costs, cost of goods manufactured, and cost of goods sold.

126. From the following information for the Norman Company, compute prime costs and conversion costs.

Inventories	Beginning	Ending
Raw Material	$ 9,900	$ 7,600
Work in Process	44,500	37,800
Finished Goods	36,580	61,300

Raw material purchased during the period cost $40,800; overhead incurred and paid or accrued for the period was $21,750; and 23,600 direct labor hours were incurred at a rate of $13.75 per hour.

127. The following miscellaneous data has been collected for Bethany Manufacturing Company for the most recent year-end:

Inventories:	Beginning	Ending
Raw material	$50,000	$55,000
Work in process	40,000	45,000
Finished goods	60,000	50,000
Costs recorded during the year:		
Purchases of raw material	$195,000	
Direct labor	150,000	
Cost of goods sold	595,000	

Required: Prepare statements of cost of goods manufactured and cost of goods sold showing how **all** unknown amounts were determined.

128. The following information was taken from the records of the Baytown Corporation for the month of July. (There were no inventories of work in process or finished goods on July 1.)

	Units	Cost
Sales during month	8,000	$?
Manufacturing costs for month:		
Direct material		32,000
Direct labor		20,000
Overhead costs applied		15,000
Overhead costs under-applied		800

Inventories, July 31:			
	Work in process	1,000	?
	Finished goods	2,000	?

Indirect manufacturing costs are applied on a direct labor cost basis. The under-applied balance is due to seasonal variations and will be carried forward. The following cost estimates have been submitted for the work in process inventory of July 31: material, $3,000; direct labor, $2,000.

Required:

a. Determine the number of units that were completed and transferred to finished goods during the month.
b. Complete the estimate of the cost of work in process on July 31.
c. Compute cost of goods manufactured for the month.
d. Determine the cost of each unit completed during the month.
e. Determine the total amount debited to the Overhead Control accounts during the month.

129. The Silsbee Corporation had the following account balances:

Raw Material	**Manufacturing Overhead**							
Bal. 1/1	30,000		?			385,000		?
	420,000							
Bal. 12/31	60,000							

Work in Process	**Factory Wages Payable**							
Bal. 1/1 Direct material	70,000 320,000		810,000			179,000	Bal. 1/1	10,000 175,000
Direct labor	110,000							

Overhead	400,000						6,000 all. 12/31
Bal. 12/31	?						

Finished Goods	**Cost of Goods Sold**							
Bal. 1/1	40,000		?			?		
	?							
Bal. 12/31	130,000							

Required:

a. What was the cost of raw material put into production during the year?
b. How much of the material from question 1 consisted of indirect material?
c. How much of the factory labor cost for the year consisted of indirect labor?
d. What was the cost of goods manufactured for the year?
e. What was the cost of goods sold for the year (before considering under- or overapplied overhead)?
f. If overhead is applied to production on the basis of direct material, what rate was in effect during the year?
g. Was manufacturing overhead under- or overapplied? By how much?
h. Compute the ending balance in the Work in Process Inventory account. Assume that this balance consists entirely of goods started during the year. If $32,000 of this balance is direct material cost, how much of it is direct labor cost? Manufacturing overhead cost?

Chapter 2--Cost Terminology and Cost Behaviors Key

1. A cost object is anything for which management wants to collect or accumulate costs.
TRUE

2. A production plant could be a cost object.
TRUE

3. A specific product **cannot** be a cost object.
FALSE

4. The portion of an asset's value on the balance sheet is referred to as an expired cost.
FALSE

5. The portion of an asset that was consumed during a period is referred to an expired cost.
TRUE

6. A variable cost remains constant on a per-unit basis as production increases.
TRUE

7. A fixed cost remains constant on a per-unit basis as production changes.
FALSE

8. The relevant range is valid for all levels of activity.
FALSE

9. An indirect cost can be easily traced to a cost object.
FALSE

10. Both accountants and economists view variable costs as linear in nature.
FALSE

11. Fixed cost per unit varies directly with production.
FALSE

12. Variable cost per unit remains constant within the relevant range.
TRUE

13. A cost that shifts upward or downward when activity changes by a certain interval is referred to as a mixed cost.
FALSE

14. A cost that shifts upward or downward when activity changes by a certain interval is referred to as a step cost.
TRUE

15. If the cost of an additive is $5,000 + $0.50 for every unit of solvent produced, the cost is classified as a mixed cost.
TRUE

16. If the cost of an additive is $5,000 + $0.50 for every unit of solvent produced, the cost is classified as a step cost.
FALSE

17. A predictor which has an absolute cause and effect relationship to a cost is referred to a cost driver.
TRUE

18. A mixed cost will be an effective cost driver.
FALSE

19. A variable cost will be an effective cost driver.
TRUE

20. Unexpired costs are reflected on the balance sheet.
TRUE

21. Expired costs are reflected on the balance sheet.
FALSE

22. Distribution costs are an example of product costs.
FALSE

23. Distribution costs are an example of period costs.
TRUE

24. Retailers generally have a much higher degree of conversion than do manufacturing or professional firms.
FALSE

25. Retailers generally have a much lower degree of conversion than do manufacturing or professional firms.
TRUE

26. In a service industry, direct materials are usually insignificant in amount and can **not** easily be traced to a cost object.
TRUE

27. In a service industry, direct materials are usually significant in amount and can be easily traced to a cost object.
FALSE

28. There is typically an inverse relationship between prevention costs and failure costs.
TRUE

29. There is typically a direct relationship between prevention costs and failure costs.
FALSE

30. In an actual cost system, actual production overhead costs are typically accumulated in an Overhead Control account and assigned to Work in Process at the end of the period.
TRUE

31. In a normal cost system, actual production overhead costs are typically accumulated in an Overhead Control account and assigned to Work in Process at the end of the period.
FALSE

32. In a normal cost system, factory overhead is applied to Work in Process using a predetermined overhead rate.
TRUE

33. In an actual cost system, factory overhead is applied to Work in Process using a predetermined overhead rate.
FALSE

34. In an actual cost system, overhead is assigned to Work in Process Inventory with a debit entry to the account.
TRUE

35. In an actual cost system, overhead is assigned to Work in Process Inventory with a credit entry to the account.
FALSE

36. It is **not** necessary to prepare the Cost of Goods Manufactured statement prior to preparing the Cost of Goods Sold statement.
FALSE

37. Anything for which management wants to accumulate or collect costs is known as a _____.
cost object

38. Costs that can be conveniently traced to a cost object are referred to as _____ costs.
direct

39. Costs that **cannot** be conveniently traced to a cost object are known as _____ costs.
indirect

40. A cost that remains unchanged in total within the relevant range is known as a _____ cost.
fixed

41. A cost that varies in total in direct proportion to changes in activity is known as a _____ cost
variable

42. The assumed range of activity that reflects the company's normal operating range is referred to as the _____.
relevant range

43. A cost that remains constant on a per unit basis within the relevant range is a _____ cost.
variable

44. A cost that varies inversely with the level of production is known as a _____ cost.
fixed

45. A cost that has both fixed and variable components is known as a _____ cost.
mixed

46. A cost that shifts upward or downward when activity changes by a certain interval is referred to as a _____ cost.
step

47. Another name for inventoriable costs is _____ costs.
product

48. The three stages of production for a manufacturing firm are _____, _____, and _____.
raw materials, work in process, finished goods

49. Costs that are incurred to improve quality by precluding defects and improper processing are referred to as _____ costs.
prevention

50. Costs incurred for monitoring or inspecting products are known as _____ costs.
appraisal

51. Costs that result from defective units, product returns, and complaints are referred to as _____ costs.
failure

52. The term "relevant range" as used in cost accounting means the range over which
A. costs may fluctuate.
B. cost relationships are valid.
C. production may vary.
D. relevant costs are incurred.

53. Which of the following defines variable cost behavior?

Total cost reaction to increase in activity	Cost per unit reaction to increase in activity

A. remains constant		remains constant
B. remains constant		increases
C. increases		increases
D. increases		remains constant

54. When cost relationships are linear, total variable prime costs will vary in proportion to changes in
A. direct labor hours.
B. total material cost.
C. total overhead cost.
D. production volume.

55. Which of the following would generally be considered a fixed factory overhead cost?

	Straight-line depreciation	Factory insurance	Units-of-production depreciation
A.	no	no	no
B.	yes	no	yes
C.	yes	yes	no
D.	no	yes	no

56. An example of a fixed cost is
A. total indirect material cost.
B. total hourly wages.
C. cost of electricity.
D. straight-line depreciation.

57. A cost that remains constant in total but varies on a per-unit basis with changes in activity is called a(n)
A. expired cost.
B. fixed cost.
C. variable cost.
D. mixed cost.

58. A(n) ____ cost increases or decreases in intervals as activity changes.
A. historical cost
B. fixed cost
C. step cost
D. budgeted cost

59. When the number of units manufactured increases, the most significant change in unit cost will be reflected as a(n)
A. increase in the fixed element.
B. decrease in the variable element.
C. increase in the mixed element.
D. decrease in the fixed element.

60. Which of the following always has a direct cause-effect relationship to a cost?

	Predictor	Cost driver
A.	yes	yes
B.	yes	no
C.	no	yes
D.	no	no

61. A cost driver
A. causes fixed costs to rise because of production changes.
B. has a direct cause-effect relationship to a cost.
C. can predict the cost behavior of a variable, but not a fixed, cost.
D. is an overhead cost that causes distribution costs to change in distinct increments with changes in production volume.

62. Product costs are deducted from revenue
A. as expenditures are made.
B. when production is completed.
C. as goods are sold.
D. to minimize taxable income.

63. A selling cost is a(n)

	product cost	period cost	inventoriable cost
A.	yes	yes	no
B.	yes	no	no
C.	no	yes	no
D.	no	yes	yes

64. Which of the following is **not** a product cost component?
A. rent on a factory building
B. indirect production labor wages
C. janitorial supplies used in a factory
D. commission on the sale of a product

65. Period costs
A. are expensed in the same period in which they are incurred.
B. are always variable costs.
C. remain unchanged over a given period of time.
D. are associated with the periodic inventory method.

66. Period costs include

	distribution costs	outside processing costs	sales commissions
A.	yes	no	yes
B.	no	yes	yes
C.	no	no	no
D.	yes	yes	yes

67. The three primary inventory accounts in a manufacturing company are
A. Merchandise Inventory, Supplies Inventory, and Finished Goods Inventory.
B. Merchandise Inventory, Work in Process Inventory, and Finished Goods Inventory.
C. Supplies Inventory, Work in Process Inventory, and Finished Goods Inventory.
D. Raw Material Inventory, Work in Process Inventory, and Finished Goods Inventory.

68. Cost of Goods Sold is an
A. unexpired product cost.
B. expired product cost.
C. unexpired period cost.
D. expired period cost.

69. The indirect costs of converting raw material into finished goods are called
A. period costs.
B. prime costs.
C. overhead costs.
D. conversion costs.

70. Which of the following would need to be allocated to a cost object?
A. direct material
B. direct labor
C. direct production costs
D. indirect production costs

71. Conversion cost does **not** include
A. direct labor.
B. direct material.
C. factory depreciation.
D. supervisors' salaries.

72. The distinction between direct and indirect costs depends on whether a cost
A. is controllable or non-controllable.
B. is variable or fixed.
C. can be conveniently and physically traced to a cost object under consideration.
D. will increase with changes in levels of activity.

73. Moore Company is a construction company that builds greenhouses on special request. What is the proper classification of the carpenters' wages?

	Product	Period	Direct
A.	yes	yes	no
B.	yes	no	yes
C.	no	no	no
D.	no	yes	yes

74. Moore Company is a construction company that builds greenhouses on special request. What is the proper classification of the cost of the cement building slab used?

	Direct	Fixed
A.	no	no
B.	no	yes
C.	yes	yes
D.	yes	no

75. Moore Company is a construction company that builds greenhouses on special request. What is the proper classification of indirect material used?

	Prime	Conversion	Variable
A.	no	no	no
B.	no	yes	yes
C.	yes	yes	yes
D.	yes	no	no

76. Which of the following costs would be considered overhead in the production of chocolate chip cookies?
A. flour
B. chocolate chips
C. sugar
D. oven electricity

77. All costs related to the manufacturing function in a company are
A. prime costs.
B. direct costs.
C. product costs.
D. conversion costs.

78. Prime cost consists of

	direct material	direct labor	overhead
A.	no	yes	no
B.	yes	yes	no
C.	yes	no	yes
D.	no	yes	yes

79. Plastic used to manufacture dolls is a

	prime cost	product cost	direct cost	fixed cost
A.	no	yes	yes	yes
B.	yes	no	yes	no
C.	yes	yes	no	yes
D.	yes	yes	yes	no

80. The term "prime cost" refers to
A. all manufacturing costs incurred to produce units of output.
B. all manufacturing costs other than direct labor and raw material costs.
C. raw material purchased and direct labor costs.
D. the raw material used and direct labor costs.

81. Conversion of inputs to outputs is recorded in the
A. Work in Process Inventory account.
B. Finished Goods Inventory account.
C. Raw Material Inventory account.
D. both a and b.

82. In a perpetual inventory system, the sale of items for cash consists of two entries. One entry is a debit to Cash and a credit to Sales. The other entry is a debit to
A. Work in Process Inventory and a credit to Finished Goods Inventory.
B. Finished Goods Inventory and a credit to Cost of Goods Sold.
C. Cost of Goods Sold and a credit to Finished Goods Inventory.
D. Finished Goods Inventory and a credit to Work in Process Inventory.

83. The formula to compute cost of goods manufactured is
A. beginning Work in Process Inventory plus purchases of raw material minus ending Work in Process Inventory.
B. beginning Work in Process Inventory plus direct labor plus direct material used plus overhead incurred minus ending Work in Process Inventory.
C. direct material used plus direct labor plus overhead incurred.
D. direct material used plus direct labor plus overhead incurred plus beginning Work in Process Inventory.

84. The final figure in the Schedule of Cost of Goods Manufactured represents the
A. cost of goods sold for the period.
B. total cost of manufacturing for the period.
C. total cost of goods started and completed this period.
D. total cost of goods completed for the period.

85. The formula for cost of goods sold for a manufacturer is
A. beginning Finished Goods Inventory plus Cost of Goods Manufactured minus ending Finished Goods Inventory.
B. beginning Work in Process Inventory plus Cost of Goods Manufactured minus ending Work in Process Inventory.
C. direct material plus direct labor plus applied overhead.
D. direct material plus direct labor plus overhead incurred plus beginning Work in Process Inventory.

86. Which of the following replaces the retailing component "Purchases" in computing Cost of Goods Sold for a manufacturing company?
A. direct material used
B. cost of goods manufactured
C. total prime cost
D. cost of goods available for sale

87. Costs that are incurred to preclude defects and improper processing are:
A. prevention costs
B. detection costs
C. appraisal costs
D. failure costs

88. Costs that are incurred for monitoring and inspecting are:
A. prevention costs
B. detection costs
C. appraisal costs
D. failure costs

89. Costs that are incurred when customers complain are:
A. prevention costs
B. detection costs
C. appraisal costs
D. failure costs

90. **Jordan Company**

The following information has been taken from the cost records of Jordan Company for the past year:

Raw material used in production	$326
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 60% of direct labor cost)	686
Cost of goods available for sale	826
Selling and Administrative expenses	25

Inventories	Beginning	Ending
Raw Material	$75	$ 85
Work in Process	80	30
Finished Goods	90	110

Refer to Jordan Company. The cost of raw material purchased during the year was

A. $316.
B. $336.
C. $360.
D. $411.

91. **Jordan Company**

The following information has been taken from the cost records of Jordan Company for the past year:

Raw material used in production	$326
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 60% of direct labor cost)	686
Cost of goods available for sale	826
Selling and Administrative expenses	25

Inventories	Beginning	Ending
Raw Material	$75	$ 85
Work in Process	80	30
Finished Goods	90	110

Refer to Jordan Company. Direct labor cost charged to production during the year was

A. $135.
B. $216.
C. $225.
D. $360.

92. **Jordan Company**

The following information has been taken from the cost records of Jordan Company for the past year:

Raw material used in production	$326
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 60% of direct labor cost)	686
Cost of goods available for sale	826
Selling and Administrative expenses	25

Inventories	Beginning	Ending
Raw Material	$75	$ 85
Work in Process	80	30
Finished Goods	90	110

Refer to Jordan Company. Cost of Goods Manufactured was

A. $636.
B. $716.
C. $736.
D. $766.

93. **Jordan Company**

The following information has been taken from the cost records of Jordan Company for the past year:

Raw material used in production	$326
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 60% of direct labor cost)	686
Cost of goods available for sale	826
Selling and Administrative expenses	25

Inventories	Beginning	Ending
Raw Material	$75	$ 85
Work in Process	80	30
Finished Goods	90	110

Refer to Jordan Company. Cost of Goods Sold was

A. $691.
B. $716.
C. $736.
D. $801.

94. **Horner Corporation**

The following information has been taken from the cost records of Horner Corporation for the past year:

Raw material used in production	$336
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 50% of direct labor cost)	711
Cost of goods available for sale	851
Selling and Administrative expenses	35

Inventories	Beginning	Ending
Raw Material	$80	$ 90
Work in Process	85	25
Finished Goods	80	105

Refer to Horner Corporation. The cost of raw material purchased during the year was

A. $326.
B. $346
C. $375
D. $426

95. **Horner Corporation**

The following information has been taken from the cost records of Horner Corporation for the past year:

Raw material used in production	$336
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 50% of direct labor cost)	711
Cost of goods available for sale	851
Selling and Administrative expenses	35

Inventories	Beginning	Ending
Raw Material	$80	$ 90
Work in Process	85	25
Finished Goods	80	105

Refer to Horner Company. Direct labor cost charged to production during the year was

A. $125
B. $188
C. $250
D. $375.

96. **Horner Corporation**

The following information has been taken from the cost records of Horner Corporation for the past year:

Raw material used in production	$336
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 50% of direct labor cost)	711
Cost of goods available for sale	851
Selling and Administrative expenses	35

Inventories	Beginning	Ending
Raw Material	$80	$ 90
Work in Process	85	25
Finished Goods	80	105

Refer to Horner Company. Cost of Goods Manufactured was

A. $651
B. $736
C. $771
D. $796

97. **Horner Corporation**

The following information has been taken from the cost records of Horner Corporation for the past year:

Raw material used in production	$336
Total manufacturing costs charged to production during the year (includes direct material, direct labor, and overhead equal to 50% of direct labor cost)	711
Cost of goods available for sale	851
Selling and Administrative expenses	35

Inventories	Beginning	Ending
Raw Material	$80	$ 90
Work in Process	85	25
Finished Goods	80	105

Refer to Horner Company. Cost of Goods Sold was

A. $711
B. $746
C. $796
D. $816

98. **Perry Company.**

Perry Company manufactures wood file cabinets. The following information is available for June of the current year.

	Beginning	Ending
Raw Material Inventory	$ 6,000	$ 7,500
Work in Process Inventory	17,300	11,700
Finished Goods Inventory	21,000	16,300

The direct labor rate is $9.60 per hour and overhead for the month was $9,600.

Refer to Perry Company. Compute total manufacturing costs for June, if there were 1,500 direct labor hours and $21,000 of raw material was purchased.

A. $58,500
B. $46,500
C. $43,500
D. $43,100

99. **Perry Company.**

Perry Company manufactures wood file cabinets. The following information is available for June of the current year.

	Beginning	Ending
Raw Material Inventory	$ 6,000	$ 7,500
Work in Process Inventory	17,300	11,700
Finished Goods Inventory	21,000	16,300

The direct labor rate is $9.60 per hour and overhead for the month was $9,600.

Refer to Perry Company. What are prime costs and conversion costs, respectively if there were 1,500 direct labor hours and $21,000 of raw material was purchased?

A. $29,100 and $33,900
B. $33,900 and $24,000
C. $33,900 and $29,100
D. $24,000 and $33,900

100. **Perry Company.**

Perry Company manufactures wood file cabinets. The following information is available for June of the current year.

	Beginning	Ending
Raw Material Inventory	$ 6,000	$ 7,500
Work in Process Inventory	17,300	11,700
Finished Goods Inventory	21,000	16,300

The direct labor rate is $9.60 per hour and overhead for the month was $9,600.

Refer to Perry Company. If there were 1,500 direct labor hours and $21,000 of raw material purchased, Cost of Goods Manufactured is:
A. $49,100.
B. $45,000.
C. $51,000.
D. $49,500.

101. **Perry Company.**

Perry Company manufactures wood file cabinets. The following information is available for June of the current year.

	Beginning	Ending
Raw Material Inventory	$ 6,000	$ 7,500
Work in Process Inventory	17,300	11,700
Finished Goods Inventory	21,000	16,300

The direct labor rate is $9.60 per hour and overhead for the month was $9,600.

Refer to Perry Company. If there were 1,500 direct labor hours and $21,000 of raw material purchased, how much is Cost of Goods Sold?
A. $64,500.
B. $59,800.
C. $38,800.
D. $53,800.

102. Roberson Company manufactures desks. The beginning balance of Raw Material Inventory was $4,500; raw material purchases of $29,600 were made during the month. At month end, $7,700 of raw material was on hand. Raw material used during the month was
A. $26,400.
B. $34,100.
C. $37,300.
D. $29,600.

103. Gallagher Company manufactures tables. The beginning balance of Raw Material Inventory was $5,500; raw material purchases of $31,500 were made during the month. At month end, $8,200 of raw material was on hand. Raw material used during the month was
A. $28,800
B. $31,500
C. $37,000.
D. $39,200

104. Marley Company manufactures tables. If raw material used was $80,000 and Raw Material Inventory at the beginning and end of the period, respectively, was $17,000 and $21,000, what was amount of raw material was purchased?
A. $76,000
B. $118,000
C. $84,000
D. $101,000

105. Sheets Company manufactures chairs. If raw material used was $100,000 and Raw Material Inventory at the beginning and end of the period, respectively, was $27,000 and $31,000, what was amount of raw material was purchased?
A. $ 96,000
B. $104,000
C. $158,000
D. $131,000

106. Terrell Company manufactures computer stands. What is the beginning balance of Finished Goods Inventory if Cost of Goods Sold is $107,000; the ending balance of Finished Goods Inventory is $20,000; and Cost of Goods Manufactured is $50,000 less than Cost of Goods Sold?
A. $70,000
B. $77,000
C. $157,000
D. $127,000

107. **Anderson Enterprises**

Inventories:	March 1	March 31
Raw material	$18,000	$15,000
Work in process	9,000	6,000
Finished goods	27,000	36,000
Additional information for March:		
Raw material purchased	$42,000	
Direct labor payroll	$30,000	
Direct labor rate per hour	$ 7.50	
Overhead rate per direct labor hour	$ 10.00	

Refer to Anderson Enterprises. For March, prime cost incurred was
A. $75,000.
B. $69,000.
C. $45,000.
D. $39,000.

108. **Anderson Enterprises**

Inventories:	March 1	March 31
Raw material	$18,000	$15,000
Work in process	9,000	6,000
Finished goods	27,000	36,000
Additional information for March:		
Raw material purchased	$42,000	
Direct labor payroll	$30,000	
Direct labor rate per hour	$ 7.50	
Overhead rate per direct labor hour	$ 10.00	

Refer to Anderson Enterprises. For March, conversion cost incurred was

A. $30,000.
B. $40,000.
C. $70,000.
D. $72,000.

109. **Anderson Enterprises**

Inventories:	March 1	March 31
Raw material	$18,000	$15,000
Work in process	9,000	6,000
Finished goods	27,000	36,000
Additional information for March:		
Raw material purchased	$42,000	
Direct labor payroll	$30,000	
Direct labor rate per hour	$ 7.50	
Overhead rate per direct labor hour	$ 10.00	

Refer to Anderson Enterprises. For March, Cost of Goods Manufactured was

A. $118,000.
B. $115,000.
C. $112,000.
D. $109,000.

110. **Goodwin Enterprises**

Inventories:	April 1	April 30
Raw material	$20,000	$17,000
Work in process	12,000	8,000
Finished goods	30,000	39,000
Additional information for April:		
Raw material purchased	$45,000	
Direct labor payroll	$36,000	
Direct labor rate per hour	$ 8.00	
Overhead rate per direct labor hour	$ 10.00	

Refer to Goodwin Enterprises. For April, prime cost incurred was

A. $78,000.
B. $84,000
C. $51,000.
D. $45,000.

111. **Goodwin Enterprises**

Inventories:	April 1	April 30
Raw material	$20,000	$17,000
Work in process	12,000	8,000
Finished goods	30,000	39,000
Additional information for April:		
Raw material purchased	$45,000	
Direct labor payroll	$36,000	
Direct labor rate per hour	$ 8.00	
Overhead rate per direct labor hour	$ 10.00	

Refer to Goodwin Enterprises. For April, conversion cost incurred was

A. $36,000
B. $45,000.
C. $81,000.
D. $84,000.

112. **Goodwin Enterprises**

Inventories:	April 1	April 30
Raw material	$20,000	$17,000
Work in process	12,000	8,000
Finished goods	30,000	39,000
Additional information for April:		
Raw material purchased	$45,000	
Direct labor payroll	$36,000	
Direct labor rate per hour	$ 8.00	
Overhead rate per direct labor hour	$ 10.00	

Refer to Goodwin Enterprises. For April, Cost of Goods Manufactured was

A. $141,000
B. $133,000.
C. $125,000.
D. $121,000.

113. Define the relevant range and explain its significance.

The relevant range is that range of activity over which a variable cost remains constant on a per-unit basis and a fixed cost remains constant in total. Managers can review the various ranges of activity and the related effects on variable cost (per-unit) and fixed cost (in total) to determine how a change in the range will affect costs and, thus, the firm's profitability.

114. Define a variable cost and a fixed cost. What causes changes in these costs? Give two examples of each.

A variable cost is one that remains constant on a per-unit basis but varies in total with changes in activity. Examples of variable costs include direct material, direct labor, and (possibly) utilities. A fixed cost is one that remains constant in total but varies inversely on a per-unit basis with changes in activity. Examples of fixed costs include straight-line depreciation, insurance, and the supervisor's salary.

115. What is the difference between a product cost and a period cost? Give three examples of each. What is the difference between a direct cost and indirect cost? Give two examples of each.

A product cost is one that is associated with making or acquiring inventory. A period cost is any cost other than those associated with making or acquiring products and is not considered inventoriable. Students will have a variety of examples, but direct material, direct labor, and overhead are product costs. Selling and administrative expenses are considered period costs. A direct cost is one that is physically and conveniently traceable to a cost object. Direct material and direct labor are direct costs. An indirect cost is one that cannot be conveniently traced to a cost object. Any type of overhead cost is considered indirect.

116. What are three reasons that overhead must be allocated to products?

Overhead must be allocated because it is necessary to (1) determine full cost, (2) it can motivate managers, and (3) it allows managers to compare alternative courses of action.

117. Why should predetermined overhead rates be used?

Predetermined overhead rates should be used for three reasons: (1) to assign overhead to Work in Process during the production cycle instead of at the end of the period; (2) to compensate for fluctuations in actual overhead costs that have no bearing on activity levels; and (3) to overcome problems of fluctuations in activity levels that have no impact on actual fixed overhead costs.

118. List and explain three types of quality costs.

Prevention costs--incurred to improve quality by precluding product defects and improper processing from occurring.
Appraisal costs--incurred to find mistakes not eliminated through prevention.
Failure costs--can be internal (scrap and rework) or external (costs of returns, warranty costs).

119. Given the following information for Graves Corporation, prepare the necessary journal entries, assuming that the Raw Material Inventory account contains both direct and indirect material.

a. Purchased raw material on account $28,500.
b. Put material into production: $15,000 of direct material and $3,000 of indirect material.
c. Accrued payroll of $90,000, of which 70 percent was direct and the remainder was indirect.
d. Incurred and paid other overhead items of $36,000.
e. Transferred items costing $86,500 to finished goods.
f. Sold goods costing $71,300 on account for $124,700.

a.	RM Inventory	28,500	
	A/P		28,500
b.	WIP Inventory	15,000	
	Manufacturing OH	3,000	
	RM Inventory		18,000
c.	WIP Inventory	63,000	
	Manufacturing OH	27,000	
	Salaries/Wages Payable		90,000
d.	Manufacturing OH	36,000	
	Cash		36,000
e.	FG Inventory	86,500	
	WIP Inventory		86,500
f.	A/R	124,700	
	Sales		124,700
	CGS	71,300	
	FG Inventory		71,300

120. Given the following information for Moore Corporation, prepare the necessary journal entries, assuming that the Raw Material Inventory account contains both direct and indirect material.

a. Purchased raw material on account $45,500.
b. Put material into production: $28,000 of direct material and $5,000 of indirect material.
c. Accrued payroll of $95,000, of which 65 percent was direct and the remainder was indirect.
d. Incurred and paid other overhead items of $42,000.
e. Transferred items costing $92,500 to finished goods.
f. Sold goods costing $79,900 on account for $134,200.

a.	RM Inventory	45,500	
	A/P		45,500
b.	WIP Inventory	28,000	
	Manufacturing OH	5,000	
	RM Inventory		33,000
c.	WIP Inventory	61,750	
	Manufacturing OH	33,250	
	Salaries/Wages Payable		95,000
d.	Manufacturing OH	42,000	
	Cash		42,000
e.	FG Inventory	92,500	
	WIP Inventory		92,500
f.	A/R	134,200	
	Sales		134,200
	CGS	79,900	
	FG Inventory		79,900

121. Using the information below, prepare a Schedule of Cost of Goods Manufactured (in good form) for the Gibbs Company for June 20y0:

Inventories	Beginning	Ending
Raw Material	$ 6,700	$ 8,900
Work in Process	17,700	22,650
Finished Goods	29,730	19,990

Additional information: purchases of raw material were $46,700; 19,700 direct labor hours were worked at $11.30 per hour; overhead costs were $33,300.

Gibbs Company			
Schedule of Cost of Goods Manufactured			
For the Month Ended June 30, 20y0			
Work in Process (June 1)			$ 17,700
Raw Mat. (June 1)	$ 6,700		
Purchases	46,700		
Raw Mat. Available	53,400		
Raw Mat. (June 30)	(8,900)		
Raw Mat. Used		$ 44,500	
Direct Labor (19,700 ´ $11.30)		222,610	
Manufacturing Overhead		33,300	
Total Manufacturing Costs			300,410
Total Goods in Process			$318,110
Work in Process (June 30)			(22,650)
Cost of Goods Manufactured			$295,460

122. Using the information below, prepare a Schedule of Cost of Goods Manufactured (in good form) for the Ezell Company for June 20y0:

Inventories	Beginning	Ending
Raw Material	$ 8,500	$ 9,700
Work in Process	20,400	25,800
Finished Goods	31,350	21,375

Additional information: purchases of raw material were $51,900; 21,560 direct labor hours were worked at $12.50 per hour; overhead costs were $39,800.

Ezell Company			
Schedule of Cost of Goods Manufactured			
For the Month Ended June 30, 20y0			
Work in Process (June 1)			$ 20,400
Raw Mat. (June 1)	$ 8,500		
Purchases	51,900		
Raw Mat. Available	60,400		
Raw Mat. (June 30)	(9,700)		
Raw Mat. Used		$ 50,700	
Direct Labor (21,560 ´ $12.50)		269,500	
Manufacturing Overhead		39,800	
Total Manufacturing Costs			360,000
Total Goods in Process			$380,400
Work in Process (June 30)			(25,800)
Cost of Goods Manufactured			$354,600

123. In June 20y0, the Thompson Company has Cost of Goods Manufactured of $296,000; beginning Finished Goods Inventory of $29,730; and ending Finished Goods Inventory of $19,990. Prepare an income statement in good form. (Ignore taxes.) The following additional information is available:

Selling Expenses	$ 40,500
Administrative Expenses	19,700
Sales	475,600

Thompson Company Income Statement For the Month Ended June 30, 20y0		
Sales		$475,600
Cost of Goods Sold:		
Finished Goods (June 1)	$ 29,730	
Cost of Goods Mf'd	296,000	
Total Goods Available	$325,730	
Finished Goods (June 30)	(19,990)	
Cost of Goods Sold		(305,740)
Gross Margin		$169,860
Operating Expenses:		
Selling		$40,500
Administrative		19,700
Total Operating Expenses		(60,200)
Income from operations		$109,660

124. The following information is for the Lawton Manufacturing Company for November.

Inventories	Beginning	Ending
Raw Material	$17,400	$13,200
Work in Process	31,150	28,975
Finished Goods	19,200	25,500

Direct Labor (21,000 DLH @ $13)			
Raw Material Purchases	$120,000	Insurance-Office	2,570
Indirect Labor	11,200	Office Supplies Expense	900
Factory Supplies Used	350	Insurance-Factory	1,770
Other Expenses:		Depr. Office Equipment	3,500
Depr.-Factory Equipment	17,300	Repair/Maintenance-Factory	7,400

Calculate total manufacturing costs, cost of goods manufactured, and cost of goods sold.

Manufacturing Costs:		
Raw Material (Nov. 1)	$ 17,400	
Purchases	120,000	
Raw Material Available	$137,400	
Raw Material (Nov. 30)	(13,200)	
Raw Material Used		$124,200
Direct Labor (21,000 ´ $13)		273,000
Overhead:		
Depr.-Factory Equipment	$17,300	
Repairs/Maintenance-Factory	7,400	
Indirect Labor	11,200	
Insurance-Factory	1,770	
Factory Supplies Used	350	
Total Overhead		38,020
Total Manufacturing Costs		$435,220
Cost of Goods Manufactured:		
Total Manufacturing Costs	$435,220	
Work in Process (Nov. 1)	31,150	
Work in Process (Nov. 30)	(28,975)	
Cost of Goods Manufactured	$437,395	
Cost of Goods Sold:		
Finished Goods (Nov. 1)	$ 19,200	
Cost of Goods Manufactured	437,395	
Total Goods Available	$456,595	
Finished Goods (Nov. 30)	(25,500)	
Cost of Goods Sold	$431,095	

125. The following information is for the Guthrie Manufacturing Company for November.

Inventories	Beginning	Ending
Raw Material	$19,750	$15,400
Work in Process	35,350	32,200
Finished Goods	21,300	27,900

Direct Labor (22,000 DLH @ $14)			
Raw Material Purchases	$155,000	Insurance-Office	2,750
Indirect Labor	11,600	Office Supplies Expense	1,050
Factory Supplies Used	475	Insurance-Factory	1,825
Other Expenses:		Depr. Office Equipment	3,900
Depr.-Factory Equipment	18,100	Repair/Maintenance-Factory	7,800

Calculate total manufacturing costs, cost of goods manufactured, and cost of goods sold.

Manufacturing Costs:		
Raw Material (Nov. 1)	$ 19,750	
Purchases	155,000	
Raw Material Available	$174,750	
Raw Material (Nov. 30)	(15,400)	
Raw Material Used		$159,350
Direct Labor (22,000 ´ $14)		308,000
Overhead:		
Depr.-Factory Equipment	$18,100	
Repairs/Maintenance-Factory	7,800	
Indirect Labor	11,600	
Insurance-Factory	1,825	
Factory Supplies Used	475	
Total Overhead		39,800
Total Manufacturing Costs		$507,150
Cost of Goods Manufactured:		
Total Manufacturing Costs	$507,150	
Work in Process (Nov. 1)	35,350	
Work in Process (Nov. 30)	(32,200)	
Cost of Goods Manufactured	$510,300	
Cost of Goods Sold:		
Finished Goods (Nov. 1)	$ 21,300	
Cost of Goods Manufactured	510,300	
Total Goods Available	$531,600	
Finished Goods (Nov. 30)	(27,900)	
Cost of Goods Sold	$503,700	

126. From the following information for the Norman Company, compute prime costs and conversion costs.

Inventories	Beginning	Ending
Raw Material	$ 9,900	$ 7,600
Work in Process	44,500	37,800
Finished Goods	36,580	61,300

Raw material purchased during the period cost $40,800; overhead incurred and paid or accrued for the period was $21,750; and 23,600 direct labor hours were incurred at a rate of $13.75 per hour.

Prime Costs:		
Raw Material (Beginning)	$ 9,900	
Purchases	40,800	
Raw Material Available	$50,700	
Raw Material (Ending)	(7,600)	
Raw Material Used		$ 43,100
Direct Labor	(23,600 ´ $13.75)	324,500
Prime Costs		$367,600
Conversion Costs:		
Direct Labor (Above)		$324,500
Overhead		21,750
Conversion Costs		$346,250

127. The following miscellaneous data has been collected for Bethany Manufacturing Company for the most recent year-end:

Inventories:	Beginning	Ending
Raw material	$50,000	$55,000
Work in process	40,000	45,000
Finished goods	60,000	50,000
Costs recorded during the year:		
Purchases of raw material	$195,000	
Direct labor	150,000	
Cost of goods sold	595,000	

Required: Prepare statements of cost of goods manufactured and cost of goods sold showing how **all** unknown amounts were determined.

BEGIN WIP	$ 40,000	
+ DM (1)	190,000	
+ DL	150,000	
+ OH	?	= $250,000
- END WIP	(45,000)	
= COGM (2)	$585,000	

(1)	BEG RM	$ 50,000
	+ PURCHASE	195,000
	- END RM	(55,000)
	= DM	$190,000

(2)	BEGIN FG	$ 60,000	
	+ COGM	?	= $585,000
	- END FG	(50,000)	
	= COGS	$595,000	

Bethany Manufacturing Company			
Cost of Goods Manufactured			
For Period Ending Month, Day, Year			
Beginning WIP Inventory			$ 40,000
Raw Materials			
Beginning Inventory	$ 50,000		
+ Purchases	195,000		
Materials Available for Use	$245,000		
- Ending Inventory	55,000		
Raw Materials Used		$190,000	
Direct Labor		150,000	
Factory Overhead		250,000	
Product Costs for Period			$590,000
Total Work in Process			$630,000
Ending Work in Process			45,000
Cost of Goods Manufactured			$585,000
Bethany Manufacturing Company			
Cost of Goods Sold			
For Period Ending Month, Day, Year			
Beginning Finished Goods Inventory			$ 60,000
Cost of Goods Manufactured			585,000
Goods Available for Sale			$645,000
Less Ending Finished Goods Inventory			50,000
Cost of Goods Sold			$595,000

128. The following information was taken from the records of the Baytown Corporation for the month of July. (There were no inventories of work in process or finished goods on July 1.)

	Units	Cost	
Sales during month	8,000	$?	
Manufacturing costs for month:			
	Direct material		32,000
	Direct labor		20,000
	Overhead costs applied		15,000
	Overhead costs under-applied		800
Inventories, July 31:			
	Work in process	1,000	?
	Finished goods	2,000	?

Indirect manufacturing costs are applied on a direct labor cost basis. The under-applied balance is due to seasonal variations and will be carried forward. The following cost estimates have been submitted for the work in process inventory of July 31: material, $3,000; direct labor, $2,000.

Required:

a. Determine the number of units that were completed and transferred to finished goods during the month.
b. Complete the estimate of the cost of work in process on July 31.
c. Compute cost of goods manufactured for the month.
d. Determine the cost of each unit completed during the month.
e. Determine the total amount debited to the Overhead Control accounts during the month.

a. 8,000 SOLD + 2,000 ENDING FG = 10,000 UNITS

b.

DM	$3,000	
DC	2,000	
OH	1,500	=$15, ´ $2,000 000/$20,000
	$6,500	

c.

DM	$32,000
DL	20,000
OH	15,000
- END WIP	(6,500)
= COGM	$60,500

d. COGM/COMPLETE UNITS = $60,500 / 10,000 UNITS = $6.05/UNIT

e.

OH APPLIED	$15,000
+ OH UNDERAPPLIED	800
ACTUAL OH	$15,800

129. The Silsbee Corporation had the following account balances:

	Raw Material	Manufacturing Overhead							
Bal. 1/1	30,000		?			385,000		?	
	420,000								

Bal. 12/31	60,000							

Work in Process	**Factory Wages Payable**						
Bal. 1/1	70,000		810,000			179,000	Bal. 1/1 10,000
Direct material	320,000						175,000
Direct labor	110,000						
Overhead	400,000						6,000
Bal. 12/31	?						

Finished Goods	**Cost of Goods Sold**							
Bal. 1/1	40,000		?			?		
	?							
Bal. 12/31	130,000							

Required:

a. What was the cost of raw material put into production during the year?
b. How much of the material from question 1 consisted of indirect material?
c. How much of the factory labor cost for the year consisted of indirect labor?
d. What was the cost of goods manufactured for the year?
e. What was the cost of goods sold for the year (before considering under- or overapplied overhead)?
f. If overhead is applied to production on the basis of direct material, what rate was in effect during the year?
g. Was manufacturing overhead under- or overapplied? By how much?
h. Compute the ending balance in the Work in Process Inventory account. Assume that this balance consists entirely of goods started during the year. If $32,000 of this balance is direct material cost, how much of it is direct labor cost? Manufacturing overhead cost?

a. $30,000 + $420,000 - $60,000 = $390,000
b. $390,000 - $320,000 DM = $70,000
c. $175,000 - $110,000 DL = $65,000
d. $810,000
e. $40,000 + $810,000 - $130,000 = $720,000
f. $400,000/$320,000 = 125% DM Cost
g.

OH Actual	$385,000
OH Applied	400,000
OH Overapplied	$ 15,000

h.

Beginning WIP	$ 70,000	DM	$32,000
+ DM	320,000	DL (To Balance)	18,000
+ DC	110,000	FOH (1)	40,000
+ OH	400,000	End WIP	$90,000
- Ending WIP	(90,000)		
= COGM	$810,000		

(1) $32,000 s´ 125% = $40,000