Managerial Accounting, Cdn. 3e **(Braun)**
Chapter 2 Building Blocks of Managerial Accounting

2.1 Distinguish among service, merchandising, and manufacturing companies.

1) All companies are either classified as service, merchandising, or manufacturing companies.
Answer: FALSE
Diff: 2 Type: TF
LO: 2-1
Bloom's Taxonomy: Remember

2) The balance sheet of a service company has
A) little or no inventory.
B) raw materials inventory.
C) three categories of inventory.
D) two categories of inventory.
Answer: A
Diff: 1 Type: MC
LO: 2-1
Bloom's Taxonomy: Remember

3) H & R Block, an income tax preparation service, is what type of company?
A) Manufacturer
B) Service company
C) Retailer
D) Wholesaler
Answer: B
Diff: 1 Type: MC
LO: 2-1
Bloom's Taxonomy: Remember

4) Among other things, General Mills makes breakfast cereal. Which type of company is General Mills?
A) Manufacturer
B) Service company
C) Retailer
D) Wholesaler
Answer: A
Diff: 1 Type: MC
LO: 2-1
Bloom's Taxonomy: Understand

5) Which type of company typically produces its own inventory?
A) Manufacturer
B) Service company
C) Retailer
D) Wholesaler
Answer: A
Diff: 1 Type: MC
LO: 2-1
Bloom's Taxonomy: Remember

6) Before these materials are used to manufacture its cars, Honda classifies steel, glass, and plastic as
A) finished goods inventory.
B) raw materials inventory.
C) work in process inventory.
D) merchandise inventory.
Answer: B
Diff: 1 Type: MC
LO: 2-1
Bloom's Taxonomy: Understand

7) Walmart classifies its clothing held for sale as
A) finished goods inventory.
B) raw materials inventory.
C) work in process inventory.
D) merchandise inventory.
Answer: D
Diff: 1 Type: MC
LO: 2-1
Bloom's Taxonomy: Understand

8) How would Honda classify its partially completed vehicles?
A) Finished goods
B) Raw materials
C) Supplies
D) Work in process
Answer: D
Diff: 1 Type: MC
LO: 2-1
Bloom's Taxonomy: Remember

9) Which of the following is characteristic of a service company?
A) Service companies generally have no tangible products to sell.
B) Service companies have a single category of inventory.
C) Service companies make a product.
D) Service companies transform raw materials into finished goods.
Answer: A
Diff: 1 Type: MC
LO: 2-1
Bloom's Taxonomy: Remember

10) A lawn mowing business would be classified as a
A) manufacturing company.
B) merchandising company.
C) service company.
D) wholesale company.
Answer: C
Diff: 1 Type: MC
LO: 2-1
Bloom's Taxonomy: Understand

11) A law firm would be classified as a
A) manufacturing company.
B) merchandising company.
C) service company.
D) wholesale company.
Answer: C
Diff: 1 Type: MC
LO: 2-1
Bloom's Taxonomy: Understand

12) Intel Corporation makes computer chips. Intel Corporation would be classified as a
A) manufacturing company.
B) merchandising company.
C) service company.
D) wholesale company.
Answer: A
Diff: 1 Type: MC
LO: 2-1
Bloom's Taxonomy: Remember

13) _____ has three types of inventory.
A) A service company
B) A merchandising company
C) A manufacturing company
D) A wholesale company
Answer: C
Diff: 1 Type: MC
LO: 2-1
Bloom's Taxonomy: Remember

14) Which type of company has the highest percentage of labour costs?
A) Service company
B) Merchandising company
C) Manufacturing company
D) Wholesale company
Answer: A
Diff: 2 Type: MC
LO: 2-1
Bloom's Taxonomy: Understand

15) Which type(s) of companies prepare income statements and balance sheets?
A) Service company
B) Merchandising company
C) Manufacturing company
D) All types of companies
Answer: D
Diff: 1 Type: MC
LO: 2-1
Bloom's Taxonomy: Remember

16) Which of the following costs could be found in work in process inventory for an ice cream manufacturer?
A) Utilities for administrative offices
B) Assembly worker wages
C) Depreciation on sales office
D) Customer order forms
Answer: B
Diff: 2 Type: MC
LO: 2-1
Bloom's Taxonomy: Understand

17) A company which is in the business of providing intangible services is what type of company?
A) Manufacturing
B) Service company
C) Retailer
D) Wholesaler
Answer: B
Diff: 2 Type: MC
LO: 2-1
Bloom's Taxonomy: Remember

18) A company which is in the business of reselling tangible products purchased from suppliers to final users is what type of company?
A) Manufacturing
B) Service company
C) Retailer
D) Wholesaler
Answer: C
Diff: 2 Type: MC
LO: 2-1
Bloom's Taxonomy: Remember

19) A company which is in the business of reselling tangible products purchased from supplier to businesses which resell the product is what type of company?
A) Manufacturing
B) Service company
C) Retailer
D) Wholesaler
Answer: D
Diff: 2 Type: MC
LO: 2-1
Bloom's Taxonomy: Remember

20) The flow of inventory costs in a manufacturing company is
A) work in process, raw materials, finished goods.
B) finished goods, work in process, raw materials.
C) work in process, finished goods, raw materials.
D) raw materials, work in process, finished goods.
Answer: D
Diff: 1 Type: MC
LO: 2-1
Bloom's Taxonomy: Remember

21) Describe service, merchandising, and manufacturing companies.
Answer: Service companies sell intangible services such as insurance, consulting and health care. Salaries and wages often are the largest part of their costs. They usually do not have inventory or cost of goods sold accounts, although some service companies will have a small amount of supplies inventory which is used for their own use and not for sale to customers. Merchandising companies resell tangible products they buy from suppliers. Retailers and wholesalers are both types of merchandising companies. Retailers sell to end user consumers, while wholesalers sell to other resellers. Merchandisers have inventory. Manufacturing companies use labour, plant and equipment to convert raw materials into finished products which they sell to other companies. They have three types of inventory-raw materials, work in process, and finished goods.
Diff: 2 Type: ES
LO: 2-1
Bloom's Taxonomy: Understand

22) Explain the difference between raw materials inventory, work in process inventory, and finished goods inventory.
Answer: Raw materials inventory includes all materials used to make a product including materials that become a part of the product as well as other physical materials used in a plant such as machine lubricants and janitorial supplies. Work in process inventory includes goods that are partway through the manufacturing process but not yet complete. Finished goods inventory includes completed goods that have not yet been sold.
Diff: 1 Type: ES
LO: 2-1
Bloom's Taxonomy: Understand

23) Describe a company that has some elements of all three types of companies. It is part service company, part manufacturer, and part merchandiser.
Answer: Many restaurants fall into this category. They are a service company since they serve hungry customers. They are a manufacturer since they convert raw ingredients into finished meals and they are a merchandiser since they sell ready-to-serve bottles of beer and wine.
Diff: 2 Type: ES
LO: 2-1
Bloom's Taxonomy: Understand

24) Why do most service firms not have inventory costs pertaining to items to be sold? What type of costs do they generally have?
Answer: Service firms do not have inventory costs because services cannot be produced today and stored up to sell later. They usually do not have inventory. They generally have period costs that are expensed.
Diff: 2 Type: ES
LO: 2-1
Bloom's Taxonomy: Understand

Match the following:

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

25) Generally has no inventory
Diff: 1 Type: MA
LO: 2-1
Bloom's Taxonomy: Remember

26) Has three types of inventory
Diff: 1 Type: MA
LO: 2-1
Bloom's Taxonomy: Remember

27) Inventory consists of freight-in and the purchase cost of the finished product
Diff: 1 Type: MA
LO: 2-1
Bloom's Taxonomy: Remember

28) Has the highest percentage of labour costs
Diff: 1 Type: MA
LO: 2-1
Bloom's Taxonomy: Understand

29) Walmart is this type of company
Diff: 1 Type: MA
LO: 2-1
Bloom's Taxonomy: Understand

Answers: 25) A 26) B 27) C 28) A 29) C

Match the following:

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

30) Typically have a single category of inventory
Diff: 1 Type: MA
LO: 2-1
Bloom's Taxonomy: Remember

31) Resell products they previously purchased ready-made from suppliers
Diff: 1 Type: MA
LO: 2-1
Bloom's Taxonomy: Remember

32) Do not have inventory for resale
Diff: 1 Type: MA
LO: 2-1
Bloom's Taxonomy: Remember

33) Produce its own inventory
Diff: 1 Type: MA
LO: 2-1
Bloom's Taxonomy: Remember

34) Transform raw materials into finished products
Diff: 1 Type: MA
LO: 2-1
Bloom's Taxonomy: Remember

35) Ready to sell inventory of manufacturers
Diff: 1 Type: MA
LO: 2-1
Bloom's Taxonomy: Remember

36) Partially completed items of manufacturers
Diff: 1 Type: MA
LO: 2-1
Bloom's Taxonomy: Remember

Answers: 30) D 31) D 32) C 33) B 34) B 35) E 36) G

2.2 Describe the value chain and its elements.

1) All of the components of manufacturing from research and development through customer service after the sale are part of a firm's value chain.
Answer: TRUE
Diff: 1 Type: TF
LO: 2-2
Bloom's Taxonomy: Remember

2) The activities in the value chain must take place in a specific order.
Answer: FALSE
Diff: 1 Type: TF
LO: 2-2
Bloom's Taxonomy: Remember

3) The value chain helps companies control costs of products only.
Answer: FALSE
Diff: 1 Type: TF
LO: 2-2
Bloom's Taxonomy: Remember

4) Research and development is needed to improve products and to design new products.
Answer: TRUE
Diff: 1 Type: TF
LO: 2-2
Bloom's Taxonomy: Remember

5) Receipt of materials is part of the firm's value chain.
Answer: TRUE
Diff: 1 Type: TF
LO: 2-2
Bloom's Taxonomy: Remember

6) A company's distribution system is an important part of the value chain.
Answer: TRUE
Diff: 1 Type: TF
LO: 2-2
Bloom's Taxonomy: Remember

7) Progressive companies incorporate environmental sustainability throughout every function of the value chain.
Answer: TRUE
Diff: 1 Type: TF
LO: 2-2
Bloom's Taxonomy: Remember

8) Providing customer service past the warrantee date can be part of incorporating environmental sustainability practices.
Answer: TRUE
Diff: 1 Type: TF
LO: 2-2
Bloom's Taxonomy: Remember

9) The value chain is used by
A) only manufacturing and merchandising businesses.
B) only service and manufacturing businesses.
C) only service and merchandising businesses.
D) service, manufacturing and merchandising businesses.
Answer: D
Diff: 1 Type: MC
LO: 2-2
Bloom's Taxonomy: Remember

10) Collectively, all costs such as design, customer service, etc. are part of
A) downstream activities.
B) fixed costs.
C) manufacturing costs.
D) the value chain.
Answer: D
Diff: 1 Type: MC
LO: 2-2
Bloom's Taxonomy: Remember

11) The promotion of products and services is known as
A) customer service.
B) design.
C) distribution.
D) marketing.
Answer: D
Diff: 1 Type: MC
LO: 2-2
Bloom's Taxonomy: Remember

12) Depreciation on a factory would be classified as a cost in which part of the value chain?
A) Design
B) Distribution
C) Production
D) Research and development
Answer: C
Diff: 1 Type: MC
LO: 2-2
Bloom's Taxonomy: Understand

13) A technical support hotline for customers would be considered which part of the value chain?
A) Customer service
B) Design
C) Distribution
D) Marketing
Answer: A
Diff: 21 Type: MC
LO: 2-2
Bloom's Taxonomy: Understand

14) Advertising expenses would be considered which part of the value chain?
A) Customer service
B) Marketing
C) Production
D) Research and development
Answer: B
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Understand

15) The costs associated with re-engineering machinery and its location within the factory to increase efficiency would be considered which part of the value chain?
A) Customer service
B) Marketing
C) Design
D) Research and development
Answer: C
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Understand

16) A company decision as to where to locate a new store would be considered
A) customer service.
B) marketing.
C) production.
D) research and development.
Answer: B
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Understand

Use the information below to answer the following question(s).

Farm Fresh Dairy provided the following expense information for May:

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

17) What is the total cost of research and development at Farm Fresh Dairy?
A) $84,000
B) $155,000
C) $88,000
D) $239,000
Answer: A
Explanation: A) Salaries of research scientists
Diff: 21 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

18) What is the total cost for the production category of the value chain at Farm Fresh Dairy?
A) $200,000
B) $205,000
C) $207,000
D) $126,000
Answer: C
Explanation: C) $72,000 +2,000 + 81,000 + 52,000 = $207,000
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

19) What is the total cost for the design category of the value chain at Farm Fresh Dairy?
A) $88,000
B) $84,000
C) $155,000
D) $239,000
Answer: C
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

20) What is the total cost for the distribution category of the value chain at Farm Fresh Dairy?
A) $19,000
B) $17,000
C) $21,000
D) $29,000
Answer: B
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

21) What is the total cost for the marketing category of the value chain at Farm Fresh Dairy?
A) $71,000
B) $92,000
C) $67,000
D) $63,000
Answer: C
Explanation: C) $63,000 + 4,000 = $67,000
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

22) What is the total cost for the customer service category of the value chain at Farm Fresh Dairy?
A) $80,000
B) $8,000
C) $71,000
D) $12,000
Answer: B
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

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

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

23) What is the total cost for the research and development category of the value chain at Sunnybrook Orange Groves?
A) $93,000
B) $102,000
C) $89,000
D) $191,000
Answer: C
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

24) What is the total cost for the production category of the value chain at Sunnybrook Orange Groves?
A) $436,000
B) $54,000
C) $195,000
D) $293,000
Answer: C
Explanation: C) $75,000 + 3,000 + 63,000 + 54,000 = $195,000
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

25) What is the total cost for the design category of the value chain at Sunnybrook Orange Groves?
A) $177,000
B) $89,000
C) $102,000
D) $191,000
Answer: C
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

26) What is the total cost for the distribution category of the value chain at Sunnybrook Orange Groves?
A) $20,000
B) $21,000
C) $17,000
D) $19,000
Answer: C
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

27) What is the total cost for the marketing category of the value chain at Sunnybrook Orange Groves?
A) $29,000
B) $33,000
C) $31,000
D) $27,000
Answer: C
Explanation: C) $27,000 + 4000 = $31,000
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

28) What is the total cost for the customer service category of the value chain at Sunnybrook Orange Groves?
A) $29,000
B) $6,000
C) $2,000
D) $31,000
Answer: C
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Lucas Family Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

Wages of factory workers	$86,000
Freshness seals/caps for juice bottles	$5,000
Reconfiguring the factory layout	$102,000
Customer help line	$14,000
Costs of refrigerated trucks used to deliver juice	$17,000
Depreciation expense on bottling machines	$29,000
Glass juice bottles	$17,000
Commissions for salespeople	$36,000
Salaries of nutrition researchers	$114,000
Costs of maintaining website used for customer orders	$4,000

29) What is the total cost for the customer service category of the value chain at Lucas Family Orange Groves?
A) $14,000
B) $18,000
C) $45,000
D) $4,000
Answer: A
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

30) What is the total cost for the production category of the value chain at Lucas Family Orange Groves?
A) $132,000
B) $137,000
C) $108,000
D) $141,000
Answer: B
Explanation: B) $86,000 + $5,000 + $29,000 + $17,000 = $137,000
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

31) What is the total cost for the research and development category of the value chain at Lucas Family Orange Groves?
A) 102,000
B) 216,000
C) $114,000
D) 118,000
Answer: C
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

32) What is the total cost for the design category of the value chain at Lucas Family Groves?
A) $4,000
B) $106,000
C) $216,000
D) $102,000
Answer: D
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

33) What is the total cost for the marketing category of the value chain at Lucas Family Orange Groves?
A) $40,000
B) $36,000
C) $57,000
D) $53,000
Answer: A
Explanation: A) $36,000 + $4,000
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

34) What is the total cost for the distribution category of the value chain at Lucas Family Orange Groves?
A) $4,000
B) $47,000
C) $21,000
D) $17,000
Answer: D
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Apply

35) Delivery expenses are charged to which of the following areas?
A) Customer service
B) Distribution
C) Production or purchases
D) Marketing
Answer: B
Diff: 1 Type: MC
LO: 2-2
Bloom's Taxonomy: Remember

36) A product support hot line would be considered
A) customer service.
B) distribution.
C) production or purchases.
D) marketing.
Answer: A
Diff: 1 Type: MC
LO: 2-2
Bloom's Taxonomy: Understand

37) Place the six business functions in the order they appear along the value chain:
A = Customer service
B = Design
C = Distribution
D = Production or purchases
E = Research and Development
F = Marketing
A) A, E, B, D, C, F
B) A, C, D, B, F, E
C) E, B, D, F, C, A
D) E, B, A, D, F, C
Answer: C
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Remember

38) Which function of the value chain incorporates the most opportunity to create sustainability for manufacturing companies?
A) Research & development
B) Design
C) Distribution
D) Marketing
Answer: B
Diff: 2 Type: MC
LO: 2-2
Bloom's Taxonomy: Remember

39) Place the value chain elements in the normal order by numbering them from 1 to 6.
_____ Design
_____ Customer Service
_____ Marketing
_____ Research and Development
_____ Distribution
_____ Production or Purchases
Answer:
__2__ Design
__6__ Customer Service
__4__ Marketing
__1__ Research and Development
__5__ Distribution
__3__ Production or Purchases
Diff: 2 Type: SA
LO: 2-2
Bloom's Taxonomy: Remember

40) Name and briefly describe the activities that make up the value chain.
Answer: The value chain consists of research and development, design, production or purchase, marketing, distribution, and customer service. Research and development refers to researching and developing new or improved products or services and the processes for producing them. Design involves the detailed engineering of products and services and the processes for producing them. Production or purchases refers to the resources used to produce a product or service or to purchase finished merchandise intended for resale. Marketing is the promotion and advertising of products or services. Distribution is the delivery of products or services to customers and customer service provides support for customers after the sale.
Diff: 3 Type: ES
LO: 2-2
Bloom's Taxonomy: Understand

41) Provide a description of an activity or process that a company could undertake to integrate sustainability into the value chain.
Answer: Examples from the text include:
Researching & Developing environmentally safe packaging.
Designing the product using life cycle assessment and biomimicry practices.
Adopting sustainable purchasing practices.
Marketing with integrity.
Distributing using fossil-fuel alternatives and carbon offsets.
Providing customer service past the warranty date.
Diff: 2 Type: ES
LO: 2-2
Bloom's Taxonomy: Remember

Match the following:

A) Research and Development
B) Customer Service
C) Marketing
D) Design
E) Production
F) Distribution

42) Cost of a commercial during a TV program
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

43) Cost of shipping goods to customers
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

44) Costs associated with repairing costs under warrantee
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

45) Costs of developing a new produce
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

46) Cost of making a prototype of a new product
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

47) Cost of labour for machine operator in factory
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

Answers: 42) C 43) F 44) B 45) A 46) D 47) E

Match the following:

A) Distribution
B) Marketing
C) Design
D) Production or purchases
E) Customer Service
F) Research and Development

48) Depreciation expense on store fixtures
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

49) Cost of repairing a product under warrantee
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

50) Cost of testing a new material for use in an existing product
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

51) Architect's fee for designing a new factory building
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

52) Cost of new robot to be used in the assembly plant
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

53) Delivery of products and services
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Remember

54) Detailed engineering plans for products
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Remember

55) Payment to sponsor a racing team
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

56) Investigating a potential new process for producing a product
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

57) Repairing a customer's purchase at no charge
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

58) Research on whether the store should expand their product line
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

59) Purchases of merchandise
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Remember

60) Rearranging the store layout
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

61) Advertising on the local TV channel
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

62) Cost of having merchandise delivered to the store
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

63) Salaries of sales persons
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

64) Depreciation on manufacturing equipment
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

65) Parts for monitors being manufactured
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

66) Delivery expense to customers
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Remember

67) Rearrange the production process to accommodate new equipment
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

68) Customer support hot line
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

69) Salaries for the engineers who developed a new process
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

70) Toll free line for customer orders
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

71) Assembly line workers' wages
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

72) Cost of having raw materials delivered to the factory
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Remember

73) Customer complaint department
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

74) Factory machine controller software
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

75) Consultant fees for redesign of the company's billing system
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

76) Sponsorship of a local youth ball team
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

77) Purolator charges for returning completed files to clients
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

78) Purchase of printer supplies
Diff: 2 Type: MA
LO: 2-2
Bloom's Taxonomy: Understand

Answers: 48) B 49) E 50) F 51) C 52) D 53) A 54) C 55) B 56) F 57) E 58) F 59) D 60) C 61) B 62) D 63) B 64) D 65) D 66) A 67) C 68) E 69) F 70) A 71) D 72) D 73) E 74) D 75) C 76) B 77) A 78) D

2.3 Distinguish between direct and indirect costs.

1) If a company wants to determine a product's cost, they must assign only direct costs.
Answer: FALSE
Diff: 1 Type: TF
LO: 2-3
Bloom's Taxonomy: Remember

2) Costs can be either direct or indirect, depending upon the cost object.
Answer: TRUE
Diff: 1 Type: TF
LO: 2-3
Bloom's Taxonomy: Remember

3) Indirect costs can be traced to specific units.
Answer: FALSE
Diff: 1 Type: TF
LO: 2-3
Bloom's Taxonomy: Remember

4) Indirect costs cannot be traced to the cost objects, so they are allocated.
Answer: TRUE
Diff: 1 Type: TF
LO: 2-3
Bloom's Taxonomy: Remember

5) Direct costs are allocated to cost objects.
Answer: FALSE
Diff: 1 Type: TF
LO: 2-3
Bloom's Taxonomy: Remember

6) When determining the cost of a manufactured product, a factory janitor's wages would be classified as
A) a direct cost.
B) an indirect cost.
C) a period cost.
D) a conversion cost.
Answer: B
Diff: 1 Type: MC
LO: 2-3
Bloom's Taxonomy: Understand

7) When determining the cost of a manufactured product, a salesperson's salary would be classified as
A) a direct cost.
B) an indirect cost.
C) a period cost.
D) a conversion cost.
Answer: C
Diff: 1 Type: MC
LO: 2-3
Bloom's Taxonomy: Understand

8) When determining the cost of a manufactured product, the cost of lighting the factory would be classified as
A) a direct cost.
B) an indirect cost.
C) a period cost.
D) a conversion cost.
Answer: B
Diff: 1 Type: MC
LO: 2-3
Bloom's Taxonomy: Understand

9) The determination of a cost as being either direct or indirect depends upon
A) the accounting system.
B) the allocation system.
C) the cost tracing system.
D) the cost object chosen to determine its individual costs.
Answer: D
Diff: 2 Type: MC
LO: 2-3
Bloom's Taxonomy: Remember

10) Cost tracing is
A) the assignment of direct costs to the chosen cost object.
B) a function of cost allocation.
C) the process of determining the actual cost of the cost object.
D) the assignment of both direct and indirect costs associated with a cost object.
Answer: A
Diff: 2 Type: MC
LO: 2-3
Bloom's Taxonomy: Remember

11) What is the meaning of the term "cost object"? Give an example of a cost object that would be used in a manufacturing company, a merchandising company, and a service sector company.
Answer: A cost object is anything for which a measurement of costs is desired. An example of a cost object for a manufacturing company might be the cost of manufacturing a particular product. An example of a cost object for a merchandising company might be a particular department of a retail store. An example of a cost object for a service sector company might be the cost to serve or supply a particular customer.
Diff: 2 Type: ES
LO: 2-3
Bloom's Taxonomy: Understand

12) What are the differences between direct costs and indirect costs? Give an example of each.
Answer: *Direct* costs are costs that can be traced easily and economically to the product manufactured or the service rendered. Examples of direct costs include direct materials and direct manufacturing labour used in a product. *Indirect* costs cannot be easily identified in a cost efficient manner (economically)with individual products or services rendered, and are usually assigned using allocation formulas. In a plant that manufactures multiple products, examples of indirect costs include the plant supervisor's salary and the cost of machines used to produce more than one type of product.
Diff: 2 Type: ES
LO: 2-3
Bloom's Taxonomy: Understand

Match the following:

A) Direct cost
B) Indirect cost

13) Butcher's salary
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

14) Cost of meat
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

15) Store utilities
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

16) Paper, trays and plastic wrap for packaging meat
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

Answers: 13) A 14) A 15) B 16) B

Match the following:

A) Direct cost
B) Indirect cost

17) Seats
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

18) Assembly workers wages
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

19) Plant utilities
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

20) Production supervisors salaries
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

21) Engine blocks and transaxles
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

22) Depreciation on forklifts
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

23) Property tax on production facility
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

24) Machine operators' health insurance
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

Answers: 17) A 18) A 19) B 20) B 21) A 22) B 23) B 24) A

Samson Manufacturing has four manufacturing cost pools and many types of costs, some of which are e listed below. Match the type of cost with the most appropriate cost pool or as a period cost.

A) Cost pool - indirect factory labour
B) Cost pool - direct factory labour
C) Cost pool - indirect factory operating costs
D) Period cost

25) Amortization on buildings and equipment
Diff: 1 Type: MA
LO: 2 -3
Bloom's Taxonomy: Understand

26) Fringe benefits for factory workers
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

27) Idle time wages
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

28) Lubricants for machines
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

29) Night security
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

30) Factory worker overtime premiums
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

31) Factory worker overtime premiums
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

32) Property insurance on the factory
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

33) Property taxes on the administration office
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

34) Safety hats and shoes
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

35) Factory supervisors' salaries
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

36) Utilities on the administrative building
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

37) Utilities on the factory
Diff: 1 Type: MA
LO: 2-3
Bloom's Taxonomy: Understand

Answers: 25) C 26) A 27) A 28) C 29) C 30) C 31) A 32) C 33) D 34) C 35) A 36) D 37) C

2.4 Identify the inventoriable product costs and period costs of merchandising and manufacturing firms.

1) An inventoriable cost could be the cost of the marketing and distribution of a product.
Answer: FALSE
Diff: 1 Type: TF
LO: 2-4
Bloom's Taxonomy: Remember

2) Inventoriable product costs consist of manufacturing overhead, direct labour and direct materials.
Answer: TRUE
Diff: 1 Type: TF
LO: 2-4
Bloom's Taxonomy: Remember

3) A prime cost consists of direct labour and factory overhead.
Answer: FALSE
Diff: 1 Type: TF
LO: 2-4
Bloom's Taxonomy: Remember

4) Which of the following is a period cost for a manufacturer?
A) Direct labour
B) Direct materials
C) Freight out
D) Manufacturing overhead
Answer: C
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Understand

5) Period costs are
A) always considered part of the inventory.
B) always recorded as an expense.
C) expensed only when the inventory is sold.
D) the same as indirect costs.
Answer: B
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

6) Which of the following is an inventoriable cost?
A) Direct labour expenses
B) Distribution expenses
C) Marketing expenses
D) Research and development expenses
Answer: A
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Understand

7) Which of the following describes full costs for a product for profitability analysis?
A) Full product costs are narrower in scope than inventoriable product costs.
B) Full product costs consist of direct materials, direct labour and manufacturing overhead.
C) Full product costs include all costs of the value chain.
D) Full product costs do not include non-manufacturing costs.
Answer: C
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

8) Inventoriable product costs for a manufactured product include
A) marketing and research and development costs.
B) the costs of direct materials, direct labour and manufacturing overhead.
C) the costs of direct materials and direct labour only.
D) sales commissions on selling the product.
Answer: B
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

9) Which of the following statements describes inventoriable product costs?
A) They are expensed on the income statement when incurred.
B) They are used for external reporting purposes.
C) They include marketing and distribution costs.
D) They do not include prime costs.
Answer: B
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

10) Where would period costs be found on the financial statements?
A) Under current assets on the balance sheet
B) Under current liabilities on the balance sheet
C) As operating expenses on the income statement for a previous period
D) As operating expenses on the income statement in the period incurred
Answer: D
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

11) Which of the following statements is correct concerning product costs?
A) Product costs are expensed in the period incurred.
B) Product costs are expensed in the period the related product is sold.
C) Product costs are shown with operating expenses on the income statement.
D) Product costs are shown with current liabilities on the balance sheet.
Answer: B
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

12) _____ costs include all costs associated with the production of a product.
A) Direct
B) Inventoriable
C) Mixed
D) Overhead
Answer: B
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

13) Manufacturing overhead costs for a product include
A) direct material.
B) operating expenses.
C) prime costs.
D) indirect manufacturing costs.
Answer: D
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

14) When do inventoriable costs become expenses?
A) When direct materials are purchased
B) When the manufacturing process begins
C) When the manufacturing process is completed
D) When the product is sold
Answer: D
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

15) For a manufactured product, indirect materials and indirect labour are
A) overhead and period costs.
B) overhead and product costs.
C) operating and period costs.
D) operating and product costs.
Answer: B
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

16) Manufacturers consider selling and administrative costs to be
A) prime costs.
B) conversion costs.
C) inventoriable costs.
D) period costs.
Answer: D
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

17) When manufacturing products, which of the following is an example of a period cost?
A) Advertising expense
B) Depreciation expense on factory equipment
C) Indirect materials used in the factory
D) Property taxes on the plant
Answer: A
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Understand

18) When manufacturing products, which of the following is an example of an inventoriable cost?
A) Depreciation on office equipment
B) Depreciation on store building
C) Depreciation on factory equipment
D) Sales salaries expenses
Answer: C
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

19) When manufacturing products, direct labour and direct materials are classified as
A) period costs and expensed when incurred.
B) period costs and expensed when the goods are sold.
C) product costs and expensed when incurred.
D) product costs and expensed when the goods are sold.
Answer: D
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

20) Certain materials used in a manufacturing plant cannot be traced to a specific unit. These materials are called _____ materials.
A) general
B) direct
C) finished
D) indirect
Answer: D
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

21) Rent on a factory building would be considered to be
A) a direct cost.
B) a period cost.
C) a product cost.
D) administrative overhead.
Answer: C
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Understand

22) Which element in the value chain would contain inventoriable costs for a manufacturer?
A) Research and development
B) Design
C) Production
D) Distribution
Answer: C
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Understand

23) Prime costs consist of
A) direct labour and manufacturing overhead.
B) direct materials and direct labour.
C) direct materials and manufacturing overhead.
D) direct materials, direct labour and manufacturing overhead.
Answer: B
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

24) Conversion costs consist of
A) direct labour and manufacturing overhead.
B) direct materials and direct labour.
C) direct materials and manufacturing overhead.
D) direct materials, direct labour and manufacturing overhead.
Answer: A
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

25) Which of the following is an example of direct labour?
A) Salary of a production manager
B) Salary of the vice-president of operations
C) Wages of assembly line personnel
D) Wages of factory security
Answer: C
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Understand

26) Which statement describes direct materials in a manufacturing setting?
A) Direct materials are used to determine total inventoriable product costs.
B) Direct materials are used to determine total manufacturing overhead.
C) Direct materials cannot be separately and conveniently traced.
D) Direct materials do not become part of the finished product.
Answer: A
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Understand

27) In a manufacturing plant, which type of employee wage is an example of indirect labour?
A) Chief operating officer's salary
B) Machine operator's wages
C) Plant manager's salary
D) Salesperson's commissions
Answer: C
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Understand

28) Which of the following are classified as manufacturing overhead?
A) Direct materials and direct labour
B) Indirect labour and indirect materials
C) All materials
D) Factory rent and direct labour
Answer: B
Diff: 1 Type: MC
LO: 2-4
Bloom's Taxonomy: Remember

29) Which of the following is an example of overhead in a factory?
A) Wages of machine operators
B) Wages of factory maintenance personnel
C) Wages of administrators in the corporate office
D) Salaries of salespersons
Answer: B
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Understand

Use the information below to answer the following question(s).

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

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

30) What were the inventoriable costs at the Uniquely Me Shoppe?
A) $99,000
B) $116,000
C) $17,000
D) $169,000
Answer: A
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

31) What were the period costs at the Uniquely Me Shoppe?
A) $306,000
B) $137,000
C) $110,000
D) $207,000
Answer: D
Explanation: D) $53,000 + 17,000 + 42,000 + 68,000 + 27,000 = $207,000
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Comfy Furniture Company manufactures furniture at its Windsor, Ontario, factory. Some of its costs from the past year include:

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

32) Product costs for Comfy Furniture Company totaled
A) $351,000.
B) $442,500.
C) $466,000.
D) $482,000.
Answer: C
Explanation: C) $16,000 + 52,500 + 3,000 + 21,000 + 115,000 + 7,000 + 2,500 + 132,500 + 72,000 + 44,500 = $466,000
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

33) Period costs for Comfy Furniture Company totaled
A) $43,000.
B) $46,500.
C) $69,500.
D) $121,000.
Answer: C
Explanation: C) $11,000 + 23,000 + 9,000 + 26,500 = $69,500
Diff: 3 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

34) Prime costs for Comfy Furniture Company totaled
A) $79,000.
B) $214,000.
C) $211,500.
D) $332,000.
Answer: B
Explanation: B) $7,000 + 2,500 + 132,500 + 72,000 = $214.000
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

35) Conversion costs for Comfy Furniture Company totaled
A) $319,500.
B) $460,500.
C) $214,000.
D) $384,500.
Answer: D
Explanation: D) $16,000 + 52,500 + 3,000 + 21,000 +115,000 + 132,500 + 44,500 = $384,500
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

36) Direct material costs for Comfy Furniture Company totaled
A) $81,500.
B) $79,000.
C) $7,000.
D) $72,000.
Answer: A
Explanation: A) $7,000 + 2,500 + 72,000 = $81,500
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

37) Direct labour costs for Comfy Furniture Company totaled
A) $300,000.
B) $132,500.
C) $115,000.
D) $323,000.
Answer: B
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

38) Manufacturing overhead costs for Comfy Furniture Company totaled
A) $324,000.
B) $122,000.
C) $228,000.
D) $252,000.
Answer: D
Explanation: D) $16,000 + $52,500 + $3,000 + $21,000 + $115,000 + $44,500 = $252,000
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Country Furniture Company manufactures furniture at its Halifax, Nova Scotia, factory. Some of its costs from the past year include:

Depreciation on sales office	$9,000
Depreciation on factory equipment	$16,000
Factory supervisor salary	$50,500
Sales commissions	$23,000
Lubricants used in factory equipment	$3,000
Insurance costs for factory	$21,000
Wages paid to maintenance workers	$115,000
Fabric used to upholster furniture	$10,000
Freight-in (on raw materials)	$3,000
Costs of delivery to customers	$9,000
Wages paid to assembly-line workers	$155,500
Lumber used to build product	$82,000
Utilities in factory	$54,500
Utilities in sales office	$26,500

39) Prime costs for Country Furniture Company totaled
A) $92,000.
B) $247,500.
C) $250,500.
D) $368,500.
Answer: C
Explanation: C) $10,000 + $3,000 + $155,500 + $82,000 = $250,500
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

40) Conversion costs for Country Furniture Company totaled
A) $415,500.
B) $250,500.
C) $504,500.
D) $362,500.
Answer: A
Explanation: A) $16,000 + 50,500 + 3,000 + 21,000 +115,000 + 155,500 + 54,500 = $415,500
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

41) Direct material costs for Country Furniture Company totaled
A) $82,000.
B) $10,000.
C) $95,000.
D) $92,000.
Answer: C
Explanation: C) $10,000 + $3,000 + $82,000 = $95,000
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

42) Direct labour costs for Country Furniture Company totaled
A) $270,500.
B) $115,000.
C) $155,500.
D) $206,000.
Answer: C
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

43) Manufacturing overhead costs for Country Furniture Company totaled
A) $104,500.
B) $260,000.
C) $269,000.
D) $272,000.
Answer: B
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Rustic Living Furniture Company manufactures furniture at its Saskatoon Saskatchewan factory. Some of its costs from the past year include:

Wages paid to maintenance workers	$60,000
Fabric used to upholster furniture	$8,000
Wages paid to assembly-line workers	$100,000
Lumber used to build product	$15,000
Sales commissions	$7,500
Insurance costs for factory	$21,000
Freight-in (on raw materials)	$3,000
Utilities in factory	$12,000
Factory supervisor salary	$60,000
Depreciation on factory equipment	$18,000
Utilities in sales office	$26,500
Costs of delivery to customers	$8,000
Depreciation on sales office	$1,000
Lubricants used in factory equipment	$500

44) Prime costs for Rustic Living Furniture Company totaled
A) $126,000.
B) $23,000.
C) $123,000.
D) $168,500.
Answer: A
Explanation: A) $8,000 + $100,000 + $15,000 + $3,000 = $126,000
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

45) Conversion for Rustic Living Furniture Company totaled
A) $215,500.
B) $275,500.
C) $272,500.
D) $271,500.
Answer: D
Explanation: D) $60,000 + $100,000 + $21,000 + $12,000 + $60,000 + $18,000 + $500 = $271,500
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

46) Direct material for Rustic Living Furniture Company totaled
A) $15,000.
B) $26,000.
C) $18,000.
D) $23,000.
Answer: B
Explanation: B) $8,000 + $15,000 + $3,000 = $26,000
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

47) Direct labour for Rustic Living Furniture Company totaled
A) $160,000.
B) $220,000.
C) $100,000.
D) $107,500.
Answer: C
Explanation: C) $100,000
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

48) Manufacturing overhead for Rustic Living Furniture Company totaled
A) $171,500.
B) $174,500.
C) $198,000.
D) $206,000.
Answer: A
Explanation: A) $60,000 + $21,000 + $12,000 + $60,000 + $18,000 + $500 = $171,500
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

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

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

49) Inventoriable product costs for First Sporting Equipment totaled
A) $620,000.
B) $732,000.
C) $755,000.
D) $827,000.
Answer: C
Explanation: C) $151,000 + 73,000 + 67,000 + 2,000 + 23,000 + 15,000 + 99,000 + 8,000 + 175,000 + 142,000 = $755,000
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

50) Period costs for First Sporting Equipment totaled
A) $116,000.
B) $99,000.
C) $201,000.
D) $32,000.
Answer: A
Explanation: A) $11,000 + 17,000 + 4,000 + 84,000 = $116,000
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Bombardeer, an auto manufacturer, incurred the following costs last month (in thousands of dollars).

Interior assemblies	$540
Depreciation on administrative offices	280
Assembly workers' wages	1,340
Plant utilities	290
Production supervisors' salaries	150
Engine and body parts and assemblies	2,500
Machine lubricants	75
Property tax on corporate offices	40
Cost of warranty repairs	450
Factory janitors' wages	90
Cost of designing new plant layout	360
Machine operators health insurance	130
Depreciation on forklifts	210
TOTAL	$6,455

51) The total manufacturing overhead costs for Bombardeer are
A) $945.
B) $1,095.
C) $815.
D) $525.
Answer: C
Explanation: C) $290 + 150 + 75 + 90 + 210 = $815
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

52) The total inventoriable product costs costs for Bombardeer are
A) $3,840.
B) $4,120.
C) $5,195.
D) $5,325.
Answer: D
Explanation: D) $540 + 1,340 + 290 + 150 + 2,500 + 75 + 90 + 130 + 210 = $5,325
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

53) The total prime costs for Bombardeer are
A) $4,380.
B) $4,510.
C) $4,455.
D) $3,040.
Answer: B
Explanation: B) $540 + 1,340 + 2,500 + 130 = $4,510
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

54) The total conversion costs for Bombardeer are
A) $2,285.
B) $2,155.
C) $2,565.
D) $1,470.
Answer: A
Explanation: A) $1,340 + 290 + 150 + 75 + 90 + 130 + 210 = $2,285
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

55) The total period costs for Bombardeer are
A) $1,260.
B) $770.
C) $1,130.
D) $1,090.
Answer: C
Explanation: C) $280 + 40 + 450 + 360 = $1,130
Diff: 2 Type: MC
LO: 2-4
Bloom's Taxonomy: Apply

56) Differentiate between:
A. Direct materials versus indirect materials
B. Direct labour versus indirect labour
Answer: Student responses will vary but should include the following points:
A. Direct materials must become a physical part of the finished product and their costs must be separately and conveniently traceable through the manufacturing process to specific units of the finished product. Examples for a furniture manufacturer include wood, leather, steel, etc. Indirect materials become part of the finished product, but their minor costs cannot conveniently be traced directly to individual units of the finished products. They are included as part of manufacturing overhead. Examples for a furniture manufacturer include thread, glue, snaps, etc.
B. Direct labour cost is the compensation of employees who physically convert raw materials into the company's products and whose efforts can be traced directly to specific units of finished goods. Examples for a furniture manufacturer include machine operators and assemblers. Indirect labour is factory labour that is difficult to trace to individual units of specific products. Instead, the cost is included in manufacturing overhead. Examples for a furniture manufacturer include costs for forklift operators, janitors, and plant managers.
Diff: 2 Type: ES
LO: 2-4
Bloom's Taxonomy: Understand

Match the following:

A) Period cost
B) Inventoriable product cost, manufacturing overhead
C) Inventoriable product cost, direct materials
D) Inventoriable product cost, direct labour

57) Insurance on the plant building
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

58) Cost of shipping the furniture to the customers
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

59) Assembly line workers' wages
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

60) Depreciation on plant equipment
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

61) Salespersons' salaries
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

62) Cost of various types of wood
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

63) Insurance on delivery trucks
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

64) Plant forklift operator's salary
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

Answers: 57) B 58) A 59) D 60) B 61) A 62) C 63) A 64) B

Match the following:

A) Period
B) Product

65) Direct materials used in factory
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

66) Factory utilities
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

67) Salespersons' commissions
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

68) Salary of plant manager
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

69) Indirect materials used in factory
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

70) Depreciation expense on store equipment
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

71) Indirect labour incurred in factory
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

72) Advertising expense
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

73) Direct labour incurred in factory
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

74) Factory machinery repairs and maintenance
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

75) Depreciation expense on factory machinery
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

76) Supplies used in store
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

77) Plant insurance expired
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

Answers: 65) B 66) B 67) A 68) B 69) B 70) A 71) B 72) A 73) B 74) B 75) B 76) A 77) B

Match the following:

A) Selling and general expenses
B) Manufacturing overhead
C) Direct labour
D) Direct materials

78) Rent expense on factory building
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

79) Sales supplies used
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

80) Factory supplies used
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

81) Indirect materials used
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

82) Wages of assembly line personnel
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

83) Cost of primary material used to make product
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

84) Depreciation expense on office equipment
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

85) Rent expense on office facilities
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

86) Insurance expired on factory equipment
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

87) Utilities incurred in the office
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

88) Advertising expense
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

89) Taxes paid on factory building
Diff: 2 Type: MA
LO: 2-4
Bloom's Taxonomy: Understand

Answers: 78) B 79) A 80) B 81) B 82) C 83) D 84) A 85) A 86) B 87) A 88) A 89) B

2.5 Prepare financial statements for service, merchandising, and manufacturing companies.

1) The income statements of manufacturing companies are much less complex than those of service or merchandising companies.
Answer: FALSE
Diff: 1 Type: TF
LO: 2-5
Bloom's Taxonomy: Remember

2) The financial statements of a merchandiser are more complex than those of a manufacturer.
Answer: FALSE
Diff: 1 Type: TF
LO: 2-5
Bloom's Taxonomy: Remember

3) Service companies have the simplest accounting with regard to the income statement.
Answer: TRUE
Diff: 1 Type: TF
LO: 2-5
Bloom's Taxonomy: Remember

4) Cost of goods sold is a major expense of service companies.
Answer: FALSE
Diff: 1 Type: TF
LO: 2-5
Bloom's Taxonomy: Remember

5) The schedule of cost of goods manufactured is prepared before the income statement for a manufacturing company.
Answer: TRUE
Diff: 1 Type: TF
LO: 2-5
Bloom's Taxonomy: Remember

6) Total manufacturing costs include direct materials and direct labour, but not manufacturing overhead.
Answer: FALSE
Diff: 1 Type: TF
LO: 2-5
Bloom's Taxonomy: Remember

7) Which of the following is calculated last before operating income can be determined for a manufacturer?
A) Cost of goods available for sale
B) Cost of goods manufactured
C) Cost of goods sold
D) Cost of direct materials
Answer: C
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Remember

8) The main difference in the balance sheets of manufacturing vs. service business is in
A) current assets.
B) current liabilities.
C) investments.
D) equity.
Answer: A
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Remember

9) Which of the following would be on the balance sheet of a service company?
A) Factory equipment depreciation
B) Cost of goods manufactured
C) Cost of goods sold
D) Accounts receivable
Answer: D
Diff: 1 Type: MC
LO: 2-5
Bloom's Taxonomy: Remember

10) Which of the following would be on the income statement of a retailer?
A) Value of inventory
B) Cost of goods sold
C) Accounts payable
D) Accounts receivable
Answer: B
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Remember

11) Which of the following costs would appear on the income statements for both a merchandiser and manufacturer?
A) Cost of goods manufactured
B) Direct labour incurred
C) Direct materials used
D) Operating expenses
Answer: D
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Remember

12) A merchandiser's purchases are equivalent to a manufacturer's
A) cost of goods manufactured.
B) cost of goods sold.
C) raw materials inventory.
D) work in process inventory.
Answer: A
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Remember

Use the information below to answer the following question(s).

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

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

13) What is the cost of goods available for sale at the Olde Tyme Beverage Company?
A) $128,000
B) $132,000
C) $63,000
D) $144,000
Answer: D
Explanation: D) Beginning Inventory $12,000 + Purchases 132,000 = Goods Available $144,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

14) What is the cost of goods sold for the year at the Olde Tyme Beverage Company?
A) $144,000
B) $132,000
C) $128,000
D) $63,000
Answer: C
Explanation: C) Beginning Inventory $12,000 + Purchases 132,000 = Goods Available
$144,000 - Ending Inventory 16,000 = 128,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

15) What is the gross profit for the year at the Olde Tyme Beverage Company?
A) $147,000
B) $143,000
C) $67,000
D) $195,000
Answer: A
Explanation: A) Beginning Inventory $12,000 + Purchases 132,000 = Goods Available
$144,000 - Ending Inventory 16,000 = 128,000 Cost of Goods Sold
$275,000 - $128,000 = $147,000
Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Towpath Tennis & Recreation's operating activities for the year are listed below:

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

16) What is the cost of goods available for sale at Towpath Tennis & Recreation?
A) $145,000
B) $150,000
C) $90,000
D) $177,000
Answer: D
Explanation: D) $27,000 + 150,000 = $177,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

17) What is the cost of goods sold for the year at Towpath Tennis & Recreation?
A) $177,000
B) $150,000
C) $145,000
D) $90,000
Answer: C
Explanation: C) $27,000 + 150,000 = 177,000 - 32,000 = $145,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

18) What is the gross profit for the year at Towpath Tennis & Recreation?
A) $157,000
B) $152,000
C) $95,000
D) $240,000
Answer: A
Explanation: A) $27,000 + 150,000 = 177,000 -32,000 = $145,000.
Then $302,000 - 145,000= $157,000
Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

19) Which of the following, in addition to cost of goods manufactured, is needed to compute the cost of goods sold for a manufacturer?
A) Beginning work in process inventory less ending work in process inventory
B) Ending work in process inventory less beginning work in process inventory
C) Beginning finished goods less ending finished goods
D) Ending finished goods less beginning finished goods
Answer: C
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Remember

20) For a manufacturer, beginning work in process would be equal to
A) cost of goods manufactured + ending work in process inventory - manufacturing costs incurred in the period.
B) cost of goods manufactured - ending work in process inventory + manufacturing costs incurred in the period.
C) ending work in process inventory + manufacturing costs incurred in the period.
D) manufacturing costs incurred in the period - ending work in process inventory.
Answer: A
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Remember

Use the information below to answer the following question(s).

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

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

21) What are the total manufacturing costs to account for at Express Company?
A) $615,000
B) $475,000
C) $295,000
D) $529,000
Answer: A
Explanation: A) $475,000 + 140,000 = $615,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

22) What is the cost of goods sold at Express Company?
A) $475,000
B) $374,000
C) $770,000
D) $514,000
Answer: B
Explanation: B) $475,000 -101,000 = $374,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

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

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

23) What are the total manufacturing costs to account for at Active Apparel Company?
A) $620,000
B) $500,000
C) $685,000
D) $493,000
Answer: A
Explanation: A) $500,000 + 120,000 = $620,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

24) What is the cost of goods sold at Active Apparel Company?
A) $500,000
B) $428,000
C) $685,000
D) $548,000
Answer: B
Explanation: B) Calculations: $500,000 - 72,000 = $428,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

25) Direct labour for a company was $132,000; manufacturing overhead was $275,000; and direct materials were $253,000. Conversion costs would total
A) $385,000.
B) $660,000.
C) $407,000.
D) $528,000.
Answer: C
Explanation: C) $275,000 + 132,000 = $407,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

26) Direct labour for a company was $132,000; manufacturing overhead was $275,000; and direct materials were $253,000. Prime costs would total
A) $407,000.
B) $385,000.
C) $660,000.
D) $528,000.
Answer: B
Explanation: B) $132,000 + 253,000 = $385,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

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

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

27) What is the cost of goods available for sale at Readers Unlimited?
A) $105,000
B) $82,000
C) $87,000
D) $102,000
Answer: D
Explanation: D) $90,000 + 12,000 = $102,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

28) What is operating income at Readers Unlimited?
A) $32,000
B) $87,000
C) $93,000
D) $29,000
Answer: A
Explanation: A) $90,000 + 12,000 = 102,000 - 15,000 = 87,000;
Next $172,000 - 87,000 = 85,000 - 53,000 = $32,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

29) What is gross profit at Readers Unlimited?
A) $32,000
B) $82,000
C) $85,000
D) $119,000
Answer: C
Explanation: C) $90,000 + 12,000 = 102,000 - 15,000 = $87,000.
Next $172,000 - 87,000 = 85,000
Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

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

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

30) What is cost of goods sold at Summerville Company?
A) $73,000
B) $93,000
C) $100,000
D) $77,000
Answer: D
Explanation: D) $27,000 + 73,000 = 100,000 - 23,000 = $77,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

31) What is operating income at Summerville Company?
A) $143,000
B) $43,000
C) $58,000
D) $47,000
Answer: B
Explanation: B) $151,000 - 77,000 = 74,000 - 8,000 - 11,000 - 12,000 = $43,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

32) What is gross profit at Summerville Company?
A) $43,000
B) $82,000
C) $74,000
D) $58,000
Answer: C
Explanation: C) $151,000 - 77,000 = 74,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

33) What is total operating expense at Summerville Company?
A) $20,000
B) $19,000
C) $31,000
D) $23,000
Answer: C
Explanation: C) $8,000 + 11,000 + 12,000 = $31,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Back Yards Inc. sells lawn furniture. The following information summarizes the company's operating expenses for the year:

Purchases	$101,000
Operating expenses	$75,000
Beginning merchandise inventory	$32,000
Ending merchandise inventory	$37,000
Sales revenue	$257,000

34) What was cost of goods sold at Back Yards Inc.?
A) $133,000
B) $96,000
C) $106,000
D) $81,000
Answer: B
Explanation: B) $101,000 + 32,000 = 133,000 -37,000 = $96,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

35) What was gross profit at Back Yards Inc.?
A) $(171,000)
B) $156,000
C) $161,000
D) $182,000
Answer: C
Explanation: C) $101,000 + 32,000 = 133,000 - 37,000 = $96,000
Next $257,000 - 96,000 = $161,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

36) What was operating income for the year at Back Yards Inc.?
A) $86,000
B) $81,000
C) $96,000
D) $76,000
Answer: A
Explanation: A) $101,000 + 32,000 = 133,000 - 37,000 = $96,000
Next $257,000 - 96,000=$161,000 - 75,000 = $86,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

37) What was the value of goods available for sale at Back Yards Inc.?
A) $138,000
B) $156,000
C) $133,000
D) $96,000
Answer: C
Explanation: C) $101,000 + 32,000 = $133,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

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

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

38) What was direct materials used at Sunnydale Manufacturing?
A) $500
B) $480
C) $650
D) $520
Answer: B
Explanation: B) $150 + 500 = 650 - 170 = $480
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

39) What was cost of goods manufactured at Sunnydale Manufacturing?
A) $1,560
B) $1,540
C) $1,580
D) $1,550
Answer: A
Explanation: A) $480 + 450 + 620 = 1,550 + 320 - 310 = $1,560
Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

40) What was cost of goods sold at Sunnydale Manufacturing?
A) $680
B) $1,570
C) $1,510
D) $1,610
Answer: D
Explanation: D) $480 + 450 + 620 = 1,550 + 320 - 310 = $1,560 + 250 - 200 = $1,610
Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

41) What was operating income at Sunnydale Manufacturing?
A) $1,690
B) $2,430
C) $3,300
D) $4,000
Answer: A
Explanation: A) $4,000 - 1,610 = 2,390 - 700 = $1,690
Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

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

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

What was manufacturing overhead for the quarter?
A) $70
B) $260
C) $310
D) $60
Answer: A
Explanation: A) $320 - 130 + 140 = 330 - 170 - 90 = $70
Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

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

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

What was direct materials used for the quarter?
A) $770
B) $1,570
C) $460
D) $480
Answer: D
Explanation: D) $1,560 - 320 +310 = 1,550 - 450 - 620 = $480
Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

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

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

What was cost of goods sold?
A) $1,610
B) $1,740
C) $1,060
D) $860
Answer: A
Explanation: A) $4,000 - 2,390 = $1,610
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

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

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

What was the beginning finished goods inventory?
A) $1,740
B) $250
C) $1,060
D) $860
Answer: B
Explanation: B) $4,000 - 2,390 = $1,610 + 200 = 1,810 - 1,560 = $250
Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

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

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

What was the ending raw materials inventory?
A) $300
B) $970
C) $350
D) $850
Answer: A
Explanation: A) $150 + 500 = 650 - 350 = 300
Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Montreal Industries Inc. had the following activities during the year:

Direct materials:	
Beginning inventory	$50,000
Purchases	154,000
Ending inventory	26,000
Direct manufacturing labour	40,000
Manufacturing overhead	30,000
Ending work-in-process inventory	10,000
Beginning work-in-process inventory	2,000
Ending finished goods inventory	40,000
Beginning finished goods inventory	60,000

47) What is Montreal's cost of direct materials used during the year?
A) $204,000
B) $178,000
C) $128,000
D) $218,000
Answer: B
Explanation: B) $50,000 + $154,000 - $26,000 = $178,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

48) What is Montreal's cost of goods manufactured during the year?
A) $268,000
B) $248,000
C) $240,000
D) $238,000
Answer: C
Explanation: C) $178,000 + $40,000 + $30,000 + $2,000 - $10,000 = $240,000
Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

49) What is Montreal's cost of goods sold during the year?
A) $260,000
B) $232,000
C) $200,000
D) $240,000
Answer: A
Explanation: A) $60,000 + $240,000 - $40,000 = $260,000
Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Frazer Inc. had the following activities in the year:

Direct materials:	
Beginning inventory	$100,000
Purchases	308,000
Ending inventory	52,000
Direct manufacturing labour	80,000
Manufacturing overhead	60,000
Ending work in process inventory	20,000
Beginning work in process inventory	4,000
Ending finished goods inventory	80,000
Beginning finished goods inventory	120,000

50) What is Frazer's cost of goods manufactured?
A) $536,000
B) $496,000
C) $480,000
D) $476,000
Answer: C
Explanation: C) ($100,000 + $308,000 - $52,000) + $80,000 + $60,000 + $4,000 - $20,000 = $480,000
Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

51) What is Frazer's cost of goods sold?
A) $520,000
B) $464,000
C) $440,000
D) $400,000
Answer: A
Explanation: A) $120,000 + $480,000 - $80,000 = $520,000
Diff: 2 Type: MC
LO: 2-5
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Ontario Industries Inc. had the following activities during the year:

Direct materials:	
Beginning inventory	$40,000
Purchases	165,000
Ending inventory	32,000
Direct manufacturing labour	46,000
Manufacturing overhead	?
Ending work-in-process inventory	12,000
Beginning work-in-process inventory	?
Ending finished goods inventory	?
Beginning finished goods inventory	80,000
Cost of goods manufactured	242,000
Manufacturing costs incurred	248,000
Cost of goods sold	247,000
Total manufacturing costs to account for	254,000

52) What is the amount of Ontario Industries Inc.'s ending finished goods inventory?
A) $55,000
B) $75,000
C) $70,000
D) $65,000
Answer: B
Explanation: B) $247,000 - $242,000 - $80,000 = $75,000

Direct materials:	
Beginning inventory	$40,000
Purchases	165,000
Ending inventory	32,000
Direct materials used	$173,000
Direct manufacturing labour	46,000
Manufacturing overhead	29,000
Manufacturing costs incurred	$248,000
Beginning work-in-process inventory	6,000
Total manufacturing cost to account for	$254,000
Ending work-in-process inventory	12,000
Cost of goods manufactured	$242,000
Beginning finished goods inventory	$80,000
Cost of goods manufactured	242,000
Ending finished goods inventory	75,000
Cost of goods sold	$247,000

Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Analyze

53) What is the amount of the manufacturing overhead incurred at Ontario Industries Inc.?
A) $41,000
B) $35,000
C) $23,000
D) $29,000
Answer: D
Explanation: D) $248,000 - $173,000 - $46,000 = $29,000
Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Analyze

54) What is the amount of the beginning work-in-process inventory at Ontario Industries Inc.?
A) $1,000
B) $5,000
C) $12,000
D) $6,000
Answer: D
Explanation: C)
D) $254,000 - $248,000 = $6,000
Diff: 3 Type: MC
LO: 2-5
Bloom's Taxonomy: Analyze

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

You may use more than one letter for each answer.
_____ Revenue
_____ Salaries expense
_____ Customer service expense
_____ Cost of goods manufactured
_____ Cost of goods sold
Answer:
A, B, C Revenue
A, B, C Salaries expense
A, B, C Customer service expense
C Cost of goods manufactured
B, C Cost of goods sold
Diff: 2 Type: SA
LO: 2-5
Bloom's Taxonomy: Remember

56) Compute the missing amounts.

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

Answer:
A) 6,000 124,000 -118,000 = 6,000
B) 124,000 120,000 + 4,000 = 124,000
C) 56,000 80,000 - 24,000 = 56,000
D) 400,000 224,000 + 176,000 = 400,000
E) 120,000 180,000 - 60,000 = 120,000
F) 176,000 180,000 - 4,000 = 176,000
G) 54,000 224,000 - 170,000 = 54,000
Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Analyze

57) Dino Company sells collectibles. The following information summarizes Dino's operating activities for the most recent year:

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

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

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

Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Apply

58) Swirzoff Company sells office supplies. The following information summarizes Swirzoff's operating activities for the past year:

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

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

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

Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Apply

59) South State Company used $71,000 of direct materials and incurred $37,000 of direct labour costs during 2014. Indirect labour amounted to $2,700 while indirect materials used totaled $1,600. Other operating costs pertaining to the factory included utilities of $3,100; maintenance of $4,500; supplies of $1,800; depreciation expense of $7,900; and property taxes of $2,600. There was no beginning or ending finished goods inventory, but work in process inventory began they ear with a $5,500 balance and ended the year with a $7,500 balance.

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

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

Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Apply

60) The following information is available for the Petree Corporation for last year:

- Raw materials inventory decreased $4,000 from the beginning of the year to the end of the year.
- Raw materials inventory on December 31(end of year) was 50% of raw materials inventory on January 1 (beginning of year).
- Beginning work in process inventory was $145,000.
- Ending finished goods inventory was $65,000.
- Purchases of direct materials were $154,700.
- Manufacturing overhead was 50% of the cost of direct labour.
- Total manufacturing costs incurred were $246,400, 80% of cost of goods manufactured and $156,000 less than cost of goods sold.

Compute:
a) Finished goods inventory on January 1(beginning of year)
b) Work in process inventory on December 31(end of year)
c) Direct labour incurred
d) Manufacturing overhead incurred
e) Direct materials used
f) Raw materials inventory on January 1(beginning of year)
g) Raw materials inventory on December 31(end of year)

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

a) Cost of goods sold = $246,400 + $156,000 = $402,400
   $402,400 + $65,000 - $308,000 = $159,400
b) Cost of goods manufactured = $246,400/.80 = $308,000
   $246,400 + $145,000 - $308,000 = $83,400
c) $158,700 + X + 0.5X = $246,400
   1.5X = $87,700
   X = $58,467
d) $58,467 × .5 = $29,233
e) $8,000 + $154,700 - $4,000 = $158,700
f) X = January 1 materials inventory
   $4,000 = .5X
   X = $8,000
g) $8,000 - $4,000 = $4,000

Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Apply

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

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

Answer:

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

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

Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Apply

62) Makeit, a start-up manufacturing company, had a bookkeeper who left suddenly, leaving rather incomplete accounting records for the last month of his employment. You have been hired to sort out the puzzle. Assume Makeit's raw materials inventory contains only direct materials. You have the following information available:

Work in process inventory, April 30	$3,000
Finished goods inventory, April 1	8,600
Direct labour in April	6,000
Purchases of direct material in April	18,000
Work in process inventory, April 1	0
Revenues in April	54,000
Gross profit in April	24,000
Direct materials used in April	16,000
Raw materials inventory, April 30	6,000
Manufacturing overhead in April	12,600

Find the following amounts:
A. Cost of goods sold in April.
B. Beginning raw materials inventory.
C. Ending finished goods inventory.
Answer:
A. $30,000
B. $4,000
C. $10,200
Calculations:

Beginning work in process inventory			0
Add: Direct materials used			
Beginning raw materials inventory	$4,000		
Purchase of direct materials	18,000		
Available for use	22,000		
Ending raw materials inventory	(6,000)		
Direct materials used		$16,000	
Direct labour		6,000	
Manufacturing overhead		12,600	
Total manufacturing costs for the month			34,600
Total manufacturing costs to account for			34,600
Less: ending work in process inventory			(3,000)
Cost of goods manufactured			31,600

Beginning finished goods inventory	$8,600
+ Cost of goods manufactured	31,600
= Cost of goods available for sale	40,200
- Ending finished goods inventory	(10,200)
= Cost of goods sold	30,000

Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Apply

63) Buildit, a start-up manufacturing company, had a bookkeeper who left suddenly, leaving rather incomplete accounting records for the last month of his employment. You have been hired to sort out the puzzle. Assume Buildit's raw materials inventory contains only direct materials. You have the following information available:

Work in process inventory, April 30	$4,200
Finished goods inventory, April 1	9,300
Direct labour in April	5,000
Purchases of direct material in April	12,000
Work in process inventory, April 1	1,000
Revenues in April	42,000
Gross profit in April	19,000
Direct materials used in April	14,000
Raw materials inventory, April 30	4,500
Manufacturing overhead in April	8,200

Find the following amounts:
A. Cost of goods sold in April.
B. Beginning raw materials inventory.
C. Ending finished goods inventory.
Answer:
A. $23,000
B. $6,500
C. $10,300
Calculations:

Beginning work in process inventory			1,000
Add: Direct materials used			
Beginning raw materials inventory	$6,500		
Purchase of direct materials	12,000		
Available for use	18,500		
Ending raw materials inventory	(4,500)		
Direct materials used		$14,000	
Direct labour		5,000	
Manufacturing overhead		8,200	
Total manufacturing costs for the month			27,200
Total manufacturing costs to account for			28,200
Less: ending work in process inventory			(4,200)
Cost of goods manufactured			24,000

Beginning finished goods inventory	$9,300
+ Cost of goods manufactured	24,000
= Cost of goods available for sale	33,300
- Ending finished goods inventory	(10,300)
= Cost of goods sold	$23,000

Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Apply

64) Homeco, a start-up manufacturing company, had a bookkeeper who left suddenly, leaving rather incomplete accounting records for the last month of his employment. You have been hired to sort out the puzzle. Assume Homeco's raw materials inventory contains only direct materials. You have the following information available:

Work in process inventory, May 30	$9,300
Finished goods inventory, May 1	12,000
Direct labour in April	13,100
Purchases of direct material in May	26,900
Work in process inventory, May 1	3,200
Revenues in May	61,000
Gross profit in May	27,500
Direct materials used in May	31,600
Raw materials inventory, May 30	9,800
Manufacturing overhead in May	17,300

Find the following amounts:
A. Cost of goods sold in May.
B. Beginning raw materials inventory.
C. Ending finished goods inventory.
Answer:
A. $33,500
B. $14,500
C. $34,400
Calculations:

Beginning work in process inventory			$3,200
Add: Direct materials used			
Beginning raw materials inventory	$14,500		
Purchase of direct materials	26,900		
Available for use		41,400	
Ending raw materials inventory		9,800	
Direct materials used		$31,600	
Direct labour		13,100	
Manufacturing overhead		17,300	
Total manufacturing costs for the month			62,000
Total manufacturing costs to account for			65,200
Less: ending work in process inventory			(9,300)
Cost of goods manufactured			55,900

Beginning finished goods inventory	$12,000
+ Cost of goods manufactured	55,900
= Cost of goods available for sale	67,900
- Ending finished goods inventory	(34,400)
= Cost of goods sold	$33,500

Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Apply

65) Redat, a start-up manufacturing company, had a bookkeeper who left suddenly, leaving rather incomplete accounting records for the last month of his employment. You have been hired to sort out the puzzle. Assume Redat's raw materials inventory contains only direct materials. You have the following information available:

Work in process inventory, June 30	$6,400
Finished goods inventory, June 1	12,600
Direct labour in June	11,000
Purchases of direct material in June	14,600
Work in process inventory, June 1	2,900
Revenues in June	62,000
Gross profit in June	21,000
Direct materials used in June	17,300
Raw materials inventory, June 30	5,600
Manufacturing overhead in June	19,400

Find the following amounts:
A. Cost of goods sold in June.
B. Beginning raw materials inventory.
C. Ending finished goods inventory.
Answer: A. $41,000
B. $8,300
C. $15,800
Calculations:

Beginning work in process inventory			$2,900
Add: Direct materials used			
Beginning raw materials inventory	$8,300		
Purchase of direct materials	14,600		
Available for use	22,900		
Ending raw materials inventory		5,600	
Direct materials used		17,300	
Direct labour		11,000	
Manufacturing overhead		19,400	
Total manufacturing costs for the month			47,700
Total manufacturing costs to account for			50,600
Less: ending work in process inventory			6,400
Cost of goods manufactured			44,200

Beginning finished goods inventory	$12,600
+ Cost of goods manufactured	44,200
= Cost of goods available for sale	56,800
- Ending finished goods inventory	15,800
= Cost of goods sold	$41,000

Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Apply

66) Certain item descriptions and amounts are missing from the monthly schedule of cost of goods manufactured below and the income statement of Schredlink Manufacturing. Fill in the missing items.

Schredlink Manufacturing Company a._____ b._____July 31			
Beginning c._____			$ 42,000
Add: Direct d._____			
Beginning raw materials inventory	$ e. _____		
Purchases of direct materials	102,000		
f. _____	156,000		
Ending raw materials inventory	(46,000)		
Direct g. _____		$ h._____	
Direct i. _____		j._____	
Manufacturing overhead		40,0000	
Total k. _____ costs l. _____			332,000
Total m. _____ costs n. _____			o. _____
Less: Ending p. _____			(50,000)
q. _____			r. _____

Schredlink Manufacturing Company s. _____ t. _____ July 31			
Sales revenue			$ u. _____
Cost of goods sold:			
Beginning v._____		$ 230,000	
w. _____		x. _____	
Cost of goods y._____		z. _____	
Ending aa. _____		bb._____	
Cost of goods sold			418,000
Gross Profit			508,000
cc. _____ expenses:			
Marketing expense		198,000	
Administrative expense		dd. _____	308,000
ee. _____ income			$ ff. _____

Answer:

Schredlink Manufacturing Company a.*Schedule of Cost of Goods manufactured* b.*Month Ended*, July 31			
Beginning c. ***work in progress inventory***			$ 42,000
Add: Direct d. ***materials used***			
Beginning raw materials inventory	$e. ***54,000***		
Purchases of direct materials	102,000		
f. ***Available for use***	156,000		
Ending raw materials inventory	(46,000)		
Direct g. ***materials used***		$ h.***112,000***	
Direct i. ***labour***		j.***180,000***	
Manufacturing overhead		40,0000	
Total k. ***manufacturing*** costs l. ***incurred during the month***			332,000
Total m. ***manufacturing*** costs n.***to account for***			o. ***374,000***
Less: Ending p. ***work in process***			(50,000)
q. ***Cost of goods manufactured***			r.***$ 324,000***

Schredlink Manufacturing Company s. *Income Statement* t. *Month* July 31			
Sales revenue			$ u. ***926,000***
Cost of goods sold:			
Beginning v. ***finished goods inventory***		$ 230,000	
w. ***Cost of goods manufactured***		x. ***324,000***	
Cost of goods y. available for sale		z. ***554,000***	
Ending aa. ***Finished goods inventory***		bb.***(136,000)***	
Cost of goods sold			418,000
Gross Profit			508,000
cc. Operating expenses:			
Marketing expense		198,000	
Administrative expense		dd. ***110,000***	308,000
ee. ***Operating*** income			$ ff. $ ***200,000***

Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Analyze

67) Certain item descriptions and amounts are missing from the monthly schedule of cost of goods manufactured below and the income statement of HiHoist Manufacturing. Fill in the missing items.

HiHoist Manufacturing Company a._____ b._____ July 31			
Beginning c._____			$ 58,000
Add: Direct d._____			
Beginning raw materials inventory	$ e. _____		
Purchases of direct materials	116,000		
f. _____	165,000		
Ending raw materials inventory	(51,000)		
Direct g. _____		$ h._____	
Direct i. _____		j._____	
Manufacturing overhead		60,0000	
Total k. _____ costs l. _____			359,000
Total m. _____ costs n. _____			o. _____
Less: Ending p. _____			(58,000)
q. _____			r. _____

HiHoist Manufacturing Company s. _____ t. _____ July 31			
Sales revenue			$ u. _____
Cost of goods sold:			
Beginning v._____		$ 263,000	
w. _____		x. _____	
Cost of goods y._____		z. _____	
Ending aa. _____		bb._____	
Cost of goods sold			431,000
Gross Profit			527,000
cc. _____ expenses:			
Marketing expense		212,000	
Administrative expense		dd. _____	332,000
ee. _____ income			$ ff. _____

Answer:

HiHoist Manufacturing Company a.*Schedule of Cost of Goods manufactured* b.*Month Ended*, July 31			
Beginning c. ***work in progress inventory***			$ 58,000
Add: Direct d. ***materials used***			
Beginning raw materials inventory	$e.***49,000***		
Purchases of direct materials	116,000		
f. ***Available for use***	165,000		
Ending raw materials inventory	(51,000)		
Direct g. ***materials used***		$ h.***114,000***	
Direct i. ***labour***		j.***185,000***	
Manufacturing overhead		60,0000	
Total k. ***manufacturing*** costs l. ***incurred during the month***			359,000
Total m. ***manufacturing*** costs n.***to account for***			o.***417,000***
Less: Ending p. ***work in process***			(58,000)
q. ***Cost of goods manufactured***			r.***$359,000***

HiHoist Manufacturing Company s. ***Income Statement*** t. ***Month*** July 31			
Sales revenue			$ u.***958,000***
Cost of goods sold:			
Beginning v. ***finished goods inventory***		$ 263,000	
w. ***Cost of goods manufactured***		x.***359,000***	
Cost of goods y. ***available for sale***		z.***622,000***	
Ending aa. ***Finished goods inventory***		bb.***(191,000)***	
Cost of goods sold			431,000
Gross Profit			527,000
cc. Operating expenses:			
Marketing expense		212,000	
Administrative expense		dd. ***120,000***	332,000
ee. ***Operating*** income			$ ff. $***195,000***

Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Analyze

68) Certain item descriptions and amounts are missing from the monthly schedule of cost of goods manufactured below and the income statement of Redlink Manufacturing. Fill in the missing items.

Schredlink Manufacturing Company a._____ b._____July 31			
Beginning c._____			$ 22,000
Add: Direct d._____			
Beginning raw materials inventory	$ e. _____		
Purchases of direct materials	56,000		
f. _____	81,000		
Ending raw materials inventory	(25,000)		
Direct g. _____		$ h._____	
Direct i. _____		j._____	
Manufacturing overhead		21,0000	
Total k. _____ costs l. _____			168,000
Total m. _____ costs n. _____			o. _____
Less: Ending p. _____			(27,000)
q. _____			r. _____

Schredlink Manufacturing Company s. _____ t. _____ July 31			
Sales revenue			$ u. _____
Cost of goods sold:			
Beginning v._____		$ 117,000	
w. _____		x. _____	
Cost of goods y._____		z. _____	
Ending aa. _____		bb._____	
Cost of goods sold			213,000
Gross Profit			261,000
cc. _____ expenses:			
Marketing expense		101,000	
Administrative expense		dd. _____	157,000
ee._____ income			$ ff. _____

Answer:

Schredlink Manufacturing Company a.***Schedule of Cost of Goods manufactured*** b.***Month Ended,*** July 31			
Beginning c. ***work in progress inventory***			$ 22,000
Add: Direct d. ***materials used***			
Beginning raw materials inventory	$e.***137,0 00***		
Purchases of direct materials	56,000		
f. ***Available for use***	81,000		
Ending raw materials inventory	(25,000)		
Direct g. ***materials used***		$ h.***56,000***	
Direct i. ***labour***		j.***91,000***	
Manufacturing overhead		21,000	
Total k. ***manufacturing*** costs l. ***incurred during the month***			168,000
Total m. ***manufacturing*** costs n.***to account for***			o.***190,000***
Less: Ending p. ***work in process***			(27,000)
q. ***Cost of goods manufactured***			r.***$163,000***

Schredlink Manufacturing Company s. ***Income Statement*** t. ***Month*** July 31			
Sales revenue			$ u. ***474,000***
Cost of goods sold:			
Beginning v. ***finished goods inventory***		$ 117,000	
w. ***Cost of goods manufactured***		x.***163,000***	
Cost of goods y. available for sale		z.***280,000***	
Ending aa. ***Finished goods inventory***		bb.***(67,000)***	
Cost of goods sold			213,000
Gross Profit			261,000
cc. Operating expenses:			
Marketing expense		101,000	
Administrative expense		***dd. 56,000***	157,000
ee. ***Operating*** income			$ ff. $***104,000***

Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Analyze

69) Eschliman Manufacturing Company had the following account balances for the quarter ending September 30, unless otherwise noted:

Amortization of manufacturing equipment	$88,000
Amortization of office equipment	41,200
Direct manufacturing labour	160,000
Direct materials used	126,000
Finished goods inventory (July 1)	180,000
Finished goods inventory (September 30)	170,000
General office expenses	101,800
Indirect manufacturing labour	62,000
Indirect materials used	28,000
Marketing distribution costs	10,000
Miscellaneous plant overhead	45,000
Plant utilities	30,800
Property taxes on plant building	9,600
Property taxes on salespersons' company vehicles	4,000
Work-in-process inventory (July 1)	46,800
Work-in-process inventory (September 30)	57,000

Required:

a. Prepare a cost of goods manufactured schedule for the quarter.

b. Prepare a cost of goods sold schedule for the quarter.

Answer:

a.

Eschliman Manufacturing Company
Cost of Goods Manufactured Schedule
For the Quarter Ending September 30

Direct materials used		$126,000
Direct manufacturing labour		160,000
Manufacturing overhead		
Amortization of mfg. equip.	$88,000	
Indirect mfg. labour	62,000	
Indirect materials	28,000	
Miscellaneous plant overhead	45,000	
Plant utilities	30,800	
Property taxes on building	9,600	263,400
Manufacturing costs incurred		$549,400
Add beginning work-in-process inventory		46,800
Total manufacturing costs		$596,200
Less: ending work-in-process inventory		57,000
Cost of goods manufactured		$539,200

b.

Eschliman Manufacturing Company
Cost of Goods Sold Schedule
For the Quarter Ending September 30

Beginning finished goods inventory	$180,000
Cost of goods manufactured	539,200
Cost of goods available for sale	$719,200
Ending finished goods inventory	170,000
Cost of goods sold	$549,200

Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Apply

70) The following information is taken from the records of Britton Company for March:

Purchases:	
Direct materials	$9,000,000
Indirect materials	200,000
Office supplies	420,000
Sales	36,000,000
Salaries and Benefits:	
Selling and administrative	4,000,000
Direct manufacturing labour	6,000,000
Rent*	4,000,000
Utilities*	1,200,000
Advertising	700,000

Inventories:	March 1	March 31
Direct materials	$4,400,000	$1,600,000
Indirect materials	500,000	600,000
Office supplies	150,000	180,000
Finished goods	24,000,000	16,000,000

* Of these costs, 60 percent are assigned to manufacturing and 40 percent to selling and administration.

Required:

a. Prepare a schedule of cost of goods manufactured.

b. Prepare an income statement for the month.

Answer:

a.

Britton Company
Cost of Goods Manufactured Schedule
For March

Direct materials:		
Beginning inventory	$4,400,000	
Purchases of direct materials	9,000,000	
Cost of direct materials available	$13,400,000	
Ending inventory	1,600,000	
Direct materials used		$11,800,000
Direct manufacturing labour		6,000,000
Manufacturing overhead:		
Rent (60%)	$2,400,000	
Utilities (60%)	720,000	
Indirect materials ($200,000 + $500,000 - $600,000)	100,000	3,220,000
Cost of goods manufactured		$21,020,000

b.

Britton Company
Income Statement
For the Month of March

Sales		$36,000,000
Cost of goods sold		
Beginning inventory	$24,000,000	
Cost of goods manufactured	21,020,000	
Cost of goods available for sale	$45,020,000	
Ending inventory	16,000,000	29,020,000
Gross margin		$6,980,000
Other costs		
Supplies ($420,000 + $150,000 - $180,000)	$390,000	
Selling and administrative salaries	4,000,000	
Rent (40%)	1,600,000	
Utilities (40%)	480,000	
Advertising	700,000	7,170,000
Operating Income <Loss>		$(190,000)

Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Apply

71) Manitoba Industries Inc. had the following account balances at the end of the current year:

Direct materials:	
Beginning inventory	$13,000
Purchases	?
Ending inventory	17,000
Direct manufacturing labour	?
Manufacturing overhead	28,000
Cost of goods manufactured	210,000
Beginning work-in-process inventory	11,000
Ending finished goods inventory	17,000
Beginning finished goods inventory	?
Ending work-in-process inventory	?
Manufacturing costs incurred	213,000
Cost of goods sold	215,000
Total manufacturing costs to account for	224,000
Direct materials used	118,000

Required:
Determine the amounts for direct material purchases, direct manufacturing labour, ending work-in-process inventory, and beginning finished goods inventory.
Answer:

Direct materials:	
Beginning inventory	$13,000
Purchases	122,000
Ending inventory	17,000
Direct materials used	$118,000
Direct manufacturing labour	67,000
Manufacturing overhead	28,000
Manufacturing costs incurred	$213,000
Beginning work-in-process inventory	11,000
Total manufacturing cost to account for	$224,000
Ending work-in-process inventory	14,000
Cost of goods manufactured	$210,000
Beginning finished goods inventory	$22,000
Cost of goods manufactured	210,000
Ending finished goods inventory	17,000
Cost of goods sold	$215,000

Diff: 3 Type: SA
LO: 2-5
Bloom's Taxonomy: Analyze

2.6 Describe costs that are relevant and irrelevant to decision making.

1) Differential cost is the difference in cost between two alternatives.
Answer: TRUE
Diff: 1 Type: TF
LO: 2-6
Bloom's Taxonomy: Remember

2) Decision making is guided only by differential costs.
Answer: FALSE
Diff: 2 Type: TF
LO: 2-6
Bloom's Taxonomy: Remember

3) Irrelevant factors should be considered when making decisions.
Answer: FALSE
Diff: 1 Type: TF
LO: 2-6
Bloom's Taxonomy: Remember

4) You are trying to decide whether or not to sell back your accounting textbook at the end of the class. The cost you paid for the book is relevant to your decision.
Answer: FALSE
Diff: 2 Type: TF
LO: 2-6
Bloom's Taxonomy: Remember

5) Sunk costs are a major part of the decision making process.
Answer: FALSE
Diff: 1 Type: TF
LO: 2-6
Bloom's Taxonomy: Remember

6) Costs resulting from product design are locked in.
Answer: TRUE
Diff: 2 Type: TF
LO: 2-6
Bloom's Taxonomy: Understand

7) _____ information is that which differs between alternatives and can affect the future.
A) Historical
B) Irrelevant
C) Predictable
D) Relevant
Answer: D
Diff: 2 Type: MC
LO: 2-6
Bloom's Taxonomy: Understand

8) Which of the following represents a sunk cost?
A) A historical cost that is never relevant
B) A historical cost that is always relevant
C) An outlay expected to be incurred in the future
D) A cost that is relevant to any decision
Answer: A
Diff: 2 Type: MC
LO: 2-6
Bloom's Taxonomy: Remember

9) Subtracting the costs of one alternative from the costs of the other alternative would be called the _____ cost.
A) sunk
B) imported
C) differential
D) alternative
Answer: C
Diff: 2 Type: MC
LO: 2-6
Bloom's Taxonomy: Remember

10) When deciding to buy a new computer, the irrelevant cost is the
A) cost of the new computer.
B) cost of the old computer.
C) games that come with the new computer.
D) warranty on the new computer.
Answer: B
Diff: 2 Type: MC
LO: 2-6
Bloom's Taxonomy: Understand

11) When making a decision to buy a new computer, the irrelevant costs are the
A) differential costs.
B) relevant costs.
C) qualitative characteristics.
D) sunk costs.
Answer: D
Diff: 2 Type: MC
LO: 2-6
Bloom's Taxonomy: Understand

12) A company is deciding whether to purchase production equipment which can produce units more quickly than the current equipment. Which of the following costs would be relevant to its decision?
A) The cost of the new equipment
B) The salary of the factory manager
C) The cost of raw materials
D) The original purchase price of the current machinery
Answer: A
Diff: 2 Type: MC
LO: 2-6
Bloom's Taxonomy: Understand

13) A restaurant is facing a decision about whether it should bake its own dinner rolls or whether it should continue to purchase the dinner rolls from a local bakery. Which of the following costs would be relevant to its decision?
A) The salary of the restaurant manager
B) The purchase price of the dinner rolls purchased from the local bakery
C) The price the restaurant sells the dinner rolls for
D) The original purchase price of the current machinery
Answer: B
Diff: 2 Type: MC
LO: 2-6
Bloom's Taxonomy: Understand

14) A company is deciding whether to purchase hybrid cars for its salespeople or gasoline-engine cars. Which of the following costs is irrelevant to its decision?
A) The cost per gallon of gasoline
B) The purchase price of the hybrid model
C) The purchase price of the gasoline-engine model
D) The book value of the current fleet of sales vehicles
Answer: D
Diff: 2 Type: MC
LO: 2-6
Bloom's Taxonomy: Understand

15) Jansen Industries is considering replacing a machine that is presently used in its production process. The following information is available:

	Old Machine	Replacement Machine
Original cost	$25,000	$35,000
Remaining useful life in years	1	5
Current age in years	5	0
Book value	$5,000	
Current disposal value in cash	$3,000	
Future disposal value in cash (in 5 years)	$0	$2,000
Annual cash operating costs	$7,000	$4,000

Which of the information provided in the table is irrelevant to the replacement decision?
A) The annual operating cost of the old machine
B) The original cost of the old machine
C) The current disposal value of the old machine
D) The future disposal value of the replacement machine
E) The remaining useful life of the old machine
Answer: B
Diff: 2 Type: MC
LO: 2-6
Bloom's Taxonomy: Understand

16) You have the opportunity to attend a Leafs game either at home in Toronto against the Buffalo Sabres or in Buffalo. You can travel to the Toronto game using your weekly TTC bus pass which cost $36.00 when purchased to travel to school each week. If you attend the game in Buffalo your share of the cost of travelling with a group of friends by car will be $23.00. The cost of a ticket in Buffalo is $45.00. In Toronto you will have to acquire the ticket from a scalper at the cost of $85.00. The cost of hot dogs and beer at the Toronto game will be $60.00. The same food and beverages in Buffalo will cost $38.00. You must decide which game to attend.

Required:
A. Which if any of the listed costs above are not relevant to your decision?
B. What are the total relevant costs of attending the game in Toronto?
C. What are the total relevant costs of attending the game in Buffalo?
D. What is the differential cost involved in your decision?
Answer: A. The cost of the bus pass.
B. $85 + $60 = $145
C. $45 + $38 + $23 = $106
D. $145 - $106 = $39
Diff: 2 Type: SA
LO: 2-6
Bloom's Taxonomy: Apply

17) You are planning to buy a new car. Based on your market research you have narrowed the decision to a choice between a Honda Civic and a Toyota Corolla. Since you are indifferent between the two vehicles you decide to base you decision on relevant cost only. You will be trading in your current vehicle which you purchased used a year ago. You expect to keep the new vehicle for five years. You have gathered the following data for use in your decision:

VEHICLE	HONDA CIVIC	TOYOTA COROLLA
Purchase Price	$14,990	$15,450
Insurance (5 years)	$21,670	$19,680
Annual operating costs	$3,800	$3,800
Purchase price of current vehicle	$8,000	$8,000
Trade-in allowance for current vehicle	$5,600	$6,300
Sales tax	$1,220	$1,190
Expected sales value of new vehicle at end of five years	$8,300	$7,100

Required:
A. Which if any of the listed costs above are not relevant to your decision?
B. What are the total relevant costs and allowances of purchasing the Civic?
C. What are the total relevant costs and allowances of purchasing the Corolla?
D. What is the differential cost involved in your decision?
Answer: A. Purchase price of current vehicle - $8,000 and annual operating costs
B. $14,990 - 5,600 + 1,220 + 21,670 - 8,300 = $23,980
C. $15,450 - 6,300 + 1,190 + 19,680 - 7,100= $22,920
D. $23,980 - $22,920 = $1,060
Diff: 3 Type: SA
LO: 2-6
Bloom's Taxonomy: Apply

18) White Water Tours is considering the purchase of a new tour boat. They are faced with choosing between the Wave Runner and the Split Hull models. The boats are comparable on performance and both meet the company's needs equally. Both boats have an expected useful life of five years at which time they will be sold. The following information has been gathered to assist in making the purchase decision:

	WAVE RUNNER	SPLIT HULL
Purchase price	$110,350	$121,900
Fuel cost over useful life	29,680	28,430
Insurance cost over useful life	60,000	60,000
Estimated repairs and maintenance	15,490	17,380
Revenue generated over useful life	575,000	575,000
Estimate selling price at end of useful life	22,750	18,500

Required:
A. Which if any of the listed costs above are not relevant to your decision?
B. What are the total relevant costs of purchasing the Wave Runner?
C. What are the total relevant costs of purchasing the Split Hulla?
D. What is the differential cost involved in your decision?
Answer: A. Insurance cost ($60,000) and Revenue Generated ($575,000)
B. $110,350 + 29,680 + 15,490 - 22,750 = $132,770
C. $121,900 + 28,430 + 17,380 - 18,500 = $149,210
D. $142,910 - 132,770 = $16,440
Diff: 3 Type: SA
LO: 2-6
Bloom's Taxonomy: Apply

19) A student is considering whether to finish their university program in four consecutive years, or take a year off and work for some extra cash.

Required:
a. Identify at least two revenues or costs that are relevant to making this decision. Explain why each is relevant.
b. Identify at least two costs that would be considered sunk costs for this decision.
c. Comment on at least one qualitative consideration for this decision.
Answer:
a. Relevant revenues/costs are those that differ between the alternatives of continuing with university or taking a year off from university and working. Relevant costs for continuing your college education without a break include:

1. Earnings lost next year due to the hours you are not able to work because of classes and homework.
2. As a result of graduating a year earlier, higher wages will be earned a year earlier as well.

b. Sunk costs for this decision include:

1. Amounts paid for university tuition and books during the past two years.
2. Amounts committed for university tuition and books for the remaining two years.

c. A qualitative consideration would include having different activities and priorities than your friends who are students, graduating later than students who started university the same time you did, and retaining information over the year off from school.
Diff: 2 Type: SA
LO: 2-6
Bloom's Taxonomy: Apply

20) Differentiate between relevant and irrelevant costs and give an example using both.
Answer: When making a decision, those costs that differ between alternatives are relevant costs. Costs that do not differ between alternatives are irrelevant. For example, when deciding to buy a new car, the cost of the cars under consideration is relevant as is the insurance cost for each car. If they both have the same fuel economy ratings, then the cost of gasoline is irrelevant to the decision.
Diff: 2 Type: ES
LO: 2-6
Bloom's Taxonomy: Understand

Match the following:

A) Irrelevant
B) Relevant

21) Cost of insurance on a new vehicle when evaluating purchase of new vehicle
Diff: 2 Type: MA
LO: 2-6
Bloom's Taxonomy: Understand

22) Cost of roof repair made on rental property last year when evaluating sale of rental property
Diff: 2 Type: MA
LO: 2-6
Bloom's Taxonomy: Understand

23) Original cost of old equipment that is being evaluated for replacement
Diff: 2 Type: MA
LO: 2-6
Bloom's Taxonomy: Understand

24) Cost of new equipment that is under evaluation to replace used equipment
Diff: 2 Type: MA
LO: 2-6
Bloom's Taxonomy: Understand

25) Accumulated depreciation on old equipment being evaluated for replacement
Diff: 2 Type: MA
LO: 2-6
Bloom's Taxonomy: Understand

26) Cost of previous year's insurance policy on old equipment being evaluated for replacement
Diff: 2 Type: MA
LO: 2-6
Bloom's Taxonomy: Understand

Answers: 21) B 22) A 23) A 24) B 25) A 26) A

Match the following:

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

27) The combination of direct materials and direct labour
Diff: 2 Type: MA
LO: 2-6
Bloom's Taxonomy: Remember

28) Costs that change in total in direct proportion to changes in volume
Diff: 2 Type: MA
LO: 2-6
Bloom's Taxonomy: Remember

29) A cost that relates to the cost object, but cannot be traced to it
Diff: 2 Type: MA
LO: 2-6
Bloom's Taxonomy: Remember

30) A cost that has already been incurred
Diff: 2 Type: MA
LO: 2-6
Bloom's Taxonomy: Remember

Answers: 27) B 28) G 29) H 30) A

2.7 Classify costs as fixed or variable, and calculate total and average costs at different volumes.

1) Fixed costs stay constant in total over a wide range of activity levels.
Answer: TRUE
Diff: 1 Type: TF
LO: 2-7
Bloom's Taxonomy: Remember

2) All costs contain both a fixed and a variable part.
Answer: FALSE
Diff: 2 Type: TF
LO: 2-7
Bloom's Taxonomy: Understand

3) The total cost of a product equals the total fixed costs plus the average variable costs.
Answer: FALSE
Diff: 2 Type: TF
LO: 2-7
Bloom's Taxonomy: Understand

4) A marginal cost is the cost of making one more unit of a product.
Answer: TRUE
Diff: 1 Type: TF
LO: 2-7
Bloom's Taxonomy: Remember

5) Average costing should be used to forecast costs at different levels of production.
Answer: FALSE
Diff: 1 Type: TF
LO: 2-7
Bloom's Taxonomy: Remember

6) Total variable costs
A) remain the same as production decreases.
B) remain the same as production increases.
C) go down as production decreases.
D) remain the same no matter if production increases or decreases.
Answer: C
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Understand

7) The cost of making one more unit is called
A) marginal cost.
B) unit cost.
C) variable cost.
D) fixed cost.
Answer: A
Diff: 1 Type: MC
LO: 2-7
Bloom's Taxonomy: Remember

8) Farm Supply plans to make 10,000 tractors at its plant. Fixed costs are $1,000,000 and variable costs are $500 per tractor. What is the average cost per tractor?
A) $600
B) $500
C) $100
D) $1,500
Answer: A
Explanation: A) $500 + ($1,000,000/10,000) = $600
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Apply

9) A(n) _____ cost is one whose total amount changes in direct proportion to a change in volume.
A) fixed
B) irrelevant
C) mixed
D) variable
Answer: D
Diff: 1 Type: MC
LO: 2-7
Bloom's Taxonomy: Remember

10) Which of the following is an example of a fixed cost for a manufacturer?
A) Salary of plant manager
B) Sales commissions
C) Direct materials
D) Delivery costs
Answer: A
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Understand

11) Which of the following describes the way in which variable costs per unit behave?
A) They will decrease as production increases.
B) They will increase as production decreases.
C) They will remain the same as production levels change.
D) They will decrease as production decreases.
Answer: C
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Understand

12) Which of the following describes the way in which total variable costs behave?
A) They remain the same as production levels change.
B) They will decrease as production decreases.
C) They will decrease as production increases.
D) They will increase as production decreases.
Answer: B
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Understand

13) Which of the following describes the way in which total fixed costs behave?
A) They will remain the same as production levels change.
B) They will decrease as production decreases.
C) They will decrease as production increases.
D) They will increase as production decreases.
Answer: A
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Understand

14) Which of the following describes the way fixed costs per unit behave?
A) They will remain the same as production levels change.
B) They will decrease as production decreases.
C) They will increase as production increases.
D) They will increase as production decreases.
Answer: D
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Understand

15) Variable costs
A) are fixed in total as production levels change.
B) are fixed per unit and vary in total as productions levels change.
C) decrease per unit as production volume increases.
D) vary per unit of output as production levels change.
Answer: B
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Understand

Use the information below to answer the following question(s).

Sanjay Company has monthly fixed costs of $112,000. The variable costs are $5.00 per unit.The sales price per unit is $20.00 and they sold 8,000 units.

16) Sanjay Company's average fixed costs per unit will be
A) $19.00 per unit.
B) $5.00 per unit.
C) $14.00 per unit.
D) $15.00 per unit.
Answer: C
Explanation: C) 112,000/8,000 = 14
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Apply

17) Sanjay Company's total variable costs will be
A) $112,000.
B) $160,000.
C) $120,000.
D) $40,000.
Answer: D
Explanation: D) 8,000 × $5.00 = $40,000
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Apply

18) Sanjay Company's total sales revenue will be
A) $160,000.
B) $120,000.
C) $112,000.
D) $8,000.
Answer: A
Explanation: A) $20.00 × 8,000 = $160,000
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Paris Plastics has monthly fixed costs of $90,000, while its variable costs are $4.00 per unit. The sales price per unit is $16.00 and Paris Plastics sold 12,000 units.

19) Paris Plastics' average fixed costs per unit will be
A) $11.50 per unit.
B) $4.00 per unit.
C) $7.50 per unit.
D) $12.00 per unit.
Answer: C
Explanation: C) 90,000/12,000 = $7.50
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Apply

20) Paris Plastics' total variable costs will be
A) $90,000.
B) $192,000.
C) $144,000.
D) $48,000.
Answer: D
Explanation: D) $4.00 × 12,000 = $48,000
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Apply

21) Paris Plastics' total sales revenue will be
A) $192,000.
B) $144,000.
C) $90,000.
D) $54,000.
Answer: A
Explanation: A) 12,000 × $16.00 = $192,000
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Apply

22) A company has fixed costs of $75,000 per month. If sales double from 5,000 to 10,000 units during the month, fixed costs will
A) remain the same.
B) double.
C) be cut in half.
D) increase slightly.
Answer: A
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Understand

23) A company produces toy airplanes at a variable cost of $21 per toy. If 6,000 toys are produced at a total variable cost of $126,000, the total variable cost at 4,000 toys will be
A) $126,000.
B) $84,000.
C) $210,000.
D) $86,000.
Answer: B
Explanation: B) 4,000 × $21.00 = $84,000
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Apply

24) Smythe Manufacturing produces food processors. Their total fixed costs are $50,000. Its variable costs are $75.00 per food processor. As production of food processors increases, fixed costs will
A) stay the same per unit.
B) decrease as sales increase.
C) increase as sales decrease.
D) decrease per unit as sales increase.
Answer: D
Diff: 2 Type: MC
LO: 2-7
Bloom's Taxonomy: Understand

25) A company's total costs are calculated by
A) subtracting total fixed costs from total variable costs.
B) subtracting total variable costs from total fixed costs.
C) adding total fixed costs to total variable costs.
D) subtracting total fixed costs and total variable costs from sales.
Answer: C
Diff: 1 Type: MC
LO: 2-7
Bloom's Taxonomy: Remember

Use the information below to answer the following question(s).

Macadamia Co. produced and sold 40,000 units last year. **Per unit** revenue and costs were as follows:

Revenue		$100.00
Cost of Goods Sold:		
Direct Materials	$15.00	
Direct Labour	30.00	
Variable Manufacturing Overhead	20.00	
Fixed Manufacturing Overhead	10.00	
Total Cost of Goods Sold		75.00
Gross Margin		$25.00
Selling and Administrative Costs:		
Sales Commissions (10% of Sales)	$10.00	
Administrative Salaries	20.00	
Total Selling and Administrative		30.00
Operating Income <Loss>		<$5.00>

Fixed manufacturing overhead and administrative salaries are fixed costs. The per unit amounts are based on last year's production.

26) Calculate last year's operating income when the company produced and sold 40,000 units.
A) $0
B) $(200,000)
C) $(500,000)
D) $(800,000)
E) $(1,000,000)
Answer: B
Explanation: B) 40,000 × [100 - (15 + 30 + 20 + 10)] - [40,000 × (20 + 10)] = $<200,000>
Diff: 3 Type: MC
LO: 2-7
Bloom's Taxonomy: Apply

27) Calculate this year's operating income if the company plans to produce and sell 50,000 units.
A) $50,000
B) $0
C) $(250,000)
D) $(550,000)
E) $250,000
Answer: A
Explanation: A) 50,000 × [100 - (15 + 30 + 20 + 10)] - [40,000 × (20 + 10)] = $50,000
Diff: 3 Type: MC
LO: 2-7
Bloom's Taxonomy: Apply

28) Calculate this year's operating income if the company plans to produce and sell 60,000 units.
A) $150,000
B) $0
C) $(300,000)
D) $(650,000)
E) $300,000
Answer: E
Explanation: E) 60,000 × [100 - (15 + 30 + 20 + 10)] - [40,000 × (20 + 10)] = $300,000
Diff: 3 Type: MC
LO: 2-7
Bloom's Taxonomy: Apply

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

a. What are the total fixed costs per month?
b. What are the total variable costs per month?
c. What is the fixed cost per snack pack?
d. What is the variable cost per snack pack?
e. What is the average cost per snack pack?
f. What is the average profit margin per snack pack?
g. Based on your analysis, should you start the snack pack business?
Answer:
a. $1,000 ($500 + $500)
b. $1,000 (50 cents × 2,000 snack packs)
c. 50 cents ($1,000/2,000 snack packs)
d. 50 cents (given in the problem)
e. $1.00
f. $0 ($1 - 50 cents - 50 cents)
g. No, if looked at only from a financial viewpoint. Unless the selling price can be increased or the costs decreased, no profit is being generated. There could be other reasons to start the business such as learning about running a business, helping out your friends, or generating good will among the other students.
Diff: 2 Type: SA
LO: 2-7
Bloom's Taxonomy: Apply

30) The owner of Willy's Wonderful Burger Stand is concerned because the stand has been averaging only 3,000 burger sales per month, the stand and staff can make 6,000 burgers per month. The variable cost of each burger (buns, meat, etc.) is $2.50. Monthly fixed costs are (taxes, licenses, space rent and salaries) are $7,500. The owner (Willy Wonderful) wants cost information about different volumes so that he can make some operating decisions.

Required: Fill in the following chart to provide Willy with the information he wants.

Monthly burger sales	2,500	3,000	5,000
Total fixed Costs	$_____	$_____	$_____
Total variable cost	$_____	$_____	$_____
Total costs	$_____	$_____	$_____
Fixed cost per burger	$_____	$_____	$_____
Variable cost per burger	$_____	$_____	$_____
Average cost per burger	$_____	$_____	$_____
Sales price per burger	$5.00	$5.00	$5.00
Average profit per burger	$_____	$_____	$_____

Answer:

Monthly burger sales	2,500	3,000	5,000
Total fixed Costs	$7,500	$7,500	$7,500
Total variable cost	$6,250	$7,500	$12,500
Total costs	$13,750	$15,000	$20,000
Fixed cost per burger	$3.00	$2.50	$1.50
Variable cost per burger	$2.50	$2.50	$2.50
Average cost per burger	$5.50	$5.00	$4.00
Sales price per burger	$5.00	$5.00	$5.00
Average profit per burger	($0.50)	$0.00	$1.00

Diff: 2 Type: SA
LO: 2-7
Bloom's Taxonomy: Apply

31) The owner of Willy's Wonderful Burger Stand is concerned because the stand has been averaging only 3,000 burger sales per month, the stand and staff can make 6,000 burgers per month. The variable cost of each burger (buns, meat, etc.) is $2.50. Monthly fixed costs are (taxes, licenses, space rent and salaries) are $7,500. The owner (Willy Wonderful) believes he could sell 5,000 burgers per month if he cuts the sales price from $5.00 to $4.75 per burger. How much extra profit (above the current level) would he generate if he decreased the sales price?
Answer: New profit = (5,000 × $4.75) - (5,000 × $2.50) - $7,500 = $3,750
Current profit = (3,000 × $5.00) - (3,000 × $2.50) - $7,500 = $0
Increased profit = $3,750 - $0 = $3,750
Diff: 2 Type: SA
LO: 2-7
Bloom's Taxonomy: Apply

32) The owner of Fat Man's Sausage Cart is concerned because the stand has been averaging only 5,500 sausage sales per month, the stand and staff can make 7,000 sausages on a bun per month. The variable cost of each sausage (buns, meat, etc.) is $3.50. Monthly fixed costs are (taxes, licenses, space rent and salaries) are $10,000. The owner (Big Bob) wants cost information about different volumes so that he can make some operating decisions.

Required: Fill in the following chart to provide Bob with the information he wants.

Monthly sausage sales	3,000	5,000	7,000
Total fixed Costs	$_____	$_____	$_____
Total variable cost	$_____	$_____	$_____
Total costs	$_____	$_____	$_____
Fixed cost per sausage	$_____	$_____	$_____
Variable cost per sausage	$_____	$_____	$_____
Average cost per sausage	$_____	$_____	$_____
Sales price per sausage	$7.50	$7.50	$7.50
Average profit per sausage	$_____	$_____	$_____

Answer:

Monthly sausage sales	3,000	5,000	7,000
Total fixed Costs	$10,000	$10,000	$10,000
Total variable cost	$10,500	$17,500	$24,500
Total costs	$20,500	$27,500	$34,500
Fixed cost per sausage	$3.33	$2.00	$1.43
Variable cost per sausage	$3.50	$3.50	$3.50
Average cost per sausage	$6.83	$5.50	$4.93
Sales price per sausage	$7.50	$7.50	$7.50
Average profit per sausage	$0.67	$2.00	$2.57

Diff: 2 Type: SA
LO: 2-7
Bloom's Taxonomy: Apply

33) The owner of Fat Man's Sausage Cart is concerned because the stand has been averaging only 5,500 sausage sales per month, the stand and staff can make 7,000 sausages on a bun per month. The variable cost of each sausage (buns, meat etc.) is $3.50. Monthly fixed costs are (taxes, licenses, space rent and salaries) are $10,000. The owner (Big Bob) believes he could sell 7,000 sausages per month if he cuts the sales price from $7.50 to $7.00 per sausage. How much extra profit (above the current level) would he generate if he decreased the sales price?
Answer: New profit = (7,000 × $7.00) - (7,000 × $3.50) - $10,000 = $14,500
Current profit = (5,500 × $7.50) - (5,500 × $3.50) - $10,000 = $12,000
Increased profit = $14,500 - $12,000 = $2,500
Diff: 2 Type: SA
LO: 2-7
Bloom's Taxonomy: Apply

34) The owner of Spicy's Gourmet Popcorn is concerned because the stand has been averaging sales of only 7,500 cartons per month, the stand and staff can make 15,000 cartons of popcorn per month. The variable cost of each carton is $1.50. Monthly fixed costs are (taxes, licenses, space rent and salaries) are $10,000. The owner wants cost information about different volumes so that he can make some operating decisions.

Required: Fill in the following chart to provide Bob with the information he wants.

Monthly carton sales	7,500	10,000	15,000
Total fixed Costs	$_____	$_____	$_____
Total variable cost	$_____	$_____	$_____
Total costs	$_____	$_____	$_____
Fixed cost per carton	$_____	$_____	$_____
Variable cost per carton	$_____	$_____	$_____
Average cost per carton	$_____	$_____	$_____
Sales price per carton	$5.50	$5.50	$5.50
Average profit per carton	$_____	$_____	$_____

Answer:

Monthly carton sales	7,500	10,000	15,000
Total fixed Costs	$10,000	$10,000	$10,000
Total variable cost	$11,500	$15,000	$22,500
Total costs	$21,250	$25,000	$32,500
Fixed cost per carton	$1.33	$1.00	$0.67
Variable cost per carton	$1.50	$1.50	$1.50
Average cost per carton	$2.38	$2.50	$2.17
Sales price per carton	$5.50	$5.50	$5.50
Average profit per carton	$2.67	$3.00	$3.33

Diff: 2 Type: SA
LO: 2-7
Bloom's Taxonomy: Apply

35) The owner of Spicy's Gourmet Popcorn is concerned because the stand has been averaging sales of only 7,500 cartons per month, the stand and staff can make 15,000 cartons of popcorn per month. The variable cost of each carton is $1.50. Monthly fixed costs are (taxes, licenses, space rent and salaries) are $10,000. The owner believes he could sell 15,000 cartons per month if he cuts the sales price from $5.50 to $5.00 per carton. How much extra profit (above the current level) would he generate if he decreased the sales price?
Answer:
New profit = (15,000 × $5.00) - (15,000 × $1.50) - $10,000 = $42,500
Current profit = (7,500 × $5.50) - (7,500 × $1.50) - $10,000 = $20,000
Increased profit = $42,500 - $20,000 = $22,500
Diff: 2 Type: SA
LO: 2-7
Bloom's Taxonomy: Apply

36) Big Island Coffee Co. produced and sold 120,000 units last year. **Per unit** revenue and costs were as follows:

Revenue		$35.00
Cost of Goods Sold:		
Direct Materials	$20.00	
Direct Labour	3.00	
Variable Manufacturing Overhead	2.00	
Fixed Manufacturing Overhead	1.00	
Total Cost of Goods Sold		26.00
Gross Margin		$9.00
Selling and Administrative Costs:		
Sales Commissions (10% of sales)	$3.50	
Administrative Salaries	6.00	
Total Selling and Administrative		9.50
Operating Income <Loss>		<$0.50>

Fixed manufacturing overhead and administrative salaries are fixed costs. The per unit amounts are based on last year's production.

Required:
Calculate this year's operating income if the company plans to produce and sell 200,000 units.
Answer: 200,000 × [35 - (20 + 3 + 2 + 3.50)] - [120,000 × (1 + 6)] = $460,000
Diff: 3 Type: SA
LO: 2-7
Bloom's Taxonomy: Apply

37) Differentiate between fixed and variable costs and give an example of each.
Answer: Fixed costs stay constant in total over a wide range of activity levels. For instance, the rent on a factory is the same whether 10,000 products are produced each month or 1,000 products are produced. Variable costs change in total in direct proportion to changes in volume. If the variable cost of producing one item is $1, and if 10,000 units are produced, the cost will be $10,000 and if only 1,000 units are produced, the cost will be only $1,000.
Diff: 2 Type: ES
LO: 2-7
Bloom's Taxonomy: Understand

38) How are average cost and marginal cost computed?
Answer: The average cost is the total cost divided by the number of units produced. Marginal cost is the cost of making one more unit.
Diff: 2 Type: ES
LO: 2-7
Bloom's Taxonomy: Understand

Match the following:

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

39) The total cost divided by the total volume
Diff: 1 Type: MA
LO: 2-7
Bloom's Taxonomy: Remember

40) The difference in cost between two alternative courses of action
Diff: 1 Type: MA
LO: 2-7
Bloom's Taxonomy: Remember

41) The combination of direct labour and manufacturing overhead costs H) Conversion costs
Diff: 1 Type: MA
LO: 2-7
Bloom's Taxonomy: Remember

42) The cost of producing one more unit
Diff: 1 Type: MA
LO: 2-7
Bloom's Taxonomy: Remember

43) Costs that can be traced to the cost object
Diff: 1 Type: MA
LO: 2-7
Bloom's Taxonomy: Remember

Answers: 39) C 40) D 41) H 42) E 43) G