

Chapter 2 - Basic Managerial Accounting Concepts

1. What are expired costs?

- a. assets
- b. expenses
- c. revenues
- d. profit

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p. 32

LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; classifying

2. In terms of managerial accounting, which of the following is the best definition of cost?

- a. the cash sacrificed for goods expected to bring future benefit to the organization
- b. a dollar measure of the cash used to achieve a given benefit
- c. the asset incurred to produce future benefits
- d. the equivalent of the cost of goods sold

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p. 32

LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; differentiating

3. Which of the following is a characteristic of price per unit?

- a. It is equal to the revenue.
- b. It must be less than cost for the firm to earn income.
- c. It is the same as total cost.
- d. It is the same as cost per unit plus income per unit.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p. 32

LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; inferring

4. What is the definition of assigning costs?

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- a. the way costs are measured and recorded
- b. the way companies can tell what money was spent
- c. the allocation applied to a cost object using a reasonable method
- d. the benefit given up when one choice is made over another

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p. 33

LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; classifying

5. Which of the following is included in nonmanufacturing costs?
- a. marketing
 - b. direct materials
 - c. indirect materials
 - d. overhead

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p. 33

LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; exemplifying

6. What is one of the main purposes of assigning costs to cost objects?
- a. It provides information on why money was spent.
 - b. It records the historical events of the organization.
 - c. It allows management to incorporate products in marketing.
 - d. It facilitates service businesses in following financial regulations.

ANSWER: a

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 33

LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; classifying

7. Which of the following is characteristic of indirect costs?
- a. Indirect costs can be easily and accurately traced to a cost object.

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- b. Indirect costs are shared between or among more than one cost object.
- c. Indirect costs should always be assigned to a cost object.
- d. Indirect costs include all labour.

ANSWER: b
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 35
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; classifying

8. What is the behaviour pattern of a variable cost?
- a. It increases in total as output increases.
 - b. It remains constant in total at all levels of output.
 - c. It increases per unit as output increases.
 - d. It decreases per unit as output increases.

ANSWER: a
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 36
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; exemplifying

9. What is the definition of opportunity cost?
- a. a cost that increases as output increases and decreases as output decreases
 - b. a cost that does not increase as output increases and does not decrease as output decreases
 - c. a benefit given up or sacrificed when one alternative is chosen over another
 - d. a benefit that cannot be easily and accurately traced to a cost object

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p.33
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; exemplifying

10. Which of the following is an example of an intangible product?
- a. hamburgers
 - b. computers

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- c. automobiles
- d. dental care

ANSWER: d
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 37
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; exemplifying

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

- a. funeral care
- b. legal services
- c. furniture
- d. video rental

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 37
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; exemplifying

12. What type of organization is the Hudson Bay Company?

- a. production organization
- b. service organization
- c. manufacturing organization
- d. merchandising organization

ANSWER: d
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p.37
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting
KEYWORDS: Bloom's Higher order; differentiating

13. Which of the following statements best describes product costs?

- a. Product costs are direct materials and direct labour costs only.
- b. Product costs are manufacturing costs.
- c. Product costs do not include overhead.

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d. Product costs do not include direct materials.

ANSWER: b

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 38

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; understanding

14. Which of the following are production costs?

- a. selling costs, administrative costs, and period costs
- b. indirect materials, indirect labour, and administrative costs
- c. direct materials, direct labour, and selling costs
- d. direct materials, direct labour, and overhead

ANSWER: d

POINTS: 1

DIFFICULTY: Challenging

REFERENCES: p. 38

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; classifying

15. Into which two major functional categories are costs subdivided?

- a. production and nonproduction
- b. selling and administration
- c. prime and conversion
- d. opportunity and direct

ANSWER: a

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 39

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; classifying

16. Which of the following is an example of a direct materials cost?

- a. wood used to make furniture
- b. nails used to construct furniture
- c. glue used to build furniture
- d. screws used to manufacture furniture

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ANSWER: a
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 39
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; differentiating

17. Which of the following is an example of a direct materials cost?
- the nails in a dining room table
 - the engine in an airplane
 - the glue used to manufacture furniture
 - the paint on a new car

ANSWER: b
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 39
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; exemplifying

18. When do materials in the raw materials account become direct materials?
- when they are withdrawn from inventory for use in production
 - when they are returned to the supplier
 - when they are spoiled
 - when they are put into production

ANSWER: d
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 39
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; differentiating

19. Which of the following job positions is an example of direct labour?
- production line worker
 - maintenance person
 - security guard
 - management accountant

ANSWER: a

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POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 39
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; exemplifying

20. What type of cost is direct labour?

- a. a nonproduction cost
- b. a period cost
- c. a nonmanufacturing cost
- d. a product cost

ANSWER: d
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 39
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; classifying

21. Which of the following expenses is included in manufacturing overhead?

- a. production line supervisor salary
- b. steel used to manufacture a car
- c. production line worker wages
- d. advertising for the product

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 39
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; classifying

22. Which of the following expenses is included in overhead?

- a. advertising and marketing costs
- b. property taxes on the factory
- c. utility costs at the head office
- d. computers used at the head office

ANSWER: b
POINTS: 1

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DIFFICULTY: Easy
REFERENCES: p. 39
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; classifying

23. Which of the following labour costs is included in indirect labour?
- the salary of the vice-president of marketing
 - the salary of the CEO
 - the salary of factory supervisor
 - the wages of the production line worker

ANSWER: c
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 39
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; exemplifying

24. How is unit cost calculated?
- total product costs divided by the number of units produced
 - period costs divided by the total number of units produced
 - total prime costs divided by the number of units produced
 - total conversion costs divided by the number of units produced

ANSWER: a
POINTS: 1
DIFFICULTY: Challenging
REFERENCES: p. 39
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; classifying

25. How is prime cost calculated?
- indirect materials cost plus indirect labour cost
 - direct materials cost plus direct labour cost
 - period costs plus overhead cost
 - selling cost plus administrative cost

ANSWER: b
POINTS: 1
DIFFICULTY: Easy

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REFERENCES: p. 40

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; classifying

26. How is conversion cost calculated?

- a. direct materials cost plus prime costs
- b. indirect labour cost plus opportunity costs
- c. product costs plus period costs
- d. direct labour cost plus overhead cost

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p. 40

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; classifying

27. Which of the following is a period cost?

- a. direct materials
- b. indirect labour
- c. indirect materials
- d. depreciation on an office building

ANSWER: d

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 41

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; classifying

28. What is characteristic of a period cost?

- a. They include selling costs and administrative costs.
- b. They are used to compute product cost.
- c. They can be included in overhead costs.
- d. They are carried in inventory until the goods are sold.

ANSWER: a

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p.41

Chapter 2 - Basic Managerial Accounting Concepts

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; inferring

29. Which of the following is an example of a period cost?

- a. direct materials
- b. direct labour
- c. general accounting
- d. manufacturing overhead

ANSWER: c

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 41

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; classifying

30. HaulAll Inc. had a per-unit conversion cost of \$4.00 during May and incurred a direct materials cost of \$100,000, direct labour costs of \$110,000, and overhead costs of \$50,000. How many units did HaulAll manufacture during May?

- a. 18,000
- b. 30,000
- c. 40,000
- d. 70,000

ANSWER: c

RATIONALE: SUPPORTING CALCULATIONS: $(\$110,000 + \$50,000)/\$4.00 = 40,000$

POINTS: 1

DIFFICULTY: Challenging

REFERENCES: p.40

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; executing

31. Global Inc. manufactured 6,000 units during the month of April and incurred a direct materials cost of \$110,000 and an overhead cost of \$50,000. Suppose the per-unit prime cost was \$30.00 per unit. How much direct labour cost did Global incur during April?

- a. \$20,000
- b. \$70,000
- c. \$85,000
- d. \$90,000

ANSWER: b

RATIONALE: SUPPORTING CALCULATIONS: $(\$110,000 + \$50,000)/6,000 = \$30.00$

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<i>POINTS:</i>	1
<i>DIFFICULTY:</i>	Medium
<i>REFERENCES:</i>	p. 40
<i>LEARNING OBJECTIVES:</i>	MACC.MOWE.15.2.2 - 2.2
<i>NATIONAL STANDARDS:</i>	United States - AACSB Analytic United States - IMA-Business Economics
<i>KEYWORDS:</i>	Bloom's Higher order; executing

TechCom Inc. manufactures laptops. Last month, direct materials (e.g., computer components) costing \$600,000 were put into production. Direct labour of \$900,000 was incurred, overhead equalled \$500,000, and selling and administrative costs totalled \$400,000. The company manufactured 10,000 laptops during the month. Assume the company had no beginning or ending work-in-process balances.

32. Refer to the Figure. What were the total product costs last month?
- a. \$1,250,000
 - b. \$1,300,000
 - c. \$1,750,000
 - d. \$2,000,000

<i>ANSWER:</i>	d
<i>RATIONALE:</i>	SUPPORTING CALCULATIONS: $\$600,000 + \$900,000 + \$500,000 = \$2,000,000$
<i>POINTS:</i>	1
<i>DIFFICULTY:</i>	Easy
<i>REFERENCES:</i>	p. 39
<i>PREFACE NAME:</i>	Figure 2-1
<i>LEARNING OBJECTIVES:</i>	MACC.MOWE.15.2.2 - 2.2
<i>NATIONAL STANDARDS:</i>	United States - AACSB Analytic United States - IMA-Business Economics
<i>KEYWORDS:</i>	Bloom's Higher order; executing

33. Refer to the Figure. What was the total per-unit prime cost last month?
- a. \$62.50
 - b. \$150.00
 - c. \$162.50
 - d. \$263.75

<i>ANSWER:</i>	b
<i>RATIONALE:</i>	SUPPORTING CALCULATIONS: $(\$600,000 + \$900,000)/10,000$
<i>POINTS:</i>	1
<i>DIFFICULTY:</i>	Easy
<i>REFERENCES:</i>	p. 40
<i>PREFACE NAME:</i>	Figure 2-1
<i>LEARNING OBJECTIVES:</i>	MACC.MOWE.15.2.2 - 2.2
<i>NATIONAL STANDARDS:</i>	United States - AACSB Analytic United States - IMA-Business Economics
<i>KEYWORDS:</i>	Bloom's Higher order; executing

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34. Refer to the Figure. What was the per-unit conversion cost last month?

- a. \$100.00
- b. \$140.00
- c. \$162.50
- d. \$218.00

ANSWER: b

RATIONALE: SUPPORTING CALCULATIONS: $(\$900,000 + \$500,000)/10,000$

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p.40

PREFACE NAME: Figure 2-1

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; implementing

35. Refer to the Figure. What was the amount of cost of goods manufactured last month?

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

ANSWER: d

RATIONALE: SUPPORTING CALCULATIONS: $\$600,000 + \$900,000 + \$500,000 = \$2,000,000$

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 45

PREFACE NAME: Figure 2-1

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; implementing

ComPrint Co. had the following beginning and ending inventory balances for the 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 labour costs of \$30,000 were incurred, overhead equalled \$42,000, materials purchased were \$27,000, and selling and administrative costs were \$22,000. ComPrint Co. sold 25,000 units of product during the year at a sales price of \$5.00 per unit.

36. Refer to the Figure. What were the total manufacturing costs for the year?

- a. \$101,000
- b. \$102,000

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- c. \$106,500
- d. \$123,000

ANSWER: a

RATIONALE: SUPPORTING CALCULATIONS:

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

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 39

PREFACE NAME: Figure 2-2

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; executing

37. Refer to the Figure. What was the amount of Cost of Goods Manufactured for the year?

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

ANSWER: c

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 labour	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

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 45

PREFACE NAME: Figure 2-2

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; executing

38. Refer to the Figure. What was the amount of cost of goods sold for the year?

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- a. \$97,500
- b. \$102,000
- 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

POINTS: 1

DIFFICULTY: Challenging

REFERENCES: p.49

PREFACE NAME: Figure 2-2

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; executing

39. Refer to the Figure. What was ComPrint's operating income or loss for the year?

- a. \$(3,500)
- b. \$5,500
- c. \$18,500
- d. \$125,000

ANSWER: a

RATIONALE: SUPPORTING CALCULATIONS:

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

POINTS: 1

DIFFICULTY: Challenging

REFERENCES: p. 49

PREFACE NAME: Figure 2-2

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; executing

Ballard Company makes portable speakers. During the year Ballard manufactured 100,000 sets of portable speakers. Finished goods inventory had the following units on hand:

January 1	1,260
December 31	1,040

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40. Refer to the Figure. How many sets of portable speakers did Ballard sell during the year?

- a. 96,780
- b. 97,000
- c. 97,220
- d. 100,220

ANSWER:

d

RATIONALE:

SUPPORTING CALCULATIONS:

Units manufactured	100,000
Decrease in inventory balances	<u>220</u>
Units sold	100,220

POINTS:

1

DIFFICULTY:

Challenging

REFERENCES:

p. 45

PREFACE NAME:

Figure 2-3

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic

United States - IMA-Reporting

KEYWORDS:

Bloom's Higher order; implementing

41. Refer to the Figure. Suppose each set of portable speakers has a per-unit product cost of \$112. What would be the cost of finished goods inventory on December 31?

- a. \$24,640
- b. \$116,480
- c. \$124,640
- d. \$141,120

ANSWER:

b

RATIONALE:

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

POINTS:

1

DIFFICULTY:

Easy

REFERENCES:

p. 49

PREFACE NAME:

Figure 2-3

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic

United States - IMA-Reporting

KEYWORDS:

Bloom's Higher order; executing

42. Refer to the Figure. Suppose each set of portable speakers has a per-unit product cost of \$112. What would be the cost of goods sold last year?

- a. \$10,839,360
- b. \$10,864,000
- c. \$11,224,640
- d. \$11,555,120

ANSWER:

c

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RATIONALE:	SUPPORTING CALCULATIONS: $100,220 \times \$112 = \$11,224,640$
POINTS:	1
DIFFICULTY:	Medium
REFERENCES:	p 49
PREFACE NAME:	Figure 2-3
LEARNING OBJECTIVES:	MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS:	United States - AACSB Analytic United States - IMA-Reporting
KEYWORDS:	Bloom's Higher order, implementing

Last year Quest Company incurred the following costs:

Direct materials	\$40,000
Direct labour	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 0.

43. Refer to the Figure. What was Quest's total period expense?

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

ANSWER:	b
RATIONALE:	SUPPORTING CALCULATIONS: $\$24,000 + \$22,000 = \$46,000$
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	p. 41
PREFACE NAME:	Figure 2-4
LEARNING OBJECTIVES:	MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS:	United States - AACSB Analytic United States - IMA-Business Economics
KEYWORDS:	Bloom's Higher order; classifying

44. Refer to the Figure. What were the total product costs?

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

ANSWER:	c
RATIONALE:	SUPPORTING CALCULATIONS: $\$40,000 + \$60,000 + \$90,000 = \$190,000$
POINTS:	1

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DIFFICULTY: Medium
REFERENCES: p. 39
PREFACE NAME: Figure 2-4
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; implementing

45. Refer to the Figure. What was the conversion cost per unit?

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

ANSWER: b
RATIONALE: SUPPORTING CALCULATIONS: $(\$60,000 + \$90,000)/2,000 = \$75$
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 40
PREFACE NAME: Figure 2-4
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; executing

46. Refer to the Figure. What was the gross margin per unit?

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

ANSWER: b
RATIONALE: SUPPORTING CALCULATIONS:
Sales (2,000 × \$125) \$250,000
Cost of goods sold 190,000
Gross margin \$ 60,000/2,000 units = \$30
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 44
PREFACE NAME: Figure 2-4
LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting
KEYWORDS: Bloom's Higher order; implementing

47. A company's beginning work-in-process inventory is \$120,000, its ending work-in-process inventory is \$160,000, its

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cost of goods manufactured is \$400,000, and its 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: $\$400,000 + \$160,000 - \$120,000 - \$100,000 = \$340,000$

POINTS: 1

DIFFICULTY: Challenging

REFERENCES: p.41

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; implementing

Information from the records of Becker Corporation for December is as follows:

Sales	\$1,230,000
Selling and administrative expenses	210,000
Direct materials used	300,000
Direct labour	350,000
Factory overhead	455,000

	<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

48. Refer to the Figure. What are the conversion costs?

- a. \$564,000
- b. \$805,000
- c. \$960,000
- d. \$1,179,000

ANSWER: b

RATIONALE: SUPPORTING CALCULATIONS: $\$350,000 + \$455,000 = \$805,000$

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 41

PREFACE NAME: Figure 2-5

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; implementing

49. Refer to the Figure. What are the prime costs?

- a. \$564,000

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- b. \$650,000
- c. \$805,000
- d. \$969,000

ANSWER: b
RATIONALE: SUPPORTING CALCULATIONS: $\$300,000 + \$350,000 = \$650,000$
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 41
PREFACE NAME: Figure 2-5
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; executing

Big Blue Bubble Company produces a product with the following per-unit costs:

Direct materials	\$15
Direct labour	10
Overhead	15

Last year, Gateway produced and sold 750 units at a sales price of \$80 each. Total selling and administrative expense was \$25,000.

50. Refer to the Figure. What was the prime cost per unit?

- a. \$11
- b. \$25
- c. \$30
- d. \$34

ANSWER: b
RATIONALE: SUPPORTING CALCULATIONS: $\$15 + \$10 = \$25$
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 40
PREFACE NAME: Figure 2-6
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; executing

51. Refer to the Figure. What was the cost of goods sold last year?

- a. \$14,250
- b. \$30,000
- c. \$47,500
- d. \$51,000

ANSWER: b

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RATIONALE: SUPPORTING CALCULATIONS: $750 \times \$40$
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 49
PREFACE NAME: Figure 2-6
LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting
KEYWORDS: Bloom's Higher order; implementing

52. Refer to the Figure. What was the total operating income last year?
- a. \$5,000
 - b. \$25,500
 - c. \$29,000
 - d. \$51,000

ANSWER: a

RATIONALE: SUPPORTING CALCULATIONS:

Sales	\$60,000
Cost of goods sold	(30,000)
Sell and admin.	<u>(25,000)</u>
Operating income	5,000

POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 51
PREFACE NAME: Figure 2-6
LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting
KEYWORDS: Bloom's Higher order; implementing

53. Which of the following would be found on the balance sheet of a manufacturer and not on the balance sheet of a service business?
- a. cost of goods manufactured
 - b. work in process
 - c. cost of goods sold
 - d. gross profit

ANSWER: b

POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 44
LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting
KEYWORDS: Bloom's Higher order; comparing

Chapter 2 - Basic Managerial Accounting Concepts

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

- a. cost of goods sold
- b. cost of goods manufactured
- c. work in progress inventory
- d. revenue

ANSWER: c

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 44

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; classifying

55. What is the formula to calculate gross margin percent?

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

ANSWER: c

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 44

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; classifying

56. What is the definition of cost of goods manufactured?

- a. the cost of direct materials used in production
- b. the product cost of goods completed during the current period
- c. the product cost of goods sold during the current period
- d. the cost remaining in ending work-in-process inventory

ANSWER: b

POINTS: 1

DIFFICULTY: Challenging

REFERENCES: p. 45

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; classifying

57. How is the cost of goods manufactured calculated?

Chapter 2 - Basic Managerial Accounting Concepts

- a. total product costs incurred during the current period + beginning work in process – ending work in process
- b. direct materials cost + direct labour cost + overhead cost
- c. sales – cost of goods sold
- d. gross margin – other expenses

ANSWER: a

POINTS: 1

DIFFICULTY: Challenging

REFERENCES: p. 45

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; differentiating

58. What is the term for the cost of the partially completed goods at the end of the period?
- a. the beginning work-in-process inventory
 - b. the cost of goods manufactured
 - c. the ending work-in-process inventory
 - d. the ending finished goods inventory

ANSWER: c

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 45

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; classifying

59. Assuming a separate schedule of cost of goods manufactured, which of the following is found on a manufacturer's income statement?
- a. cost of goods sold
 - b. work in process
 - c. direct materials
 - d. direct labour

ANSWER: a

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 45

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; exemplifying

60. During the month of May, Blackburn Inc. had cost of goods manufactured of \$120,000, direct materials cost of \$60,000, direct labour cost of \$37,000, and overhead cost of \$26,000. The work-in-process balance at May 31 equalled

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\$10,000. What was the work-in-process balance on May 1?

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

ANSWER:

a

RATIONALE:

SUPPORTING CALCULATIONS:

Direct materials	\$ 60,000
Direct labour	37,000
Overhead	<u>26,000</u>
Total manufacturing costs	123,000
Work in process 5/1	7,000
Work in process 5/31	<u>(10,000)</u>
Cost of goods manufactured	\$120,000

POINTS:

1

DIFFICULTY:

Medium

REFERENCES:

p. 45

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic

United States - IMA-Reporting

KEYWORDS:

Bloom's Higher order; executing

61. Book City had cost of goods sold of \$140,000 for the year ended December 31. The finished goods inventory on January 1 was \$35,000 and the finished goods inventory on December 31 was \$17,000. What was the amount of cost of goods manufactured for the year?

- a. \$52,000
- b. \$157,000
- c. \$158,000
- d. \$122,000

ANSWER:

d

RATIONALE:

SUPPORTING CALCULATIONS:

Finished Goods 1/1	\$ 35,000
Cost of Goods Manufactured	<u>122,000</u>
Goods Available	157,000
Finished Goods 12/31	<u>(17,000)</u>
Cost of Goods Sold	\$140,000

POINTS:

1

DIFFICULTY:

Medium

REFERENCES:

p.45

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic

United States - IMA-Reporting

KEYWORDS:

Bloom's Higher order; implementing

In July, Econo Company purchased materials costing \$21,000 and incurred direct labour cost of \$18,000. Overhead

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totalled \$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

62. Refer to the Figure. What were the total manufacturing costs in July?

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

ANSWER:

c

RATIONALE:

SUPPORTING CALCULATIONS:

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

POINTS:

1

DIFFICULTY:

Medium

REFERENCES:

p. 45

PREFACE NAME:

Figure 2-7

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS:

Bloom's Higher order; executing

63. Refer to the Figure. What was the cost of goods manufactured for July?

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

ANSWER:

b

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

POINTS:

1

DIFFICULTY:

Medium

REFERENCES:

p. 45

PREFACE NAME:

Figure 2-7

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

Chapter 2 - Basic Managerial Accounting Concepts

KEYWORDS: Bloom's Higher order; implementing

64. Refer to the Figure. What was the cost of goods sold for July?

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

ANSWER: b

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

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 49

PREFACE NAME: Figure 2-7

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; implementing

65. Refer to the Figure. What was the cost of direct materials used in July?

- a. \$20,100
- b. \$20,500
- c. \$21,000
- d. \$21,900

ANSWER: a

RATIONALE:

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

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 45

PREFACE NAME: Figure 2-7

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; implementing

66. Refer to the Figure. Suppose Econo Company sold 10,000 units during July and gross margin totalled \$29,800. What would be the sales price per unit?

Chapter 2 - Basic Managerial Accounting Concepts

- a. \$9.94
- b. \$10.00
- c. \$10.09
- d. \$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 (\$100,000 / 10,000)	\$ 10

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 50

PREFACE NAME: Figure 2-7

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; implementing

Bowring 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

67. Refer to the Figure. What was the cost of goods sold for the year?

- a. \$40,000
- b. \$50,000
- c. \$60,000
- d. \$100,000

ANSWER: c

RATIONALE: SUPPORTING CALCULATIONS:

Sales (\$40,000/0.40)	\$100,000
Gross margin	<u>(40,000)</u>
Cost of goods sold	60,000

Also $\$40,000/0.40 \times 0.60$

POINTS: 1

DIFFICULTY: Challenging

REFERENCES: p. 49

PREFACE NAME: Figure 2-8

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; implementing

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68. Refer to the Figure. What was the gross margin for the year?

- a. \$40,000
- b. \$50,000
- c. \$60,000
- d. \$100,000

ANSWER:

a

RATIONALE:

SUPPORTING CALCULATIONS:

Operating Income	\$10,000
Selling and Administrative	<u>\$30,000</u>
Gross Margin	\$40,000

POINTS:

1

DIFFICULTY:

Challenging

REFERENCES:

p. 49

PREFACE NAME:

Figure 2-8

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS:

Bloom's Higher order; implementing

69. Refer to the Figure. How many units were sold during the year?

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

ANSWER:

c

RATIONALE:

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

POINTS:

1

DIFFICULTY:

Medium

REFERENCES:

p. 49

PREFACE NAME:

Figure 2-8

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS:

Bloom's Higher order; implementing

70. Refer to the Figure. What was the sales price per unit?

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

ANSWER:

d

RATIONALE:

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

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POINTS:	1
DIFFICULTY:	Medium
REFERENCES:	p. 50
PREFACE NAME:	Figure 2-8
LEARNING OBJECTIVES:	MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS:	United States - AACSB Analytic United States - IMA-Reporting
KEYWORDS:	Bloom's Higher order; implementing

71. During the month of March, Cara, Inc. had total manufacturing costs of \$130,000 and incurred \$40,000 in direct labour costs and \$30,000 in overhead costs. The materials inventory on March 1 was \$3,000 less than the materials inventory on March 31. What was the cost of materials purchased during the month?

- a. \$37,000
- b. \$40,000
- c. \$63,000
- d. \$70,000

ANSWER: c

RATIONALE:	SUPPORTING CALCULATIONS:	
	Direct materials used	\$ 60,000
	Direct labour	\$ 40,000
	Overhead	<u>\$ 30,000</u>
	Total manufacturing costs	\$130,000
	Direct materials purchased	\$ 63,000
	Difference in inventory balances	<u>(3,000)</u>
	Direct materials used	\$ 60,000

POINTS:	1
DIFFICULTY:	Challenging
REFERENCES:	p. 45
LEARNING OBJECTIVES:	MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS:	United States - AACSB Analytic United States - IMA-Business Economics
KEYWORDS:	Bloom's Higher order; executing

72. Ganz, 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. \$17,000
- b. \$20,000
- c. \$23,000
- d. \$35,000

ANSWER: c

RATIONALE:	SUPPORTING CALCULATIONS:	
	Materials inventory 7/1	\$12,000
	Purchases	<u>23,000</u>
	Available	35,000

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Materials inventory 7/31	<u>15,000</u>
Materials used in production	20,000

POINTS: 1
DIFFICULTY: Medium
REFERENCES: p.45
LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS: United States - AACSB Analytic
 United States - IMA-Reporting
KEYWORDS: Bloom's Higher order; implementing

73. Selected data concerning the past year's operations of the Intelligent Creatures Corporation are as follows:

Selling and administrative expenses	\$225,000
Direct materials used	397,500
Direct labour	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

What is the cost of direct materials purchased?

- \$367,500
- \$397,500
- \$403,500
- \$405,000

ANSWER: c
RATIONALE: SUPPORTING CALCULATIONS: $\$397,500 + \$42,000 - \$36,000 = \$403,500$
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 45
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
 United States - IMA-Business Economics
KEYWORDS: Bloom's Higher order; implementing

74. How many inventory accounts does a typical manufacturer have?

- 1
- 2
- 3
- 4

ANSWER: c
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 45
LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

Chapter 2 - Basic Managerial Accounting Concepts

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; exemplifying

75. Which of the following is characteristic of the income statement of a manufacturer?

- a. It will show the ending balance of work in process.
- b. It contains only manufacturing costs.
- c. It will show the ending balance of materials inventory.
- d. It covers a certain period of time.

ANSWER: d

POINTS: 1

DIFFICULTY: Challenging

REFERENCES: p. 44

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; classifying

76. What three categories separate the expenses on a manufacturer's income statement?

- a. production, period, and indirect
- b. materials, work in process, and finished goods
- c. production, selling, and administrative
- d. variable, fixed, and direct

ANSWER: c

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 44

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; classifying

77. Which of the following is characteristic of cost of goods sold?

- a. Cost of goods sold is the total product cost for the units sold during a period.
- b. Cost of goods sold is the total product cost on the balance sheet.
- c. Cost of goods sold is a cost that will be more than the revenue.
- d. Cost of goods sold does not include the direct materials cost of the product.

ANSWER: a

POINTS: 1

DIFFICULTY: Challenging

REFERENCES: p. 49

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic

Chapter 2 - Basic Managerial Accounting Concepts

KEYWORDS: Bloom's Higher order; classifying

78. When are product costs expensed?
- when the product is finished
 - when the product unit cost is calculated
 - when the product is sold
 - when the product begins production

ANSWER: c

POINTS: 1

DIFFICULTY: Challenging

REFERENCES: p. 49

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; exemplifying

79. Blue Water Inc. had a gross margin for the month of February totalling \$92,000. The company sold 6,000 units during the month at a sales price of \$30 per unit. What was the amount of cost of goods sold for the month?

- \$42,000
- \$88,000
- \$100,000
- \$158,000

ANSWER: b

RATIONALE: SUPPORTING CALCULATIONS:

Sales (6,000 × \$30)	\$180,000
Cost of Goods Sold	<u>88,000</u>
Gross Margin	92,000

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p. 49

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; implementing

80. What is the formula to calculate gross margin?
- sales revenue – selling and administrative expenses
 - sales revenue – cost of goods sold
 - cost of goods manufactured + beginning finished goods inventory – ending finished goods inventory
 - total product costs + beginning work in process – ending work in process

ANSWER: b

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 50

Chapter 2 - Basic Managerial Accounting Concepts

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; classifying

81. What is the formula to calculate operating income?

- a. sales revenue – cost of goods sold – selling and administrative expenses
- b. gross margin – selling expenses + selling and administrative expenses
- c. sales revenue – cost of goods sold + selling and administrative expenses
- d. sales revenue – selling and administrative expenses

ANSWER: a

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p.50

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; classifying

82. Information from the records of Island Timberlands Inc. for November is as follows:

Sales	\$820,000
Selling and administrative expenses	140,000
Direct materials purchases	176,000
Direct labour	200,000
Factory overhead	270,000
Direct materials, November 1	24,000
Work in process, November 1	50,000
Finished goods, November 1	46,000
Direct materials, November 30	28,000
Work in process, November 30	56,000
Finished goods, November 30	38,000

What is the net income for the month of November?

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

ANSWER: a

RATIONALE: SUPPORTING CALCULATIONS: COGM = $(\$24,000 + \$176,000 - \$28,000) + \$200,000 + \$270,000 + \$50,000 - \$56,000 = \$636,000$
COGS = $\$636,000 + \$46,000 - \$38,000 = \$644,000$
NI = $\$820,000 - \$140,000 - \$644,000 = \$36,000$

POINTS: 1

DIFFICULTY: Challenging

REFERENCES: p. 50

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic

Chapter 2 - Basic Managerial Accounting Concepts

United States - IMA-Business Economics

KEYWORDS: Bloom's Higher order; executing

Katz Group 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

83. Refer to the Figure. What was the sales revenue percentage?

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

ANSWER: d

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

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p. 50

PREFACE NAME: Figure 2-9

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; executing

84. Refer to the Figure. What was the cost of goods sold percentage?

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

ANSWER: b

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

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p. 49

PREFACE NAME: Figure 2-9

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; executing

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85. Refer to the Figure. What was the gross margin percentage?

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

ANSWER: d

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

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p. 50

PREFACE NAME: Figure 2-9

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; executing

86. Refer to the Figure. What was the selling expense percentage?

- a. 17%
- b. 19%
- c. 16%
- d. 21%

ANSWER: b

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

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p. 50

PREFACE NAME: Figure 2-9

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; executing

87. Refer to the Figure. What was the administrative expense percentage?

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

ANSWER: c

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

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p. 50

PREFACE NAME: Figure 2-9

Chapter 2 - Basic Managerial Accounting Concepts

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; executing

88. Refer to the Figure. What was the operating income percentage?

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

ANSWER: b

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

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p. 50

PREFACE NAME: Figure 2-9

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; executing

89. Which of the following would **NOT** be found on the income statement of a service organization?

- a. selling expenses
- b. net sales
- c. operating income
- d. cost of goods sold

ANSWER: d

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 53

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

KEYWORDS: Bloom's Higher order; exemplifying

90. Which of the following can be found on the income statements of both a manufacturer and a service organization?

- a. cash
- b. accumulated amortization
- c. cost of goods sold
- d. administrative expenses

ANSWER: d

POINTS: 1

DIFFICULTY: Medium

Chapter 2 - Basic Managerial Accounting Concepts

REFERENCES: p. 53
LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting
KEYWORDS: Bloom's Higher order; exemplifying

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

ANSWER: True
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p.32
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

92. Expired costs are called assets.
- a. True
 - b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p.32
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

93. Reducing the cost required to achieve a given benefit means that a company is becoming less efficient.
- a. True
 - b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 32
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

94. Costs incurred to produce future benefits are usually liabilities.
- a. True
 - b. False

ANSWER: False
POINTS: 1

Chapter 2 - Basic Managerial Accounting Concepts

DIFFICULTY: Easy
REFERENCES: p. 32
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

95. 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
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 32
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

96. The revenue per unit is called price.
a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 32
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

97. Price must be greater than cost in order for the firm to generate income.
a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 32
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

98. Accumulating costs is the way that costs are measured and recorded.
a. True
b. False

ANSWER: True
POINTS: 1

Chapter 2 - Basic Managerial Accounting Concepts

DIFFICULTY: Easy

REFERENCES: p. 32

LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

99. A cost object is any item for which costs are measured and assigned.

a. True

b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p.33

LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

100. Costs can be assigned to cost objects in a number of ways.

a. True

b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p. 33

LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

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

a. True

b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

REFERENCES: p. 33

LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

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

a. True

b. False

ANSWER: False

POINTS: 1

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DIFFICULTY: Easy
REFERENCES: p. 33
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

103. 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
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 33
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

104. An opportunity cost is the benefit given up or sacrificed when one alternative is chosen over another.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 33
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

105. It is **NOT** necessary to assign indirect costs to cost objects.

- a. True
- b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 36
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

106. Costs are always directly, **NOT** indirectly, associated with cost objects.

- a. True
- b. False

ANSWER: False

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POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 35
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

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

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 35
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

108. Indirect costs are costs that are **NOT** easily and accurately traced to a cost object.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 35
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Cost Management

109. Allocation means that an indirect cost is assigned to a cost object using a reasonable and convenient method.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 36
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

110. Denim used when making jeans would normally be classified as a variable cost.

- a. True
- b. False

ANSWER: True

Chapter 2 - Basic Managerial Accounting Concepts

POINTS: 1
DIFFICULTY: Medium
REFERENCES: p.36
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

111. Screws used in the manufacture of cabinets are an example of a variable cost.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p.36
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

112. A variable cost is one that decreases in total as output increases and increases in total as output decreases.

- a. True
- b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 36
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

113. A fixed cost is a cost that does **NOT** increase in total as output increases and does **NOT** decrease in total as output decreases.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 36
LEARNING OBJECTIVES: MACC.MOWE.15.2.1 - 2.1
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

114. Services are intangible and perishable.

- a. True
- b. False

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ANSWER: True
POINTS: 1
DIFFICULTY: Challenging
REFERENCES: p. 37
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

115. Product costs are carried in inventory only until the goods are finished.

- a. True
- b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 38
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

116. For external reporting purposes, product costs on the balance sheet must be classified into only three categories.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 38
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

117. Direct materials cannot be directly traced to the goods or services being produced.

- a. True
- b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 39
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

118. All product costs other than direct materials and indirect labour are called overhead.

- a. True
- b. False

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ANSWER: False
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 39
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

119. Direct materials, direct labour, and overhead are the three classifications of manufacturing costs.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 39
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

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

- a. True
- b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 39
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

121. The cost of maintenance personnel in a factory building would be classified as direct labour.

- a. True
- b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 39
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

122. Prime cost is the sum of direct materials and direct labour.

- a. True

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b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 40
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

123. Period costs are those costs associated with the manufacture of goods or the providing of services.

a. True

b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p.41
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

124. Any costs associated with storing, selling, and delivering a product are classified as period costs.

a. True

b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 41
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

125. Production costs include direct materials, direct labour, and manufacturing overhead.

a. True

b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 41
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

126. Research and development costs would be classified as period costs.

a. True

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b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: p. 41
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

127. Research and development costs would be classified as nonproduction costs.

a. True

b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 43
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

128. Cost of goods manufactured represents the cost of direct materials, direct labour, and overhead incurred during the current accounting period.

a. True

b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Challenging
REFERENCES: p. 45
LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

129. Cost of goods sold is the total product cost of the units sold during a period.

a. True

b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 49
LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

130. Sales revenue equals the price per unit times the number of units in inventory.

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- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p.50

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

131. Gross margin equals revenue minus cost of goods manufactured.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 51

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

132. Kitchens by Kate, maker of kitchen cabinets, incurred the following costs during the current year:

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

	Product	Period
1. Depreciation on vans used by the sales staff.		
2. Salary of Kitchens by Kate's chief executive officer		
3. Screws used in the production process		
4. Janitorial supplies for factory		
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:

Product Period

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1. Depreciation on vans used by the sales staff.
2. Salary of Kitchen's By Kate's chief executive officer
3. Screws used in the production process
4. Janitorial 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

	X
	X
X	
X	
	X
X	
	X
X	
X	
X	

POINTS:

1

DIFFICULTY:

Medium

REFERENCES:

p. 38-41

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

133. Awesome Adventures, which manufactures water craft, 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 Labour	Overhead	Selling Expense	Administrative Expense
1.	Wages of administrative office employees					
2.	Cost of engines					
3.	Factory supervisor's salary					
4.	Conference for marketing personnel					
5.	Factory security guards					
6.	Research and development					
7.	Assembly line workers					

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8. Head-office receptionist				
9. Advertising cost				
10. Cost of shipping to customers				

ANSWER:

		Product Cost		Period Cost		
		Direct Materials	Direct Labour	Overhead	Selling Expense	Administrative Expense
1.	Wages of administrative office employees					X
2.	Cost of engines	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.	Head-office receptionist					X
9.	Advertising cost				X	
10.	Cost of shipping vehicles to customers				X	

POINTS:

1

DIFFICULTY:

Medium

REFERENCES:

p. 38-41

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic

United States - IMA-Business Economics

134. The T & T Company makes fishing rods. During the current month, direct materials costing \$126,000 were put into production. Direct labour costs of \$110,000 were incurred and overhead equalled \$100,000. Selling and administrative expenses totalled \$66,000 for the month, and the company manufactured 3,500 fishing rods. Assume there was no beginning inventory and that 3,000 fishing rods were sold.

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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 + \$110,000 + \$100,000)/3,500 = \96
- B. $(\$126,000 + \$110,000)/3,500 = \$67.43$
- C. $(\$110,000 + \$100,000)/3,500 = \$60$
- D. $(\$96 \times 3,000) = \$288,000$
- E. $(\$96 \times 500) = \$48,000$

POINTS:

1

DIFFICULTY:

Medium

REFERENCES:

p. 41

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

135. The Owen Sound Company manufactures fishing rods. Last year, direct materials costing \$516,000 were put into production. Direct labour costs of \$430,000 were incurred, and overhead equalled \$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 no 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 $(86,000 \times \$21)$
COGS $(86,000 \times \$18.50)$
Gross margin

\$1,806,000
<u>1,591,000</u>
215,000

Chapter 2 - Basic Managerial Accounting Concepts

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

POINTS:

1

DIFFICULTY:

Medium

REFERENCES:

p.40

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic

United States - IMA-Business Economics

United States - IMA-Reporting

136. Tamarack Company, a manufacturing firm, has supplied the following information from its accounting records for the month of June.

Direct labour 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, June 1	2,000
Work in process, June 30	2,800
Materials inventory, June 1	1,475
Materials Inventory, June 30	1,200
Finished goods inventory, June 1	2,250
Finished goods inventory, June 30	750

Required: Prepare a statement of cost of goods manufactured

ANSWER:

Tamarack Company
Statement of Cost of Goods Manufactured
For the month ended June 30

Materials inventory, June 1	\$ 1,475	
Materials purchased	<u>17,000</u>	
Materials available for use	18,475	
Materials inventory, June 30	<u>1,200</u>	
Materials used		\$17,275
Direct labour		12,000
Overhead		<u>7,000</u>
Total manufacturing costs		36,275
Work in process, June 1		2,000
Work in process, June 30		<u>(2,800)</u>
Cost of goods manufactured		\$35,475

POINTS:

1

DIFFICULTY:

Medium

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REFERENCES: p.45

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

137. In June, Olympic Company purchased materials costing \$38,000, and incurred direct labour costs of \$42,000. Overhead totalled \$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

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 45-52

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

138. Thompson 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 labour cost	22,000

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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:

Thompson 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 labour		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		\$71,850

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	\$70,350

POINTS:

1

DIFFICULTY:

Medium

REFERENCES:

p. 45-52

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

139. The Stelco 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 labour costs of \$200,000 and selling and administrative expenses of \$240,000 were incurred.

Required:

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

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ANSWER:

A.	Cost of goods sold	$\$560,000/\$56 = 10,000$ units
B.	$10,000 \times \$34 - (\$200,000 \text{ of direct labour cost}) = \$140,000$	
C.	$10,000 \times \$42 - (\$200,000 \text{ of direct labour cost}) = \$220,000$	
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

POINTS: 1

DIFFICULTY: Challenging

REFERENCES: p.45-52

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
United States - IMA-Reporting

140. Nelvana Company makes tablets. During the year, Nelvana manufactured and sold 75,000 tablets at a sales price of \$600 per unit. Nelvana's per-unit product cost was \$540, and selling and administrative expenses totalled \$3,200,000.

Required:

- Compute the total sales revenue.
- Compute the gross margin.
- Compute the operating income.
- Compute the operating income if 75,000 tablets were produced and 69,000 were sold.

ANSWER:

A.	$75,000 \times \$600 = \$45,000,000$	
B.	Sales revenue	\$45,000,000
	Cost of goods sold	
	(75,000 × \$540)	<u>40,500,000</u>
	Gross margin	4,500,000
C.	Gross margin	\$ 4,500,000
	Selling and adm. expenses	<u>3,200,000</u>
	Operating income	1,300,000
D.	Sales revenue (69,000 × \$600)	\$41,400,000
	Cost of goods sold (69,000 × \$540)	<u>37,260,000</u>
	Gross margin	4,140,000_
	Selling and adm. expenses	<u>3,200,000</u>
	Operating income	940,000_

POINTS: 1

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DIFFICULTY: Medium
REFERENCES: p. 52
LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS: United States - AACSB Analytic
 United States - IMA-Reporting

141. Prairie Plant Company supplied the following data at the end of the current year:

Sales commissions	\$ 15,000
Sales revenue	150,000
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	50,000

Required: Prepare an income statement for Prairie Plant Company.

ANSWER:

Prairie Plant Company	
Income Statement	
For the year ended December 31	
Sales revenue	\$150,000
Cost of goods sold*	51,500
Gross margin	98,500
Less:	
Selling expense	15,000
Administrative expense	17,000
Operating income	\$ 66,500
 *Cost of goods manufactured	 \$ 50,000
Finished goods inventory, Jan. 1	7,500
Finished Goods inventory, Dec. 31	(6,000)

POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 45-52
LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS: United States - AACSB Analytic
 United States - IMA-Reporting

142. Nexient 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 labour		\$ 40,000
Selling expenses		31,000
Sales revenue		400,000

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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 Nexient Company for the current year

ANSWER:

Nexient Company Income Statement For the year ended December 31	
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	\$172,000
*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 labour	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

POINTS: 1

DIFFICULTY: Challenging

REFERENCES: p. 45-53

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

143. Jackson Grills has supplied the following information from its accounting records for the month of August.

Direct labour cost	\$11,500
Purchases of raw materials	20,000
Factory depreciation	7,500
Advertising	10,000
Factory property taxes	6,500
Materials inventory, 8/1	1,250
Materials inventory, 8/31	2,500
Work-in-process inventory, 8/1	?
Work-in-process inventory, 8/31	1,500

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Cost of goods manufactured	45,850
Sales revenue	?
Executive salary cost	25,000
Finished goods inventory, 8/1	5,500
Finished goods inventory, 8/31	4,250
Operating income	67,900
Gross margin	?

Required: Solve for the missing amounts (?).

ANSWER:

Jackson Grills
Schedule of Cost of Goods Manufactured
For the month of August

Materials inventory, 8/1	\$ 1,250
Purchases of materials	20,000
Materials inventory, 8/31	<u>(2,500)</u>
Materials used	\$18,750
Direct labour	11,500
Overhead (7,500 + 6,500)	<u>14,000</u>
Total manufacturing costs	44,250
Work in process, 8/1	3,100
Work in process, 8/31	<u>(1,500)</u>
Cost of goods manufactured	\$45,850

Jackson Grills
Income Statement
For the month of August

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	\$ 67,900
*Cost of goods manufactured	\$ 45,850
Finished goods inventory, 8/1	5,500
Finished goods inventory, 8/31	<u>(4,250)</u>
Cost of goods sold	\$ 47,100

POINTS:

1

DIFFICULTY:

Challenging

REFERENCES:

p. 45-53

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

144. See the following separate cases.

	<u>Case #1</u>	<u>Case #2</u>
Sales	\$1,000	\$1,300
Cost of goods manufactured	A	500

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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, and 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)	<u>100</u>	<u>300</u>
Finished goods inventory (ending balance)	(150)	(200)
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

POINTS:

1

DIFFICULTY:

Medium

REFERENCES:

p. 45-53

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

145. 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 labour	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, and 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 labour	7,000	4,250
Overhead	<u>2,750</u>	<u>2,000</u>
Total manufacturing costs	14,500	9,620

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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

POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 45-53
LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS: United States - AACSB Analytic
 United States - IMA-Reporting

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

Cost of goods sold percentage	62%
Selling expense percentage	6%
Administrative expense	13%

Required: Reconstruct Rizzuto's Income Statement for January assuming that the total sales revenue for the month equalled \$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	95,000

POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 52
LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS: United States - AACSB Analytic
 United States - IMA-Reporting

147. Fairchild Group's accountant prepared the following Income Statement for the month of August.

Fairchild Group Income Statement For the month of August	
Sales revenue	\$912,200
Cost of goods sold	<u>601,920</u>
Gross margin	310,080
Less:	
Selling expense	164,160
Administrative expense	<u>63,840</u>
Operating income	\$ 82,080

Required:

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- 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. $912,000/912,000 = 100\%$
- B. $601,920/912,000 = 66\%$
- C. $310,080/912,000 = 34\%$
- D. $164,160/912,000 = 18\%$
- E. $63,840/912,000 = 7\%$
- F. $82,080/912,000 = 9\%$

POINTS:

1

DIFFICULTY:

Easy

REFERENCES:

p. 52

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

148. Corby Distilleries 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	\$ 20,140

- A. $156,880/212,000 = 74\%$
- B. $55,120/212,000 = 26\%$

Chapter 2 - Basic Managerial Accounting Concepts

- C. $19,080/212,000 = 9\%$
 D. $15,900/212,000 = 7.5\%$
 E. $20,140/212,000 = 9.5\%$

POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 45-53
LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS: United States - AACSB Analytic
 United States - IMA-Reporting

149. Ballard Company supplied the following information for the month of December.

Operating income percentage	10.5%
Gross margin percentage	30%

Required: Solve for the following amounts assuming that Ballard 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 = $\$44,100 / .105 = 420,000$	
B.	Cost of goods sold = $420,000 \times .70 = \$294,000$	
C.	Gross margin ($420,000 \times .30$)	126,000
	Less: selling and administrative exp.	<u>81,900</u>
	Operating income	44,100

POINTS: 1
DIFFICULTY: Medium
REFERENCES: p. 44-53
LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3
NATIONAL STANDARDS: United States - AACSB Analytic
 United States - IMA-Reporting

150. Arche produces a product with the following per unit costs.

Direct materials	\$17
Direct labour	11
Overhead	12

Last year, Arche 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. $(17 + 11 + 12) \times 3,000 = \$120,000$

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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. $17 + 11 = \$28$

POINTS:

1

DIFFICULTY:

Easy

REFERENCES:

p. 45-52

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

151. Allied Company showed the following costs for last month.

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

Last month, Allied 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 inventory.

Required: Solve for the following amounts.

- A. total product cost for last month
- B. unit product cost for last month
- C. total period costs
- D. gross margin for last month
- E. 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

POINTS:

1

DIFFICULTY:

Medium

REFERENCES:

p. 43-53

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

Chapter 2 - Basic Managerial Accounting Concepts

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

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

ANSWER:

A period cost is a nonmanufacturing cost that is expensed during the current period rather than inventoried. Examples of period costs would be selling and administrative costs. A product cost is a manufacturing cost that is inventoried and later expensed as cost of goods sold only when the goods have been sold. Product costs are classified as direct materials, direct labour, or overhead.

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 41

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

153. 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. 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.

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 43

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
United States - IMA-Reporting

154. 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 labour consists of labour 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 labour category. Examples of overhead costs include insurance on the factory, machinery depreciation, indirect labour, indirect materials, factory supplies, etc.

POINTS: 1

DIFFICULTY: Medium

REFERENCES: p. 41

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

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

ANSWER:

Total manufacturing costs would consist of the cost of materials used, the direct labour 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.

POINTS:

1

DIFFICULTY:

Medium

REFERENCES:

p. 39-45

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

156. Explain the difference between an inventoriable cost and a non-inventoriable cost.

ANSWER:

An inventoriable cost is a cost of manufacturing the product. Inventoriable costs are also referred to as product costs and manufacturing costs. They include direct materials, direct labour, and overhead. Inventoriable costs are not expensed until the goods are sold. A non-inventoriable cost is a selling or administrative cost that is expensed immediately in the accounting period that it is incurred. Non-inventoriable costs are also referred to as period costs or non-manufacturing costs.

POINTS:

1

DIFFICULTY:

Medium

REFERENCES:

p.37

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

157. List the types of inventory accounts that a service business, retailer, and manufacturer would have in their accounting records.

ANSWER:

Service businesses would have no inventory account to record the items they would sell because they have intangible products that are not inventoried. They may have a supplies inventory account only. A retailer or merchandiser would have a merchandise inventory account recording the cost of the items they have available for resale. A manufacturer would have a raw or direct material inventory account, a WIP (work in progress) inventory account and a finished goods inventory account.

POINTS:

1

DIFFICULTY:

Medium

REFERENCES:

p. 45

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

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

a. Tangible

b. Intangible

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DIFFICULTY: Easy
REFERENCES: p.37
LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

158. Accounting firm

ANSWER: b

POINTS: 1

159. Car manufacturer

ANSWER: a

POINTS: 1

160. Law firm

ANSWER: b

POINTS: 1

161. Medical clinic

ANSWER: b

POINTS: 1

162. Bowling alley

ANSWER: b

POINTS: 1

163. A&W Restaurant

ANSWER: a

POINTS: 1

164. iTunes

ANSWER: b

POINTS: 1

165. Calgary Flames

ANSWER: b

POINTS: 1

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

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g. Product cost

DIFFICULTY: Easy

REFERENCES: p.33-41
p. 33-41

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

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

ANSWER: c

POINTS: 1

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

ANSWER: f

POINTS: 1

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

ANSWER: e

POINTS: 1

169. A manufacturing cost

ANSWER: g

POINTS: 1

170. A cost that is not inventoried

ANSWER: a

POINTS: 1

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

ANSWER: b

POINTS: 1

172. A cost that increases in total as output increases

ANSWER: d

POINTS: 1

Select the appropriate classification for each of the following costs.

a. Period

b. Product

DIFFICULTY: Easy

REFERENCES: p. 38-41

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

173. CEO's salary

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ANSWER: a

POINTS: 1

174. Controller's salary

ANSWER: a

POINTS: 1

175. Plant manager's salary

ANSWER: b

POINTS: 1

176. Research and development costs

ANSWER: a

POINTS: 1

177. National advertising campaign costs

ANSWER: a

POINTS: 1

178. Product shipping costs

ANSWER: a

POINTS: 1

179. Janitorial supplies for the factory

ANSWER: b

POINTS: 1

180. Line worker's wages

ANSWER: b

POINTS: 1

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

- a. Direct materials
- b. Direct labour
- c. Overhead
- d. Selling expense
- e. Administrative expense

DIFFICULTY: Easy

REFERENCES: p. 39-42

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

181. Cost of rims

ANSWER: a

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POINTS: 1

182. Factory janitorial supplies

ANSWER: c

POINTS: 1

183. Controller's salary costs

ANSWER: e

POINTS: 1

184. Factory security costs

ANSWER: c

POINTS: 1

185. Factory supply costs

ANSWER: c

POINTS: 1

186. Salary of Chief Executive Officer

ANSWER: e

POINTS: 1

187. Depreciation of vehicles used by sales personnel

ANSWER: d

POINTS: 1

188. Cost of carbon frames used in the production process

ANSWER: a

POINTS: 1

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

a. Product cost

b. Period cost

DIFFICULTY: Easy

REFERENCES: p. 38-42

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

189. Cost of nails used by a furniture builder

ANSWER: a

POINTS: 1

190. Fees paid to the radio station for advertising

ANSWER: b

POINTS: 1

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191. Sugar used in cookie production

ANSWER: a

POINTS: 1

192. Rental cost of executive Lear jet

ANSWER: b

POINTS: 1

193. Cost of conference for sales team

ANSWER: b

POINTS: 1

194. Factory supervisor's salary

ANSWER: a

POINTS: 1

195. Fees paid to an accounting firm for annual audit

ANSWER: b

POINTS: 1

196. Factory security costs

ANSWER: a

POINTS: 1

Select the appropriate classification of the items listed below.

- a. Selling expense
- b. Administrative expense
- c. Direct materials
- d. Direct labour
- e. Overhead

DIFFICULTY: Easy

REFERENCES: p.38-42
p. 38-42

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

197. Chief of surgery's salary at a hospital

ANSWER: d

POINTS: 1

198. Wages of assembly line workers in an plastics plant

ANSWER: d

POINTS: 1

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199. Cost of lubricating factory robotic arms

ANSWER: e

POINTS: 1

200. Cost of shipping goods to customers

ANSWER: a

POINTS: 1

201. Nails used in the manufacture of furniture

ANSWER: e

POINTS: 1

202. Cost of engines in the manufacture of airplanes

ANSWER: c

POINTS: 1

203. Salary of chief executive officer

ANSWER: b

POINTS: 1

204. professor's salary at a college

ANSWER: d

POINTS: 1

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

DIFFICULTY: Easy

REFERENCES: p. 40

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics

205. $(\text{direct labour} + \text{overhead})/\text{units produced}$

ANSWER: b

POINTS: 1

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

ANSWER: c

POINTS: 1

207. $(\text{direct materials} + \text{direct labour})/\text{units produced}$

ANSWER: a

POINTS: 1

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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

DIFFICULTY: Easy

REFERENCES: p. 43-52

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

208. Gross margin – period costs

ANSWER: e

POINTS: 1

209. Marketing and distributing costs

ANSWER: b

POINTS: 1

210. Number of units sold multiplied by sales price per unit

ANSWER: c

POINTS: 1

211. Sales – cost of goods sold

ANSWER: a

POINTS: 1

212. Number of units sold multiplied by product cost per unit

ANSWER: d

POINTS: 1

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

DIFFICULTY: Easy

REFERENCES: p. 43-49

LEARNING OBJECTIVES: MACC.MOWE.15.2.2 - 2.2
MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Business Economics
United States - IMA-Reporting

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

ANSWER: b

POINTS: 1

214. Direct materials + direct labour + overhead

ANSWER: e

POINTS: 1

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

ANSWER: a

POINTS: 1

216. Product cost per-unit \times units sold

ANSWER: c

POINTS: 1

217. (direct materials + direct labour + overhead) \pm the change in work-in-process inventory from the beginning to the end of the current period

ANSWER: d

POINTS: 1

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

DIFFICULTY: Easy

REFERENCES: p. 43-52

LEARNING OBJECTIVES: MACC.MOWE.15.2.3 - 2.3

NATIONAL STANDARDS: United States - AACSB Analytic
United States - IMA-Reporting

218. Gross margin – selling and administrative expenses

ANSWER: e

POINTS: 1

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

ANSWER: d

POINTS: 1

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

ANSWER: b

POINTS: 1

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221. Covers a particular period of time

ANSWER: a

POINTS: 1

222. Cost of partially completed goods

ANSWER: c

POINTS: 1