

CHAPTER 1—INTRODUCTION TO COST ACCOUNTING

MULTIPLE CHOICE

1. The business entity that converts purchased raw materials into finished goods by using labor, technology, and facilities is a:
 - a. Manufacturer.
 - b. Merchandiser.
 - c. Service business.
 - d. Not-for-profit service agency.

ANS: A

The business entity that converts purchased raw materials into finished goods by using labor, technology, and facilities is a manufacturer.

PTS: 1 DIF: Easy REF: P. OBJ: Introduction
NAT: IMA 4 - Business Applications TOP: AACSB - Analytic

2. The business entity that purchases finished goods for resale is a:
 - a. Manufacturer.
 - b. Merchandiser.
 - c. Service business.
 - d. For-profit service business.

ANS: B

The business entity that purchases finished goods for resale is a merchandiser.

PTS: 1 DIF: Easy REF: P. OBJ: Introduction
NAT: IMA 4 - Business Applications TOP: AACSB - Analytic

3. The type of merchandiser who purchases goods from the producer and sells to stores who sell to the consumer is a:
 - a. Manufacturer.
 - b. Retailer.
 - c. Wholesaler.
 - d. Service business.

ANS: C

The type of merchandiser that purchases goods from the producer and sells to the retailer is a wholesaler.

PTS: 1 DIF: Easy REF: P. OBJ: Introduction
NAT: IMA 4 - Business Applications TOP: AACSB - Analytic

4. Examples of service businesses include:
 - a. Airlines, architects, and hair stylists.
 - b. Department stores, poster shops, and wholesalers.
 - c. Aircraft producers, home builders, and machine tool makers.
 - d. None of these are correct.

ANS: A

Examples of service businesses include airlines, architects, and hair stylists.

PTS: 1 DIF: Moderate REF: P. OBJ: Introduction

NAT: IMA 4 - Business Applications TOP: AACSB - Reflective

5. ISO 9000 is a set of international standards for:
- determining the selling price of a product.
 - cost control.
 - quality management.
 - planning.

ANS: C

ISO 9000 is a set of international standards for quality management.

PTS: 1 DIF: Easy REF: P. OBJ: Introduction
NAT: IMA 3A - Strategic Planning TOP: AACSB - Analytic

6. Unit cost information is important for making all of the following marketing decisions **except**:
- Determining the selling price of a product.
 - Bidding on contracts.
 - Determining the amount of advertising needed to promote the product.
 - Determining the amount of profit that each product earns.

ANS: C

Unit cost information is used in determining selling price, bidding on contracts and determining product profitability, but would not have a bearing on determining how much the product would need to be advertised.

PTS: 1 DIF: Moderate REF: P. OBJ: 1
NAT: IMA 3B - Strategic Marketing TOP: AACSB - Analytic

7. The process of establishing objectives or goals for the firm and determining the means by which they will be met is:
- controlling.
 - analyzing profitability.
 - planning.
 - assigning responsibility.

ANS: C

The process of establishing goals and objectives for a firm is planning. Controlling, analyzing profitability and assigning responsibility are functions that take place after the planning process to determine whether or how successfully goals have been obtained.

PTS: 1 DIF: Easy REF: P. OBJ: 1
NAT: IMA 2A - Budget Preparation TOP: AACSB - Analytic

8. Control is the process of monitoring the company's operations to determine whether the company's objectives are being achieved. Effective control is achieved through all of the following **except**:
- periodically measuring and comparing company results.
 - assigning responsibility for costs to employees responsible for those costs.
 - constantly monitoring employees to ensure they do exactly as they are told.
 - taking necessary corrective action when variances warrant doing so.

ANS: C

While periodically measuring and comparing company results, assigning responsibility for those results to employees and taking necessary corrective action are all part of control; it does not include constantly monitoring employees to make sure they are following directions.

PTS: 1 DIF: Moderate REF: P.
NAT: IMA 2D - Performance Measurement

OBJ: 1
TOP: AACSB - Analytic

9. Aaron Smith is the supervisor of the Machining Department of Bennett Corporation. He has control over and is responsible for manufacturing costs traced to the department. The Machining Department is an example of a(n):
- cost center.
 - inventory center.
 - supervised work center.
 - worker's center.

ANS: A

The criteria for a cost center are 1) a reasonable basis on which manufacturing costs may be traced and 2) a person who has control over and is accountable for many of the costs charged to that center.

PTS: 1 DIF: Moderate REF: P.
NAT: IMA 2D - Performance Measurement

OBJ: 1
TOP: AACSB - Reflective

10. Which of the following items of cost would be **least** likely to appear on a performance report based on responsibility accounting for the supervisor of an assembly line in a large manufacturing situation?
- Direct labor
 - Indirect materials
 - Selling expenses
 - Repairs and maintenance

ANS: C

Selling expenses would be least likely to appear on a performance report, because the supervisor would not have responsibility for the sales function.

PTS: 1 DIF: Moderate REF: P.
NAT: IMA 2D - Performance Measurement

OBJ: 1
TOP: AACSB - Reflective

11. Which of the following items of cost would be **least** likely to appear on a performance report based on responsibility accounting for the supervisor of an assembly line in a large manufacturing situation?
- Direct labor
 - Supervisor's salary
 - Materials
 - Repairs and maintenance

ANS: B

A supervisor's salary would be least likely to appear on a performance report, because that person's salary is determined by the company and is not controllable by the supervisor.

PTS: 1 DIF: Hard REF: P.
NAT: IMA 2D - Performance Measurement

OBJ: 1
TOP: AACSB - Reflective

12. Responsibility accounting would most likely hold a manager of a manufacturing unit responsible for:
- cost of raw materials.
 - quantity of raw materials used.
 - the number of units ordered.
 - amount of taxes incurred.

ANS: B

In responsibility accounting the manager of a cost center is only responsible for those costs and activities that manager controls. A manufacturing manager would not likely be responsible for the cost of the materials (the purchasing manager would have that responsibility), the number of units ordered (that would be driven by demand) or the taxes incurred.

PTS: 1 DIF: Moderate REF: P. OBJ: 1
 NAT: IMA 2D - Performance Measurement TOP: AACSB - Reflective

13. Which of the following statements best describes a characteristic of a performance report prepared for use by a production line department head?
- The costs in the report should include only those controllable by the department head.
 - The report should be stated in dollars rather than in physical units so the department head knows the financial magnitude of any variances.
 - The report should include information on all costs chargeable to the department, regardless of their origin or control.
 - It is more important that the report be precise than timely.

ANS: A

The performance report should include only those costs controllable by the department head. It should also be timely and should include production data as well as dollar amounts.

PTS: 1 DIF: Easy REF: P. OBJ: 1
 NAT: IMA 2D - Performance Measurement TOP: AACSB - Analytic

14. Joshua Company prepares monthly performance reports for each department. The budgeted amounts of wages for the Finishing Department for the month of August and for the eight-month period ended August 31 were \$12,000 and \$100,000, respectively. Actual wages paid through July were \$91,500, and wages for the month of August were \$11,800. The month and year-to-date variances, respectively, for wages on the August performance report would be:
- \$200 F; \$8,500 F
 - \$200 F; \$3,300 U
 - \$200 U; \$3,300 U
 - \$200 U; \$8,500 F

ANS: B

Calculation of monthly variance:

Budgeted wages for August	\$12,000
Actual wages for August	<u>11,800</u>
Variance for August	\$ <u>200</u> F

Calculation of year-to-date variance:

Budgeted wages for the eight-month period ended August 31	\$100,000
Actual wages for the eight-month period ended August 31 (91,500 + 11,800)	<u>103,300</u>
Variance for eight-month period ended August 31	\$ <u>3,300</u> U

PTS: 1 DIF: Moderate REF: P. OBJ: 1
 NAT: IMA 2D - Performance Measurement TOP: AACSB - Analytic

15. As a result of recent accounting scandals involving companies such as Enron and World Com, the Sarbanes-Oxley Act of 2002 was written to protect shareholders of public companies by improving
- management accounting.
 - corporate governance.
 - professional competence.
 - the corporate legal process.

ANS: B

The Sarbanes-Oxley act was written primarily to improve the corporate governance of publicly held companies.

PTS: 1 DIF: Moderate REF: P. OBJ: 2
NAT: IMA 4 - Business Applications TOP: AACSB - Ethics

16. Which of the following is **not** a key element of the Sarbanes Oxley Act to improve corporate governance?
- The establishment of the Public Company Accounting Oversight Board
 - Requiring a company's annual report to contain an internal control report that includes management's opinion on the effectiveness of internal control
 - Severe criminal penalties for retaliation against "whistleblowers"
 - Requiring that the company's performance reports are prepared in accordance with generally accepted accounting principles

ANS: D

The Sarbanes-Oxley Act does not require that companies prepare performance reports in accordance with generally accepted accounting principles.

PTS: 1 DIF: Moderate REF: P. OBJ: 2
NAT: IMA 4 - Business Applications TOP: AACSB - Ethics

17. Cost accounting differs from financial accounting in that financial accounting:
- Is mostly concerned with external financial reporting.
 - Is mostly concerned with individual departments of the company.
 - Provides the additional information required for special reports to management.
 - Puts more emphasis on future operations.

ANS: A

Items (b) through (d) are characteristics of cost accounting, whereas Item (a) is a feature of financial accounting.

PTS: 1 DIF: Moderate REF: P. OBJ: 3
NAT: IMA 2E - External Financial Reporting TOP: AACSB - Reflective

18. Taylor Logan is an accountant with the Tanner Corporation. Taylor's duties include preparing reports that focus on both historical and estimated data needed to conduct ongoing operations and do long-range planning. Taylor is a(n)
- certified financial planner.
 - management accountant.
 - financial accountant.
 - auditor.

ANS: B

A management accountant prepares reports that focus on both historical and estimated data that are used to conduct ongoing operations and do long-range planning. Financial accountants prepare financial statements needed by external users to evaluate a business, while auditors conduct examinations on those financial statements. A certified financial planner is a consultant that helps individuals with financial planning, including investment advice.

PTS: 1 DIF: Easy REF: P. OBJ: 3
NAT: IMA 4 - Business Applications TOP: AACSB - Reflective

19. The following data were taken from Mansfield Merchandisers on January 31:

Merchandise inventory, January 1	\$ 90,000
Sales salaries	35,000
Merchandise inventory, January 31	65,000
Purchases	560,000

What was the Cost of goods sold in January?

- \$585,000
- \$650,000
- \$620,000
- \$535,000

ANS: A

Merchandise Inventory, January 1	\$ 90,000
Plus Purchases	<u>560,000</u>
Merchandise Available for Sale	\$650,000
Less Merchandise Inventory, January 31	<u>65,000</u>
Cost of Goods Sold	<u>\$585,000</u>

PTS: 1 DIF: Moderate REF: P. OBJ: 3
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

20. Umberg Merchandise Company's cost of goods sold last month was \$1,350,000. the Merchandise Inventory at the beginning of the month was \$250,000 and there was \$325,000 of Merchandise Inventory at the end of the month. Umberg's merchandise purchases were:

- \$1,350,000
- \$1,275,000
- \$1,425,000
- \$1,675,000

ANS: C

Merchandise purchases added to Merchandise Inventory at the beginning of the month results in the merchandise available for sale. At the end of the month, these goods either remain in Merchandise Inventory or are sold, which results in Cost of Goods Sold, so the total of ending Merchandise Inventory and Cost of Goods Sold is also the merchandise available for sale. Therefore, the equation can be rearranged to compute the merchandise purchases as follows:

Cost of Goods Sold	\$1,350,000
Plus Ending Merchandise Inventory	<u>325,000</u>
Merchandise Available for Sale	1,675,000
Less Beginning Merchandise Inventory	<u>250,000</u>
Merchandise Purchases	<u>\$1,425,000</u>

PTS: 1 DIF: Hard REF: P. OBJ: 3
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

21. Ashley Corp. had finished goods inventory of \$50,000 and \$60,000 at April 1 and April 30, respectively, and cost of goods manufactured of \$175,000 in April. Cost of goods sold in April was:

- \$165,000
- \$175,000
- \$185,000
- \$225,000

ANS: A

Finished Goods Inventory, April 1	\$ 50,000
Plus Cost of Goods Manufactured	<u>175,000</u>
Finished Goods Available for Sale	225,000
Finished Goods Inventory, April 30	<u>60,000</u>
Cost of Goods Sold	<u>\$165,000</u>

PTS: 1 DIF: Moderate REF: P. OBJ: 3
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

22. The balance in Kayser Manufacturing Company's Finished Goods account at November 30 was \$825,000. Its November cost of goods manufactured was \$2,350,000 and its cost of goods sold in November was \$2,455,000. What was the balance in Kayser's Finished Goods at November 1?
- \$435,000
 - \$640,000
 - \$710,000
 - \$930,000

ANS: D

Cost of goods manufactured added to Finished Goods at the beginning of the month results in the finished goods available for sale. At the end of the month, these goods either remain in Finished Goods or are sold, which results in Cost of Goods Sold, so the total of ending Finished Goods and Cost of Goods Sold is also the finished goods available for sale. Therefore, the equation can be rearranged to compute the beginning balance in Finished Goods as follows:

Cost of Goods Sold	\$2,455,000
Plus Finished Goods Inventory, November 30	<u>825,000</u>
Finished Goods Available for Sale	3,280,000
Less Cost of Goods Manufactured	<u>2,350,000</u>
Finished Goods Inventory, November 1	<u>\$ 930,000</u>

PTS: 1 DIF: Hard REF: P. OBJ: 3
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

23. Inventory accounts for a manufacturer include all of the following **except**:
- Merchandise Inventory.
 - Finished Goods.
 - Work in Process.
 - Materials.

ANS: A

Inventory accounts for a manufacturer include Materials, Work in Process, and Finished Goods. Merchandise Inventory is the inventory account for a merchandiser.

PTS: 1 DIF: Easy REF: P. OBJ: 3
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

24. For a manufacturer, the total cost of manufactured goods completed but still on hand is:
- Merchandise Inventory.
 - Finished Goods.
 - Work in Process.
 - Materials.

ANS: B

Merchandise Inventory refers to inventory held by a merchandising operation. Finished goods are goods completed, but still on hand, while Work in Process are goods which have been started and are in various stages of production, but are not yet completed. Materials are items which have been purchased and on hand to be used in the manufacturing process, but have not yet been issued into production.

PTS: 1 DIF: Easy REF: P. OBJ: 3
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

25. For a manufacturer, manufacturing costs incurred to date for goods in various stages of production, but not yet completed is:
- Merchandise Inventory.
 - Finished Goods.
 - Work in Process.
 - Materials.

ANS: C

Merchandise Inventory refers to inventory held by a merchandising operation. Finished goods are goods completed, but still on hand, while Work in Process are goods which have been started and are in various stages of production, but are not yet completed. Materials are items which have been purchased and on hand to be used in the manufacturing process, but have not yet been issued into production.

PTS: 1 DIF: Easy REF: P. OBJ: 3
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

26. For a manufacturer, the cost of all materials purchases and on hand to be used in the manufacturing process is:
- Merchandise Inventory.
 - Finished Goods.
 - Work in Process.
 - Materials.

ANS: D

Merchandise Inventory refers to inventory held by a merchandising operation. Finished goods are goods completed, but still on hand, while Work in Process are goods which have been started and are in various stages of production, but are not yet completed. Materials are items which have been purchased and on hand to be used in the manufacturing process, but have not yet been issued into production.

PTS: 1 DIF: Easy REF: P. OBJ: 3
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

27. In the financial statements, Materials should be categorized as:
- Revenue.
 - Expenses.
 - Assets.
 - Liabilities.

ANS: C

Materials are included in inventory, which is an asset on the balance sheet because it has a future benefit.

PTS: 1 DIF: Moderate REF: P. OBJ: 3
NAT: IMA 2E - External Financial Reporting TOP: AACSB - Reflective

28. A(n) _____ requires estimating inventory balances during the year for interim financial statements and shutting down operations to count all inventory items at the end of the year.
- periodic inventory system
 - inventory control account
 - perpetual inventory system
 - inventory cost method

ANS: A

A periodic inventory system requires a company to make estimates of inventory balances throughout the year, and a complete physical count of inventory at the end of the year. A perpetual inventory system provides a continuous record of purchases, issues and inventory balances. The inventory balances are verified with periodic counts of selected inventory items throughout the year.

PTS: 1 DIF: Easy REF: P. OBJ: 3
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

29. Witt Company, like most manufacturers, maintains a continuous record of purchases, materials issued into production and balances of all goods in stock, so that inventory valuation data is available at any time. This is an example of a(n)
- perpetual inventory system.
 - inventory control account.
 - periodic inventory system.
 - inventory cost method.

ANS: A

A perpetual inventory system maintains a continuous record of purchases, issues and inventory balances. A periodic inventory system requires a physical count of all inventory at the end of the year and estimates of inventory balances throughout the year when preparing interim financial statements.

PTS: 1 DIF: Easy REF: P. OBJ: 3
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

30. Which of the following is most likely to be considered an indirect material in the manufacture of a sofa?
- Lumber
 - Glue
 - Fabric
 - Foam rubber

ANS: B

While glue would be included in the finished product, its cost would be relatively insignificant, therefore, it would not be cost effective to trace its cost to specific products.

PTS: 1 DIF: Moderate REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

31. The Macke Company's payroll summary showed the following in November:

Sales department salaries	\$10,000
Supervisor salaries	20,000
Assembly workers' wages	25,000
Machine operators' wages	35,000
Maintenance workers' wages	15,000
Accounting department salaries	5,000

What is the amount that would be included in direct labor in November?

- a. \$25,000
- b. \$60,000
- c. \$95,000
- d. \$120,000

ANS: B

Assembly workers and machine operators would be considered direct labor.

Assembly workers' wages	\$25,000
Machine operators' wages	<u>35,000</u>
Total direct labor	<u>\$60,000</u>

The supervisors and maintenance workers would be included in overhead, while the sales and accounting department salaries would be included in selling and administrative expense.

PTS: 1 DIF: Moderate REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

32. The Macke Company's payroll summary showed the following in November:

Sales department salaries	\$10,000
Supervisor salaries	20,000
Assembly workers' wages	25,000
Machine operators' wages	35,000
Maintenance workers' wages	15,000
Accounting department salaries	5,000

What is the amount that would be included in factory overhead in November?

- a. \$20,000
- b. \$35,000
- c. \$95,000
- d. \$120,000

ANS: B

The supervisors' salaries and maintenance workers' wages would be included in factory overhead.

Supervisors' salaries	\$20,000
Maintenance workers' wages	<u>15,000</u>
Total direct labor	<u>\$35,000</u>

The wages of the assembly workers and machine operators would be included in direct labor, while the sales and accounting department salaries would be included in selling and administrative expense.

PTS: 1 DIF: Moderate REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

33. Factory overhead includes:

- a. Indirect labor but not indirect materials.
- b. Indirect materials but not indirect labor.
- c. All manufacturing costs, except indirect materials and indirect labor.
- d. All manufacturing costs, except direct materials and direct labor.

ANS: D

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

PTS: 1 DIF: Easy REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

34. A typical factory overhead cost is:
- Freight out.
 - Stationery and printing.
 - Depreciation on machinery and equipment.
 - Postage.

ANS: C

Depreciation on machinery and equipment is a factory overhead cost because it is a manufacturing cost that is not direct labor or direct material. The other three items are marketing or administrative expenses.

PTS: 1 DIF: Moderate REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

35. Factory overhead would include:
- Wages of office clerk.
 - Sales manager's salary.
 - Supervisor's salary.
 - Tax accountant's salary.

ANS: C

The supervisor's salary is considered indirect labor because the supervisor is required for the manufacturing process, but does not work directly on the units being manufactured. Indirect labor is included in factory overhead. The office clerk's wages, sales manager's salary and tax accountant's salary are marketing or administrative costs.

PTS: 1 DIF: Moderate REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

36. The term "prime cost" refers to:
- The sum of direct labor costs and all factory overhead costs.
 - The sum of direct material costs and direct labor costs.
 - All costs associated with manufacturing other than direct labor costs and direct material costs.
 - Manufacturing costs incurred to produce units of output.

ANS: B

The term "prime cost" refers to the sum of direct materials costs and direct labor costs.

PTS: 1 DIF: Easy REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

37. The following data are from Burton Corporation, a manufacturer, for the month of September:

Direct materials used	\$135,000
Supervisors' salaries	6,000
Machine operators' wages	200,000
Sales office rent and utilities	22,000
Machine depreciation	35,000
Secretary to the Chief Executive Officer salary	3,000
Factory insurance	15,000

Compute the prime costs.

- a. \$344,000
- b. \$135,000
- c. \$335,000
- d. \$256,000

ANS: C

Prime costs include direct materials and direct labor. Of the salaries and wages listed, only the wages of the machine operators would be considered direct labor as they are the only employees listed who would actually work on the products themselves.

Direct materials used	\$135,000
Machine operators' wages	<u>200,000</u>
Total prime costs	<u>\$335,000</u>

PTS: 1 DIF: Moderate REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

38. The term "conversion costs" refers to:
- a. The sum of direct labor costs and all factory overhead costs.
 - b. The sum of direct material costs and direct labor costs.
 - c. All costs associated with manufacturing other than direct labor costs.
 - d. Direct labor costs incurred to produce units of output.

ANS: A

The term "conversion costs" refers to the sum of direct labor costs and all factory overhead costs.

PTS: 1 DIF: Easy REF: P. OBJ: 4
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

39. The following data are from Burton Corporation, a manufacturer, for the month of September:

Direct materials used	\$135,000
Supervisors' salaries	6,000
Machine operators' wages	200,000
Sales office rent and utilities	22,000
Machine depreciation	35,000
Secretary to the Chief Executive Officer salary	3,000
Factory insurance	15,000

Compute the conversion costs.

- a. \$335,000
- b. \$209,000
- c. \$281,000
- d. \$256,000

ANS: D

Conversion costs include direct labor and factory overhead costs, including indirect labor. Of the salaries and wages listed, only the machine operators are considered direct labor as they are the only employees listed who would actually work on the products themselves. The supervisors are considered factory overhead because their efforts are essential to the manufacturing process, however they do not actually work on the products themselves. The sales office costs and the salary of the secretary would be marketing and administrative expenses as they do not contribute to the manufacturing process.

Machine operators' wages	\$200,000
Supervisors' salaries	6,000
Machine depreciation	35,000
Factory insurance	<u>15,000</u>
Total conversion costs	<u>\$256,000</u>

PTS: 1 DIF: Moderate REF: P. OBJ: 4
 NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

40. Payroll is debited and Wages Payable is credited to:
- Pay the payroll taxes.
 - Record the payroll.
 - Pay the payroll.
 - Distribute the payroll.

ANS: B

When the payroll is recorded, Payroll is debited and Wages Payable is credited. When payroll taxes are paid, the various liability accounts are debited and Cash is credited. When the payroll is paid, Wages Payable is debited and Cash is credited. When the payroll is distributed, Work in Process, Factory Overhead, and Selling and Administrative Expenses are debited and Payroll is credited.

PTS: 1 DIF: Moderate REF: P. OBJ: 5
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

41. Which of the following is **not** a cost that is accumulated in Work in Process?
- Direct materials
 - Administrative expense
 - Direct labor
 - Factory overhead

ANS: B

Administrative expense is not a manufacturing cost, so it would not be included in Work in Process.

PTS: 1 DIF: Easy REF: P. OBJ: 5
 NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

42. At a certain level of operations, per unit costs and selling price are as follows: manufacturing costs, \$50; selling and administrative expenses, \$10; selling price, \$80. Given this information, the mark-on percentage to manufacturing cost used to determine selling price must have been:
- 40 percent.
 - 60 percent.
 - 33 percent.
 - 25 percent.

ANS: B

$$\frac{\text{Selling price} - \text{Manufacturing costs}}{\text{Manufacturing costs}} = \text{Mark-on percentage}$$

Manufacturing costs

$$\frac{\$80 - \$50}{\$50} = 60\%$$

PTS: 1 DIF: Moderate REF: P. OBJ: 5
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

43. Mountain Company produced 20,000 blankets in June to be sold during the holiday season. The manufacturing costs were:

Direct materials	\$125,000
Direct labor	55,000
Factory overhead	60,000
Selling expense	25,000
Administrative expense	30,000

The cost per blanket is:

- a. \$6.25.
- b. \$9.00.
- c. \$12.00.
- d. \$14.75.

ANS: C

Direct materials	\$125,000
Direct labor	55,000
Factory overhead	<u>60,000</u>
Total manufacturing costs	<u>\$240,000</u>

\$240,000 / 20,000 units = \$12.00 cost per unit

PTS: 1 DIF: Moderate REF: P. OBJ: 5
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

44. Mountain Company produced 20,000 blankets in June to be sold during the holiday season. The manufacturing costs were:

Direct materials	\$125,000
Direct labor	55,000
Factory overhead	60,000

Management has decided that the mark-on percentage necessary to cover the product's share of selling and administrative expenses and to earn a satisfactory profit is 30%. The selling price per blanket should be:

- a. \$12.00.
- b. \$15.60.
- c. \$23.60.
- d. \$31.20.

ANS: B

Direct materials	\$125,000
Direct labor	55,000

Factory overhead	<u>60,000</u>
Total manufacturing costs	<u>\$240,000</u>

\$240,000 / 20,000 units = \$12.00 cost per unit
 \$12.00 x 30% = \$3.60 + \$12.00 = \$15.60

PTS: 1 DIF: Hard REF: P. OBJ: 5
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

45. The statement of costs of goods manufactured shows:
- Office supplies used in accounting office.
 - Deprecation of factory building.
 - Salary of sales manager.
 - Rent paid on finished goods warehouse.

ANS: B

The depreciation of the factory building is a cost necessary to manufacture goods. The office supplies, sales manager's salary and warehouse rent are marketing and administrative costs and would not be included in the Statement of Cost of Goods Manufactured.

PTS: 1 DIF: Hard REF: P. OBJ: 5
 NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

46. Selected data concerning the past fiscal year's operations (000's omitted) of the Stanley Manufacturing Company are presented below:

	<u>INVENTORIES</u>	
	<u>Beginning</u>	<u>Ending</u>
Materials	\$ 90	\$ 85
Work in process	50	65
Finished goods	100	90
Other data:		
Direct materials used		\$365
Total manufacturing costs charged to production during the year (includes direct materials, direct labor, and factory overhead)		680
Cost of goods available for sale		765
Selling and general expenses		250

Assuming Stanley does not use indirect materials, the cost of materials purchased during the year amounted to:

- \$455.
- \$450.
- \$365.
- \$360.

ANS: D

Materials purchased added to Materials inventory at the beginning of the month results in the materials available for use. During the year, the materials are used or they remain in the Materials inventory at the end of the year, so the total of materials used and ending Materials inventory is also the total of the amount of materials available. Therefore, the equation can be rearranged to compute the materials purchases as follows:

Direct materials used	\$365
-----------------------	-------

Add ending inventory of materials	<u>85</u>
Materials available during the year	\$450
Less beginning inventory of materials	<u>90</u>
Purchases of materials during the year	<u>\$360</u>

PTS: 1 DIF: Hard REF: P. OBJ: 5
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

47. Selected data concerning the past fiscal year's operations (000's omitted) of the Stanley Manufacturing Company are presented below:

	<u>INVENTORIES</u>	
	<u>Beginning</u>	<u>Ending</u>
Materials	\$ 90	\$ 85
Work in process	50	65
Finished goods	100	90
Other data:		
Direct materials used		\$365
Total manufacturing costs charged to production during the year (includes direct materials, direct labor, and factory overhead)		680
Cost of goods available for sale		765
Selling and general expenses		250

The cost of goods manufactured during the year was:

- a. \$735.
- b. \$710.
- c. \$665.
- d. \$705.

ANS: C

Beginning work in process inventory	\$ 50
Add total manufacturing costs during the year	<u>680</u>
Total	\$730
Less ending work in process inventory	<u>65</u>
Cost of goods manufactured during the year	<u>\$665</u>

PTS: 1 DIF: Moderate REF: P. OBJ: 5
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

48. Selected data concerning the past fiscal year's operations (000's omitted) of the Stanley Manufacturing Company are presented below:

	<u>INVENTORIES</u>	
	<u>Beginning</u>	<u>Ending</u>
Materials	\$ 90	\$ 85
Work in process	50	65
Finished goods	100	90
Other data:		
Direct materials used		\$365
Total manufacturing costs charged to production during the year (includes direct materials, direct labor, and factory overhead)		680
Cost of goods available for sale		765

The cost of goods sold during the year was:

- a. \$730.
- b. \$775.
- c. \$675.
- d. \$765.

ANS: C

Beginning finished goods inventory	\$100
Add cost of goods manufactured during the year (\$680 + \$50 - \$65)	<u>665</u>
Total cost of goods available for sale	\$765
Less ending finished goods inventory	<u>90</u>
Cost of goods sold during the year	<u>\$675</u>

PTS: 1 DIF: Hard REF: P. OBJ: 5
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

49. Which of the following production operations would be most likely to employ a job order system of cost accounting?
- a. Candy manufacturing
 - b. Crude oil refining
 - c. Printing text books
 - d. Flour Milling

ANS: C

Printing would be most likely to employ a job order system of cost accounting due to the number of custom jobs involved. The manufacture of candy, the vulcanizing of rubber, and the refining of crude oil would normally be a continuous process of producing like goods and would be accounted for under the process cost system.

PTS: 1 DIF: Moderate REF: P. OBJ: 6
 NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

50. A law firm wanting to track the costs of serving different clients may use a:
- a. process cost system.
 - b. job order cost system.
 - c. cost control system.
 - d. standard cost system.

ANS: B

Professional firms use job order cost systems to track the costs of serving different clients.

PTS: 1 DIF: Moderate REF: P. OBJ: 6
 NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

51. When should process costing techniques be used in assigning costs to products?
- a. In situations where standard costing techniques should not be used
 - b. If products manufactured are substantially identical
 - c. When production is only partially completed during the accounting period
 - d. If products are manufactured on the basis of each order received

ANS: B

Process costing techniques should be used in assigning costs to products if the product is composed of mass-produced units that are substantially identical.

PTS: 1 DIF: Easy REF: P. OBJ: 6
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

52. An industry that would most likely use process costing procedures is:
- Beverage.
 - Home Construction.
 - Printing.
 - Shipbuilding.

ANS: A

Beverage production usually consists of continuous output of homogeneous products for which process costing is used. The other three industries would utilize job order costing because each product or group of products is made to order.

PTS: 1 DIF: Moderate REF: P. OBJ: 6
NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

53. A standard cost system is one:
- that provides a separate record of cost for each special-order product.
 - that uses predetermined costs to furnish a measurement that helps management make decisions regarding the efficiency of operations.
 - that accumulates costs for each department or process in the factory.
 - where costs are accumulated on a job cost sheet.

ANS: B

A standard cost system uses predetermined standard costs to furnish a measurement that helps management make decisions regarding the efficiency of operations.

PTS: 1 DIF: Moderate REF: P. OBJ: 6
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

54. In job order costing, the basic document for accumulating the cost of each job is the:
- Job cost sheet.
 - Requisition sheet.
 - Purchase order.
 - Invoice.

ANS: A

In job order costing, the basic document to accumulate the cost of each job is the job cost sheet.

PTS: 1 DIF: Easy REF: P. OBJ: 7
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

55. Under a job order cost system of accounting, the entry to distribute payroll to the appropriate accounts would be:
- Debit-Payroll
 Credit-Wages Payable
 - Debit-Work in Process
 Debit-Factory Overhead
 Debit-Selling and Administrative Expense
 Credit-Payroll
 - Debit-Work in Process

Debit-Finished Goods
Debit-Cost of Goods Sold
Credit-Payroll

- d. Debit-Work in Process
Debit-Factory Overhead
Debit-Selling and Administrative Expense
Credit-Wages Payable

ANS: B

Payroll is credited when the amounts are distributed to the appropriate accounts. Those accounts include Work in Process for direct labor, Factory Overhead for indirect labor and Selling and Administrative Expense for salaries and wages incurred outside of the factory.

PTS: 1 DIF: Moderate REF: P. OBJ: 7
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

56. Under a job order system of cost accounting, the dollar amount of the entry to transfer inventory from Work in Process to Finished Goods is the sum of the costs charged to all jobs:
- In process during the period.
 - Completed and sold during the period.
 - Completed during the period.
 - Started in process during the period.

ANS: C

When jobs are completed during the period, Finished Goods is debited and Work in Process is credited for the cost of the completed jobs.

PTS: 1 DIF: Moderate REF: P. OBJ: 7
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

57. Under a job order system of cost accounting, Cost of Goods Sold is debited and Finished Goods is credited for a:
- Transfer of materials to the factory.
 - Shipment of completed goods to the customer.
 - Transfer of completed production to the finished goods storeroom.
 - Purchase of goods on account.

ANS: B

When completed goods are shipped to customers, Cost of Goods Sold is debited and Finished Goods is credited.

PTS: 1 DIF: Easy REF: P. OBJ: 7
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

58. The Institute of Management Accountants (IMA) Statement of Professional Practice includes all of the following standards **except**:
- Confidentiality.
 - Commitment.
 - Integrity.
 - Competence.

ANS: B

The four IMA Professional Standards are: Competence, Confidentiality, Integrity and Credibility.

PTS: 1 DIF: Easy REF: Appendix OBJ: 2
NAT: IMA 4 - Business Applications TOP: AACSB - Ethics

59. According to the Institute of Management Accountants (IMA) Statement of Ethical Professional Practice, performing professional duties in accordance with relevant laws, regulations and technical standards is a component of which standard?
- Competence
 - Confidentiality
 - Integrity
 - Credibility

ANS: A

Performing technical duties in accordance with relevant laws, regulations and technical standards is a component of the competence standard.

PTS: 1 DIF: Moderate REF: Appendix OBJ: 2
NAT: IMA 4 - Business Applications TOP: AACSB - Ethics

60. According to the Institute of Management Accountants (IMA) Statement of Ethical Professional Practice, under the Integrity Standard, each member has the responsibility to:
- Communicate information fairly and objectively.
 - Keep information confidential.
 - Mitigate actual conflicts of interest.
 - Maintain an appropriate level of professional competence.

ANS: C

Under the Integrity Standard, IMA members have the responsibility to mitigate actual conflicts of interest and avoid apparent conflicts of interest.

PTS: 1 DIF: Moderate REF: Appendix OBJ: 2
NAT: IMA 4 - Business Applications TOP: AACSB - Ethics

61. Tom Jones, a management accountant, was faced with an ethical conflict at the office. According to the Institute of Management Accountants' Statement of Professional Practice, the first action Tom should pursue is to:
- follow his organization's established policies on the resolution of such conflict.
 - contact the local newspaper.
 - contact the company's audit committee.
 - consult an attorney.

ANS: A

When faced with ethical issues, one should follow the organization's established policies on the resolution of such conflict. If these policies do not resolve the ethical conflict, one should consider discussing the matter with one's supervisor or, if it appears he or she is involved, other internal sources. It is not appropriate to contact parties outside the organization unless it is the authorities if one believes there is a violation of the law.

PTS: 1 DIF: Moderate REF: Appendix OBJ: 2
NAT: IMA 4 - Business Applications TOP: AACSB - Ethics

PROBLEM

1. Prepare a performance report showing both month and year-to-date data for Post Manufacturing's Machining Department for February, 2011 using the following data:

	January	February
Budgeted Data:		
Machinists' wages	\$6,200	\$5,600
Supplies	3,200	3,000
Depreciation	2,000	2,000
Utilities	1,500	1,400
Actual Data:		
Machinists' wages	\$6,120	\$5,650
Supplies	3,300	3,180
Depreciation	2,000	2,000
Utilities	1,580	1,390

ANS:

Post Manufacturing - Machining Department
Performance Report
For Period Ended February 28, 2011

Expense	Budget		Actual		Variance	
	February	Year-to-Date	February	Year-to-Date	February	Year-to-Date
Machinists' wages	\$ 5,600	\$11,800	\$ 5,650	\$11,700	\$ 50 U	\$ 100 F
Supplies	3,000	6,200	3,180	6,480	180 U	280 U
Depreciation	2,000	4,000	2,000	4,000	--	--
Utilities	1,400	2,900	1,390	2,970	10 F	70 U
Total	<u>\$12,000</u>	<u>\$24,900</u>	<u>\$12,220</u>	<u>\$25,150</u>	<u>\$ 220 U</u>	<u>\$ 250 U</u>

PTS: 1 DIF: Hard REF: P. OBJ: 1
NAT: IMA 2D - Performance Measurement TOP: AACSB - Analytic

2. The following data were taken from the general ledger of Data Corp., a retailer of computers and accessories:

Merchandise Inventory, August 1	\$ 323,000
Merchandise Inventory, August 31	296,000
Purchases	1,684,000

Compute the cost of goods sold for the month of August.

ANS:

Merchandise Inventory, August 1	\$ 323,000
Plus Purchases	<u>1,684,000</u>
Merchandise Available for Sale	2,007,000
Less Merchandise Inventory, August 31	<u>296,000</u>
Cost of Goods Sold	<u>\$1,711,000</u>

PTS: 1 DIF: Easy REF: P. OBJ: 2
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

3. The following data were taken from the general ledger and other data of Spargus Manufacturing on May 31:

Work in Process, May 1	\$ 75,000
Finished Goods, May 1	82,000
Materials purchased in May	122,000
Cost of goods manufactured in May	455,000
Marketing and administrative costs in May	64,000
Finished Goods, May 31	78,000
Work in Process, May 31	94,000

Compute the cost of goods sold for Spargus Manufacturing, selecting the appropriate items from the list provided.

ANS:

Finished Goods Inventory, May 1	\$ 82,000
Plus Cost of Goods Manufactured	<u>455,000</u>
Cost of Goods Available for Sale	537,000
Less Finished Goods Inventory, May 31	<u>78,000</u>
Cost of Goods Sold	<u><u>\$459,000</u></u>

PTS: 1 DIF: Moderate REF: P. OBJ: 2
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

4. The following data were taken from Middletown Merchandisers on July 31, for the first month of its fiscal year:

Merchandise Inventory, July 31	\$ 25,000
Purchases	735,000
Cost of Goods Sold	750,000

Compute the inventory at July 1.

ANS:

Cost of Goods Sold	\$750,000
Plus Merchandise Inventory, July 31	<u>25,000</u>
Equals Cost of Goods Available for Sale	\$775,000
Less Purchases	<u>735,000</u>
Equals Merchandise Inventory, July 1	<u><u>\$ 40,000</u></u>

PTS: 1 DIF: Moderate REF: P. OBJ: 3
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

5. Campus Carriers Co. manufactures and sells backpacks to college students. Campus Carriers operates a factory in Small Town and two stores in College Town and University City. Classify the following costs incurred by Campus Carriers as Direct Materials, Direct Labor, Factory Overhead or Selling and Administrative Expense.

- a. Rent paid to lease the store in College Town.
- b. Canvas fabric.
- c. Wages paid to students distributing advertising fliers in University City.

- d. Sewing machine operator's wages.
- e. Building depreciation on the factory building.
- f. Thread.
- g. The cost of transporting the backpacks from the factory in Small Town to the University City store.
- h. Depreciation of the racks and shelves at the College Town Store.
- i. Factory manager's salary.
- j. Security guard at the factory.
- k. Store manager's salary.
- l. Electricity to power sewing machines.
- m. Electricity to light the College Town store.

ANS:

- a. Selling and administrative expense would include costs related to stores.
- b. Direct material - canvas would be used to make back packs.
- c. Selling and administrative expense would include advertising.
- d. Direct labor - sewing machine operators are "touch" labor.
- e. Factory overhead - depreciation is a factory expense that cannot be traced directly to the products.
- f. Factory overhead. While thread is included in the final product, the cost is insignificant and would be accounted for as an indirect cost.
- g. Selling and administrative expense. Transportation is incurred outside of the factory.
- h. Selling and administrative expense would include costs relating to the stores.
- i. Factory overhead - the factory manager's salary is a factory cost that cannot be traced directly to products.
- j. Factory overhead - the security guard's salary is a factory cost that cannot be traced directly to products.
- k. Selling and administrative expense would include all costs related to the stores.
- l. Factory overhead - electricity to run the machines is a factory cost that cannot be traced directly to products..
- m. Selling and administrative expense would include all costs related to the stores.

PTS: 1 DIF: Moderate REF: P. OBJ: 4
 NAT: IMA 2B - Cost Management TOP: AACSB - Reflective

6. The following inventory data relate to the Reta Company:

	<u>INVENTORIES</u>	
	<u>Beginning</u>	<u>Ending</u>
Finished goods	\$80,000	\$100,000
Work in process	65,000	70,000
Direct materials	60,000	64,000

Revenues and costs for the period:

Sales	\$740,000
Cost of goods available for sale	650,000
Total manufacturing costs	575,000
Factory overhead	154,000
Direct materials used	164,000
Selling and administrative expenses	51,000

Compute the following for the year:

- a. Direct materials purchased
- b. Direct labor costs incurred
- c. Cost of goods sold
- d. Gross profit

ANS:

(a)

Direct materials used during the period	\$164,000
Add inventory of direct materials at the end of the period	<u>64,000</u>
Direct materials available during the period	\$228,000
Less inventory of direct materials at the beginning of the period	<u>60,000</u>
Direct materials purchased during the period	<u><u>\$168,000</u></u>

(b)

Total manufacturing costs incurred during the period	\$575,000
Less: Direct materials used	\$164,000
Factory overhead incurred	<u>154,000</u>
Direct labor costs incurred during the period	<u><u>\$257,000</u></u>

(c)

Cost of goods available for sale	\$650,000
Less finished goods inventory at the end of the period	<u>100,000</u>
Cost of goods sold during the period	<u><u>\$550,000</u></u>

(d)

Sales	\$740,000
Cost of goods sold	<u>550,000</u>
Gross profit	<u><u>\$190,000</u></u>

PTS: 1 DIF: Hard REF: P. OBJ: 4,5
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

7. The following inventory data relate to the Reta Company:

	<u>INVENTORIES</u>	
	<u>Beginning</u>	<u>Ending</u>
Finished goods	\$80,000	\$100,000
Work in process	65,000	70,000
Direct materials	60,000	64,000

Revenues and costs for the period:

Sales	\$740,000
Cost of goods available for sale	650,000
Total manufacturing costs	575,000
Factory overhead	154,000
Direct materials used	164,000
Selling and administrative expenses	51,000

Prepare journal entries for the following, making any necessary computations:

- a. Purchase of materials on account
- b. Issuance of materials into production
- c. Transfer the cost of completed work to Finished Goods
- d. Record the sale of the goods on account and the related cost of goods sold.

ANS:

(a)

Direct materials used during the period	\$164,000
Add inventory of direct materials at the end of the period	<u>64,000</u>
Direct materials available during the period	\$228,000
Less inventory of direct materials at the beginning of the period	<u>60,000</u>
Direct materials purchased during the period	<u>\$168,000</u>

Materials	168,000	
Accounts Payable		168,000

(b)

Work in Process	164,000	
Materials		164,000

(c)

Work in Process Inventory, beginning of the period	\$ 65,000
Plus Total Manufacturing Costs	<u>575,000</u>
	\$640,000
Less Work in Process Inventory, end of the period	<u>70,000</u>
Cost of Goods Manufactured	<u>\$570,000</u>

Finished Goods	570,000	
Work in Process		570,000

(d)

Finished Goods Inventory, beginning of the period	\$ 80,000
Plus Cost of Goods Manufactured	<u>570,000</u>
Cost of Goods Available for Sale	\$650,000
Less Finished Goods Inventory, end of the period	<u>100,000</u>
Cost of Goods Sold	<u>\$550,000</u>

Accounts Receivable	740,000	
Sales		740,000

Cost of Goods Sold	550,000	
Finished Goods		550,000

PTS: 1 DIF: Hard
NAT: IMA 2B - Cost Management

REF: P. OBJ: 4,5
TOP: AACSB - Analytic

8. Following is a list of costs incurred by the Sitka Products Co. during the month of June:

Direct materials used	\$12,000	Expired insurance	\$3,000
Indirect materials used	3,000	Utilities	800
Direct labor employed	20,000	Repairs	700
Indirect labor employed	4,500	Depreciation expense	
Selling expenses	6,000	--Machinery and equipment	1,200

Prepare the journal entries necessary to record the issuance of materials, the distribution of labor cost, the recording of factory overhead, and the entry transferring Factory Overhead to Work in Process.

ANS:

Work in Process (Direct Materials)	12,000	
Factory Overhead (Indirect Materials)	3,000	
Materials		15,000
Work in Process (Direct Labor)	20,000	
Factory Overhead (Indirect Labor)	4,500	
Payroll		24,500
Factory Overhead	5,700	
Prepaid Insurance		3,000
Accounts Payable (Utilities)		800
Accounts Payable (Repairs)		700
Accumulated Depreciation (Machinery and Equipment)		1,200
Work in Process	13,200	
Factory Overhead		13,200

PTS: 1 DIF: Moderate
NAT: IMA 2B - Cost Management

REF: P. OBJ: 5
TOP: AACSB - Analytic

9. The following data was taken from the general ledger and other records of Martinez Manufacturing Co. at July 31, the end of the first month of operations in the current fiscal year:

Sales	\$50,000
Materials inventory (July 1)	15,000
Work in process inventory (July 1)	20,000
Finished goods inventory (July 1)	28,000
Materials purchased	21,000
Direct labor cost	12,500
Factory overhead (including \$5,000 of indirect materials used and \$2,500 of indirect labor cost)	11,500
Selling and administrative expense	8,000
Inventories at July 31:	
Materials	16,000
Work in process	18,000
Finished goods	30,000

- a. Prepare a statement of cost of goods manufactured.
- b. Determine the cost of goods sold for the month.

ANS:

(a)

Martinez Manufacturing Co.
Statement of Cost of Goods Manufactured
For the Month Ended July 31, 20--

<hr/>		
Direct Materials:		
Inventory, July 1	\$15,000	
Purchases	<u>21,000</u>	
Total cost of available materials	\$36,000	
Less inventory, July 31	<u>16,000</u>	
Cost of materials used	\$20,000	
Less indirect materials used	<u>5,000</u>	
Cost of direct materials used in production		\$15,000
Direct labor		12,500
Factory overhead:		
Indirect materials	\$ 5,000	
Indirect labor	2,500	
Other	<u>4,000</u>	
Total factory overhead		<u>11,500</u>
Total manufacturing cost		\$39,000
Add work in process inventory, July 1		<u>20,000</u>
Total		\$59,000
Less work in process inventory, July 31		<u>18,000</u>
Cost of goods manufactured during the month		<u>\$41,000</u>

(b)

Finished goods inventory, July 1	\$28,000
Add cost of goods manufactured during July	<u>41,000</u>
Goods available for sale	\$69,000
Less finished goods inventory, July 31	<u>30,000</u>
Cost of goods sold	<u>\$39,000</u>

PTS: 1 DIF: Moderate REF: P. OBJ: 5
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

10. The following data was taken from the general ledger and other records of Marwick Manufacturing Co. at January 31, the end of the first month of operations in the current fiscal year:

Sales	\$650,000
Inventories at January 31:	
Materials inventory	20,000
Work in process inventory	32,000
Finished goods inventory	54,000
Inventories at January 1:	
Materials	25,000
Work in process	29,000
Finished goods	48,000

Materials purchased	154,000
Labor Costs:	
Assembly workers' wages	185,000
Supervisors' salaries	30,000
Sales personnel salaries	52,000
Depreciation:	
Factory building	73,000
Sales office	28,000
Indirect materials used	3,000
Factory utilities	67,000

- Prepare a statement of cost of goods manufactured.
- Determine the cost of goods sold for the month.

ANS:

(a)

Marwick Manufacturing Co.
Statement of Cost of Goods Manufactured
For the Month Ended January 31, 20--

Direct Materials:		
Inventory, January 1	\$25,000	
Purchases	<u>154,000</u>	
Total cost of available materials	\$179,000	
Less inventory, July 31	<u>20,000</u>	
Cost of materials used	\$159,000	
Less indirect materials used	<u>3,000</u>	
Cost of direct materials used in production		\$156,000
Direct labor		185,000
Factory overhead:		
Indirect materials	\$ 3,000	
Indirect labor (Supervisors)	30,000	
Depreciation	73,000	
Utilities	<u>67,000</u>	
Total factory overhead		<u>173,000</u>
Total manufacturing cost		\$514,000
Add work in process inventory, January 1		<u>29,000</u>
Total		\$543,000
Less work in process inventory, January 31		<u>32,000</u>
Cost of goods manufactured during the month		<u>\$511,000</u>

(b)

Finished goods inventory, January 1	\$48,000
Add cost of goods manufactured during July	<u>511,000</u>
Goods available for sale	\$559,000
Less finished goods inventory, January 31	<u>54,000</u>
Cost of goods sold	<u>\$505,000</u>

PTS: 1 DIF: Hard REF: P. OBJ: 5
NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

11. Custom Cabinets Inc. manufactures goods on a job order basis. During the month of November, three jobs were started. (There was no work in process at the beginning of the month.) Jobs 401 and 402 were completed and sold for \$14,500 and \$19,000, respectively, during the month; Job 403 was still in process at the end of November.

The following data are taken from the job cost sheets for each job. Factory overhead charges include a total of \$900 of indirect materials and \$600 of indirect labor. One work in process control account is used.

	<u>Job 401</u>	<u>Job 402</u>	<u>Job 403</u>
Direct materials	\$3,200	\$3,800	\$2,000
Direct labor	2,400	3,500	1,500
Factory overhead	1,250	2,000	850

Prepare a journal entry to record each of the following:

- Materials used
- Factory wages and salaries earned
- Factory Overhead transferred to Work in Process
- Jobs completed
- Jobs sold

ANS:

(a)

Work in Process (3,200 + 3,800 + 2,000)	9,000	
Factory Overhead	900	
Materials		9,900

(b)

Work in Process (2,400 + 3,500 + 1,500)	7,400	
Factory Overhead	600	
Payroll		8,000

(c)

Work in Process (1,250 + 2,000 + 850)	4,100	
Factory Overhead		4,100

(d)

Finished Goods	16,150	
Work in Process*		16,150
* Jobs completed:		
401 (3,200 + 2,400 + 1,250)	\$ 6,850	
402 (3,800 + 3,500 + 2,000)	9,300	
Total	<u>\$16,150</u>	

(e)

Cost of Goods Sold	16,150	
Finished Goods		16,150
Accounts Receivable (14,500 + 19,000)	33,500	

Sales

33,500

PTS: 1 DIF: Moderate REF: P. OBJ: 7
 NAT: IMA 2B - Cost Management TOP: AACSB - Analytic

12. The Shawshank Manufacturing Co. uses a job order cost system of accounting. The following information was taken from the books of the company after all posting had been completed at the end of January:

<u>Jobs Completed</u>	<u>Direct Materials Cost</u>	<u>Direct Labor Cost</u>	<u>Factory Overhead</u>	<u>Units Completed</u>
101	\$1,800	\$2,000	\$1,000	200
102	1,235	1,250	890	150
104	900	850	350	100

- Prepare the journal entries to allocate the costs of materials, labor, and factory overhead to each job and to transfer the costs of jobs completed to Finished Goods.
- Compute the total production cost of each job.
- Compute the unit cost of each job.
- Compute the selling price per unit for each job, assuming a mark-on percentage of 40 percent.

ANS:

(a)

Work in Process--Job 101	1,800	
Work in Process--Job 102	1,235	
Work in Process--Job 104	900	
Materials		3,935
Work in Process--Job 101	2,000	
Work in Process--Job 102	1,250	
Work in Process--Job 104	850	
Payroll		4,100
Work in Process--Job 101	1,000	
Work in Process--Job 102	890	
Work in Process--Job 104	350	
Factory Overhead		2,240
Finished Goods	10,275	
Work in Process--Job 101		4,800
Work in Process--Job 102		3,375
Work in Process--Job 104		2,100

(b)

<u>Jobs Completed</u>	<u>Direct Materials Cost</u>	<u>Direct Labor Cost</u>	<u>Factory Overhead</u>	<u>Total Production Cost</u>
101	\$1,800	\$2,000	\$1,000	\$4,800
102	1,235	1,250	890	3,375
104	900	850	350	2,100
Total	<u>\$3,935</u>	<u>\$4,100</u>	<u>\$2,240</u>	<u>\$10,275</u>

(c)

Unit Cost:

Job 101 (\$4,800 / 200)	\$24.00
Job 102 (\$3,375 / 150)	\$22.50
Job 104 (\$2,100 / 100)	\$21.00

(d)

Selling Price Per Unit:

Job 101 ($\$24.00 \times 40\%$) + \$24.00	\$33.60
Job 102 ($\$22.50 \times 40\%$) + \$22.50	\$31.50
Job 104 ($\$21.00 \times 40\%$) + \$21.00	\$29.40

PTS: 1 DIF: Hard
NAT: IMA 2B - Cost Management

REF: P. OBJ: 7
TOP: AACSB - Analytic