

Chapter 2 - Basic Managerial Accounting Concepts

1. It is beneficial to assign indirect costs to cost objects.

- a. True
- b. False

*ANSWER:* True

2. Price must be greater than cost in order for the firm to generate revenue.

- a. True
- b. False

*ANSWER:* False

3. Accumulating costs is the way that costs are measured and recorded.

- a. True
- b. False

*ANSWER:* True

4. Assigning costs involves the way that a cost is linked to some cost object.

- a. True
- b. False

*ANSWER:* True

5. Assigning costs tells the accountant who spent the money.

- a. True
- b. False

*ANSWER:* False

6. A cost object is any item such as products, customers, departments, regions, and so on, for which costs are measured and assigned.

- a. True
- b. False

*ANSWER:* True

7. Costs are directly, *not* indirectly, associated with cost objects.

- a. True
- b. False

*ANSWER:* False

8. Direct costs are those costs that cannot be easily and accurately traced to a cost object.

- a. True
- b. False

*ANSWER:* False

*RATIONALE:* Direct costs are those costs that can be easily and accurately traced to a cost object.

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9. Indirect costs are costs that are *not* easily and accurately traced to a cost object.
- True
  - False

*ANSWER:* True

10. Allocation means that an indirect cost is assigned to a cost object using a reasonable and convenient method.
- True
  - False

*ANSWER:* True

11. A variable cost is one that does *not* increase in total as output increase and does *not* decrease in total as output decreases.
- True
  - False

*ANSWER:* False

*RATIONALE:* A variable cost is one that does increase in total as output increase and does not decrease in total as output decreases.

12. A fixed cost is a cost that does *not* increase in total as output increases and does *not* decrease in total as output decreases.
- True
  - False

*ANSWER:* True

13. An opportunity cost is the benefit given up or sacrificed when one alternative is chosen over another.
- True
  - False

*ANSWER:* True

14. Cost is a dollar measure of the resources used to achieve a given benefit.
- True
  - False

*ANSWER:* True

15. A cost object is something for which a company wants to know the cost.
- True
  - False

*ANSWER:* True

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16. The revenue per unit is called cost.

- a. True
- b. False

*ANSWER:* False

*RATIONALE:* The revenue per unit is called price.

17. As costs are used up in the production of revenues, they are said to expire. Expired costs are called expenses.

- a. True
- b. False

*ANSWER:* True

18. Costs are incurred to produce future benefits.

- a. True
- b. False

*ANSWER:* True

19. Expired costs are called assets.

- a. True
- b. False

*ANSWER:* False

20. Reducing the cost required to achieve a given benefit means that a company is becoming less efficient.

- a. True
- b. False

*ANSWER:* False

21. Costs can be assigned to cost objects in only one way.

- a. True
- b. False

*ANSWER:* False

*RATIONALE:* Costs can be assigned to cost objects in a number of ways.

22. Property taxes on a factory building would normally be classified as a fixed cost.

- a. True
- b. False

*ANSWER:* True

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23. Glue used in the manufacture of cabinets would be an example of a fixed cost.

- a. True
- b. False

*ANSWER:* False

*RATIONALE:* Glue used in the manufacture of cabinets would be an example of a variable cost.

24. Industries that provide services do *not* normally have direct contact with their customers.

- a. True
- b. False

*ANSWER:* False

25. Research and development costs would be classified as product cost.

- a. True
- b. False

*ANSWER:* False

*RATIONALE:* Research and development costs would be classified as period costs.

26. Product costs include direct materials, direct labor, and selling costs.

- a. True
- b. False

*ANSWER:* False

27. All product costs other than direct materials and indirect labor are called overhead.

- a. True
- b. False

*ANSWER:* False

28. Direct materials can be directly traced to the goods or services being produced.

- a. True
- b. False

*ANSWER:* True

29. Any costs associated with storing, selling, and delivering the product are classified as product costs.

- a. True
- b. False

*ANSWER:* False

*RATIONALE:* Any costs associated with storing, selling, and delivering the product are classified as *period* costs.

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30. Prime cost is the sum of direct materials cost and direct labor cost.

- a. True
- b. False

*ANSWER:* True

31. Product costs are carried in inventory until the goods are finished, then they are expensed.

- a. True
- b. False

*ANSWER:* False

32. Marketing costs would be classified as period costs.

- a. True
- b. False

*ANSWER:* True

33. A factory building needs to hire janitorial services. This is classified as indirect labor.

- a. True
- b. False

*ANSWER:* True

34. Period costs are all costs that are *not* product costs, such as office supplies.

- a. True
- b. False

*ANSWER:* True

35. Employees who convert direct materials into a product or who provide a service to customers are classified as indirect labor.

- a. True
- b. False

*ANSWER:* False

*RATIONALE:* Employees who convert direct materials into a product or who provide a service to customers are classified as *direct* labor.

36. All manufacturing costs are classified as overhead.

- a. True
- b. False

*ANSWER:* False

*RATIONALE:* All manufacturing costs are classified as direct materials, direct labor, or overhead.

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37. For external reporting purposes, costs must be classified into only three categories.
- True
  - False

*ANSWER:* True

38. Cost of goods manufactured represents the cost of direct materials, direct labor, and overhead incurred during the current accounting period.
- True
  - False

*ANSWER:* False

39. Cost of goods sold is the total product cost of the units sold during a period.
- True
  - False

*ANSWER:* True

40. Sales revenue equals the product cost per unit times the number of units sold.
- True
  - False

*ANSWER:* False

41. Gross margin is the difference between sales revenue and cost of goods sold.
- True
  - False

*ANSWER:* True

42. Expired costs are called \_\_\_\_\_.

*ANSWER:* expenses

43. \_\_\_\_\_ is the amount of cash or cash equivalent sacrificed for goods and/or services that are expected to bring a current or future benefit to the organization.

*ANSWER:* Cost

44. \_\_\_\_\_ is the way that a cost is linked to some cost object.

*ANSWER:* Assigning costs

45. A(n) \_\_\_\_\_ is any item such as a product, customer, department, project, geographic region, and so on, for which costs are measured and assigned.

*ANSWER:* cost object

46. Costs that can be easily and accurately traced to a cost object are called \_\_\_\_\_.

*ANSWER:* direct costs

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47. The process of assigning an indirect cost to a cost object by using a reasonable and convenient method is called \_\_\_\_\_.

*ANSWER:* allocation.

48. A(n) \_\_\_\_\_ is the benefit given up or sacrificed when one alternative is chosen over another.

*ANSWER:* opportunity cost

49. A(n) \_\_\_\_\_ is a cost that does not increase in total as output increase and does not decrease in total as output decreases.

*ANSWER:* fixed cost

50. Organizations that produce products are called \_\_\_\_\_.

*ANSWER:* manufacturing organizations

51. \_\_\_\_\_ are those costs, both direct and indirect, of producing a product in a manufacturing firm or of acquiring a product in a merchandising firm and preparing it for sale.

*ANSWER:* Product costs

52. Materials that become part of a product usually are classified as \_\_\_\_\_.

*ANSWER:* direct materials.

53. Insurance coverage, medical care, and accounting are examples of \_\_\_\_\_ performed for customers.

*ANSWER:* service activities or services

54. \_\_\_\_\_ equals the sum of direct materials, direct labor, and manufacturing overhead.

*ANSWER:* Total product cost

55. All product costs other than direct materials and direct labor are put into a category called \_\_\_\_\_.

*ANSWER:* manufacturing overhead.

56. \_\_\_\_\_ is the sum of direct labor cost and manufacturing overhead cost.

*ANSWER:* Conversion cost

57. \_\_\_\_\_ and \_\_\_\_\_ costs are considered period costs.

*ANSWER:* Selling and administrative  
selling, administrative  
administrative, selling

58. Employees who convert direct materials into a product are classified as \_\_\_\_\_.

*ANSWER:* direct labor.

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59. \_\_\_\_\_ is the cost of the partially completed goods that are still on the factory floor at the end of a time period.

*ANSWER:* Work in process

60. The difference between sales revenue and cost of goods sold is known as the \_\_\_\_\_.

*ANSWER:* gross margin

61. The \_\_\_\_\_ represents that total product cost of goods completed during the current period and transferred to finished goods inventory.

*ANSWER:* cost of goods manufactured

62. Expired costs are called

- a. fixed.
- b. costs.
- c. expenses.
- d. profit.

*ANSWER:* c

63. Assigning costs to cost objects

- a. provides information for decision making.
- b. can be accomplished in a number of ways.
- c. can be a simple or complex process.
- d. do all of these.

*ANSWER:* d

64. An indirect cost

- a. can be easily and accurately traced to a cost object.
- b. is hard to trace.
- c. should never be assigned to a cost object.
- d. do none of these.

*ANSWER:* b

65. A variable cost in total

- a. increases as output increases and decreases as output decreases.
- b. increases as output increases and/or decreases.
- c. remains constant no matter the level of output.
- d. increases as output decreases and decreases as output increases.

*ANSWER:* a



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66. Cost is:

- a. the difference between sales revenue and cost of goods sold.
- b. the benefit given up or sacrificed when one alternative is chosen over another.
- c. the amount of cash or cash equivalent sacrificed for goods and/or services that are expected to bring a current or future benefit to the organization.
- d. the revenue per unit.

*ANSWER: c*

67. Price is *not*:

- a. the revenue per unit.
- b. greater than cost in order for the firm to earn income.
- c. the same as cost.
- d. the same as cost per unit plus the income per unit.

*ANSWER: c*

68. Assigning costs

- a. involves the way that a cost is linked to some cost object.
- b. occurs in both manufacturing and service businesses.
- c. to a cost object using a reasonable and convenient method is allocation.
- d. all of these.

*ANSWER: d*

69. An opportunity cost is:

- a. the benefit given up or sacrificed when one alternative is chosen over another.
- b. the cost to market, distribute, and service a product or service.
- c. the total product cost of goods completed during the current period and transferred to finished goods inventory.
- d. the difference between sales revenue and cost of goods sold.

*ANSWER: a*

70. Non-manufacturing costs include

- a. marketing and administration.
- b. direct materials.
- c. indirect materials.
- d. overhead.

*ANSWER: a*

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71. Which of the following is an example of a service?

- a. motorcycle
- b. eye exam
- c. stereo
- d. television

*ANSWER:* b

72. Which of the following is an example of a tangible product?

- a. lawn care
- b. accounting services
- c. customer service
- d. computer

*ANSWER:* d

73. Costs are subdivided into what two major functional categories?

- a. opportunity and allocation
- b. fixed and variable
- c. product and non-production
- d. direct and indirect

*ANSWER:* c

74. Product costs

- a. are costs that are included in the determining the value of the inventory.
- b. are manufacturing costs.
- c. include direct materials, direct labor, and overhead.
- d. are all of these.

*ANSWER:* d

75. Which of the following would *not* be a period cost?

- a. research and development
- b. direct materials
- c. advertising costs
- d. office supplies

*ANSWER:* b

76. Which of the following would be an example of a direct materials cost?

- a. engine on an airplane
- b. lubricant used to manufacture a lighting fixture
- c. glue used to build cabinets
- d. nails used to manufacture a table

*ANSWER:* a

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77. Product costs consist of
- period costs.
  - indirect materials, indirect labor, and administrative costs.
  - direct materials, direct labor, and selling costs.
  - direct materials, direct labor, and overhead.

*ANSWER:* d

78. Which of the following is *not* an example of a direct materials cost?
- shelves on a bookcase
  - engine in a car
  - tires on a bicycle
  - nails used to manufacture a desk

*ANSWER:* d

79. Materials in the raw materials account do *not* become direct materials
- until they are withdrawn from inventory for use in production.
  - until the finished product is sold.
  - until they are purchased from a vendor.
  - none of these are correct.

*ANSWER:* a

80. Which of the following is an example of direct labor?
- vice president of marketing
  - assembly line worker for televisions
  - staff accountant
  - supervisor at a manufacturing plant

*ANSWER:* b

81. Direct labor is a(n)
- product cost.
  - opportunity cost.
  - administrative cost.
  - fixed cost.

*ANSWER:* a

82. Overhead includes
- indirect labor.
  - indirect materials.
  - factory supplies.
  - all of these.

*ANSWER:* d

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83. Which of the following would *not* be included in overhead?
- marketing costs
  - property taxes on the factory
  - factory utility costs
  - depreciation on factory machinery

*ANSWER:* a

84. Indirect labor would include
- salary of the vice-president of marketing.
  - salary of CEO.
  - salary of factory supervisor.
  - none of these are correct.

*ANSWER:* c

85. The unit cost
- is the total product costs divided by the number of units produced.
  - includes period costs.
  - is the total prime costs divided by the number of units produced.
  - is the total conversion costs divided by the number of units produced.

*ANSWER:* a

86. Prime cost is
- indirect materials cost and direct labor cost.
  - direct materials cost and direct labor cost.
  - direct labor cost and indirect labor cost.
  - direct materials cost and indirect labor cost.

*ANSWER:* b

87. Conversion cost is the sum of
- product costs and period costs.
  - selling cost and administrative costs.
  - direct labor cost and direct materials costs.
  - direct labor cost and overhead costs.

*ANSWER:* d

88. Period costs
- are selling costs and administrative costs.
  - are used to compute product cost.
  - can be included in overhead costs.
  - are carried in inventory until the goods are sold.

*ANSWER:* a

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89. Which of the following is an example of a period cost?
- a. research and development
  - b. selling and marketing
  - c. general accounting
  - d. all of these

*ANSWER:* d

90. Cost of goods manufactured equals
- a. the cost of indirect materials used in production.
  - b. the product cost of goods completed during the current period and transferred to finished goods.
  - c. the period costs for the current period.
  - d. the cost of direct materials and direct labor used during the current period.

*ANSWER:* b

91. Cost of goods manufactured equals
- a. total product costs incurred during the current period + beginning work in process – ending work in process.
  - b. direct materials cost + direct labor cost + overhead cost.
  - c. sales – cost of goods sold.
  - d. none of these are correct.

*ANSWER:* a

92. The cost of the partially completed goods at the end of the period would be
- a. ending work in process inventory.
  - b. cost of goods sold.
  - c. beginning finished goods inventory.
  - d. beginning work in process inventory.

*ANSWER:* a

93. Product costs are expensed
- a. when the product is finished.
  - b. when the product unit cost is calculated.
  - c. when the product is sold.
  - d. all of these are correct.

*ANSWER:* c

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94. Rancor Inc. had a per-unit conversion cost of \$2.50 during April and incurred direct materials cost of \$100,000, direct labor costs of \$75,000, and overhead costs of \$45,000 during the month. How many units did they manufacture during the month?
- a. 70,000
  - b. 18,000
  - c. 48,000
  - d. 30,000

*ANSWER:* c

*RATIONALE:* SUPPORTING CALCULATIONS:  
 $(\$75,000 + \$45,000) / \$2.50 = \$48,000$

95. Lakeland Inc. manufactured 5,000 units during the month of March. They incurred direct materials cost of \$100,000 and overhead cost of \$40,000. If their per-unit prime cost was \$26.00 per unit how much direct labor cost did they incur during March?
- a. \$20,000
  - b. \$35,000
  - c. \$90,000
  - d. \$30,000

*ANSWER:* d

*RATIONALE:* SUPPORTING CALCULATIONS:  
 $5,000 \times \$26 = \$130,000$  in total prime cost  
Prime cost less direct materials (\$100,000) = \$30,000  
Prime cost consists of direct materials and direct labor, therefore if total prime cost is \$130,000 and total direct materials cost is \$100,000, then direct labor would be \$30,000.

96. During the month of January, Enterprise Inc. had total manufacturing costs of \$110,000. They incurred \$40,000 of direct labor cost and \$30,000 of overhead cost during the month. If the materials inventory on January 1 was \$3,000 less than the materials inventory on January 31, what was the cost of materials purchased during the month?
- a. \$37,000
  - b. \$43,000
  - c. \$40,000
  - d. none of these

*ANSWER:* b

*RATIONALE:* SUPPORTING CALCULATIONS:

Direct materials used	\$ 40,000
Direct labor	\$ 40,000
Overhead	<u>\$ 30,000</u>
Total manufacturing costs	\$110,000

Direct materials purchased	\$ 43,000
Difference in inventory balances	<u>(3,000)</u>
Direct materials used	\$ 40,000

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97. Production costs that are *not* attached to units that are sold are reported as:

- a. selling expenses.
- b. cost of goods sold.
- c. administrative costs.
- d. inventory.

*ANSWER:* d

98. Information from the records of Cain Corporation for December of the current year is as follows:

Sales	\$1,230,000
Selling and administrative expenses	210,000
Direct materials used	264,000
Direct labor	300,000
Factory overhead	405,000

	<u>Inventories</u>	
	<u>Dec. 1</u>	<u>Dec. 31</u>
Direct materials	\$36,000	\$42,000
Work in process	75,000	84,000
Finished goods	69,000	57,000

The conversion costs are:

- a. \$960,000.
- b. \$1,179,000.
- c. \$705,000.
- d. \$564,000.

*ANSWER:* c

*RATIONALE:* SUPPORTING CALCULATIONS: \$300,000 + \$405,000 = \$705,000

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99. Information from the records of Cain Corporation for December of the current year is as follows:

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Direct materials	\$36,000	\$42,000
Work in process	75,000	84,000
Finished goods	69,000	57,000

The prime costs are:

- a. \$960,000.
- b. \$564,000.
- c. \$705,000.
- d. \$969,000.

**ANSWER:** b

**RATIONALE:** SUPPORTING CALCULATIONS:  $\$264,000 + \$300,000 = \$564,000$

### Figure 2-1.

Concam Inc. manufactures television sets. Last month direct materials (electronic components, etc.) costing \$500,000 were put into production. Direct labor of \$800,000 was incurred, overhead equaled \$450,000, and selling and administrative costs totaled \$360,000. The company manufactured 8,000 television sets during the month. Assume that there were no beginning or ending work in process balances.

100. Refer to Figure 2-1. The per-unit conversion cost was:

- a. \$218.75.
- b. \$156.25.
- c. \$162.50.
- d. \$100.00.

**ANSWER:** b

**RATIONALE:** SUPPORTING CALCULATIONS:  $(\$800,000 + \$450,000) / 8,000$

101. Refer to Figure 2-1. The total product costs for last month were:

- a. \$1,750,000.
- b. \$2,110,000.
- c. \$1,300,000.
- d. \$1,250,000.

**ANSWER:** a

**RATIONALE:** SUPPORTING CALCULATIONS:  $\$500,000 + \$800,000 + \$450,000$



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102. Refer to Figure 2-1. The total per unit prime cost was:
- \$263.75.
  - \$62.50.
  - \$162.50.
  - \$156.25.

*ANSWER:* c

*RATIONALE:* SUPPORTING CALCULATIONS:  $(\$500,000 + \$800,000) / 8,000$

103. Refer to Figure 2-1. What was the amount of cost of goods manufactured last month?
- \$1,750,000
  - \$1,250,000
  - \$1,300,000
  - \$2,110,000

*ANSWER:* a

*RATIONALE:* SUPPORTING CALCULATIONS:  $\$500,000 + \$800,000 + \$450,000$

### Figure 2-5.

In July, Econo Company purchased materials costing \$21,000 and incurred direct labor cost of \$18,000. Overhead totaled \$32,000 for the month. Information on inventories was as follows:

	<u>July 1</u>	<u>July 31</u>
Materials	\$6,200	\$7,100
Work in process	700	1,200
Finished goods	3,300	2,700

104. Refer to Figure 2-5. What was the cost of direct materials used in July?
- \$21,000
  - \$20,100
  - \$21,900
  - \$20,500

*ANSWER:* b

*RATIONALE:* SUPPORTING CALCULATIONS:

Materials 7/1	\$ 6,200
Purchases	21,000
Materials 7/31	<u>(7,100)</u>
Materials used	\$20,100

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105. Refer to Figure 2-5. What were the total manufacturing costs in July?

- a. \$71,000
- b. \$50,000
- c. \$69,600
- d. \$70,100

**ANSWER:** d

**RATIONALE:** SUPPORTING CALCULATIONS:

Materials used	\$20,100
Direct labor	18,000
Overhead	<u>32,000</u>
Total manufacturing costs	\$70,100

106. Refer to Figure 2-5. What was the cost of goods manufactured for July?

- a. \$70,500
- b. \$70,700
- c. \$69,600
- d. \$69,100

**ANSWER:** c

**RATIONALE:** SUPPORTING CALCULATIONS:

Total manufacturing costs	\$70,100
Work in process 7/1	700
Work in process 7/31	<u>(1,200)</u>
Cost of goods manufactured	\$69,600

107. Refer to Figure 2-5. What was the cost of goods sold for July?

- a. \$70,200
- b. \$69,600
- c. \$71,300
- d. \$71,100

**ANSWER:** a

**RATIONALE:** SUPPORTING CALCULATIONS:

Cost of goods manufactured	\$69,600
Finished goods 7/1	3,300
Finished goods 7/31	<u>(2,700)</u>
Cost of goods sold	\$70,200

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108. Refer to Figure 2-5. If Econo Company sold 10,000 units during July and gross margin totaled \$29,800, what was the sales price per unit?
- \$9.94
  - \$10.00
  - \$10.09
  - \$10.11

**ANSWER:** b

**RATIONALE:** SUPPORTING CALCULATIONS:

Gross margin	\$ 29,800
Cost of goods sold	<u>70,200</u>
Sales (10,000 × \$?)	\$100,000
Sales price per unit	\$10

### Figure 2-7.

Gateway Company produces a product with the following per-unit costs:

Direct materials	\$11
Direct labor	8
Overhead	15

Last year, Gateway produced and sold 750 units at a sales price of \$68 each. Total selling and administrative expense was \$22,000.

109. Refer to Figure 2-7. Prime cost per-unit was?
- \$19
  - \$23
  - \$34
  - \$11

**ANSWER:** a

**RATIONALE:** SUPPORTING CALCULATIONS:  $\$11 + \$8 = \$19$

110. Refer to Figure 2-7. Cost of goods sold last year was?
- \$47,500
  - \$25,500
  - \$14,250
  - \$51,000

**ANSWER:** b

**RATIONALE:** SUPPORTING CALCULATIONS:  $750 \times \$34 (\$11 + \$8 + \$15)$

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111. Refer to Figure 2-7. Total operating income last year was?

- a. \$29,000
- b. \$51,000
- c. \$25,500
- d. \$3,500

*ANSWER:* d

*RATIONALE:* SUPPORTING CALCULATIONS:

Sales	\$ 51,000
Cost of goods sold	(25,500)
Sell. and admin.	<u>(22,000)</u>
Operating income	\$ 3,500

### Figure 2-8.

Last year Quest Company incurred the following costs:

Direct materials:	\$40,000
Direct labor:	60,000
Overhead	90,000
Selling expenses	24,000
Administrative expenses	22,000

Quest produced and sold 2,000 units at a sales price of \$125 each. Assume that beginning and ending inventories of materials, work in process, and finished goods were zero.

112. Refer to Figure 2-8. Total period expense was?

- a. \$24,000
- b. \$190,000
- c. \$46,000
- d. \$250,000

*ANSWER:* c

*RATIONALE:* SUPPORTING CALCULATIONS: \$24,000 + \$22,000 = \$46,000

113. Refer to Figure 2-8. Gross margin per-unit was?

- a. \$125
- b. \$7
- c. \$95
- d. \$30

*ANSWER:* d

*RATIONALE:* SUPPORTING CALCULATIONS:

Sales (2000 × \$125)	\$250,000
Cost of goods sold	<u>190,000</u>
Gross margin	\$ 60,000 / 2,000 units = \$30

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114. Refer to Figure 2-8. Total product costs were?

- a. \$190,000
- b. \$100,000
- c. \$150,000
- d. \$236,000

*ANSWER:* a

*RATIONALE:* SUPPORTING CALCULATIONS:  $\$40,000 + \$60,000 + \$90,000 = \$190,000$

115. Refer to Figure 2-8. Conversion cost per unit was?

- a. \$50
- b. \$75
- c. \$95
- d. \$125

*ANSWER:* b

*RATIONALE:* SUPPORTING CALCULATIONS:  $(\$60,000 + \$90,000) / 2,000 = \$75$

116. Cost of goods sold

- a. represents all costs associated with research, development, and general administration of the organization.
- b. is found on the Balance Sheet.
- c. is the cost of the partially completed goods that are still on the factory floor at the end of the period.
- d. is the total product cost for the units sold during a period.

*ANSWER:* d

117. Which of the following would *not* be found on the income statement of a manufacturer?

- a. cost of goods sold
- b. work in process
- c. sales revenue
- d. operating income

*ANSWER:* b

118. Which of the following would be found on the balance sheet of a manufacturer?

- a. work in process
- b. raw materials
- c. finished goods
- d. All of the these are correct

*ANSWER:* d

## Chapter 2 - Basic Managerial Accounting Concepts

119. Which of the following would be found on the balance sheet of a manufacturer?
- a. sales revenue
  - b. selling expenses
  - c. factory equipment
  - d. all of these are correct

ANSWER: c

120. Gross margin equals
- a. cost of goods sold – selling and administrative expenses.
  - b. direct materials + direct labor + manufacturing overhead.
  - c. sales revenue – cost of goods sold.
  - d. cost of goods manufactured + selling and administrative expenses.

ANSWER: c

121. Operating income equals
- a. sales revenue – cost of goods sold – selling and administrative expense
  - b. gross margin – selling expenses
  - c. sales revenue – cost of goods sold
  - d. sales revenue – selling and administrative expenses

ANSWER: a

122. Gross margin percent equals
- a. gross margin/cost of goods sold.
  - b. operating income/sales revenue.
  - c. gross margin/sales revenue.
  - d. sales revenue/gross margin.

ANSWER: c

123. Which of the following would *not* be found on an income statement of a service organization?
- a. selling expenses
  - b. cost of goods sold
  - c. operating income
  - d. sales revenue

ANSWER: b

124. Which of the following can be found on the income statements of both a manufacturing and service organization?
- a. revenues
  - b. operating income
  - c. administrative expenses
  - d. all of these can be found on both.

ANSWER: d

## Chapter 2 - Basic Managerial Accounting Concepts

125. A manufacturer normally has
- one inventory account.
  - four inventory accounts.
  - three inventory accounts.
  - none of these are correct.

*ANSWER: c*

126. An income statement of a manufacturer
- will show the ending balance of work in process.
  - contains only manufacturing costs.
  - will show the ending balance of materials inventory.
  - covers a certain period of time.

*ANSWER: d*

127. On a manufacturer's income statement expenses are separated into the following three categories:
- production, period, and indirect
  - materials, work in process, and finished goods
  - production, selling, and administrative
  - variable, fixed, and direct

*ANSWER: c*

## Chapter 2 - Basic Managerial Accounting Concepts

### Figure 2-2.

Lonborg Co. had the following beginning and ending inventory balances for the current year ended December 31:

	<u>January 1</u>	<u>December 31</u>
Materials	\$10,000	\$ 8,000
Work in Process	18,000	17,000
Finished Goods	21,000	16,500

In addition, direct labor costs of \$30,000 were incurred, overhead equaled \$42,000, materials purchased were \$27,000 and selling and administrative costs were \$22,000. Lonborg Co. sold 25,000 units of product during the year at a sales price of \$5.00 per unit.

128. Refer to Figure 2-2. What was the amount of cost of goods manufactured for the year?

- a. \$101,000
- b. \$124,000
- c. \$100,000
- d. \$102,000

**ANSWER:** d

**RATIONALE:** SUPPORTING CALCULATIONS:

Materials 1/1	\$10,000	
Purchases	<u>27,000</u>	
	\$37,000	
Materials 12/31	<u>(8,000)</u>	
Materials used		\$ 29,000
Direct labor		30,000
Overhead		<u>42,000</u>
Total manufacturing costs		\$101,000
Work in process 1/1		18,000
Work in process 12/31		<u>(17,000)</u>
Cost of goods manufactured		\$102,000

129. Refer to Figure 2-2. What was the amount of cost of goods sold for the year?

- a. \$102,000
- b. \$97,500
- c. \$106,500
- d. \$128,500

**ANSWER:** c

**RATIONALE:** SUPPORTING CALCULATIONS:

Cost of goods manufactured	\$102,000
Finished goods inventory 1/1	21,000
Finished goods inventory 12/31	<u>(16,500)</u>
Cost of goods sold	\$106,500



## Chapter 2 - Basic Managerial Accounting Concepts

130. Refer to Figure 2-2. What were the total manufacturing costs for the year?

- a. \$101,000
- b. \$102,000
- c. \$123,000
- d. \$106,500

**ANSWER:** a

**RATIONALE:** SUPPORTING CALCULATIONS:

Materials used in production	\$ 29,000
Direct labor	30,000
Overhead	<u>42,000</u>
Total manufacturing costs	\$101,000

131. Refer to Figure 2-2. What was Lonborg's operating income (loss) for the year?

- a. \$18,500
- b. \$125,000
- c. \$(3,500)
- d. \$2,000

**ANSWER:** c

**RATIONALE:** SUPPORTING CALCULATIONS:

Sales	\$125,000
Cost of goods sold	<u>106,500</u>
Gross margin	\$ 18,500
Sell. & admin.	<u>22,000</u>
Operating income	\$(3,500)

132. During the month of June, Telecom Inc. had cost of goods manufactured of \$112,000, direct materials cost of \$52,000, direct labor cost of \$37,000 and overhead cost of \$26,000. The work in process balance at June 30 equaled \$10,000. What was the work in process balance on June 1?

- a. \$7,000
- b. \$13,000
- c. \$10,000
- d. \$115,000

**ANSWER:** a

**RATIONALE:** SUPPORTING CALCULATIONS:

Direct materials	\$ 52,000
Direct labor	37,000
Overhead	<u>26,000</u>
Total manufacturing costs	\$115,000
Work in process 6/1	7,000
Work in process 6/30	<u>(10,000)</u>
Cost of goods manufactured	\$112,000

## Chapter 2 - Basic Managerial Accounting Concepts

133. Talcum Inc. had materials inventory at July 1 of \$12,000. The materials inventory at July 31 was \$15,000 and the cost of direct materials used in production was \$20,000. What was the cost of materials purchased during the month?
- a. \$23,000
  - b. \$17,000
  - c. \$35,000
  - d. \$20,000

**ANSWER:** a

**RATIONALE:** SUPPORTING CALCULATIONS:

Materials inventory 7/1	\$12,000
Purchases	<u>23,000</u>
Available	\$35,000
Materials inventory 7/31	<u>15,000</u>
Materials used in production	\$20,000

134. Kutlow Inc. had cost of goods sold of \$112,000 for the current year ended December 31. The finished goods inventory on January 1 was \$28,000 and the finished goods inventory on December 31 was \$17,000. What was the amount of cost of goods manufactured for the year?
- a. \$129,000
  - b. \$101,000
  - c. \$67,000
  - d. \$113,000

**ANSWER:** b

**RATIONALE:** SUPPORTING CALCULATIONS:

Finished goods 1/1	\$ 28,000
Cost of goods manufactured	<u>101,000</u>
Goods available	\$129,000
Finished goods 12/31	<u>(17,000)</u>
Cost of goods sold	\$112,000

135. Andover Inc. had a gross margin for the month of February totaling \$42,000. They sold 5,000 units during the month at a sales price of \$20 per unit. What was the amount of cost of goods sold for the month?
- a. \$100,000
  - b. \$42,000
  - c. \$58,000
  - d. none of these are correct

**ANSWER:** c

**RATIONALE:** SUPPORTING CALCULATIONS:

Sales (5,000 × \$20)	\$100,000
Cost of goods sold	<u>58,000</u>
Gross margin	\$ 42,000

## Chapter 2 - Basic Managerial Accounting Concepts

### Figure 2-3.

Bartlow, Inc. had the following income statement for the month of May.

Sales revenue	\$428,000
Cost of goods sold	<u>205,440</u>
Gross margin	\$222,560
Less:	
Selling expenses	81,320
Administrative expenses	<u>72,760</u>
Operating income	\$ 68,480

136. Refer to Figure 2-3. What was the sales revenue percent?

- a. 100%
- b. 48%
- c. 52%
- d. 16%

*ANSWER:* a

*RATIONALE:* SUPPORTING CALCULATIONS:  $\$428,000 / \$428,000 = 100\%$

137. Refer to Figure 2-3. What was the cost of goods sold percent?

- a. 100%
- b. 19%
- c. 52%
- d. 48%

*ANSWER:* d

*RATIONALE:* SUPPORTING CALCULATIONS:  $\$205,440 / \$428,000 = 48\%$

138. Refer to Figure 2-3. What was the gross margin percent?

- a. 52%
- b. 48%
- c. 17%
- d. 19%

*ANSWER:* a

*RATIONALE:* SUPPORTING CALCULATIONS:  $\$222,560 / \$428,000 = 52\%$

139. Refer to Figure 2-3. What was the selling expense percent?

- a. 17%
- b. 19%
- c. 16%
- d. no correct answer

*ANSWER:* b

*RATIONALE:* SUPPORTING CALCULATIONS:  $\$81,320 / \$428,000 = 19\%$

## Chapter 2 - Basic Managerial Accounting Concepts

140. Refer to Figure 2-3. What was the administrative expense percent?

- a. 17%
- b. 19%
- c. 16%
- d. 15%

**ANSWER:** a

**RATIONALE:** SUPPORTING CALCULATIONS:  $\$72,760 / \$428,000 = 17\%$

141. Refer to Figure 2-3. What was the operating income percent?

- a. 15%
- b. 19%
- c. 17%
- d. 16%

**ANSWER:** d

**RATIONALE:** SUPPORTING CALCULATIONS:  $\$68,480 / \$428,000 = 16\%$

### Figure 2-4.

Junko Company makes financial calculators. During the year Junko manufactured 97,000 financial calculators. Finished goods inventory had the following units on hand:

January 1	1,260
December 31	1,040

142. Refer to Figure 2-4. How many financial calculators did Junko sell during the year?

- a. 96,780
- b. 97,220
- c. 97,000
- d. 98,260

**ANSWER:** b

**RATIONALE:** SUPPORTING CALCULATIONS:

Units manufactured	97,000
Decrease in inventory balances	<u>220</u>
Units sold	97,220

OR

Beginning inventory	1,260
Plus units manufactured	97,000
Less ending inventory	<u>(1,040)</u>
Units sold	97,220

## Chapter 2 - Basic Managerial Accounting Concepts

143. Refer to Figure 2-4. If each financial calculator had a per-unit product cost of \$112, what was the cost of Finished goods inventory on December 31?
- a. \$116,480
  - b. \$141,120
  - c. \$24,640
  - d. none of these are correct

**ANSWER:** a

**RATIONALE:** SUPPORTING CALCULATIONS:  $1,040 \times \$112 = \$116,480$

144. Refer to Figure 2-4. If each financial calculator has a per-unit product cost of \$112, what was the cost of goods sold last year?
- a. \$10,864,000
  - b. \$10,839,360
  - c. \$11,005,120
  - d. \$10,888,640

**ANSWER:** d

**RATIONALE:** SUPPORTING CALCULATIONS:  $97,220 \times \$112 = \$10,888,640$

### Figure 2-6.

Seaview Company took the following data from their income statement at the end of the current year.

Per-unit product cost	\$30
Gross margin percentage	40%
Selling and administrative expenses	\$30,000
Operating income	\$10,000

145. Refer to Figure 2-6. What was gross margin for the year?
- a. \$60,000
  - b. \$100,000
  - c. \$40,000
  - d. none of these

**ANSWER:** c

**RATIONALE:** SUPPORTING CALCULATIONS:

Operating income	\$10,000
Selling and admin.	<u>30,000</u>
Gross margin	\$40,000

## Chapter 2 - Basic Managerial Accounting Concepts

146. Refer to Figure 2-6. What was cost of goods sold for the year?

- a. \$60,000
- b. \$40,000
- c. \$100,000
- d. none of these

*ANSWER:* a

*RATIONALE:* SUPPORTING CALCULATIONS:

Sales (\$40,000 / .40)	\$100,000
Gross margin	<u>(40,000)</u>
Cost of goods sold	\$ 60,000
Also $\$40,000 / .40 \times .60$	

147. Refer to Figure 2-6. How many units were sold during the year?

- a. 3,333
- b. 1,000
- c. 1,500
- d. 2,000

*ANSWER:* d

*RATIONALE:* SUPPORTING CALCULATIONS: Cost of goods sold \$60,000 / \$30 = 2,000 units

148. Refer to Figure 2-6. What was the sales price per unit?

- a. \$50
- b. \$30
- c. \$20
- d. \$10

*ANSWER:* a

*RATIONALE:* SUPPORTING CALCULATIONS: Sales \$100,000 / 2,000 units = \$50

## Chapter 2 - Basic Managerial Accounting Concepts

149. If beginning work-in-process inventory is \$120,000, ending work-in-process inventory is \$160,000, cost of goods manufactured is \$400,000 and direct materials used are \$100,000, what are the conversion costs?
- a. \$140,000
  - b. \$280,000
  - c. \$300,000
  - d. \$340,000

*ANSWER:* d

*RATIONALE:* SUPPORTING CALCULATIONS:

$$\$400,000 + \$160,000 - \$120,000 - \$100,000 = \$340,000$$

OR

Materials used	\$100,000	(given)
Plus conversion costs	<u>340,000</u>	(calculate)
Total mfg costs	\$440,000	(calculate)
Plus beg WIP	120,000	(given)
Less ending WIP	<u>(160,000)</u>	(given)
Cost of goods mfd	\$400,000	(given)

## Chapter 2 - Basic Managerial Accounting Concepts

150. Information from the records of Place, Inc., for December is as follows:

Sales	\$820,000
Selling and administrative expenses	140,000
Direct materials purchases	176,000
Direct labor	200,000
Factory overhead	270,000
Direct materials, December 1	24,000
Work in process, December 1	50,000
Finished goods, December 1	46,000
Direct materials, December 31	28,000
Work in process, December 31	56,000
Finished goods, December 31	38,000

Net income for the month of December is:

- a. \$644,000.
- b. \$36,000.
- c. \$636,000.
- d. \$180,000.

**ANSWER:** b

**RATIONALE:** SUPPORTING CALCULATIONS:

$$\text{COGM} = (\$24,000 + \$176,000 - \$28,000) + \$200,000 + \$270,000 + \$50,000 - \$56,000 = \$636,000$$

$$\text{COGS} = \$636,000 + \$46,000 - \$38,000 = \$644,000$$

$$\text{NI} = \$820,000 - \$140,000 - \$644,000 = \$36,000$$

Cost of goods manufactured:

Direct materials used in production (\$24,000 + \$176,000 - \$28,000)	\$172,000
Direct labor	200,000
Manufacturing overhead	<u>270,000</u>
Total mfg costs for December	\$642,000
Plus WIP, Dec. 1	50,000
Less WIP, Dec. 31	<u>(56,000)</u>
Cost of goods manufactured, December	\$636,000

Cost of goods sold:

Cost of goods manufactured	\$636,000
Plus FG, Dec. 1	46,000
Less FG, Dec. 31	<u>(38,000)</u>
Cost of goods sold	\$644,000



## Chapter 2 - Basic Managerial Accounting Concepts

151. Selected data concerning the past year's operations of the Burner Corporation are as follows:

Selling and administrative expenses		\$225,000
Direct materials used		397,500
Direct labor		450,000
		<u>Inventories</u>
	<u>Dec. 1</u>	<u>Dec. 31</u>
Direct materials	\$36,000	\$42,000
Work in process	75,000	84,000
Finished goods	69,000	57,000

The cost of direct materials purchased is:

- a. \$397,500.
- b. \$403,500.
- c. \$367,500.
- d. \$405,000.

**ANSWER:** b

**RATIONALE:** SUPPORTING CALCULATIONS:  $\$397,500 + \$42,000 - \$36,000 = \$403,500$

152. Stone Company, maker of computers, incurred the following costs during the year:

**Required:** Classify each cost as either fixed or variable cost.

	<b>Fixed</b>	<b>Variable</b>
1. Salary of the factory supervisor		
2. Materials needed to assemble the computers		
3. Wages paid to an assembly line worker		
4. Depreciation on the factory		
5. Utility bill for the factory		
6. Grease used to lubricate the machine		
7. Rent paid for the factory		
8. Property taxes on the factory and corporate office		
9. Boxes used to package the completed computers		
10. Advertising in a newspaper monthly		

**ANSWER:**

1. Fixed
2. Variable
3. Variable
4. Fixed
5. Variable
6. Variable
7. Fixed
8. Fixed
9. Variable
10. Fixed

## Chapter 2 - Basic Managerial Accounting Concepts

153. Ashland Company, maker of kitchen cabinets, incurred the following costs during the current year:

**Required:** Classify each cost as either a product or period cost.

	<u>Product</u>	<u>Period</u>
1. Depreciation on automobiles used by the sales staff.		
2. Salary of Ashland's chief executive officer		
3. Glue used in the production process		
4. Supplies for factory washroom		
5. Research and development costs		
6. Property taxes on factory building		
7. Salary of company controller		
8. Depreciation on furniture in factory lunchroom		
9. Cost of lubricating machinery		
10. Wood used in production process		

*ANSWER:*

	<u>Product</u>	<u>Period</u>
1. Depreciation on automobiles used by the sales staff.		X
2. Salary of Ashland's chief executive officer		X
3. Glue used in the production process	X	
4. Supplies for factory washroom	X	
5. Research and development costs		X
6. Property taxes on factory building	X	
7. Salary of company controller		X
8. Depreciation on furniture in factory lunchroom	X	
9. Cost of lubricating machinery	X	
10. Wood used in production process	X	

## Chapter 2 - Basic Managerial Accounting Concepts

154. The Bayou Company makes crab pots. During the current month, direct materials costing \$126,000 were put into production. Direct labor of \$78,000 was incurred and overhead equaled \$84,000. Selling and administrative expenses totaled \$66,000 for the month and the company manufactured 3,000 crab pots. Assume there was no beginning inventory and that 2,800 crab pots were sold.

**Required:**

- A. Compute the per-unit product cost
- B. Compute the per-unit prime cost
- C. Compute the per-unit conversion cost
- D. What is cost of goods sold for the month?
- E. What is the cost of ending finished goods for the month?

*ANSWER:*

- A.  $(\$126,000 + \$78,000 + \$84,000) / 3,000 = \$96$
- B.  $(\$126,000 + \$78,000) / 3,000 = \$68$
- C.  $(\$78,000 + \$84,000) / 3,000 = \$54$
- D.  $(\$96 \times 2,800) = \$268,800$
- E.  $(\$96 \times 200) = \$19,200$

155. Ross Company makes handbags. Last month direct materials (leather, thread, zippers, decorative accents) costing \$76,000 were put into production. Ross had 30 workers, each worked 160 hours this month and each are paid \$12 per hour. Overhead equaled \$80,000 for the period. Ross Company produced 40,000 handbags as of the end of the month.

**Required:** Calculate the total product cost for the month and calculate the cost of one handbag that was produced.

*ANSWER:*

Direct materials	\$ 76,000
Direct labor	57,600 (30 employees × 160 hrs. × \$12/hour)
Overhead	<u>80,000</u>
Total cost	\$213,600

Cost of one handbag:  $\$213,600 / 40,000 = \$5.34$

Chapter 2 - Basic Managerial Accounting Concepts

156. Arcadia Company manufactures recreational vehicles and incurred the following costs during the current year.

**Required:** Classify each cost using the table format given below:

	Product Cost			Period Cost	
	Direct Materials	Direct Labor	Overhead	Selling Expense	Administrative Expense
1. Wages of general office personnel					
2. Cost of tires					
3. Factory supervisor's salary					
4. Conference for marketing personnel					
5. Factory security guards					
6. Research and development					
7. Assembly line workers					
8. Company receptionist					
9. Advertising cost					
10. Cost of shipping vehicles to customers					

ANSWER:

	Product Cost			Period Cost	
	<u>Direct Materials</u>	<u>Direct Labor</u>	<u>Overhead</u>	<u>Selling Expense</u>	<u>Administrative Expense</u>
1. Wages of general office personnel					X
2. Cost of tires	X				
3. Factory supervisor's salary			X		
4. Conference for marketing personnel				X	
5. Factory security guards			X		
6. Research and development					X
7. Assembly line workers		X			
8. Company receptionist					X
9. Advertising cost				X	
10. Cost of shipping vehicles to customers				X	

## Chapter 2 - Basic Managerial Accounting Concepts

157. Room With A View Company manufactures curtains. Last week, direct materials costing \$42,000 were put into production. Direct labor of \$22,000 was incurred and overhead totaled \$50,000. By the end of the week, the company had produced 12,000 curtains.

**Required:**

1. Calculate the total prime cost for the week.
2. Calculate the per-unit prime cost.
3. Calculate the total conversion cost for the week.
4. Calculate the per-unit conversion cost.

*ANSWER:* 1. \$64,000 ( $42,000 + 22,000$ )  
2. \$5.33 ( $64,000 / 12,000$ )  
3. \$72,000 ( $22,000 + 50,000$ )  
4. \$6.00 ( $72,000 / 12,000$ )

## Chapter 2 - Basic Managerial Accounting Concepts

158. The Blanchett Company manufactures fishing rods. Last year, direct materials costing \$516,000 were put into production. Direct labor of \$430,000 was incurred and overhead equaled \$645,000. The company had operating income for the year of \$58,000 and manufactured and sold 86,000 fishing rods at a sales price of \$21 per unit. Assume that there were no beginning or ending inventory balances in the work in process and finished goods inventory accounts.

### Required:

- A. Compute the per-unit product cost
- B. Compute the per-unit prime cost
- C. Compute the per-unit conversion cost
- D. Compute the gross margin for the year
- E. Compute the selling and administrative expenses for the year
- F. Assume production amounted to 86,000 fishing rods and 80,000 were sold. Compute cost of goods sold.
- G. Assume production amounted to 86,000 fishing rods and 80,000 were sold. Compute the balance in ending finished goods inventory.

### ANSWER:

A.  $(\$516,000 + \$430,000 + \$645,000) / 86,000 = \$18.50$

B.  $(\$516,000 + \$430,000) / 86,000 = \$11.00$

C.  $(\$430,000 + \$645,000) / 86,000 = \$12.50$

D.	Sales (86,000 × \$21)	\$1,806,000
	COGS (86,000 × \$18.50)	<u>1,591,000</u>
	Gross margin	\$ 215,000

E.	Gross margin	\$215,000
	Less: Sell. and admin.	<u>157,000</u>
	Operating income	\$ 58,000

F.  $(80,000 \times \$18.50) = \$1,480,000$

G.  $(6,000 \times \$18.50) = \$111,000$

## Chapter 2 - Basic Managerial Accounting Concepts

159. The Butchart Company manufactures microwave ovens. Last year, the per-unit product cost was \$56, the per-unit prime cost was \$34, and the per-unit conversion cost was \$42. Cost of goods sold for the year was \$560,000 and the sale price per unit was \$100. In addition, direct labor costs of \$200,000 and selling and administrative expenses of \$240,000 were incurred.

**Required:**

- A. Calculate how many units were sold last year
- B. Compute the cost of direct materials used
- C. Compute the cost of overhead
- D. Compute the gross margin for the year
- E. Calculate operating income

**ANSWER:**

A. Cost of goods sold  $\$560,000 / \$56 = 10,000$  units

B.  $10,000 \times \$34 - (\$200,000 \text{ of direct labor cost}) = \$140,000$

C.  $10,000 \times \$42 - (\$200,000 \text{ of direct labor cost}) = \$220,000$

D.	Sales revenue (10,000 × \$100)	\$1,000,000
	Cost of goods sold	<u>560,000</u>
	Gross margin	\$ 440,000

E.	Gross margin	\$ 440,000
	Less: Sell. and admin.	<u>240,000</u>
	Operating income	\$ 200,000

## Chapter 2 - Basic Managerial Accounting Concepts

160. Picture It Inc. manufactures customized wooden frames. The direct materials needed to construct the frames are wood, glass and cardboard. Picture It has 22 employees who work a 40-hour work week and are each paid \$17 per hour. The company produced and sold 900 frames in the month of September.

During the month of September the following purchases were made to produce the 900 frames:

Wood—4000 ft. at \$1.20/ft.

Glass—400 pieces at \$5.60/piece

Cardboard—500 pieces at \$0.50/piece

### Required:

1. Calculate the total product cost for the month. Assume that all employees worked four full weeks in September and that the company incurred \$55,000 in overhead costs.
2. Calculate the per-unit cost.
3. Calculate the gross margin for the month of September assuming that the company sells each frame for \$250.

ANSWER:

1. Direct materials:

Wood =	\$4,800	(4,000 × \$1.20)
Glass =	2,240	(400 × \$5.60)
Cardboard =	<u>250</u>	(500 × \$0.50)
	\$7,290	

Direct labor: \$ 59,840 (22 × 160 × \$17)

Overhead     55,000

Total cost   \$122,130

2.  $\$122,130 / 900 = \$135.70$

3. Gross margin = sales revenue – cost of goods sold

Gross margin =  $\$225,000 (\$250 \times 900) - \$122,130 = \$102,870$



## Chapter 2 - Basic Managerial Accounting Concepts

161. Tucker Company, a manufacturing firm, has supplied the following information from its accounting records for the month of April.

Direct labor cost	\$12,000
Purchases of raw materials	17,000
Factory insurance	4,000
Research and development	7,500
Factory property taxes	3,000
Sales commissions paid	4,500
Work in process, April 1	2,000
Work in process, April 30	2,800
Materials inventory, April 1	1,475
Materials inventory, April 30	1,200
Finished goods inventory, April 1	2,250
Finished goods inventory, April 30	750

**Required:** Prepare a Statement of Cost of Goods Manufactured.

**ANSWER:**

Tucker Company		
Statement of Cost of Goods Manufactured		
For the Month of April		
Materials inventory, April 1	\$ 1,475	
Materials purchased	<u>17,000</u>	
Materials available for use	\$18,475	
Materials inventory, April 30	<u>1,200</u>	
Materials used		\$17,275
Direct labor		12,000
Overhead		<u>7,000</u>
Total manufacturing costs		\$36,275
Work in process, April 1		2,000
Work in process, April 30		<u>(2,800)</u>
Cost of goods manufactured		<u>\$35,475</u>

## Chapter 2 - Basic Managerial Accounting Concepts

162. In June, Olympic Company purchased materials costing \$38,000, and incurred direct labor cost of \$42,000. Overhead totaled \$27,000 for the month. Information on inventories was as follows:

	<u>June 1</u>	<u>June 30</u>
Materials	\$3,000	\$2,700
Work in process	1,000	1,275
Finished goods	2,500	1,775

**Required:**

- A. Calculate the cost of direct materials used during June.
- B. Calculate the total manufacturing cost for June.
- C. Calculate the cost of goods manufactured for June.
- D. Calculate cost of goods sold for June.

*ANSWER:*

A. Materials, 6/1	\$ 3,000
Purchases	38,000
Materials, 6/30	<u>(2,700)</u>
Materials used	\$38,300

B.  $(\$38,300 + \$42,000 + \$27,000) = \$107,300$

C. Total manufacturing costs	\$107,300
Work in process, 6/1	1,000
Work in process, 6/30	<u>(1,275)</u>
Cost of goods manufactured	\$107,025

D. Cost of goods manufactured	\$107,025
Finished goods, 6/1	2,500
Finished goods, 6/30	<u>(1,775)</u>
Cost of goods sold	\$107,750

## Chapter 2 - Basic Managerial Accounting Concepts

163. Templar Company, a manufacturing firm, has supplied the following information from its accounting records for the month of November:

Factory supplies used	\$18,000
Depreciation on factory building	17,000
Salary of company controller	6,000
Factory janitorial costs	5,000
Marketing and promotion	4,500
Direct labor cost	22,000
Purchases of raw materials	10,000
Finished goods inventory, Nov. 1	2,250
Finished goods inventory, Nov. 30	3,750
Work-in-process inventory, Nov. 1	4,200
Work-in-process inventory, Nov. 30	2,750
Materials inventory, Nov. 1	3,500
Materials inventory, Nov. 30	5,100

**Required:**

- Prepare a Statement of Cost of Goods Manufactured
- Prepare a Statement of Cost of Goods Sold

ANSWER:

Templar Company  
Statement of Cost of Goods Manufactured  
For the Month of November

Materials inventory, Nov. 1	\$ 3,500	
Purchases of materials	10,000	
Materials inventory, Nov. 30	<u>(5,100)</u>	
Materials used		\$ 8,400
Direct labor		22,000
Overhead		<u>40,000</u>
Total manufacturing costs		\$70,400
Work-in-process inventory, Nov. 1		4,200
Work-in-process inventory, Nov. 30		<u>(2,750)</u>
Cost of goods manufactured		<u>\$71,850</u>

Templar Company  
Statement of Cost of Goods Sold  
For the Month of November

Cost of goods manufactured	\$71,850
Finished goods inventory, Nov. 1	2,250
Finished goods inventory, Nov. 30	<u>(3,750)</u>
Cost of goods sold	<u>\$70,350</u>

## Chapter 2 - Basic Managerial Accounting Concepts

164. Fidalgo Company makes stereos. During the year, Fidalgo manufactured and sold 75,000 stereos at a sales price of \$575 per unit. Fidalgo's per-unit product cost was \$540 and selling and administrative expenses totaled \$2,000,000.

**Required:**

- A. Compute the total sales revenue
- B. Compute the gross margin
- C. Compute the operating income
- D. Compute the operating income if 75,000 stereos were produced and 69,000 were sold.

**ANSWER:**

A.	$75,000 \times \$575 = \$43,125,000$	
B.	Sales revenue ( $69,000 \times \$575$ )	\$43,125,000
	Cost of goods sold ( $75,000 \times \$540$ )	<u>40,500,000</u>
	Gross margin	\$ 2,625,000
C.	Gross margin	\$2,625,000
	Selling and admin. expenses	<u>2,000,000</u>
	Operating income	\$ 625,000
D.	Sales revenue	\$39,675,000
	Cost of goods sold ( $69,000 \times \$540$ )	<u>37,260,000</u>
	Gross margin	\$ 2,415,000
	Selling and admin. expenses	<u>2,000,000</u>
	Operating income	\$ 415,000

## Chapter 2 - Basic Managerial Accounting Concepts

165. Baleen Company supplied the following data at the end of the current year:

Sales commissions	\$ 12,000
Sales revenue	120,000
Research and development	17,000
Finished goods inventory, Jan. 1	7,500
Work in process inventory, Jan 1	9,000
Finished goods inventory, Dec. 31	6,000
Work in process inventory, Dec. 31	11,000
Cost of goods manufactured	52,000

**Required:** Prepare an income statement for Baleen Company.

*ANSWER:*

Baleen Company Income Statement For the Year Ended December 31, 2011	
Sales revenue	\$120,000
Cost of goods sold*	<u>53,500</u>
Gross margin	\$ 66,500
Less:	
Selling expense	12,000
Administrative expense	<u>17,000</u>
Operating income	<u>\$ 37,500</u>
*Cost of goods manufactured	\$ 52,000
Finished goods inventory, Jan. 1	<u>7,500</u>
Finished goods inventory, Dec. 31	\$ (6,000)

## Chapter 2 - Basic Managerial Accounting Concepts

166. Macon Company supplied the following data and information on inventories at the end of the current year.

	<u>January 1</u>	<u>December 31</u>
Materials	\$21,000	\$23,500
Work in process	17,500	8,500
Finished goods	26,000	27,000
Direct labor	\$ 40,000	
Selling expenses	31,000	
Sales revenue	400,000	
Administrative expenses	14,500	
Purchases of raw materials	62,000	
Factory supervision	50,000	
Factory supplies used	25,000	

**Required:** Prepare an income statement of Macon Company for the current year.

ANSWER:

Macon Company Income Statement For the Year Ended December 31, 2011	
Sales revenue	\$400,000
Cost of goods sold*	<u>182,500</u>
Gross margin	217,500
Less:	
Selling expenses	\$ 31,000
Administrative expenses	<u>14,500</u>
Operating income	<u><u>\$172,000</u></u>
*Cost of goods manufactured**	\$183,500
Finished goods inventory, Jan. 1	26,000
Finished goods inventory, Dec. 31	<u>(27,000)</u>
Cost of goods sold	\$182,500
**Purchases of raw materials	\$ 62,000
Materials inventory, 1/1	21,000
Materials inventory, 12/31	<u>(23,500)</u>
Materials used	\$ 59,500
Direct labor	40,000
Overhead (\$50,000 + \$25,000)	<u>75,000</u>
Total manufacturing costs	\$174,500
Work in process inventory, Jan. 1	17,500
Work in process inventory, Dec. 31	<u>(8,500)</u>
Cost of goods manufactured	\$183,500

167. Bartlow Company has supplied the following information from its accounting records for the month of May.

Direct labor cost	\$11,500
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## Chapter 2 - Basic Managerial Accounting Concepts

Purchases of raw materials	20,000
Factory depreciation	7,500
Advertising	10,000
Factory property taxes	6,500
Materials inventory, 5/1	1,250
Materials inventory, 5/31	2,500
Work in process inventory, 5/1	?
Work in process inventory, 5/31	1,500
Cost of goods manufactured	45,850
Sales revenue	?
Executive salary cost	25,000
Finished goods inventory, 5/1	5,500
Finished goods inventory, 5/31	4,250
Operating income	67,900
Gross margin	?

**Required:** Solve for the missing amounts (?). (Solve for WIP at 5/1 first, then Gross Margin, then Sales Revenue.)

ANSWER:

Bartlow Company  
Schedule of Cost of Goods Manufactured  
For the Month of May

Materials inventory, 5/1	\$ 1,250
Purchases of materials	20,000
Materials inventory, 5/31	<u>(2,500)</u>
Materials used	\$18,750
Direct labor	11,500
Overhead (7,500 + 6,500)	<u>14,000</u>
Total manufacturing costs	\$44,250
Work in process, 5/1	3,100
Work in process, 5/31	<u>(1,500)</u>
Cost of goods manufactured	<u><u>\$45,850</u></u>

Bartlow Company  
Income Statement  
For the Month of May

Sales revenue	\$150,000
Cost of goods sold*	<u>47,100</u>
Gross margin	\$102,900
Less:	
Selling expense	\$ 10,000
Administrative expense	<u>25,000</u>
Operating income	<u><u>\$ 67,900</u></u>
*Cost of goods manufactured	\$45,850
Finished goods inventory, 5/1	5,500
Finished goods inventory, 5/31	<u>(4,250)</u>
Cost of goods sold	\$47,100

## Chapter 2 - Basic Managerial Accounting Concepts

168. See the following separate cases.

	<u>Case #1</u>	<u>Case #2</u>
Sales	\$1,000	\$1,300
Cost of goods manufactured	A	500
Finished goods inventory (beginning balance)	100	D
Finished goods inventory (ending balance)	150	200
Cost of goods sold	B	600
Gross margin	300	E
Selling expenses	C	75
Administrative expenses	50	40
Operating income	200	F

**Required:** Solve for the missing amounts (A,B,C,D,E,F)

*ANSWER:*

	<u>Case #1</u>	<u>Case #2</u>
Sales	<u>\$1,000</u>	<u>\$1,300</u>
Cost of goods manufactured	\$ 750	\$ 500
Finished goods inventory (beginning balance)	100	300
Finished goods inventory (ending balance)	<u>(150)</u>	<u>(200)</u>
Cost of goods sold	<u>\$ 700</u>	<u>\$ 600</u>
Gross margin	300	700
Selling expenses	50	75
Administrative expenses	<u>50</u>	<u>40</u>
Operating income	\$ 200	\$ 585



## Chapter 2 - Basic Managerial Accounting Concepts

169. See the following separate cases.

	<u>Case #1</u>	<u>Case #2</u>
Purchase of materials	\$ 5,000	C
Materials inventory (beginning balance)	A	\$ 220
Materials inventory (ending balance)	1,000	350
Direct labor	7,000	4,250
Factory supervision	1,500	1,100
Factory supplies	1,250	900
Total manufacturing costs	14,500	D
Work in process inventory (beginning balance)	1,200	1,230
Work in process inventory (ending balance)	B	650
Cost of goods manufactured	14,600	10,200

**Required:** Solve for the missing amounts (A,B,C,D).

*ANSWER:*

	<u>Case #1</u>	<u>Case #2</u>
Purchases of materials	\$ 5,000	\$ 3,500
Materials inventory (beginning balance)	750	220
Materials inventory (ending balance)	<u>(1,000)</u>	<u>(350)</u>
Materials used	\$ 4,750	\$ 3,370
Direct labor	7,000	4,250
Overhead	<u>2,750</u>	<u>2,000</u>
Total manufacturing costs	\$14,500	\$ 9,620
Work in process inventory, (beginning balance)	1,200	1,230
Work in process inventory, (ending balance)	<u>(1,100)</u>	<u>(650)</u>
Cost of goods manufactured	\$14,600	\$10,200

## Chapter 2 - Basic Managerial Accounting Concepts

170. Rancor Company's accountant prepared the following income statement for the month of August.

Rancor Company Income Statement For the Month of August	
Sales revenue	\$912,200
Cost of goods sold	<u>601,920</u>
Gross margin	\$310,280
Less:	
Selling expense	164,160
Administrative expense	<u>63,840</u>
Operating income	<u><u>\$ 82,280</u></u>

**Required: (Round to the nearest whole percent)**

- A. Calculate the sales revenue percent
- B. Calculate the cost of goods sold percent
- C. Calculate the gross margin percent
- D. Calculate the selling expense percent
- E. Calculate the administrative expense percent
- F. Calculate the operating income percent

**ANSWER:**

- A.  $\$912,000 / \$912,200 = 100\%$
- B.  $\$601,920 / \$912,200 = 66\%$
- C.  $\$310,280 / \$912,200 = 34\%$
- D.  $\$164,160 / \$912,200 = 18\%$
- E.  $\$63,840 / \$912,200 = 7\%$
- F.  $\$82,280 / \$912,200 = 9\%$

## Chapter 2 - Basic Managerial Accounting Concepts

171. Extrema Company supplied the following data at the end of the current year.

Finished goods inventory, Jan 1.	\$ 12,000
Finished goods inventory, Dec. 31	7,500
Cost of goods manufactured	152,380
Sales revenue	212,000
Sales commissions	19,080
Research and development costs	15,900

### Required:

- A. Calculate the cost of goods sold percent
- B. Calculate the gross margin percent
- C. Calculate the selling expense percent
- D. Calculate the administrative expense percent
- E. Calculate the operating income percent

### ANSWER:

A.	Cost of goods manufactured	\$152,380
	Finished goods inventory, 1/1	12,000
	Finished goods inventory, 12/31	<u>(7,500)</u>
	Cost of goods sold	\$156,880
	Sales revenue	\$212,000
	Cost of goods sold	<u>156,880</u>
	Gross margin	\$ 55,120
	Less:	
	Selling expense	19,080
	Administrative expense	<u>15,900</u>
	Operating income	<u><u>\$ 20,140</u></u>

- A.  $156,880 / 212,000 = 74\%$
- B.  $55,120 / 212,000 = 26\%$
- C.  $19,080 / 212,000 = 9\%$
- D.  $15,900 / 212,000 = 7.5\%$
- E.  $20,140 / 212,000 = 9.5\%$

## Chapter 2 - Basic Managerial Accounting Concepts

172. Rizzuto Company supplied the following information for the month of January.

Cost of Goods Sold percent	62%
Selling Expense percent	6%
Administrative Expense percent	13%

**Required:** Reconstruct Rizzuto's income statement for January assuming that their total sales revenue for the month equaled \$500,000.

*ANSWER:*

Rizzuto Company Income Statement For the Month of January	
Sales revenue	\$500,000
Cost of goods sold ( $500,000 \times 62\%$ )	<u>310,000</u>
Gross margin ( $500,000 \times 38\%$ )	\$190,000
Less:	
Selling expense ( $500,000 \times 6\%$ )	30,000
Administrative expense ( $500,000 \times 13\%$ )	<u>65,000</u>
Operating income	<u><u>\$ 95,000</u></u>

173. Cashman Company supplied the following information for the month of December.

Operating income percent	10.5%
Gross margin percent	30%

**Required:** Solve for the following amounts assuming that Cashman Company's operating income in December was \$44,100.

- A. Sales revenue
- B. Cost of goods sold
- C. Total selling and administrative expenses

*ANSWER:*

A. Sales Revenue = $\$44,100 / 0.105 = \$420,000$	
B. Cost of goods sold = $\$420,000 \times 0.70 = \$294,000$	
C. Gross margin ( $\$420,000 \times 0.30$ )	\$126,000
Less: Selling and administrative expense	<u>81,900</u>
Operating income	\$ 44,100

## Chapter 2 - Basic Managerial Accounting Concepts

174. Wapato Company produces a product with the following per unit costs.

Direct materials	\$17
Direct labor	11
Overhead	12

Last year, Wapato produced and sold 3,000 units at a sales price of \$80 each. Total selling and administrative expenses were \$25,000.

**Required:** Solve for the following:

- A. Total cost of goods sold for last year
- B. Operating income for last year
- C. Total gross margin for last year
- D. Prime cost per unit

**ANSWER:**

A.  $(\$17 + \$11 + \$12) \times 3,000 = \$120,000$

B. & C.	Sales revenue (3,000 × \$80)	\$240,000
	Cost of goods sold	<u>120,000</u>
	Gross margin	\$120,000
	Less:	
	Selling and administrative expenses	<u>25,000</u>
	Operating income	\$ 95,000

D.  $\$17 + \$11 = \$28$

## Chapter 2 - Basic Managerial Accounting Concepts

175. Tesco Company showed the following costs for last month:

Direct materials	\$40,000
Direct labor	35,000
Overhead	52,000
Selling expense	17,000
Administrative expense	12,000

Last month, Tesco produced and sold 20,000 units at a sales price per unit of \$18. Assume no beginning or ending inventory balances for work in process and finished goods inventories.

**Required:** Solve for the following amounts.

- Total product cost for last month
- Unit product cost for last month
- Total period costs
- Gross margin for last month
- Operating income for last month

**ANSWER:**

A.  $\$40,000 + \$35,000 + \$52,000 = \$127,000$

B.  $\$127,000 / 20,000 = \$6.35$

C.  $\$17,000 + \$12,000 = \$29,000$

D & E.	Sales revenue (20,000 × \$18)	\$360,000
	Cost of goods sold	<u>127,000</u>
	Gross margin	\$233,000
	Less:	
	Selling expense	17,000
	Administrative expense	<u>12,000</u>
	Operating income	\$204,000

176. Stabler Company, a manufacturing firm, has provided the following information for the month of May:

Factory supplies used	\$22,000
Depreciation on factory building	10,000
Commissions for sales personnel	32,000
Salary of company CFO	9,000
Factory janitorial costs	3,000
Research and development	5,000
Depreciation on corporate office	8,500
Advertising costs	2,500
Direct labor cost	40,000
Purchases of raw materials	15,000
Finished goods inventory units, May 1	4,000
Finished goods inventory units, May 31	6,500
Finished goods inventory, May 1	36,000

## Chapter 2 - Basic Managerial Accounting Concepts

Finished goods inventory, May 31	59,865
Work in process inventory, May 1	7,500
Work in process inventory, May 31	3,300
Materials inventory, May 1	2,100
Materials inventory, May 31	4,200

### Required:

- Prepare a Statement of Cost of Goods Manufactured.
- Calculate the cost of one unit assuming 10,000 units were completed during May.
- Prepare a Statement of Cost of Goods Sold.
- Calculate the number of units that were sold during May.
- Prepare an Income Statement assuming the sales price per unit is \$35.

ANSWER: A.

### Stabler Company Statement of Cost of Goods Manufactured For the Month of May

Materials Inventory, May 1	\$ 2,100	
Purchases of materials	15,000	
Materials Inventory, May 31	<u>(4,200)</u>	
Materials used		\$12,900
Direct Labor		40,000
Overhead		<u>35,000</u>
Total manufacturing costs		\$87,900
Work in Process Inventory, May 1		7,500
Work in Process Inventory, May 31		<u>(3,300)</u>
Cost of Goods Manufactured		<u>\$92,100</u>

B.  $\$92,100 / 10,000 = \$9.21$

C.

### Stabler Company Statement of Cost of Goods Sold For the Month of May

Cost of Goods Manufactured	\$92,100
Finished Goods Inventory, May 1	36,000
Finished Goods Inventory, May 31	<u>(59,865)</u>
Cost of Goods Sold	<u>\$68,235</u>

D. Number of units sold:

Finished goods inventory, May 1	\$ 4,000
Units finished during May	10,000
Finished goods inventory, May 31	<u>(706)</u>
Units sold during May	\$ 9,728

E.

## Chapter 2 - Basic Managerial Accounting Concepts

Stabler Company Income Statement For the Month of May		
Sales revenue (7,500 × \$35)		\$262,500
Cost of goods sold		<u>68,235</u>
Gross margin		\$194,265
Less:		
Selling expense		
Commissions	\$32,000	
Advertising	<u>2,500</u>	34,500
Administrative expense		
Salary of CFO	\$ 9,000	
Research and development	5,000	
Depreciation on corporate office	<u>8,500</u>	<u>22,500</u>
Operating income		<u>\$193,880</u>

177. What is the difference between a period cost and a product cost?

*ANSWER:* A period cost is a cost that is not a product cost. It is expensed during the current period rather than inventoried. Examples of period costs are selling and administrative costs. A product cost is a manufacturing cost that is inventoried and expensed as Cost of Goods Sold only when the goods have been sold. Product costs are classified as direct materials, direct labor, or overhead.

178. List and describe the three categories of manufacturing costs.

*ANSWER:* Direct materials consist of the cost of materials requisitioned and used in production during the current period. Direct materials are materials that can be accurately and conveniently traced to the product. Direct labor consists of labor costs of workers directly involved in the manufacture of the product. Overhead consists of all the manufacturing costs that do not fall into the direct material or direct labor category. Examples of overhead costs include; insurance on the factory, machinery depreciation, indirect labor, indirect materials, factory supplies, etc.

179. Explain the difference between a cost that is included in valuing inventory and a cost that is not included in valuing inventory.

*ANSWER:* A cost that is included in valuing inventory is a cost of manufacturing the product. These costs are also referred to as product costs and manufacturing costs. They include direct materials, direct labor, and overhead. These costs are not expensed until the goods are sold. A cost that is not included in valuing inventory is a selling or administrative cost that is expensed immediately in the accounting period that it is incurred. These costs are also referred to as period costs or non-manufacturing costs.

180. Describe the purpose of the three inventory accounts used by a manufacturer.

*ANSWER:* The materials inventory is used to keep track of materials that have not yet been used in production. The work in process inventory is used to account for the costs of goods that were partially completed at the end of the accounting period and is used to accumulate current production costs. The finished goods inventory is used to account for the cost of goods that were finished at the end of the current period but have not yet been sold.



## Chapter 2 - Basic Managerial Accounting Concepts

181. What is the difference between total manufacturing costs and cost of goods manufactured?

*ANSWER:* Total manufacturing costs are costs that are added during the period and consist of the cost of materials used, the direct labor costs incurred and the overhead costs incurred during the current period. Cost of goods manufactured would be computed by adding the beginning balance of work in process to and subtracting the ending balance of work in process from the total manufacturing costs.

You Decide

182. You are the accounting manager at Falcon Inc. You just hired a new staff accountant to assist you in breaking out costs into their appropriate classifications. The staff accountant asks you why cost classification is important.

How would you respond?

*ANSWER:* Cost classification is important for a variety of reasons. Probably the two most important are decision making and proper presentation on the financial statements. For example, by determining if a cost is fixed or variable it can help a company determine if each cost has a direct relationship to the level of output. If the company feels that their costs are becoming too high, then this type of classification can give them important information. Maybe the cost of the direct materials has increased significantly and they may need to look for a new supplier. Or when reviewing their fixed costs, they determine that the rent for their factory is causing the rise in costs and they should consider moving locations. The break out of product cost and period cost is also vital to a company. A company wants to know how much they are spending to actually produce the product (direct materials, direct labor, overhead) so that they can make such decisions as to the appropriate price to charge a customer. The allocation of product and period costs is also essential to properly generate the income statement, which is also used by external users to make decisions.

## Chapter 2 - Basic Managerial Accounting Concepts

*Select the appropriate classification for each of the following costs.*

a. Period

b. Product

183. Advertising costs

*ANSWER: a*

184. Cost accountant's salary

*ANSWER: a*

185. Factory supervisor's salary

*ANSWER: b*

186. Research and development costs

*ANSWER: a*

187. Marketing costs

*ANSWER: a*

188. Cost of shipping products to customers

*ANSWER: a*

189. Supplies for factory washroom

*ANSWER: b*

190. Assembly line worker's wages

*ANSWER: b*

## Chapter 2 - Basic Managerial Accounting Concepts

*Select the appropriate classification for each of the costs incurred by a manufacturer of automobiles.*

- a. direct materials
- b. direct labor
- c. overhead
- d. selling expense
- e. administrative expense

191. cost of tires

*ANSWER: a*

192. factory supplies

*ANSWER: c*

193. general accounting costs

*ANSWER: e*

194. factory security costs

*ANSWER: c*

195. factory janitorial costs

*ANSWER: c*

196. salary of chief executive officer

*ANSWER: e*

197. depreciation of vehicles used by sales personnel

*ANSWER: d*

198. cost of windshields used in the production process

*ANSWER: a*

## Chapter 2 - Basic Managerial Accounting Concepts

*Select the appropriate classification for each of the items listed below.*

a. Product cost

b. Period cost

199. Cost of nails used by a home builder

*ANSWER: a*

200. Fees paid to an advertising firm

*ANSWER: b*

201. Sugar used in soft drink production

*ANSWER: a*

202. Rental cost of executive Lear jet

*ANSWER: b*

203. Cost of conference for sales team

*ANSWER: b*

204. Factory supervisor's salary

*ANSWER: a*

205. Fees paid to outside auditing firm

*ANSWER: b*

206. Factory security costs

*ANSWER: a*

*Select the appropriate definition for each of the items listed below.*

a. per-unit prime cost

b. per-unit conversion cost

c. per-unit cost of goods manufactured

207.  $(\text{direct labor} + \text{overhead})/\text{units produced}$

*ANSWER: b*

208.  $(\text{total manufacturing costs} + \text{work in process beginning} - \text{work in process ending})/\text{units produced}$

*ANSWER: c*

209.  $(\text{direct materials} + \text{direct labor})/\text{units produced}$

*ANSWER: a*

## Chapter 2 - Basic Managerial Accounting Concepts

*Select the appropriate definition for each of the items listed below.*

- a. period cost
- b. direct cost
- c. opportunity cost
- d. variable cost
- e. indirect cost
- f. fixed cost
- g. product cost

210. A benefit given up when one alternative is chosen over another

*ANSWER: c*

211. A cost that stays the same in total regardless of changes in output

*ANSWER: f*

212. A cost that is difficult to trace to a cost object

*ANSWER: e*

213. A manufacturing cost

*ANSWER: g*

214. A cost that is not inventoried

*ANSWER: a*

215. A cost that can be easily traced to a cost object

*ANSWER: b*

216. A cost that increases in total as output increases

*ANSWER: d*

## Chapter 2 - Basic Managerial Accounting Concepts

*Select the appropriate classification of the items listed below.*

- a. selling expense
- b. administrative expense
- c. direct materials
- d. direct labor
- e. overhead

217. Chief of surgery's salary at a hospital

*ANSWER: d*

218. Wages of assembly line workers in an automobile plant

*ANSWER: d*

219. Cost of lubricating factory machinery

*ANSWER: e*

220. Cost of shipping goods to customers

*ANSWER: a*

221. Glue used in the manufacture of furniture

*ANSWER: e*

222. Cost of engines in the manufacture of airplanes

*ANSWER: c*

223. Salary of chief executive officer

*ANSWER: b*

224. A professor's salary at a university

*ANSWER: d*

## Chapter 2 - Basic Managerial Accounting Concepts

*Select the appropriate classification of the output generated by each of the following industries.*

- a. Tangible
- b. Intangible

225. CPA firm

*ANSWER:* b

226. Car manufacturer

*ANSWER:* a

227. Law firm

*ANSWER:* b

228. Medical clinic

*ANSWER:* b

229. Bowling alley

*ANSWER:* b

230. Fast food restaurant

*ANSWER:* a

231. Video rental

*ANSWER:* b

232. Professional sports franchise

*ANSWER:* b

## Chapter 2 - Basic Managerial Accounting Concepts

*Select the appropriate definition for each of the items listed below.*

- a. Work in process inventory
- b. Finished goods inventory
- c. Cost of goods sold
- d. Cost of goods manufactured
- e. Total manufacturing costs

233. The cost of units finished but not sold at the end of the current period

*ANSWER: b*

234. Direct materials + direct labor + overhead

*ANSWER: e*

235. The cost of units unfinished at the end of the current period

*ANSWER: a*

236. Beginning finished goods inventory + Cost of goods manufactured - Ending finished goods inventory

*ANSWER: c*

237. (direct materials + direct labor + overhead) +/- the change in work in process inventory from the beginning to the end of the current period

*ANSWER: d*

*Select the appropriate item for each of the definitions listed below.*

- a. gross margin
- b. selling expenses
- c. sales revenue
- d. cost of goods sold
- e. operating income

238. gross margin – selling and administrative expenses

*ANSWER: e*

239. marketing and distributing costs

*ANSWER: b*

240. price x units sold

*ANSWER: c*

241. sales revenue – cost of goods sold

*ANSWER: a*

242. Beginning finished goods inventory + Cost of goods manufactured - Ending finished goods inventory

*ANSWER: d*



Chapter 2 - Basic Managerial Accounting Concepts

*Select the appropriate definition of each of the items listed below.*

- a. Income Statement
- b. Cost of goods manufactured
- c. Work in process
- d. Gross margin
- e. Operating income

243. Gross margin – selling and administrative expenses

*ANSWER: e*

244. The difference between sales revenue and cost of goods sold

*ANSWER: d*

245. The total cost of goods completed during the current period

*ANSWER: b*

246. Covers a particular period of time

*ANSWER: a*

247. Cost of partially completed goods

*ANSWER: c*