

***Managerial Accounting, 5e (Braun et al.)***

**Chapter 2 Building Blocks of Managerial Accounting**

**2.1 Distinguish among service, merchandising, and manufacturing companies**

1) Service companies must carry a large amount of inventory to meet consumer demand.

Answer: FALSE

Diff: 1

LO: 2-1

EOC: S2-

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

2) Manufacturing companies usually have three types of inventory.

Answer: TRUE

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

3) Retailers sell their products to consumers.

Answer: TRUE

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

4) Merchandising companies include both wholesalers and retailers.

Answer: TRUE

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

5) All companies have the same types of inventories.

Answer: FALSE

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

6) Only manufacturing companies have finished goods inventory.

Answer: TRUE

Diff: 2

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

7) Which of the following are merchandising companies?

A) Manufacturers

B) Retailers

C) Wholesalers

D) Both retailers and wholesalers

Answer: D

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

8) Which of the following types of companies has raw materials, work in process and finished goods inventory?

A) Retailers

B) Manufacturers

C) Wholesalers

D) Service companies

Answer: B

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

9) Which type of company makes up the largest sector of the United States economy?

A) Manufacturers

B) Merchandising

C) Wholesalers

D) Service companies

Answer: D

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

10) The balance sheet of a service company has

- A) raw materials inventory.
- B) little or no inventory.
- C) three categories of inventory.
- D) two categories of inventory.

Answer: B

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

11) Schlabig & Associates, a public accounting firm that provides business consulting to a consumer, is what type of company?

- A) Manufacturer
- B) Retailer
- C) Service
- D) Wholesaler

Answer: C

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

12) Jiffy Lube, an automotive maintenance company, is primarily what type of company?

- A) Manufacturer
- B) Retailer
- C) Wholesaler
- D) Service

Answer: D

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

13) Among other products, Nabisco makes Oreo cookies. Which type of company is Nabisco?

- A) Service
- B) Manufacturer
- C) Retailer
- D) Wholesaler

Answer: B

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

14) Which type of company typically produces its own inventory?

- A) Manufacturer
- B) Service company
- C) Retailer
- D) Wholesaler

Answer: A

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

15) Before these materials are used to manufacture its cars, Toyota classifies steel, glass, and plastic as

- A) raw materials inventory.
- B) finished goods inventory.
- C) work in process inventory.
- D) merchandise inventory.

Answer: A

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

16) Before these materials are used to manufacture cabinets, a woodworker classifies lumber, paint, and glue as

- A) finished goods inventory.
- B) work in process inventory.
- C) raw materials inventory.
- D) merchandise inventory.

Answer: C

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

17) Macy's (the department store chain) classifies its clothing held for sale as

- A) merchandise inventory.
- B) raw materials inventory.
- C) work in process inventory.
- D) finished goods inventory.

Answer: A

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

18) American Eagle Outfitters classifies the denim jeans on the shelves at its retail locations as

- A) finished goods inventory.
- B) work in process inventory.
- C) merchandise inventory.
- D) raw materials inventory.

Answer: C

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

19) How would Chevrolet classify its partially completed vehicles?

- A) Finished goods inventory
- B) Raw materials inventory
- C) Work in process inventory
- D) Supplies inventory

Answer: C

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

20) Which of the following is a characteristic of a service company?

- A) Service companies make a product.
- B) Service companies have a single category of inventory.
- C) Service companies generally have no tangible products to sell.
- D) Service companies transform raw materials into finished goods.

Answer: C

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

21) A snow removal business would be classified as a

- A) manufacturing company.
- B) merchandising company.
- C) simple company.
- D) service company.

Answer: D

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

22) An accounting firm would be classified as a

- A) manufacturing company.
- B) merchandising company.
- C) simple company.
- D) service company.

Answer: D

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

23) Toshiba Corporation makes computer chips. Toshiba Corporation would be classified as a

- A) merchandising company.
- B) manufacturing company.
- C) service company.
- D) simple company.

Answer: B

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

24) Which type of company has three categories of inventory?

- A) A manufacturing company
- B) A merchandising company
- C) A service company
- D) All of these companies

Answer: A

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

25) A \_\_\_\_\_ company's balance sheet reports just one inventory called "Inventory."

- A) service
- B) merchandising
- C) manufacturing
- D) All of these types of companies

Answer: B

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

26) All of the following items would be found in raw materials inventory for a furniture manufacturer except

- A) wood.
- B) fabric.
- C) steel framing.
- D) assembly worker wages.

Answer: D

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

27) Which of the following items could be found in work in process inventory at a candy bar manufacturer?

- A) Candy bars made but not coated in chocolate
- B) Cocoa products to make candy bars
- C) Sugar products to make candy bars
- D) Candy bars completed but not yet sold

Answer: A

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

28) Enter the letter of the type of each company category on the line in front of each statement. Letters may be used more than once or not at all.

- A. service company
- B. merchandising company
- C. manufacturing company

- \_\_\_\_\_ generally has no or minimal inventory
- \_\_\_\_\_ has three types of inventory
- \_\_\_\_\_ has one class of inventory only
- \_\_\_\_\_ Ford Motor Company is an example of this company category
- \_\_\_\_\_ Wal-Mart is an example of this company category

Answer: A, C, B, C, B

Diff: 1

LO: 2-1

EOC: S2-1

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

29) On the line in front of each statement, enter the letter corresponding to the term that best fits that statement. You may use a letter more than once and some letters may not be used at all.

|    |                          |    |                           |
|----|--------------------------|----|---------------------------|
| A. | Raw materials inventory  | E. | Work in process inventory |
| B. | Service companies        | F. | Manufacturing companies   |
| C. | Merchandise inventory    | G. | Merchandising companies   |
| D. | Finished goods inventory |    |                           |

- \_\_\_\_\_ has a single category of inventory  
 \_\_\_\_\_ resells products previously purchased ready-made from a supplier  
 \_\_\_\_\_ does not sell inventory as a way to earn profit  
 \_\_\_\_\_ produces its own inventory  
 \_\_\_\_\_ transforms raw materials into a new finished product  
 \_\_\_\_\_ completed goods that have not been sold  
 \_\_\_\_\_ partially completed items of manufacturers  
 \_\_\_\_\_ steel, glass, tires, upholstery, and fabric that Toyota uses to manufacture products

Answer:

- G has a single category of inventory  
 G resells products previously purchased ready-made from a supplier  
 B inventory is not sold for a profit  
 F produces its own inventory  
 F transforms raw materials into a new finished product  
 D completed goods that have not been sold  
 E partially completed items of manufacturers  
 A steel, glass, tires, upholstery, and fabric that Toyota uses to manufacture products

Diff: 2

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

30) Describe service, merchandising, and manufacturing companies.

Answer: Service companies sell intangible services such as insurance, consulting, banking, and healthcare. . They usually do not have inventory or cost of goods sold accounts, although some service companies will have a small amount of supplies inventory which is used for their own use and not for sale to customers. Merchandising companies resell tangible products they purchase from suppliers. Merchandisers have inventory. Manufacturing companies use labor, plant and equipment to convert raw materials into finished products that they sell to other companies. The three types of inventory include: raw materials inventory, work in process inventory, and finished goods inventory.

Diff: 2

LO: 2-1

EOC: S2-1; S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



31) Explain the difference between raw materials inventory, work in process inventory, and finished goods inventory.

Answer: Raw materials inventory includes all materials used to make a product including materials that become a part of the product as well as other physical materials used in a plant such as machine lubricants and janitorial supplies. Work in process inventory includes goods that are in the middle of the manufacturing process; however, the product is not complete. Finished goods inventory includes completed goods that have not yet been sold to a consumer or group in the marketplace.

Diff: 1

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

32) Describe a company that has some elements of all three types of companies. It is part service company, part manufacturer, and part merchandiser.

Answer: Many restaurants fall into this category because most restaurants are a service company since they serve hungry customers. A restaurant is also considered a manufacturer if the restaurant converts raw ingredients into finished meals. A restaurant is also considered a merchandise company if the restaurant sells ready-to-serve bottles of beer and wine to consumers and groups in the marketplace.

Outback Steakhouse is an example of a restaurant that is categorized as a service company, a merchandise company, and a manufacturing company.

Diff: 2

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

33) Explain the type of inventory that is characteristic at a service company.

Answer: Service firms do not have inventory costs because services cannot be produced today and stored to sell to a consumer later. They do not generally have inventory; however, some service providers do carry a minimal amount of supply inventory used for internal operations, and it is not sold to generate a profit.

Diff: 2

LO: 2-1

EOC: S2-2

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

## 2.2 Describe the value chain and its elements

1) Controlling costs across the whole value chain often requires a trade-off between the individual elements of the value chain.

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

2) All of the components of manufacturing — from research and development through customer service after the sale — are part of a firm's value chain.

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

3) The activities in the value chain must take place in a specific order.

Answer: FALSE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

4) The value chain concept helps companies control costs over the value chain as a whole.

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

5) Research and development is needed to improve products and to design new products.

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

6) Receipt of materials is part of the firm's value chain.

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

7) A company's distribution system is an important part of the value chain.

Answer: TRUE

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

8) Which of the following value chain elements is associated with the costs of shipping inventory to the retail outlet in a merchandising company?

A) Design

B) Distribution

C) Production and Purchases

D) Customer Service

Answer: B

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

9) All of the following are part of a company's value chain **except**

A) design.

B) distribution.

C) administration.

D) marketing.

Answer: C

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

10) Which of the following activities is **not** included in the value chain?

A) Reporting

B) Design

C) Production

D) Customer service

Answer: A

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

11) All of the following activities are included in the value chain **except**

- A) customer service.
- B) design.
- C) safety.
- D) production.

Answer: C

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

12) Which of the following would **not** be included in the value chain?

- A) Website development costs
- B) Costs to deliver product to retail outlets
- C) Costs of print advertisements
- D) All of these costs would be included as part of the value chain.

Answer: D

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

13) The value chain is used by

- A) service, manufacturing, and merchandising businesses.
- B) only service and manufacturing businesses.
- C) only service and merchandising businesses.
- D) only manufacturing and merchandising businesses.

Answer: A

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

14) Collectively, all costs such as distribution, marketing, and design are part of

- A) downstream activities.
- B) fixed costs.
- C) the value chain.
- D) manufacturing costs.

Answer: C

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

15) What is the promotion of products and services known as?

- A) Customer service
- B) Marketing
- C) Distribution
- D) Design

Answer: B

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

16) All of the following relate to part of the value chain for a clothing company **except**

- A) cost of advertising new products.
- B) administrative costs.
- C) cost of shipping products to retailers.
- D) salaries of clothing designers.

Answer: B

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

17) Which element of the value chain would depreciation on a factory be classified as?

- A) Design
- B) Distribution
- C) Research and development
- D) Production

Answer: D

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

18) Testing ways to increase the strength of your product would be classified as which element of the value chain?

- A) Design
- B) Distribution
- C) Production
- D) Research and development

Answer: D

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

19) Which element of the value chain would a technical support hotline for customers be considered?

- A) Design
- B) Customer service
- C) Distribution
- D) Marketing

Answer: B

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

20) Advertising expenses would be considered which element of the value chain?

- A) Customer service
- B) Marketing
- C) Production
- D) Research and development

Answer: B

Diff: 1

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

21) The costs associated with reengineering machinery and its location within the factory to increase efficiency would be considered which element of the value chain?

- A) Customer service
- B) Marketing
- C) Research and development
- D) Design

Answer: D

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

22) The costs incurred to transport merchandise to a company's retail store would be considered to be what element of the value chain?

- A) Marketing
- B) Customer service
- C) Production or purchases
- D) Research and development

Answer: C

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

23) Lucky Cow Dairy provided the following expense information for May:

|                                   |          |
|-----------------------------------|----------|
| Assembly-line workers' wages      | \$72,600 |
| Caps for milk bottles             | 3300     |
| Reconfiguring the assembly line   | 125,300  |
| Customer support hotline          | 10,200   |
| Delivery expenses                 | 20,100   |
| Depreciation on factory equipment | 75,900   |
| Plastic milk bottles              | 52,400   |
| Salaries of salespeople           | 63,800   |
| Salaries of research scientists   | 70,000   |
| Customer toll-free order line     | 6200     |

What is the total cost of research and development of the value chain?

- A) \$74,000
- B) \$70,000
- C) \$55,300
- D) \$195,300

Answer: B

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

24) Lucky Cow Dairy provided the following expense information for May:

|                                   |          |
|-----------------------------------|----------|
| Assembly-line workers' wages      | \$72,100 |
| Caps for milk bottles             | 3800     |
| Reconfiguring the assembly line   | 125,500  |
| Customer support hotline          | 10,700   |
| Delivery expenses                 | 20,300   |
| Depreciation on factory equipment | 75,400   |
| Plastic milk bottles              | 52,200   |
| Salaries of salespeople           | 63,800   |
| Salaries of research scientists   | 70,600   |
| Customer toll-free order line     | 6800     |

What is the total cost for the production category of the value chain?

- A) \$501,200
- B) \$203,500
- C) \$234,500
- D) \$332,000

Answer: B

Explanation: B) Calculations:  $\$72,100 + 3800 + 75,400 + 52,200 = \$203,500$

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



25) Lucky Cow Dairy provided the following expense information for May:

|                                   |          |
|-----------------------------------|----------|
| Assembly-line workers' wages      | \$72,100 |
| Caps for milk bottles             | 3600     |
| Reconfiguring the assembly line   | 125,700  |
| Customer support hotline          | 10,400   |
| Delivery expenses                 | 20,300   |
| Depreciation on factory equipment | 75,000   |
| Plastic milk bottles              | 52,300   |
| Salaries of salespeople           | 63,200   |
| Salaries of research scientists   | 70,300   |
| Customer toll-free order line     | 6800     |

What is the total cost for the design category of the value chain?

- A) \$268,100
- B) \$188,900
- C) \$197,800
- D) \$125,700

Answer: D

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

26) Lucky Cow Dairy provided the following expense information for May:

|                                   |          |
|-----------------------------------|----------|
| Assembly-line workers' wages      | \$72,800 |
| Caps for milk bottles             | 3800     |
| Reconfiguring the assembly line   | 125,100  |
| Customer support hotline          | 10,500   |
| Delivery expenses                 | 20,500   |
| Depreciation on factory equipment | 75,800   |
| Plastic milk bottles              | 52,300   |
| Salaries of salespeople           | 63,300   |
| Salaries of research scientists   | 70,400   |
| Customer toll-free order line     | 6900     |

What is the total cost for the distribution category of the value chain?

- A) \$218,400
- B) \$24,300
- C) \$20,500
- D) \$153,500

Answer: C

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

27) Lucky Cow Dairy provided the following expense information for May:

|                                   |          |
|-----------------------------------|----------|
| Assembly-line workers' wages      | \$72,500 |
| Caps for milk bottles             | 3700     |
| Reconfiguring the assembly line   | 125,000  |
| Customer support hotline          | 10,100   |
| Delivery expenses                 | 20,800   |
| Depreciation on factory equipment | 75,300   |
| Plastic milk bottles              | 52,300   |
| Salaries of salespeople           | 63,800   |
| Salaries of research scientists   | 70,500   |
| Customer toll-free order line     | 6200     |

What is the total cost for the marketing category of the value chain?

- A) \$70,000
- B) \$188,800
- C) \$198,700
- D) \$269,200

Answer: A

Explanation: A) Calculations:  $\$63,800 + 6200 = \$70,000$

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

28) Lucky Cow Dairy provided the following expense information for May:

|                                   |          |
|-----------------------------------|----------|
| Assembly-line workers' wages      | \$72,300 |
| Caps for milk bottles             | 3100     |
| Reconfiguring the assembly line   | 125,500  |
| Customer support hotline          | 10,300   |
| Delivery expenses                 | 20,200   |
| Depreciation on factory equipment | 75,000   |
| Plastic milk bottles              | 52,600   |
| Salaries of salespeople           | 63,300   |
| Salaries of research scientists   | 70,100   |
| Customer toll-free order line     | 6100     |

What is the total cost for the customer service category of the value chain?

A) \$82,800

B) \$16,400

C) \$73,600

D) \$10,300

Answer: D

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

29) Joe's Bottling Company provided the following expense information for July:

|                                   |           |
|-----------------------------------|-----------|
| Assembly-line workers' wages      | \$56,600  |
| Depreciation on factory equipment | \$35,700  |
| Caps for bottles                  | \$3400    |
| Plastic bottles                   | \$52,700  |
| Reconfiguring the assembly line   | \$123,900 |
| Salaries of salespeople           | \$63,900  |
| Customer support hotline          | \$12,700  |
| Salaries of research scientists   | \$65,700  |
| Delivery expenses                 | \$40,500  |
| Customer toll-free order line     | \$8900    |

What is the total cost of research and development?

- A) \$58,200
- B) \$78,400
- C) \$65,700
- D) \$189,600

Answer: C

Diff: 21

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

30) Joe's Bottling Company provided the following expense information for July:

|                                   |           |
|-----------------------------------|-----------|
| Assembly-line workers' wages      | \$56,400  |
| Depreciation on factory equipment | \$35,700  |
| Caps for bottles                  | \$3800    |
| Plastic bottles                   | \$52,200  |
| Reconfiguring the assembly line   | \$123,600 |
| Salaries of salespeople           | \$63,800  |
| Customer support hotline          | \$12,900  |
| Salaries of research scientists   | \$65,200  |
| Delivery expenses                 | \$40,200  |
| Customer toll-free order line     | \$8800    |

What is the total cost for the production category of the value chain?

- A) \$462,600
- B) \$310,000
- C) \$148,800
- D) \$148,100

Answer: D

Explanation: D) Calculations:  $\$56,400 + \$35,700 + \$3,800 + \$52,200 = \$148,100$

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

31) Joe's Bottling Company provided the following expense information for July:

|                                   |           |
|-----------------------------------|-----------|
| Assembly-line workers' wages      | \$56,700  |
| Depreciation on factory equipment | \$35,000  |
| Caps for bottles                  | \$3100    |
| Plastic bottles                   | \$52,800  |
| Reconfiguring the assembly line   | \$123,900 |
| Salaries of salespeople           | \$63,900  |
| Customer support hotline          | \$12,900  |
| Salaries of research scientists   | \$65,900  |
| Delivery expenses                 | \$40,000  |
| Customer toll-free order line     | \$8800    |

What is the total cost for the design category of the value chain?

- A) \$246,500
- B) \$187,800
- C) \$180,600
- D) \$123,900

Answer: D

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

32) Joe's Bottling Company provided the following expense information for July:

|                                   |           |
|-----------------------------------|-----------|
| Assembly-line workers' wages      | \$56,900  |
| Depreciation on factory equipment | \$35,800  |
| Caps for bottles                  | \$3100    |
| Plastic bottles                   | \$52,500  |
| Reconfiguring the assembly line   | \$123,500 |
| Salaries of salespeople           | \$63,600  |
| Customer support hotline          | \$12,900  |
| Salaries of research scientists   | \$65,000  |
| Delivery expenses                 | \$40,300  |
| Customer toll-free order line     | \$8000    |

What is the total cost for the distribution category of the value chain?

- A) \$40,300
- B) \$43,400
- C) \$220,700
- D) \$173,700

Answer: A

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



33) Joe's Bottling Company provided the following expense information for July:

|                                   |           |
|-----------------------------------|-----------|
| Assembly-line workers' wages      | \$56,200  |
| Depreciation on factory equipment | \$35,400  |
| Caps for bottles                  | \$3200    |
| Plastic bottles                   | \$52,300  |
| Reconfiguring the assembly line   | \$123,700 |
| Salaries of salespeople           | \$63,700  |
| Customer support hotline          | \$12,700  |
| Salaries of research scientists   | \$65,100  |
| Delivery expenses                 | \$40,300  |
| Customer toll-free order line     | \$8300    |

What is the total cost for the marketing category of the value chain?

- A) \$72,000
- B) \$180,600
- C) \$187,400
- D) \$246,300

Answer: A

Explanation: A) Calculations:  $\$63,700 + 8300 = \$72,000$

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

34) Joe's Bottling Company provided the following expense information for July:

|                                   |           |
|-----------------------------------|-----------|
| Assembly-line workers' wages      | \$56,800  |
| Depreciation on factory equipment | \$35,800  |
| Caps for bottles                  | \$3700    |
| Plastic bottles                   | \$52,100  |
| Reconfiguring the assembly line   | \$123,600 |
| Salaries of salespeople           | \$63,700  |
| Customer support hotline          | \$12,400  |
| Salaries of research scientists   | \$65,700  |
| Delivery expenses                 | \$40,500  |
| Customer toll-free order line     | \$8800    |

What is the total cost for the customer service category of the value chain?

A) \$61,700

B) \$12,400

C) \$21,200

D) \$76,100

Answer: B

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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

|                                                       |           |
|-------------------------------------------------------|-----------|
| Depreciation expense on bottling machines             | \$63,300  |
| Glass juice bottles                                   | \$60,900  |
| Commissions for salespeople                           | \$30,600  |
| Salaries of nutrition researchers                     | \$75,900  |
| Costs of maintaining website used for customer orders | \$4500    |
| Wages of factory workers                              | \$75,800  |
| Freshness seals/caps for juice bottles                | \$3200    |
| Reconfiguring the factory layout                      | \$122,800 |
| Customer help line                                    | \$5200    |
| Costs of refrigerated trucks used to deliver juice    | \$25,500  |

What is the total cost for the research and development category of the value chain?

- A) \$75,900
- B) \$81,100
- C) \$46,900
- D) \$198,700

Answer: A

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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

|                                                       |           |
|-------------------------------------------------------|-----------|
| Depreciation expense on bottling machines             | \$63,600  |
| Glass juice bottles                                   | \$60,900  |
| Commissions for salespeople                           | \$30,300  |
| Salaries of nutrition researchers                     | \$75,000  |
| Costs of maintaining website used for customer orders | \$4800    |
| Wages of factory workers                              | \$75,000  |
| Freshness seals/caps for juice bottles                | \$3200    |
| Reconfiguring the factory layout                      | \$122,500 |
| Customer help line                                    | \$5900    |
| Costs of refrigerated trucks used to deliver juice    | \$25,000  |

What is the total cost for the production category of the value chain?

- A) \$466,200
- B) \$60,900
- C) \$305,300
- D) \$202,700

Answer: D

Explanation: D) Calculations:  $\$75,000 + 3200 + 63,600 + 60,900 = \$202,700$

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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

|                                                       |           |
|-------------------------------------------------------|-----------|
| Depreciation expense on bottling machines             | \$63,100  |
| Glass juice bottles                                   | \$60,600  |
| Commissions for salespeople                           | \$30,800  |
| Salaries of nutrition researchers                     | \$75,200  |
| Costs of maintaining website used for customer orders | \$4900    |
| Wages of factory workers                              | \$75,300  |
| Freshness seals/caps for juice bottles                | \$3900    |
| Reconfiguring the factory layout                      | \$122,600 |
| Customer help line                                    | \$5600    |
| Costs of refrigerated trucks used to deliver juice    | \$25,200  |

What is the total cost for the design category of the value chain?

- A) \$122,600
- B) \$197,900
- C) \$153,400
- D) \$273,100

Answer: A

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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

|                                                       |           |
|-------------------------------------------------------|-----------|
| Depreciation expense on bottling machines             | \$63,900  |
| Glass juice bottles                                   | \$60,500  |
| Commissions for salespeople                           | \$30,400  |
| Salaries of nutrition researchers                     | \$75,100  |
| Costs of maintaining website used for customer orders | \$4600    |
| Wages of factory workers                              | \$75,300  |
| Freshness seals/caps for juice bottles                | \$3000    |
| Reconfiguring the factory layout                      | \$122,400 |
| Customer help line                                    | \$5100    |
| Costs of refrigerated trucks used to deliver juice    | \$25,700  |

What is the total cost for the distribution category of the value chain?

- A) \$28,700
- B) \$25,700
- C) \$223,400
- D) \$152,700

Answer: B

Explanation: B) 25,700

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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

|                                                       |           |
|-------------------------------------------------------|-----------|
| Depreciation expense on bottling machines             | \$63,300  |
| Glass juice bottles                                   | \$60,400  |
| Commissions for salespeople                           | \$30,500  |
| Salaries of nutrition researchers                     | \$75,400  |
| Costs of maintaining website used for customer orders | \$4400    |
| Wages of factory workers                              | \$75,500  |
| Freshness seals/caps for juice bottles                | \$3400    |
| Reconfiguring the factory layout                      | \$122,100 |
| Customer help line                                    | \$5000    |
| Costs of refrigerated trucks used to deliver juice    | \$25,900  |

What is the total cost for the marketing category of the value chain?

- A) \$275,000
- B) \$34,900
- C) \$152,600
- D) \$199,500

Answer: B

Explanation: B) Calculations:  $\$30,500 + 4400 = \$34,900$

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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

|                                                       |           |
|-------------------------------------------------------|-----------|
| Wages of factory workers                              | \$75,100  |
| Freshness seals/caps for juice bottles                | \$3700    |
| Reconfiguring the factory layout                      | \$102,500 |
| Customer help line                                    | \$2400    |
| Costs of refrigerated trucks used to deliver juice    | \$17,800  |
| Depreciation expense on bottling machines             | \$63,000  |
| Glass juice bottles                                   | \$54,300  |
| Commissions for salespeople                           | \$27,000  |
| Salaries of nutrition researchers                     | \$89,200  |
| Costs of maintaining website used for customer orders | \$4700    |

What is the total cost for the customer service category of the value chain?

- A) \$2400
- B) \$34,100
- C) \$80,800
- D) \$10,800

Answer: A

Diff: 2

LO: 2-2

EOC: E2-19A; E2-31B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

41) Delivery expenses are charged to which of the following areas?

- A) Distribution
- B) Customer service
- C) Production or purchases
- D) Marketing

Answer: A

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

42) A product support hotline would be considered

- A) marketing.
- B) distribution.
- C) production or purchases.
- D) customer service.

Answer: D

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



43) Place the value chain elements in the correct order by numbering them from 1 to 6.

- \_\_\_\_\_ Design
- \_\_\_\_\_ Customer Service
- \_\_\_\_\_ Marketing
- \_\_\_\_\_ Research and Development
- \_\_\_\_\_ Distribution
- \_\_\_\_\_ Production or Purchases

Answer: 2, 6, 4, 1, 5, 3

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

44) Place the letter for the appropriate value chain activity on the line in front of each item. Letters may be used more than once or not at all. Assume a manufacturer.

|    |                          |    |                  |
|----|--------------------------|----|------------------|
| A. | research and development | D. | marketing        |
| B. | design                   | E. | distribution     |
| C. | production or purchases  | F. | customer service |

- \_\_\_\_\_ depreciation expense on equipment in factory
- \_\_\_\_\_ delivery expense
- \_\_\_\_\_ toll free line for customer orders
- \_\_\_\_\_ customer support hot line
- \_\_\_\_\_ assembly line workers' wages

Answer: C, E, D, F, C

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

45) Name and briefly describe the activities that make up the value chain.

Answer: The value chain consists of research and development, design, production or purchase, marketing, distribution, and customer service. Research and development refers to researching and developing new or improved products or services and the processes used to produce them. Design involves the detailed engineering of products and services and the processes used to produce them. Production or purchases refers to the resources used to produce a product or service or to purchase finished merchandise intended for resale. Marketing is the promotion and advertising of products or services. Distribution is the delivery of products or services to customers and customer service provides support for customers after the sale of the product or service.

Diff: 2

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

46) Classify each of the following business costs into one of the six value chain elements.

- A. cost of a commercial during a TV program
- B. cost of shipping goods to customers
- C. costs associated with repairing products under warranty
- D. costs of developing a new product
- E. cost of making a prototype of a new product
- F. cost of labor for machine operator in factory

Answer:

- A. marketing
- B. distribution
- C. customer service
- D. research and development
- E. design
- F. production

Diff: 3

LO: 2-2

EOC: S2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

## 2.3 Distinguish between direct and indirect costs

1) The total cost of a cost object can only include the direct costs that are directly traced to that cost object.

Answer: FALSE

Diff: 2

LO: 2-3

EOC: S2-5

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

2) If a company wants to determine a product's cost, it must assign both direct and indirect costs.

Answer: TRUE

Diff: 2

LO: 2-3; 2-4

EOC: S2-5

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

3) Costs can be either direct or indirect, depending upon the cost object.

Answer: TRUE

Diff: 1

LO: 2-3

EOC: S2-5

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

4) Direct costs can be traced to specific units.

Answer: TRUE

Diff: 1

LO: 2-3

EOC: S2-5

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

5) Indirect costs cannot be traced to the cost objects, so they are allocated.

Answer: TRUE

Diff: 1

LO: 2-3

EOC: S2-5

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

6) Direct costs for one cost object will always be direct costs for any cost object.

Answer: FALSE

Diff: 2

LO: 2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

7) An indirect cost for one cost object can be direct cost for a different cost object.

Answer: TRUE

Diff: 2

LO: 2-3

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

8) Which of the following items could be an example of a cost object?

A) A manufacturing plant

B) An international plant

C) The accounting department

D) All of the above are examples of potential cost objects.

Answer: D

Diff: 2

LO: 2-3

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

9) Which of the following is **not** an example of an indirect cost incurred in manufacturing automobiles?

- A) Plant supervisor salary
- B) Machinery depreciation in the factory
- C) Plant utilities
- D) Cost of the automobile engines

Answer: D

Diff: 2

LO: 2-3

EOC: S2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

10) A factory janitor's wages would be classified as \_\_\_\_\_ when determining the cost of a manufactured product.

- A) an indirect cost
- B) a direct cost
- C) a period cost
- D) none of the above

Answer: A

Diff: 1

LO: 2-3; 2-4

EOC: S2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

11) A salesperson's salary would be classified as \_\_\_\_\_ when determining the cost of a manufactured product.

- A) a direct cost
- B) a period cost
- C) an indirect cost
- D) none of the above

Answer: B

Diff: 1

LO: 2-3; 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

12) The cost of lighting the factory would be classified as \_\_\_\_\_ when determining the cost of a manufactured product.

- A) an indirect cost
- B) a direct cost
- C) a period cost
- D) none of the above

Answer: A

Diff: 1

LO: 2-3; 2-4

EOC: S2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

13) Which of the following would **not** be considered a direct cost of a mattress?

- A) Fabric
- B) Lumber
- C) Glue
- D) Steel

Answer: C

Diff: 1

LO: 2-3

EOC: S2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

14) All of the following would be considered a direct material for a kitchen cabinet **except**

- A) wood.
- B) stain.
- C) sand paper.
- D) hinges.

Answer: C

Diff: 1

LO: 2-3

EOC: S2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

15) If the Ford Focus is the cost object, classify each of the following costs as indirect or direct, respectively: property taxes for the manufacturing plant, engines for the cars, and janitor wages for the factory.

- A) indirect, direct, and indirect
- B) all are indirect
- C) all are direct
- D) indirect, direct, and direct

Answer: A

Diff: 1

LO: 2-3

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

16) If a frozen pizza plant is the cost object, classify each of the following costs as direct or indirect, respectively: property insurance, cafeteria workers wages, and janitorial supplies.

- A) direct, indirect, and indirect
- B) direct, indirect, and direct
- C) all are direct
- D) all are indirect

Answer: C

Diff: 1

LO: 2-3

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

17) Classify each of the following costs as direct or indirect as it relates to one Best Buy retail location: CFO salary, that Best Buy's sales associates, that Best Buy's property insurance, and the legal department for Best Buy.

- A) direct, indirect, indirect, and direct
- B) indirect, direct, direct, and indirect
- C) all are indirect
- D) all are direct

Answer: B

Diff: 1

LO: 2-3

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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

1) An example of direct labor would be which of the following?

- A) Salary of a production manager
- B) Salary of the vice-president of operations
- C) Wages of factory security
- D) Wages of assembly line personnel

Answer: D

Diff: 1

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

2) Which of the following is an example of direct labor?

- A) Wages of a managerial accountant
- B) Wages of a machine operator
- C) Salary of the vice-president of operations
- D) Wages of the CFO

Answer: B

Diff: 1

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

3) Which statement describes direct materials in a manufacturing setting?

- A) Direct materials are used to determine total manufacturing overhead.
- B) Direct materials are used to determine total inventoriable product costs.
- C) Direct materials cannot be separately and conveniently traced.
- D) Direct materials do not become part of the finished product.

Answer: B

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

4) Which of the following is an example of indirect labor in a manufacturing plant?

- A) Chief financial officer
- B) Machine operators
- C) Salespersons
- D) Plant managers

Answer: D

Diff: 1

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

5) Which of the following are classified as manufacturing overhead?

- A) Indirect labor and indirect materials
- B) Direct materials and direct labor
- C) All materials
- D) Factory rent and direct labor

Answer: A

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

6) Which of the following is an example of manufacturing overhead expense in a factory?

- A) Wages of machine operators
- B) Wages of administrators in the corporate office
- C) Wages of factory maintenance personnel
- D) Salaries of salespersons

Answer: C

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

7) Prime costs consist of

- A) direct materials and direct labor.
- B) direct labor and manufacturing overhead.
- C) direct materials and manufacturing overhead.
- D) direct materials, direct labor and manufacturing overhead.

Answer: A

Diff: 1

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

8) Conversion costs consist of

- A) direct materials and direct labor.
- B) direct labor and manufacturing overhead.
- C) direct materials and manufacturing overhead.
- D) direct materials, direct labor and manufacturing overhead.

Answer: B

Diff: 1

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



9) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

|                                      |         |
|--------------------------------------|---------|
| Depreciation on sales office         | \$ 9000 |
| Depreciation on factory equipment    | 16,300  |
| Factory supervisor salary            | 50,700  |
| Sales commissions                    | 23,400  |
| Lubricants used in factory equipment | 3900    |
| Insurance costs for factory          | 21,900  |
| Wages paid to maintenance workers    | 115,700 |
| Fabric used to upholster furniture   | 10,700  |
| Freight-in (on raw materials)        | 3200    |
| Costs of delivery to customers       | 9300    |
| Wages paid to assembly-line workers  | 115,900 |
| Lumber used to build product         | 82,400  |
| Utilities in factory                 | 54,700  |
| Utilities in sales office            | 26,700  |

Prime costs for Country Furniture Company totaled

- A) \$93,100.
- B) \$209,000.
- C) \$212,200.
- D) \$378,600.

Answer: C

Explanation: C) Calculations:  $\$3200 + 10,700 + 115,900 + 82,400 = \$212,200$

Diff: 2

LO: 2-3; 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

10) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

|                                      |         |
|--------------------------------------|---------|
| Depreciation on sales office         | \$ 9800 |
| Depreciation on factory equipment    | 16,000  |
| Factory supervisor salary            | 50,300  |
| Sales commissions                    | 23,700  |
| Lubricants used in factory equipment | 3400    |
| Insurance costs for factory          | 21,000  |
| Wages paid to maintenance workers    | 115,700 |
| Fabric used to upholster furniture   | 10,200  |
| Freight-in (on raw materials)        | 3600    |
| Costs of delivery to customers       | 9400    |
| Wages paid to assembly-line workers  | 115,400 |
| Lumber used to build product         | 82,100  |
| Utilities in factory                 | 54,900  |
| Utilities in sales office            | 26,400  |

Conversion costs for Country Furniture Company totaled

A) \$376,700.

B) \$211,300.

C) \$465,600.

D) \$197,500.

Answer: A

Explanation: A) Calculations:  $\$16,000 + 50,300 + 3400 + 21,000 + 115,700 + 115,400 + 54,900 = \$376,700$

Diff: 2

LO: 2-3; 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

11) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

|                                      |         |
|--------------------------------------|---------|
| Depreciation on sales office         | \$ 9300 |
| Depreciation on factory equipment    | 16,000  |
| Factory supervisor salary            | 50,400  |
| Sales commissions                    | 23,000  |
| Lubricants used in factory equipment | 3500    |
| Insurance costs for factory          | 21,000  |
| Wages paid to maintenance workers    | 115,100 |
| Fabric used to upholster furniture   | 10,600  |
| Freight-in (on raw materials)        | 3300    |
| Costs of delivery to customers       | 9400    |
| Wages paid to assembly-line workers  | 115,700 |
| Lumber used to build product         | 82,400  |
| Utilities in factory                 | 54,800  |
| Utilities in sales office            | 26,200  |

Direct material costs for Country Furniture Company totaled

A) \$82,400.

B) \$10,600.

C) \$96,300.

D) \$93,000.

Answer: C

Explanation: C) Calculations:  $\$10,600 + 3300 + 82,400 = \$96,300$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

12) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

|                                      |         |
|--------------------------------------|---------|
| Depreciation on sales office         | \$ 9900 |
| Depreciation on factory equipment    | 16,000  |
| Factory supervisor salary            | 50,400  |
| Sales commissions                    | 23,800  |
| Lubricants used in factory equipment | 3600    |
| Insurance costs for factory          | 21,700  |
| Wages paid to maintenance workers    | 115,200 |
| Fabric used to upholster furniture   | 10,100  |
| Freight-in (on raw materials)        | 3500    |
| Costs of delivery to customers       | 9300    |
| Wages paid to assembly-line workers  | 115,100 |
| Lumber used to build product         | 82,500  |
| Utilities in factory                 | 54,200  |
| Utilities in sales office            | 26,700  |

Direct labor costs for Country Furniture Company totaled

A) \$304,500.

B) \$115,200.

C) \$115,100.

D) \$280,700.

Answer: C

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

13) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

|                                      |         |
|--------------------------------------|---------|
| Depreciation on sales office         | \$ 9300 |
| Depreciation on factory equipment    | 16,600  |
| Factory supervisor salary            | 50,900  |
| Sales commissions                    | 23,300  |
| Lubricants used in factory equipment | 3500    |
| Insurance costs for factory          | 21,700  |
| Wages paid to maintenance workers    | 115,300 |
| Fabric used to upholster furniture   | 10,500  |
| Freight-in (on raw materials)        | 3200    |
| Costs of delivery to customers       | 9500    |
| Wages paid to assembly-line workers  | 115,300 |
| Lumber used to build product         | 82,900  |
| Utilities in factory                 | 54,900  |
| Utilities in sales office            | 26,200  |

Manufacturing overhead costs for Country Furniture Company totaled

A) \$131,400.

B) \$262,900.

C) \$237,700.

D) \$324,900.

Answer: B

Explanation: B) Calculations:  $\$16,600 + \$50,900 + \$3500 + \$21,700 + \$115,300 + \$54,900 = \$262,900$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

14) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

|                                      |         |
|--------------------------------------|---------|
| Depreciation on sales office         | \$ 9800 |
| Depreciation on factory equipment    | 16,700  |
| Factory supervisor salary            | 50,100  |
| Sales commissions                    | 23,700  |
| Lubricants used in factory equipment | 3600    |
| Insurance costs for factory          | 21,400  |
| Wages paid to maintenance workers    | 115,200 |
| Fabric used to upholster furniture   | 10,400  |
| Freight-in (on raw materials)        | 3200    |
| Costs of delivery to customers       | 9300    |
| Wages paid to assembly-line workers  | 115,700 |
| Lumber used to build product         | 82,600  |
| Utilities in factory                 | 54,000  |
| Utilities in sales office            | 26,300  |

Product costs for Country Furniture Company totaled

A) \$472,900.

B) \$448,300.

C) \$373,100.

D) \$489,200.

Answer: A

Explanation: A) Calculations:  $\$16,700 + 50,100 + 3600 + 21,400 + 115,200 + 10,400 + 3200 + 115,700 + 82,600 + 54,000 = \$472,900$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

15) Rustic Living Furniture Company manufactures furniture at its central Kentucky factory. Some of its costs from the past year include:

|                                      |           |
|--------------------------------------|-----------|
| Wages paid to maintenance workers    | \$60,800  |
| Fabric used to upholster furniture   | \$80,800  |
| Wages paid to assembly-line workers  | \$100,600 |
| Lumber used to build product         | \$15,600  |
| Sales commissions                    | \$7700    |
| Insurance costs for factory          | \$21,300  |
| Freight-in (on raw materials)        | \$3700    |
| Utilities in factory                 | \$12,400  |
| Factory supervisor salary            | \$60,700  |
| Depreciation on factory equipment    | \$18,600  |
| Utilities in sales office            | \$26,300  |
| Costs of delivery to customers       | \$8100    |
| Depreciation on sales office         | \$1000    |
| Lubricants used in factory equipment | \$800     |

Prime costs for Rustic Living Furniture Company totaled

A) \$200,700.

B) \$96,400.

C) \$197,000.

D) \$243,000.

Answer: A

Explanation: A) Calculations:  $\$15,600 + \$80,800 + \$3,700 + \$100,600 = \$200,700$ .

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

16) Rustic Living Furniture Company manufactures furniture at its central Kentucky factory. Some of its costs from the past year include:

|                                      |           |
|--------------------------------------|-----------|
| Wages paid to maintenance workers    | \$60,400  |
| Fabric used to upholster furniture   | \$80,000  |
| Wages paid to assembly-line workers  | \$100,000 |
| Lumber used to build product         | \$15,700  |
| Sales commissions                    | \$7100    |
| Insurance costs for factory          | \$21,100  |
| Freight-in (on raw materials)        | \$3700    |
| Utilities in factory                 | \$12,800  |
| Factory supervisor salary            | \$60,800  |
| Depreciation on factory equipment    | \$18,700  |
| Utilities in sales office            | \$26,000  |
| Costs of delivery to customers       | \$8200    |
| Depreciation on sales office         | \$1800    |
| Lubricants used in factory equipment | \$500     |

Conversion costs for Rustic Living Furniture Company totaled

A) \$199,400.

B) \$369,500.

C) \$176,100.

D) \$274,300.

Answer: D

Explanation: D) Calculations:  $\$18,700 + \$60,400 + \$500 + \$21,100 + \$60,800 + \$12,800 + \$100,000 = \$274,300$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



17) Rustic Living Furniture Company manufactures furniture at its central Kentucky factory. Some of its costs from the past year include:

|                                      |           |
|--------------------------------------|-----------|
| Wages paid to maintenance workers    | \$60,700  |
| Fabric used to upholster furniture   | \$80,500  |
| Wages paid to assembly-line workers  | \$100,200 |
| Lumber used to build product         | \$15,100  |
| Sales commissions                    | \$7700    |
| Insurance costs for factory          | \$21,900  |
| Freight-in (on raw materials)        | \$3900    |
| Utilities in factory                 | \$12,400  |
| Factory supervisor salary            | \$60,100  |
| Depreciation on factory equipment    | \$18,200  |
| Utilities in sales office            | \$26,400  |
| Costs of delivery to customers       | \$8500    |
| Depreciation on sales office         | \$1700    |
| Lubricants used in factory equipment | \$500     |

Direct material costs for Rustic Living Furniture Company totaled

A) \$15,100.

B) \$99,500.

C) \$95,600.

D) \$80,500.

Answer: B

Explanation: B) Calculations:  $\$80,500 + 3900 + 15,100 = \$99,500$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

18) Rustic Living Furniture Company manufactures furniture at its central Kentucky factory. Some of its costs from the past year include:

|                                      |           |
|--------------------------------------|-----------|
| Wages paid to maintenance workers    | \$60,300  |
| Fabric used to upholster furniture   | \$80,200  |
| Wages paid to assembly-line workers  | \$100,300 |
| Lumber used to build product         | \$15,300  |
| Sales commissions                    | \$7000    |
| Insurance costs for factory          | \$21,700  |
| Freight-in (on raw materials)        | \$3800    |
| Utilities in factory                 | \$12,900  |
| Factory supervisor salary            | \$60,800  |
| Depreciation on factory equipment    | \$18,100  |
| Utilities in sales office            | \$26,700  |
| Costs of delivery to customers       | \$8800    |
| Depreciation on sales office         | \$1300    |
| Lubricants used in factory equipment | \$500     |

Direct labor costs for Rustic Living Furniture Company totaled

A) \$228,400.

B) \$221,400.

C) \$100,300.

D) \$60,800.

Answer: C

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

19) Rustic Living Furniture Company manufactures furniture at its central Kentucky factory. Some of its costs from the past year include:

|                                      |           |
|--------------------------------------|-----------|
| Wages paid to maintenance workers    | \$60,100  |
| Fabric used to upholster furniture   | \$80,700  |
| Wages paid to assembly-line workers  | \$100,200 |
| Lumber used to build product         | \$15,500  |
| Sales commissions                    | \$7200    |
| Insurance costs for factory          | \$21,600  |
| Freight-in (on raw materials)        | \$3900    |
| Utilities in factory                 | \$12,700  |
| Factory supervisor salary            | \$60,900  |
| Depreciation on factory equipment    | \$18,400  |
| Utilities in sales office            | \$26,000  |
| Costs of delivery to customers       | \$8900    |
| Depreciation on sales office         | \$1800    |
| Lubricants used in factory equipment | \$800     |

Manufacturing overhead costs for Rustic Living Furniture Company totaled

A) \$174,500.

B) \$81,100.

C) \$152,100.

D) \$222,300.

Answer: A

Explanation: A) Calculations:  $\$18,400 + \$60,100 + \$800 + \$21,600 + \$60,900 + \$12,700 = \$174,500$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

20) Use the correct number to designate each item below. Assume each item is for a manufacturer.

1. direct materials
2. period costs
3. manufacturing overhead
4. direct labor

- A) \_\_\_\_\_ rent expense on factory building  
B) \_\_\_\_\_ sales supplies used  
C) \_\_\_\_\_ factory supplies used  
D) \_\_\_\_\_ indirect materials used  
E) \_\_\_\_\_ wages of assembly line personnel  
F) \_\_\_\_\_ cost of primary material used to make product  
G) \_\_\_\_\_ depreciation expense on office equipment  
H) \_\_\_\_\_ rent expense on office facilities  
I) \_\_\_\_\_ insurance expired on factory equipment  
J) \_\_\_\_\_ utilities incurred in the office  
K) \_\_\_\_\_ advertising expense  
L) \_\_\_\_\_ taxes paid on factory building

Answer: A) 3, B) 2, C) 3, D) 3, E) 4, F) 1, G) 2, H) 2, I) 3, J) 2, K) 2, L) 3

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

21) Differentiate between:

- A. direct materials versus indirect materials
- B. direct labor versus indirect labor

Answer: Student responses will vary but should include the following points:

A. Direct materials must become a physical part of the finished product and their costs must be separate and traceable through the manufacturing process to specific units of the finished product. Examples for a furniture manufacturer include wood, leather, steel, etc. Indirect materials become part of the finished product, but their minor costs cannot conveniently be traced directly to individual units of the finished products. They are included as part of manufacturing overhead. Examples for a furniture manufacturer include thread, glue, snaps, etc.

B. Direct labor cost is the compensation of employees who physically convert raw materials into the company's products and whose efforts can be traced directly to specific units of finished goods. Examples of direct material at a furniture manufacturer include machine operators and assemblers. Indirect labor is factory labor that is difficult to trace to individual units of specific products. Instead, the cost is included in manufacturing overhead. Examples of indirect labor at a furniture manufacturer include costs for forklift operators, janitors, and plant managers.

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

22) Indirect manufacturing costs should be included in manufacturing overhead.

Answer: TRUE

Diff: 1

LO: 2-4

EOC: S2-7

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

23) An inventoriable cost could be the cost of the marketing and distribution of a product.

Answer: FALSE

Diff: 2

LO: 2-4

EOC: S2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

24) Inventoriable product costs consist of manufacturing overhead, direct labor and direct materials.

Answer: TRUE

Diff: 1

LO: 2-4

EOC: S2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

25) Indirect materials, indirect labor, and indirect manufacturing costs are what type of manufacturing cost?

A) Direct labor

B) Direct materials

C) Manufacturing overhead

D) Prime costs

Answer: C

Diff: 1

LO: 2-4

EOC: S2-7

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

26) Which of the following would **not** be considered a product cost of a manufacturer?

A) Direct labor

B) Direct materials

C) Manufacturing overhead

D) Freight out

Answer: D

Diff: 2

LO: 2-4

EOC: S2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

27) Period costs are

- A) always recorded as an expense.
- B) always considered part of the inventory.
- C) expensed only when the inventory is sold.
- D) none of the above.

Answer: A

Diff: 1

LO: 2-4

EOC: S2-6

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

28) All of the following are period costs **except**

- A) distribution expenses.
- B) direct labor expenses.
- C) marketing expenses.
- D) research and development expenses.

Answer: B

Diff: 1

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

29) Inventoriable product costs for a manufactured product include

- A) the costs of direct materials, direct labor and manufacturing overhead.
- B) marketing and research and development costs.
- C) the costs of direct materials and direct labor only.
- D) none of the above.

Answer: A

Diff: 1

LO: 2-4

EOC: S2-6

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

30) Where would period costs be found on the financial statements?

- A) Under current assets on the balance sheet
- B) Under current liabilities on the balance sheet
- C) As operating expenses on the income statement in the period incurred
- D) As operating expenses on the income statement for a previous period

Answer: C

Diff: 2

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

31) Which of the following statements is correct concerning product costs?

- A) Product costs are expensed in the period the related product is sold.
- B) Product costs are expensed in the period incurred.
- C) Product costs are shown with operating expenses on the income statement.
- D) Product costs are shown with current liabilities on the balance sheet.

Answer: A

Diff: 2

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

32) Which of the following costs include all of the costs associated with production of a product?

- A) Inventoriable
- B) Direct
- C) Mixed
- D) Overhead

Answer: A

Diff: 2

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

33) Manufacturing overhead costs for a product include

- A) direct material.
- B) operating expenses.
- C) indirect manufacturing costs.
- D) prime costs.

Answer: C

Diff: 2

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

34) When do inventoriable costs become expenses?

- A) When direct materials are purchased
- B) When the manufacturing process begins
- C) When the manufacturing process is completed
- D) None of the above

Answer: D

Diff: 2

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

35) Indirect materials and indirect labor are \_\_\_\_\_ for a manufactured product.

- A) overhead and period costs
- B) operating and period costs
- C) overhead and product costs
- D) operating and product costs

Answer: C

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

36) Manufacturers consider selling and administrative costs to be

- A) period costs.
- B) conversion costs.
- C) inventoriable costs.
- D) prime costs.

Answer: A

Diff: 2

LO: 2-4

EOC: S2-6

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

37) Which of the following is an example of a period cost when manufacturing products?

- A) Depreciation expense on factory equipment
- B) Advertising expense
- C) Indirect materials used in the factory
- D) Property taxes on the plant

Answer: B

Diff: 1

LO: 2-4

EOC: S2-6

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

38) Which of the following is an example of an inventoriable cost when manufacturing products?

- A) Depreciation on office equipment
- B) Depreciation on store building
- C) Sales salaries expenses
- D) Depreciation on factory equipment

Answer: D

Diff: 2

LO: 2-4

EOC: S2-6

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



39) When manufacturing products, direct labor and direct materials are classified as

- A) period costs and expensed when incurred.
- B) product costs and expensed when the goods are sold.
- C) product costs and expensed when incurred.
- D) period costs and expensed when the goods are sold.

Answer: B

Diff: 2

LO: 2-4

EOC: S2-7

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

40) Certain materials used in a manufacturing plant cannot be traced to a specific unit. What are these materials called?

- A) General materials
- B) Direct materials
- C) Indirect materials
- D) Finished materials

Answer: C

Diff: 2

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

41) Rent on a factory building would be considered to be a \_\_\_\_\_ cost.

- A) product
- B) period
- C) direct
- D) none of the above

Answer: A

Diff: 2

LO: 2-4

EOC: S2-6

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

42) The \_\_\_\_\_ element in the value chain would contain inventoriable costs for a manufacturer.

- A) research and development
- B) production
- C) design
- D) distribution

Answer: B

Diff: 2

LO: 2-4

EOC: S2-5

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

43) Country Furniture Company manufactures furniture at its Akron, Ohio, factory. Some of its costs from the past year include:

|                                      |         |
|--------------------------------------|---------|
| Depreciation on sales office         | \$ 9100 |
| Depreciation on factory equipment    | 16,400  |
| Factory supervisor salary            | 50,600  |
| Sales commissions                    | 23,200  |
| Lubricants used in factory equipment | 3600    |
| Insurance costs for factory          | 21,100  |
| Wages paid to maintenance workers    | 115,100 |
| Fabric used to upholster furniture   | 10,200  |
| Freight-in (on raw materials)        | 3300    |
| Costs of delivery to customers       | 9900    |
| Wages paid to assembly-line workers  | 115,500 |
| Lumber used to build product         | 82,900  |
| Utilities in factory                 | 54,600  |
| Utilities in sales office            | 26,600  |

Period costs for Country Furniture Company totaled

- A) \$42,200.
- B) \$129,900.
- C) \$45,600.
- D) \$68,800.

Answer: D

Explanation: D) Calculations:  $\$9100 + 23,200 + 9900 + 26,600 = \$68,800$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

44) Wooden Shed Company manufactures custom wooden sheds. Some of its costs from the past year include:

|                                      |           |
|--------------------------------------|-----------|
| Wages paid to maintenance workers    | \$60,700  |
| Lumber used to build the product     | \$80,400  |
| Wages paid to assembly-line workers  | \$100,300 |
| Shingles used for the roof           | \$15,600  |
| Sales commissions                    | \$7200    |
| Insurance costs for factory          | \$21,700  |
| Freight-in (on raw materials)        | \$3000    |
| Utilities in factory                 | \$12,100  |
| Factory supervisor salary            | \$60,000  |
| Depreciation on factory equipment    | \$18,300  |
| Utilities in sales office            | \$26,500  |
| Costs of delivery to customers       | \$8800    |
| Depreciation on sales office         | \$1800    |
| Lubricants used in factory equipment | \$100     |

Product costs for Rustic Living Furniture Company totaled

A) \$279,500.

B) \$347,500.

C) \$372,200.

D) \$369,900.

Answer: C

Explanation: C) Calculations:  $\$18,300 + 60,700 + 100 + 21,700 + 12,100 + 60,000 + 80,400 + 3000 + 100,300 + 15,600 = \$372,200$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

45) Wooden Shed Company manufactures custom wooden sheds. Some of its costs from the past year include:

|                                      |           |
|--------------------------------------|-----------|
| Wages paid to maintenance workers    | \$60,600  |
| Lumber used to build the product     | \$80,600  |
| Wages paid to assembly-line workers  | \$100,200 |
| Shingles used for the roof           | \$15,900  |
| Sales commissions                    | \$7400    |
| Insurance costs for factory          | \$21,000  |
| Freight-in (on raw materials)        | \$3700    |
| Utilities in factory                 | \$12,100  |
| Factory supervisor salary            | \$60,900  |
| Depreciation on factory equipment    | \$18,000  |
| Utilities in sales office            | \$26,200  |
| Costs of delivery to customers       | \$8300    |
| Depreciation on sales office         | \$1700    |
| Lubricants used in factory equipment | \$100     |

Period costs for Rustic Living Furniture Company totaled

A) \$43,600.

B) \$36,200.

C) \$17,400.

D) \$65,400.

Answer: A

Explanation: A) Calculations:  $\$1700 + \$7400 + \$8300 + \$26,200 = \$43,600$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

46) Winner's Sporting Equipment manufactures sporting goods. Selected costs from the past year include:

|                                        |           |
|----------------------------------------|-----------|
| Plastics used to make products         | \$151,200 |
| Heating and lighting costs for factory | \$65,700  |
| Factory janitor wages                  | \$67,400  |
| Costs of shipping to customers         | \$12,000  |
| Lubricants used in factory equipment   | \$2700    |
| Lighting costs for sales office        | \$20,600  |
| Depreciation on factory equipment      | \$23,800  |
| Office supplies for sales office       | \$6800    |
| Insurance costs for factory            | \$13,700  |
| Maintenance worker wages               | \$99,600  |
| Freight-in (on plastics)               | \$7600    |
| Aluminum used to make products         | \$175,900 |
| Assembly-line worker wages             | \$142,600 |
| Salaries of salespeople                | \$74,600  |

Product costs for Winner's Sporting Equipment totaled

A) \$728,900.

B) \$750,200.

C) \$618,800.

D) \$742,500.

Answer: B

Explanation: B) Calculations:  $\$23,800 + 67,400 + 2700 + 13,700 + 99,600 + 151,200 + 7600 + 142,600 + 175,900 + 65,700 = \$750,200$

Diff: 3

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

47) Winner's Sporting Equipment manufactures sporting goods. Selected costs from the past year include:

|                                        |           |
|----------------------------------------|-----------|
| Plastics used to make products         | \$151,400 |
| Heating and lighting costs for factory | \$65,300  |
| Factory janitor wages                  | \$67,800  |
| Costs of shipping to customers         | \$11,100  |
| Lubricants used in factory equipment   | \$2900    |
| Lighting costs for sales office        | \$20,100  |
| Depreciation on factory equipment      | \$23,400  |
| Office supplies for sales office       | \$6200    |
| Insurance costs for factory            | \$13,600  |
| Maintenance worker wages               | \$99,900  |
| Freight-in (on plastics)               | \$7600    |
| Aluminum used to make products         | \$175,300 |
| Assembly-line worker wages             | \$142,000 |
| Salaries of salespeople                | \$74,600  |

Period costs for Winner's Sporting Equipment totaled

A) \$94,934.

B) \$91,900.

C) \$189,600.

D) \$112,000.

Answer: D

Explanation: D) Calculations:  $\$11,100 + 20,100 + 6200 + 74,600 = \$112,000$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

48) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

|                                                       |          |
|-------------------------------------------------------|----------|
| Rubber used to make the product                       | \$35,000 |
| Gel used to make the product                          | 15,000   |
| Fabric used to make the product                       | 25,000   |
| Lubricants used in the factory equipment              | 1,300    |
| Glue used to make the product                         | 850      |
| Wages paid to maintenance workers in the factory      | 3,000    |
| Wages paid to assembly line workers                   | 10,000   |
| Wages paid to factory supervisor                      | 5,000    |
| Wages paid to CFO                                     | 25,000   |
| Depreciation on factory equipment                     | 17,250   |
| Depreciation on the accounting department's computers | 3,000    |
| Depreciation on the sales force vehicles              | 5,000    |
| Utilities for factory                                 | 3,500    |
| Cost of shipping to customers                         | 6,000    |
| Property tax on factory equipment                     | 1,000    |
| Property insurance for the factory                    | 1,200    |
| Cardboard material to box each pair of shoes          | 6,250    |
| Commissions paid to sales force                       | 7,000    |
| Office supplies for accounting department             | 250      |
| Janitorial supplies for the factory                   | 675      |

What are the total period costs for Happy Feet Running Company for the month?

- A) \$46,250
- B) \$40,250
- C) \$53,175
- D) \$74,725

Answer: A

Explanation: A)  $\$25,000 + \$3,000 + \$5,000 + \$6,000 + \$7,000 + \$250 = \$46,250$

Diff: 3

LO: 2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

49) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

|                                                       |          |
|-------------------------------------------------------|----------|
| Rubber used to make the product                       | \$35,000 |
| Gel used to make the product                          | 15,000   |
| Fabric used to make the product                       | 25,000   |
| Lubricants used in the factory equipment              | 1,300    |
| Glue used to make the product                         | 850      |
| Wages paid to maintenance workers in the factory      | 3,000    |
| Wages paid to assembly line workers                   | 10,000   |
| Wages paid to factory supervisor                      | 5,000    |
| Wages paid to CFO                                     | 25,000   |
| Depreciation on factory equipment                     | 17,250   |
| Depreciation on the accounting department's computers | 3,000    |
| Depreciation on the sales force vehicles              | 5,000    |
| Utilities for factory                                 | 3,500    |
| Cost of shipping to customers                         | 6,000    |
| Property tax on factory equipment                     | 1,000    |
| Property insurance for the factory                    | 1,200    |
| Cardboard material to box each pair of shoes          | 6,250    |
| Commissions paid to sales force                       | 7,000    |
| Office supplies for accounting department             | 250      |
| Janitorial supplies for the factory                   | 675      |

What is the total manufacturing overhead for Happy Feet Running Company for the month?

- A) \$40,025
- B) \$33,775
- C) \$31,575
- D) \$58,775

Answer: B

Explanation: B)  $\$1,300 + \$850 + \$3,000 + \$5,000 + \$17,250 + \$3,500 + \$1,000 + \$1,200 + \$675 = \$33,775$

Diff: 3

LO: 2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



50) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

|                                                       |          |
|-------------------------------------------------------|----------|
| Rubber used to make the product                       | \$35,000 |
| Gel used to make the product                          | 15,000   |
| Fabric used to make the product                       | 25,000   |
| Lubricants used in the factory equipment              | 1,300    |
| Glue used to make the product                         | 850      |
| Wages paid to maintenance workers in the factory      | 3,000    |
| Wages paid to assembly line workers                   | 10,000   |
| Wages paid to factory supervisor                      | 5,000    |
| Wages paid to CFO                                     | 25,000   |
| Depreciation on factory equipment                     | 17,250   |
| Depreciation on the accounting department's computers | 3,000    |
| Depreciation on the sales force vehicles              | 5,000    |
| Utilities for factory                                 | 3,500    |
| Cost of shipping to customers                         | 6,000    |
| Property tax on factory equipment                     | 1,000    |
| Property insurance for the factory                    | 1,200    |
| Cardboard material to box each pair of shoes          | 6,250    |
| Commissions paid to sales force                       | 7,000    |
| Office supplies for accounting department             | 250      |
| Janitorial supplies for the factory                   | 675      |

What is the total direct materials for Happy Feet Running Company for the month?

- A) \$60,000
- B) \$83,400
- C) \$75,000
- D) \$81,250

Answer: D

Explanation: D)  $\$35,000 + \$15,000 + \$25,000 + \$6,250 = \$81,250$

Diff: 3

LO: 2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

51) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

|                                                       |          |
|-------------------------------------------------------|----------|
| Rubber used to make the product                       | \$35,000 |
| Gel used to make the product                          | 15,000   |
| Fabric used to make the product                       | 25,000   |
| Lubricants used in the factory equipment              | 1,300    |
| Glue used to make the product                         | 850      |
| Wages paid to maintenance workers in the factory      | 3,000    |
| Wages paid to assembly line workers                   | 10,000   |
| Wages paid to factory supervisor                      | 5,000    |
| Wages paid to CFO                                     | 25,000   |
| Depreciation on factory equipment                     | 17,250   |
| Depreciation on the accounting department's computers | 3,000    |
| Depreciation on the sales force vehicles              | 5,000    |
| Utilities for factory                                 | 3,500    |
| Cost of shipping to customers                         | 6,000    |
| Property tax on factory equipment                     | 1,000    |
| Property insurance for the factory                    | 1,200    |
| Cardboard material to box each pair of shoes          | 6,250    |
| Commissions paid to sales force                       | 7,000    |
| Office supplies for accounting department             | 250      |
| Janitorial supplies for the factory                   | 675      |

What is the total for direct labor costs for Happy Feet Running Company for the month?

- A) \$15,000
- B) \$40,000
- C) \$48,000
- D) \$10,000

Answer: D

Diff: 2

LO: 2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

52) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

|                                                       |          |
|-------------------------------------------------------|----------|
| Rubber used to make the product                       | \$35,000 |
| Gel used to make the product                          | 15,000   |
| Fabric used to make the product                       | 25,000   |
| Lubricants used in the factory equipment              | 1,300    |
| Glue used to make the product                         | 850      |
| Wages paid to maintenance workers in the factory      | 3,000    |
| Wages paid to assembly line workers                   | 10,000   |
| Wages paid to factory supervisor                      | 5,000    |
| Wages paid to CFO                                     | 25,000   |
| Depreciation on factory equipment                     | 17,250   |
| Depreciation on the accounting department's computers | 3,000    |
| Depreciation on the sales force vehicles              | 5,000    |
| Utilities for factory                                 | 3,500    |
| Cost of shipping to customers                         | 6,000    |
| Property tax on factory equipment                     | 1,000    |
| Property insurance for the factory                    | 1,200    |
| Cardboard material to box each pair of shoes          | 6,250    |
| Commissions paid to sales force                       | 7,000    |
| Office supplies for accounting department             | 250      |
| Janitorial supplies for the factory                   | 675      |

What are prime costs for Happy Feet Running Company for the month?

- A) \$124,250
- B) \$116,250
- C) \$91,250
- D) \$85,000

Answer: C

Explanation: C) DM: \$35,000 + \$15,000 + \$25,000 + \$6,250 = \$81,250 DL: \$10,000 so \$81,250 + \$10,000 = \$91,250

Diff: 3

LO: 2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

53) Happy Feet Running Company manufactures running shoes and has the following costs during the past month:

|                                                       |          |
|-------------------------------------------------------|----------|
| Rubber used to make the product                       | \$35,000 |
| Gel used to make the product                          | 15,000   |
| Fabric used to make the product                       | 25,000   |
| Lubricants used in the factory equipment              | 1,300    |
| Glue used to make the product                         | 850      |
| Wages paid to maintenance workers in the factory      | 3,000    |
| Wages paid to assembly line workers                   | 10,000   |
| Wages paid to factory supervisor                      | 5,000    |
| Wages paid to CFO                                     | 25,000   |
| Depreciation on factory equipment                     | 17,250   |
| Depreciation on the accounting department's computers | 3,000    |
| Depreciation on the sales force vehicles              | 5,000    |
| Utilities for factory                                 | 3,500    |
| Cost of shipping to customers                         | 6,000    |
| Property tax on factory equipment                     | 1,000    |
| Property insurance for the factory                    | 1,200    |
| Cardboard material to box each pair of shoes          | 6,250    |
| Commissions paid to sales force                       | 7,000    |
| Office supplies for accounting department             | 250      |
| Janitorial supplies for the factory                   | 675      |

What are conversion costs for Happy Feet Running Company for the month?

- A) \$82,350
- B) \$50,025
- C) \$43,775
- D) \$68,775

Answer: C

Explanation: C) DL: \$10,000 MOH: \$1,300 + \$850 + \$3,000 + \$5,000 + \$17,250 + \$3,500 + \$1,000 + \$1,200 + \$675 = \$33,775 so \$10,000 + \$33,775 = \$43,775

Diff: 3

LO: 2-4

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

54) ABC Company makes wooden furniture. Identify each of the following as either an inventoriable product cost or a period cost. If it is an inventoriable product cost, classify it as direct materials, direct labor, or manufacturing overhead.

- A. \_\_\_\_\_ Insurance on the plant building
- B. \_\_\_\_\_ Cost of shipping the furniture to the customers
- C. \_\_\_\_\_ Assembly line workers' wages
- D. \_\_\_\_\_ Depreciation on plant equipment
- E. \_\_\_\_\_ Salesmen's salaries
- F. \_\_\_\_\_ Cost of various types of wood
- G. \_\_\_\_\_ Insurance on delivery trucks
- H. \_\_\_\_\_ Plant forklift operator's salary

Answer:

- A. Inventoriable product cost, manufacturing overhead
- B. Period cost
- C. Inventoriable product cost, direct labor
- D. Inventoriable product cost, manufacturing overhead
- E. Period cost
- F. Inventoriable product cost, direct materials
- G. Period cost
- H. Inventoriable product cost, manufacturing overhead

Diff: 3

LO: 2-4

EOC: S2-7

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

55) Indicate whether each of the following costs is a product cost or a period cost. Assume it is for a manufacturer.

- A. \_\_\_\_\_ direct materials used in factory
- B. \_\_\_\_\_ factory utilities
- C. \_\_\_\_\_ salespersons' commissions
- D. \_\_\_\_\_ salary of plant manager
- E. \_\_\_\_\_ indirect materials used in factory
- F. \_\_\_\_\_ depreciation expense on store equipment
- G. \_\_\_\_\_ indirect labor incurred in factory
- H. \_\_\_\_\_ advertising expense
- I. \_\_\_\_\_ direct labor incurred in factory
- J. \_\_\_\_\_ factory machinery repairs and maintenance
- K. \_\_\_\_\_ depreciation expense on factory machinery
- L. \_\_\_\_\_ supplies used in store
- M. \_\_\_\_\_ plant insurance expired

Answer:

- A. product
- B. product
- C. period
- D. product
- E. product
- F. period
- G. product
- H. period
- I. product
- J. product
- K. product
- L. period
- M. product

Diff: 2

LO: 2-4

EOC: S2-6

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

56) Direct labor for a company was \$145,100; manufacturing overhead was \$300,300; and direct materials were \$270,800. Conversion costs would total

- A) \$571,100
- B) \$716,200
- C) \$415,900
- D) \$445,400

Answer: D

Explanation: D) Calculations:  $\$300,300 + 145,100 = \$445,400$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

57) Direct materials for a company were \$501,000; manufacturing overhead was \$250,600; and direct labor was \$770,300. Conversion costs would total

- A) \$1,020,900
- B) \$1,271,300
- C) \$1,521,900
- D) \$751,600

Answer: A

Explanation: A) Calculations:  $\$770,300 + 250,600 = \$1,020,900$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

58) Direct labor for a company was \$145,800; manufacturing overhead was \$300,400; and direct materials were \$270,600. Prime costs would total

- A) \$716,800.
- B) \$446,200.
- C) \$416,400.
- D) \$571,000.

Answer: C

Explanation: C) Calculations:  $\$145,800 + 270,600 = \$416,400$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

59) Direct materials for a company were \$500,700; manufacturing overhead was \$250,500; and direct labor was \$770,500. Prime costs would total

- A) \$1,021,000.
- B) \$1,271,200.
- C) \$1,521,700.
- D) \$751,200.

Answer: B

Explanation: B) Calculations:  $\$500,700 + 770,500 = \$1,271,200$

Diff: 2

LO: 2-4

EOC: E2-21A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

- 60) Product costs include
- A) direct materials.
  - B) indirect materials.
  - C) direct labor.
  - D) all of the above are included in product costs.

Answer: D

Diff: 1

LO: 2-4

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

- 61) Which of the following would NOT be considered period costs?

- A) Depreciation of factory equipment
- B) Utilities of retail location
- C) Depreciation on sales force vehicles
- D) Property insurance on corporate headquarters

Answer: A

Diff: 1

LO: 2-4

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

- 62) Manufacturing overhead includes

- A) direct materials, direct labor, and factory overhead.
- B) only indirect materials and indirect labor.
- C) indirect materials, indirect labor, and all other indirect costs related to the manufacturing facility.
- D) only labor, both direct and indirect.

Answer: C

Diff: 1

LO: 2-4

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

- 63) An example of a period cost would be the

- A) salary to the CEO.
- B) materials purchased to manufacture the product.
- C) salary to the factory supervisor.
- D) property insurance paid for the manufacturing facility.

Answer: A

Diff: 1

LO: 2-4

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



64) Period costs are generally also known as

- A) factory overhead.
- B) prime costs.
- C) annual expenses.
- D) operating expenses.

Answer: D

Diff: 1

LO: 2-4

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

65) Pink Ribbon Shoppe, a clothing retailer, had the following total costs as grouped by value chain element:

|                          |          |
|--------------------------|----------|
| Research and development | \$53,200 |
| Design                   | \$17,700 |
| Purchases                | \$72,200 |
| Marketing                | \$42,100 |
| Distribution             | \$58,200 |
| Customer service         | \$35,200 |

What were the company's period costs?

- A) \$206,400
- B) \$278,600
- C) \$100,300
- D) \$135,500

Answer: A

Explanation: A) Calculations:  $\$53,200 + \$17,700 + \$42,100 + \$58,200 + \$35,200 = \$206,400$

Diff: 2

LO: 2-2

EOC: E2-18A; E2-30B

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

## 2.5 Prepare the financial statements for service, merchandising, and manufacturing companies

1) Product costs and period costs receive similar treatment when presented in the financial statements.

Answer: FALSE

Diff: 1

LO: 2-5

EOC: S2-12

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

2) The income statements of manufacturing companies are more complex than those of service or merchandising companies.

Answer: TRUE

Diff: 1

LO: 2-5

EOC: S2-11

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

3) The financial statements of a merchandiser are more complex than those of a manufacturer.

Answer: FALSE

Diff: 1

LO: 2-5

EOC: E2-22A

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

4) Service companies have the most complex accounting with regard to the income statement.

Answer: FALSE

Diff: 1

LO: 2-5

EOC: E2-22A

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

5) Cost of goods sold is a major expense of service companies.

Answer: FALSE

Diff: 1

LO: 2-5

EOC: E2-22A

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

6) The schedule of cost of goods manufactured is prepared before the income statement for a manufacturing company.

Answer: TRUE

Diff: 1

LO: 2-5

EOC: E2-25A

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

7) Which of the following items is **not** used when calculating the cost of goods manufactured?

A) Direct materials used

B) Direct labor

C) Salesperson salaries

D) Manufacturing overhead

Answer: C

Diff: 2

LO: 2-5

EOC: E2-24A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

8) Before operating income can be determined for a manufacturer, which of the following is calculated?

A) Cost of goods available for sale

B) Cost of goods sold

C) Cost of goods manufactured

D) All of the above

Answer: D

Diff: 2

LO: 2-5

EOC: E2-24A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

9) The only difference in the balance sheets of various types of businesses (for example, manufacturing vs. service) is

A) current liabilities.

B) current assets.

C) investments.

D) equity.

Answer: B

Diff: 2

LO: 2-5

EOC: E2-22A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

10) The balance sheet of a service company would include which of the following?

- A) Factory equipment depreciation
- B) Cost of goods manufactured
- C) Accounts receivable
- D) Cost of goods sold

Answer: C

Diff: 1

LO: 2-5

EOC: E2-22A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

11) The income statement of a retailer would include which of the following?

- A) Cost of goods sold
- B) Value of inventory
- C) Accounts payable
- D) Accounts receivable

Answer: A

Diff: 1

LO: 2-5

EOC: E2-23A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

12) The income statements for **both** a merchandiser and manufacturer would include which of the following?

- A) Operating expenses
- B) Direct labor incurred
- C) Direct materials used
- D) Cost of goods manufactured

Answer: A

Diff: 1

LO: 2-5

EOC: E2-23A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

13) A merchandiser's purchases are equivalent to a manufacturer's

- A) cost of goods sold.
- B) cost of goods manufactured.
- C) raw materials inventory.
- D) work in process inventory.

Answer: B

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

14) Tuity Fruity Beverage Company's operating activities for the year are listed below.

|                     |           |
|---------------------|-----------|
| Purchases           | \$140,900 |
| Operating expenses  | 80,900    |
| Beginning inventory | 12,400    |
| Ending inventory    | 18,500    |
| Sales revenue       | 300,100   |

What is the cost of goods available for sale?

- A) \$140,900
- B) \$153,300
- C) \$80,900
- D) \$134,800

Answer: B

Explanation: B) Calculations: Beginning Inventory \$12,400 + Purchases \$140,900 = Cost of Goods Available For Sale = \$153,300

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

15) Tuity Fruity Beverage Company's operating activities for the year are listed below.

|                     |           |
|---------------------|-----------|
| Purchases           | \$140,700 |
| Operating expenses  | 80,500    |
| Beginning inventory | 12,500    |
| Ending inventory    | 18,000    |
| Sales revenue       | 300,100   |

What is the cost of goods sold for the year?

- A) \$153,200
- B) \$135,200
- C) \$140,700
- D) \$80,500

Answer: B

Explanation: B) Calculations: Beginning Inventory \$12,500 + Purchases \$140,700 = Goods Available For Sale \$153,200 - Ending Inventory \$18,000 = \$135,200

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

16) Tuity Fruity Beverage Company's operating activities for the year are listed below.

|                     |           |
|---------------------|-----------|
| Purchases           | \$140,100 |
| Operating expenses  | 80,400    |
| Beginning inventory | 13,000    |
| Ending inventory    | 19,000    |
| Sales revenue       | 300,400   |

What is the gross profit for the year?

- A) \$160,300
- B) \$300,400
- C) \$80,400
- D) \$166,300

Answer: D

Explanation: D) Calculations: Beg Inv \$13,000 + Purchases \$140,100 = Goods available \$153,100 - ending inventory \$19,000 = Cost of Goods Sold 134,100. Now Sales \$300,400 - CGS \$134,100 = Gross Profit \$166,300

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

17) Chicago Steel's operating activities for the year are listed below.

|                     |             |
|---------------------|-------------|
| Beginning inventory | \$1,001,000 |
| Ending inventory    | \$350,100   |
| Purchases           | \$750,300   |
| Sales revenue       | \$1,500,100 |
| Operating expenses  | \$700,800   |

What is the cost of goods available for sale?

A) \$1,401,200

B) \$749,800

C) \$49,500

D) \$1,751,300

Answer: D

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

18) Chicago Steel's operating activities for the year are listed below.

|                     |             |
|---------------------|-------------|
| Beginning inventory | \$1,000,400 |
| Ending inventory    | \$350,800   |
| Purchases           | \$750,700   |
| Sales revenue       | \$1,500,900 |
| Operating expenses  | \$700,600   |

What is the cost of goods sold for the year?

A) \$1,400,300

B) \$750,200

C) \$50,100

D) \$1,751,100

Answer: A

Explanation: A) Calculations: Beginning Inventory \$1,000,400 + Purchases \$750,700 = Goods Available \$1,751,100 - Ending Inventory \$350,800 = \$1,400,300

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

19) Chicago Steel's operating activities for the year are listed below.

|                     |             |
|---------------------|-------------|
| Beginning inventory | \$1,000,000 |
| Ending inventory    | \$350,700   |
| Purchases           | \$750,500   |
| Sales revenue       | \$1,500,300 |
| Operating expenses  | \$700,300   |

What is the gross profit for the year?

- A) \$50,200
- B) \$749,800
- C) \$1,500,300
- D) \$100,500

Answer: D

Explanation: D) Calculations: Beginning Inventory \$1,000,000 + Purchases \$750,500 = Goods Available \$1,750,500 - Ending Inventory \$350,700 = CGS \$1,399,800. Now Sales 1,500,300 - CGS \$1,399,800 = Gross Profit \$100,500

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

20) Challenge Tennis & Recreation's operating activities for the year are listed below.

|                     |           |
|---------------------|-----------|
| Purchases           | \$174,800 |
| Operating expenses  | 62,900    |
| Beginning inventory | 27,000    |
| Ending inventory    | 37,800    |
| Sales revenue       | 333,300   |

What is the cost of goods available for sale?

- A) \$164,000
- B) \$201,800
- C) \$95,600
- D) \$174,800

Answer: B

Explanation: B) Calculations: \$27,000 + \$174,800 = \$201,800

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.



21) Challenge Tennis & Recreation's operating activities for the year are listed below.

|                     |           |
|---------------------|-----------|
| Purchases           | \$174,000 |
| Operating expenses  | 62,200    |
| Beginning inventory | 27,900    |
| Ending inventory    | 38,000    |
| Sales revenue       | 333,400   |

What is the cost of goods sold for the year?

A) \$201,900

B) \$163,900

C) \$174,000

D) \$97,200

Answer: B

Explanation: B) Calculations:  $\$27,900 + \$174,000 = \$201,900 - \$38,000 = \$163,900$

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

22) Challenge Tennis & Recreation's operating activities for the year are listed below.

|                     |           |
|---------------------|-----------|
| Purchases           | \$174,900 |
| Operating expenses  | 62,800    |
| Beginning inventory | 27,200    |
| Ending inventory    | 37,000    |
| Sales revenue       | 333,500   |

What is the gross profit for the year?

A) \$158,600

B) \$333,500

C) \$95,800

D) \$168,400

Answer: D

Explanation: D) Calculations:  $\$27,200 + \$174,900 = \$202,100 - \$37,000 = \$165,100$ . Then  $\$333,500 - \$165,100 = \$168,400$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

23) In addition to cost of goods manufactured, which of the following is needed to compute the cost of goods sold for a manufacturer?

- A) Beginning work in process inventory less ending work in process inventory
- B) Ending work in process inventory less beginning work in process inventory
- C) Ending finished goods
- D) Beginning finished goods inventory less ending finished goods inventory

Answer: D

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

24) For a manufacturer, beginning work in process would be equal to

- A) manufacturing costs incurred in the period - ending work in process inventory.
- B) cost of goods manufactured - ending work in process inventory + manufacturing costs incurred in the period.
- C) ending work in process inventory + manufacturing costs incurred in the period.
- D) cost of goods manufactured + ending work in process inventory - manufacturing costs incurred in the period.

Answer: D

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

25) Lots of Stuff Company reports the following data for its first year of operation.

|                                      |         |
|--------------------------------------|---------|
| Work in process inventory, beginning | 0       |
| Work in process inventory, ending    | 140,000 |
| Direct materials used                | 110,400 |
| Direct Labor                         | 134,000 |
| Manufacturing overhead               | 185,800 |
| Finished goods inventory, beginning  | 0       |
| Finished goods inventory, ending     | 90,500  |

What are the total manufacturing costs to account for?

- A) \$199,700
- B) \$244,400
- C) \$430,200
- D) \$134,000

Answer: C

Explanation: C) Calculations:  $\$110,400 + \$134,000 + \$185,800 = \$430,200$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

26) Lots of Stuff Company reports the following data for its first year of operation.

|                                      |           |
|--------------------------------------|-----------|
| Cost of goods manufactured           | \$455,800 |
| Work in process inventory, beginning | 0         |
| Work in process inventory, ending    | 140,400   |
| Direct materials used                | 110,900   |
| Direct Labor                         | 137,000   |
| Manufacturing overhead               | 185,300   |
| Finished goods inventory, beginning  | 0         |
| Finished goods inventory, ending     | 90,700    |

What is the cost of goods sold?

- A) \$365,100
- B) \$455,800
- C) \$752,000
- D) \$520,900

Answer: A

Explanation: A) Calculations:  $\$455,800 - 90,700 = \$365,100$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

27) Youngstown Rubber reports the following data for its first year of operation.

|                                      |           |
|--------------------------------------|-----------|
| Direct materials used                | \$710,200 |
| Direct Labor                         | 350,000   |
| Cost of goods manufactured           | 1,030,300 |
| Finished goods inventory, ending     | 190,900   |
| Finished goods inventory, beginning  | 0         |
| Manufacturing overhead               | 100,100   |
| Work in process inventory, beginning | 0         |
| Work in process inventory, ending    | 130,000   |

What are the total manufacturing costs to account for?

A) \$1,169,700

B) \$1,160,300

C) \$1,490,600

D) \$489,400

Answer: B

Explanation: B) Calculations:

$\$710,200 + \$350,000 + \$100,100 = \$1,161,100$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

28) Youngstown Rubber reports the following data for its first year of operation.

|                                      |           |
|--------------------------------------|-----------|
| Direct materials used                | \$710,100 |
| Cost of goods manufactured           | 1,030,300 |
| Direct Labor                         | 350,000   |
| Finished goods inventory, ending     | 190,800   |
| Manufacturing overhead               | 100,100   |
| Finished goods inventory, beginning  | 0         |
| Work in process inventory, beginning | 0         |
| Work in process inventory, ending    | 130,000   |

What is the cost of goods sold?

- A) \$680,200
- B) \$459,500
- C) \$839,500
- D) \$1,490,400

Answer: C

Explanation: C) Calculations:  $\$680,200 - 190,800 = \$489,400$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

29) Fit Apparel Company reports the following data for its first year of operation.

|                                      |         |
|--------------------------------------|---------|
| Work in process inventory, beginning | 0       |
| Work in process inventory, ending    | 90,200  |
| Direct materials used                | 85,200  |
| Direct Labor                         | 60,000  |
| Manufacturing overhead               | 100,900 |
| Finished goods inventory, beginning  | 0       |
| Finished goods inventory, ending     | 70,700  |

What are the total manufacturing costs to account for?

- A) \$650,700
- B) \$836,800
- C) \$246,100
- D) \$580,000

Answer: C

Explanation: C) Calculations:

$\$85,200 + \$60,000 + \$100,900 = \$246,200$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

30) Fit Apparel Company reports the following data for its first year of operation.

|                                      |           |
|--------------------------------------|-----------|
| Cost of goods manufactured           | \$155,600 |
| Work in process inventory, beginning | 0         |
| Work in process inventory, ending    | 90,500    |
| Direct materials used                | 85,300    |
| Direct Labor                         | 60,000    |
| Manufacturing overhead               | 100,800   |
| Finished goods inventory, beginning  | 0         |
| Finished goods inventory, ending     | 70,500    |

What is the cost of goods sold?

A) \$650,200

B) \$836,300

C) \$85,100

D) \$655,400

Answer: C

Explanation: C) Calculations:  $\$650,200 - 70,500 = \$579,700$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

31) Tall Timbers reports the following data for its first year of operation.

|                                      |        |
|--------------------------------------|--------|
| Work in process inventory, beginning | \$ 0   |
| Work in process inventory, ending    | 50,400 |
| Manufacturing overhead               | 25,400 |
| Direct materials used                | 7700   |
| Direct Labor                         | 60,000 |
| Finished goods inventory, beginning  | 0      |
| Finished goods inventory, ending     | 20,000 |
| Cost of goods manufactured           | 42,700 |

What are the total manufacturing costs to account for?

A) \$48,300

B) \$93,100

C) \$85,600

D) \$118,700

Answer: B

Explanation: B) Calculations:  $\$7700 + \$60,000 + \$25,400 = \$92,900$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

32) Tall Timbers reports the following data for its first year of operation.

|                                      |        |
|--------------------------------------|--------|
| Work in process inventory, beginning | \$ 0   |
| Work in process inventory, ending    | 50,900 |
| Manufacturing overhead               | 25,400 |
| Direct materials used                | 7800   |
| Direct Labor                         | 60,000 |
| Finished goods inventory, beginning  | 0      |
| Finished goods inventory, ending     | 20,000 |
| Cost of goods manufactured           | 42,300 |

What is the cost of goods sold?

A) \$22,300

B) \$85,400

C) \$118,600

D) \$116,300

Answer: A

Explanation: A) Calculations:  $\$85,400 - 20,000 = \$65,400$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

33) Page's sells books. The following information summarizes the company's operating expenses for the year:

|                                 |           |
|---------------------------------|-----------|
| Purchases                       | \$105,200 |
| Operating expenses              | \$53,200  |
| Beginning merchandise inventory | \$15,000  |
| Ending merchandise inventory    | \$12,000  |
| Sales revenue                   | \$170,700 |

What is cost of goods available for sale?

A) \$117,200

B) \$65,500

C) \$120,200

D) \$102,200

Answer: C

Explanation: C) Calculations:  $\$105,200 + \$15,000 = \$120,200$

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

34) Page's sells books. The following information summarizes the company's operating expenses for the year:

|                    |           |
|--------------------|-----------|
| Cost of goods sold | \$105,600 |
| Salaries and wages | \$53,900  |
| Rent and utilities | \$14,600  |
| Marketing          | \$11,800  |
| Sales revenues     | \$197,000 |

What is operating income?

- A) \$25,700
- B) \$102,800
- C) \$116,700
- D) \$11,100

Answer: D

Explanation: D) Calculations:

$\$197,000 - \$105,600 = \$91,400$  gross profit

Operating Expenses:  $\$53,900 + \$14,600 + \$11,800 = \$80,300$  Total Operating Expenses

Operating Income:  $\$91,400 - \$80,300 = \$11,100$  Operating Income

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

35) The Seashell Factory sells beach goods to tourists. The following information summarizes the company's operating expenses for the year:

|                    |           |
|--------------------|-----------|
| Cost of goods sold | \$108,000 |
| Marketing          | \$2000    |
| Rent and utilities | \$12,600  |
| Salaries and wages | \$12,800  |
| Sales revenues     | \$170,100 |

What is gross profit?

- A) \$62,100
- B) \$34,700
- C) \$142,700
- D) \$89,500

Answer: A

Explanation: A) Calculations:  $\$170,100 - \$108,000 = \$62,100$  Gross profit

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.



36) Paper Clip Company sells office supplies. The following information summarizes the company's operating activities for the year:

|                          |         |
|--------------------------|---------|
| Utilities for the store  | \$ 9900 |
| Sales commissions        | 10,400  |
| Sales revenue            | 164,300 |
| Purchases of merchandise | 85,600  |
| January 1 inventory      | 27,600  |
| Rent for store           | 14,300  |
| December 31 inventory    | 23,200  |

What is cost of goods sold?

- A) \$85,600
- B) \$90,000
- C) \$108,800
- D) \$113,200

Answer: B

Explanation: B) Calculations:  $\$27,600 + 85,600 = 113,200 - \$23,200 = \$90,000$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

37) Paper Clip Company sells office supplies. The following information summarizes the company's operating activities for the year:

|                          |           |
|--------------------------|-----------|
| Utilities for the store  | \$ 10,200 |
| Sales commissions        | 10,900    |
| Sales revenue            | 164,200   |
| Purchases of merchandise | 89,000    |
| January 1 inventory      | 27,000    |
| Rent for store           | 14,000    |
| December 31 inventory    | 23,500    |

What is operating income?

A) \$153,300

B) \$58,600

C) \$36,600

D) \$38,200

Answer: C

Explanation: C) Calculations:  $\$164,200 - (\$27,000 + \$89,000 - \$23,500) = \$71,700 - \$10,200 - \$10,900 - \$14,000 = \$36,600$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

38) Paper Clip Company sells office supplies. The following information summarizes the company's operating activities for the year:

|                          |         |
|--------------------------|---------|
| Utilities for the store  | \$ 9700 |
| Sales commissions        | 10,800  |
| Sales revenue            | 164,200 |
| Purchases of merchandise | 89,100  |
| January 1 inventory      | 27,500  |
| Rent for store           | 14,400  |
| December 31 inventory    | 23,100  |

What is gross profit?

A) \$70,700

B) \$41,200

C) \$85,500

D) \$58,000

Answer: A

Explanation: A) Calculations:  $\$164,200 - (\$89,100 + \$27,500 - \$23,100) = \$93,500 = \$70,700$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

39) Paper Clip Company sells office supplies. The following information summarizes the company's operating activities for the year:

|                          |         |
|--------------------------|---------|
| Utilities for the store  | \$ 9900 |
| Sales commissions        | 10,900  |
| Sales revenue            | 164,400 |
| Purchases of merchandise | 89,600  |
| January 1 inventory      | 28,000  |
| Rent for store           | 14,200  |
| December 31 inventory    | 23,600  |

What are total operating expenses?

A) \$35,000

B) \$20,800

C) \$25,100

D) \$24,100

Answer: A

Explanation: A) Calculations:  $\$9900 + \$10,900 + \$14,200 = \$35,000$

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

40) Company X sells widgets. The following information summarizes the company's operating activities for the year:

|                          |          |
|--------------------------|----------|
| Beginning inventory      | \$7200   |
| Sales revenue            | \$25,000 |
| Sales commissions        | \$700    |
| Rent for office          | \$2200   |
| Utilities for the office | \$1400   |
| Purchases                | \$6500   |
| Ending inventory         | \$5600   |

What is cost of goods sold?

- A) \$9300
- B) \$6500
- C) \$8100
- D) \$13,700

Answer: C

Explanation: C) Calculations:  $\$7200 + 6500 = 13,700 - \$5600 = \$8100$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

41) Company X sells widgets. The following information summarizes the company's operating activities for the year:

|                          |          |
|--------------------------|----------|
| Beginning inventory      | \$7700   |
| Sales revenue            | \$25,000 |
| Sales commissions        | \$500    |
| Rent for office          | \$2400   |
| Utilities for the office | \$1900   |
| Purchases                | \$6400   |
| Ending inventory         | \$5200   |

What is operating income?

- A) \$11,300
- B) \$23,100
- C) \$14,200
- D) \$13,700

Answer: A

Explanation: A) Calculations:  $\$25,000 - \$8900 = \$16,100 - \$1900 - \$500 - \$2400 = \$11,300$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

42) Company X sells widgets. The following information summarizes the company's operating activities for the year:

|                          |          |
|--------------------------|----------|
| Beginning inventory      | \$7800   |
| Sales revenue            | \$25,400 |
| Sales commissions        | \$800    |
| Rent for office          | \$2800   |
| Utilities for the office | \$1600   |
| Purchases                | \$6800   |
| Ending inventory         | \$5800   |

What is gross profit?

A) \$15,000

B) \$20,800

C) \$16,600

D) \$11,400

Answer: C

Explanation: C)  $25,400 - (7800 + 6800 - 5800) = 16,600$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

43) Company X sells widgets. The following information summarizes the company's operating activities for the year:

|                          |          |
|--------------------------|----------|
| Beginning inventory      | \$7900   |
| Sales revenue            | \$25,300 |
| Sales commissions        | \$900    |
| Rent for office          | \$2900   |
| Utilities for the office | \$1700   |
| Purchases                | \$6900   |
| Ending inventory         | \$5200   |

What are total operating expenses?

A) \$3800

B) \$2600

C) \$4600

D) \$5500

Answer: D

Explanation: D) Calculations:  $900 + 2900 + 1700 = \$5500$

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

44) Porches, Inc. sells lawn furniture. Selected financial information for the most recent year follows.

Beginning merchandise inventory on January 1 was \$33,700.

Ending merchandise inventory on December 31 was \$35,700.

Purchases during the year were \$92,900.

Selling and administrative expenses were \$75,500.

Sales for year were \$262,200.

What was cost of goods sold?

A) \$162,300

B) \$94,900

C) \$90,900

D) \$93,800

Answer: C

Explanation: C) Calculations:  $\$92,900 + \$33,700 = \$126,600 - \$35,700 = \$90,900$

Diff: 2

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

45) Porches, Inc., sells lawn furniture. Selected financial information for the most recent year follows.

Beginning merchandise inventory on January 1 was \$33,200.

Ending merchandise inventory on December 31 was \$36,000.

Purchases during the year were \$92,800.

Selling and administrative expenses were \$75,400.

Sales for year were \$262,800.

What was gross profit?

A) \$151,400

B) \$170,000

C) \$187,400

D) \$172,800

Answer: D

Explanation: D) Calculations:  $\$92,800 + \$33,200 = \$126,000 - \$36,000 = \$90,000$ . Next  $\$262,800 - \$90,000 = \$172,800$

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

46) Porches, Inc. sells lawn furniture. Selected financial information for the most recent year is as follows:

Beginning merchandise inventory on January 1 was \$33,300.

Ending merchandise inventory on December 31 was \$35,000.

Purchases during the year were \$92,300.

Selling and administrative expenses were \$75,900.

Sales for year were \$262,700.

What was operating income for the year?

A) \$90,600

B) \$96,200

C) \$94,500

D) \$92,800

Answer: B

Explanation: B) Calculations:  $\$92,300 + \$33,300 = \$125,600 - \$35,000 = \$90,600$ . Next  $\$262,700 - \$90,600 = \$172,100 - \$75,900 = \$96,200$

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

47) Porches, Inc. sells lawn furniture to consumers in the marketplace. The managerial accountant reported the following financial information that reflects the 20XX data:

Beginning merchandise inventory on January 1: \$233,900

Ending merchandise inventory on December 31: \$136,000

Purchases: \$952,100

Selling and administrative expenses: \$175,700

Sales revenue for the year: \$2,262,300

Cost of goods sold: \$1,050,000

Salary and wage expenses: \$250,900

Rent and utility expenses: \$75,800

Compute the operating income.

A) 709,900

B) \$124,200

C) \$184,400

D) \$84,500

Answer: A

Explanation: A) Calculations:

Gross Profit:  $\$2,262,300 - \$1,050,000 = \$1,212,300$

Less Operating Expenses:  $\$1,212,300 - \$250,900 - \$75,800 - \$175,700 = \$709,900$  Operating Income

Diff: 2

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

|                                     |        |
|-------------------------------------|--------|
| Sales revenue                       | \$4300 |
| Purchases of direct materials       | \$500  |
| Direct labor                        | \$460  |
| Manufacturing overhead              | \$710  |
| Operating expenses                  | \$690  |
| Beginning raw materials inventory   | \$220  |
| Ending raw materials inventory      | \$200  |
| Beginning work in process inventory | \$390  |
| Ending work in process inventory    | \$420  |
| Beginning finished goods inventory  | \$280  |
| Ending finished goods inventory     | \$250  |

What was the cost of direct materials used?

- A) \$720
- B) \$420
- C) \$520
- D) \$500

Answer: C

Explanation: C) Calculations:  $\$220 + \$500 = \$720 - \$200 = 520$

Diff: 2

LO: 2-5

EOC: E2-24A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.



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

|                                     |        |
|-------------------------------------|--------|
| Sales revenue                       | \$5000 |
| Purchases of direct materials       | \$480  |
| Direct labor                        | \$520  |
| Manufacturing overhead              | \$670  |
| Operating expenses                  | \$720  |
| Beginning raw materials inventory   | \$290  |
| Ending raw materials inventory      | \$200  |
| Beginning work in process inventory | \$380  |
| Ending work in process inventory    | \$460  |
| Beginning finished goods inventory  | \$270  |
| Ending finished goods inventory     | \$250  |

What was the cost of goods manufactured?

- A) \$1840
- B) \$1590
- C) 1680
- D) \$1760

Answer: C

Explanation: C) Calculations:  $\$290 + \$480 - \$200 = \$570$  Direct Materials Used

$\$380 + \$570 + \$520 + \$670 = \$2140 - \$460 = \$1680$

Diff: 3

LO: 2-5

EOC: E2-24A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

|                                     |        |
|-------------------------------------|--------|
| Sales revenue                       | \$4500 |
| Purchases of direct materials       | \$490  |
| Direct labor                        | \$520  |
| Manufacturing overhead              | \$630  |
| Operating expenses                  | \$740  |
| Beginning raw materials inventory   | \$240  |
| Ending raw materials inventory      | \$200  |
| Beginning work in process inventory | \$330  |
| Ending work in process inventory    | \$470  |
| Beginning finished goods inventory  | \$270  |
| Ending finished goods inventory     | \$280  |

What was cost of goods sold?

- A) \$1530
- B) \$1550
- C) \$1700
- D) \$950

Answer: A

Explanation: A) Calculations

Cost of Goods Manufactured:  $\$330 + \$520 + \$630 + \$530 = \$2010 - \$470 = \$1540$

Cost of Goods Sold  $\$270 + \$1540 = \$1810 - \$280 = \$1530$

Diff: 3

LO: 2-5

EOC: E2-24A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

|                                     |        |
|-------------------------------------|--------|
| Sales revenue                       | \$4700 |
| Purchases of direct materials       | \$440  |
| Direct labor                        | \$520  |
| Manufacturing overhead              | \$640  |
| Operating expenses                  | \$730  |
| Beginning raw materials inventory   | \$280  |
| Ending raw materials inventory      | \$230  |
| Beginning work in process inventory | \$320  |
| Ending work in process inventory    | \$430  |
| Beginning finished goods inventory  | \$330  |
| Ending finished goods inventory     | \$260  |

What was operating income?

- A) \$2730
- B) \$4700
- C) \$3970
- D) \$2360

Answer: D

Explanation: D) Calculations:  $\$4700 - \$1610 = \$3090 - \$730 = \$2360$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

52) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

|                                     |        |
|-------------------------------------|--------|
| Beginning raw materials inventory   | \$390  |
| Ending raw materials inventory      | \$210  |
| Direct labor                        | \$270  |
| Operating expenses                  | \$730  |
| Purchases of direct materials       | \$350  |
| Beginning work in process inventory | \$400  |
| Ending work in process inventory    | \$620  |
| Sales revenue                       | \$4600 |
| Manufacturing overhead              | \$780  |
| Beginning finished goods inventory  | \$330  |
| Ending finished goods inventory     | \$300  |

What was the cost of direct materials used?

- A) \$740
- B) \$530
- C) \$180
- D) \$350

Answer: B

Explanation: B) Calculations:  $\$390 + \$350 = \$740 - \$210 = \$530$

Diff: 2

LO: 2-5

EOC: E2-24A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

53) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

|                                     |        |
|-------------------------------------|--------|
| Beginning raw materials inventory   | \$320  |
| Ending raw materials inventory      | \$230  |
| Direct labor                        | \$260  |
| Operating expenses                  | \$710  |
| Purchases of direct materials       | \$360  |
| Beginning work in process inventory | \$320  |
| Ending work in process inventory    | \$670  |
| Sales revenue                       | \$5000 |
| Manufacturing overhead              | \$790  |
| Beginning finished goods inventory  | \$350  |
| Ending finished goods inventory     | \$350  |

What was cost of goods manufactured?

- A) \$1480
- B) \$1110
- C) \$2000
- D) \$1150

Answer: D

Explanation: D) Calculations:  $\$320 + 360 - 230 = \$450 + 320 + 260 + 790 - 670 = \$1150$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

54) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

|                                     |        |
|-------------------------------------|--------|
| Beginning raw materials inventory   | \$300  |
| Ending raw materials inventory      | \$200  |
| Direct labor                        | \$250  |
| Operating expenses                  | \$740  |
| Purchases of direct materials       | \$400  |
| Beginning work in process inventory | \$330  |
| Ending work in process inventory    | \$610  |
| Sales revenue                       | \$4500 |
| Manufacturing overhead              | \$750  |
| Beginning finished goods inventory  | \$350  |
| Ending finished goods inventory     | \$280  |

What was cost of goods sold?

- A) \$1080
- B) \$1290
- C) \$750
- D) \$1280

Answer: B

Explanation: B) Calculations:

Direct Materials:  $300 + \$400 = \$700 - \$200 = \$500$

COGM:  $\$330 + \$250 + \$500 + \$750 = \$1830 - \$610 = \$1220$

COGS:  $\$350 + \$1220 = \$1570 - \$280 = \$1290$

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

55) Selected financial information for Greek Food Producers is presented in the following table (000s omitted).

|                                     |        |
|-------------------------------------|--------|
| Beginning raw materials inventory   | \$390  |
| Ending raw materials inventory      | \$240  |
| Direct labor                        | \$300  |
| Operating expenses                  | \$720  |
| Purchases of direct materials       | \$350  |
| Beginning work in process inventory | \$400  |
| Ending work in process inventory    | \$600  |
| Sales revenue                       | \$4600 |
| Manufacturing overhead              | \$740  |
| Beginning finished goods inventory  | \$330  |
| Ending finished goods inventory     | \$320  |

What was operating income?

- A) \$3970
- B) \$4600
- C) \$3070
- D) \$2530

Answer: D

Explanation: D) Calculations:  $\$4600 - 1350 = 3250 - 720 = \$2530$

Diff: 3

LO: 2-5

EOC: E2-26A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

|                                     |       |
|-------------------------------------|-------|
| Beginning work in process inventory | \$340 |
| Cost of goods manufactured          | \$660 |
| Direct materials used               | \$220 |
| Direct labor                        | \$140 |
| Ending work in process inventory    | \$140 |

What was manufacturing overhead for the quarter?

A) \$520

B) \$100

C) \$860

D) \$140

Answer: B

Explanation: B) Calculations:  $\$660 + 140 = \$800 - 340 - 140 - 220 = \$100$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

|                                     |        |
|-------------------------------------|--------|
| Direct labor                        | \$580  |
| Beginning work in process inventory | \$320  |
| Ending work in process inventory    | \$340  |
| Cost of goods manufactured          | \$1560 |
| Manufacturing overhead              | \$870  |

What was the cost of direct materials used for the quarter?

A) \$130

B) \$530

C) \$1540

D) \$870

Answer: A

Explanation: A) Calculations:  $\$1560 + 340 - 320 = 1580 - 580 - 870 = \$130$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.



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

|                                 |        |
|---------------------------------|--------|
| Operating expenses              | \$650  |
| Gross profit                    | \$2420 |
| Sales revenue                   | \$3070 |
| Ending finished goods inventory | \$290  |
| Cost of goods manufactured      | \$1650 |

What was cost of goods sold?

- A) \$1290
- B) \$650
- C) \$1000
- D) \$770

Answer: B

Explanation: B) Calculations:  $\$3070 - 2420 = \$650$

Diff: 2

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

|                                 |        |
|---------------------------------|--------|
| Operating expenses              | \$770  |
| Gross profit                    | \$2430 |
| Sales revenue                   | \$4070 |
| Ending finished goods inventory | \$320  |
| Cost of goods manufactured      | \$1220 |

What was the beginning finished goods inventory?

- A) \$2080
- B) \$450
- C) \$740
- D) \$770

Answer: C

Explanation: C) Calculations:  $\$4070 - 2430 = 1640 + 320 = 1960 - 1220 = \$740$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

|                                   |        |
|-----------------------------------|--------|
| Sales revenue                     | \$4050 |
| Beginning raw materials inventory | \$290  |
| Direct materials used             | \$470  |
| Purchases of direct materials     | \$420  |
| Direct labor                      | \$460  |
| Manufacturing overhead            | \$650  |

What was the ending raw materials inventory?

- A) \$470
- B) \$780
- C) \$240
- D) \$890

Answer: C

Explanation: C) Calculations:  $\$290 + 420 = 710 - 470 = \$240$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

|                                     |       |
|-------------------------------------|-------|
| Ending work in process inventory    | \$710 |
| Cost of goods manufactured          | \$800 |
| Direct labor                        | \$500 |
| Direct materials used               | \$190 |
| Beginning work in process inventory | \$310 |

What was manufacturing overhead for the quarter?

- A) \$110
- B) \$400
- C) \$690
- D) \$510

Answer: D

Explanation: D) Calculations:  $\$800 + 710 = 1510 - 310 - 500 - 190 = \$510$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

|                                     |        |
|-------------------------------------|--------|
| Ending work in process inventory    | \$480  |
| Manufacturing overhead              | \$910  |
| Cost of goods manufactured          | \$1400 |
| Beginning work in process inventory | \$330  |
| Direct labor                        | \$560  |

What was the cost of direct materials used for the quarter?

- A) \$1060
- B) \$1250
- C) \$580
- D) \$80

Answer: D

Explanation: D) Calculations:  $\$1400 + 480 - 330 = 1550 - 560 - 910 = \$80$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

|                                 |        |
|---------------------------------|--------|
| Cost of goods manufactured      | \$1610 |
| Gross profit                    | \$3010 |
| Operating expenses              | \$520  |
| Ending finished goods inventory | \$430  |
| Sales revenue                   | \$4080 |

What was cost of goods sold?

- A) \$1090
- B) \$1950
- C) \$2560
- D) \$1070

Answer: D

Explanation: D) Calculations:  $\$4080 - 3010 = \$1070$

Diff: 2

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

|                                 |        |
|---------------------------------|--------|
| Cost of goods manufactured      | \$1590 |
| Gross profit                    | \$2630 |
| Operating expenses              | \$4050 |
| Ending finished goods inventory | \$480  |
| Sales revenue                   | \$6080 |

What was the beginning finished goods inventory?

- A) \$2340
- B) \$440
- C) \$560
- D) \$2460

Answer: A

Explanation: A) Calculations:  $\$6080 - 2630 = \$3450 + 480 = 3930 - 1590 = \$2340$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

|                                   |        |
|-----------------------------------|--------|
| Purchases of direct materials     | \$310  |
| Sales revenue                     | \$3600 |
| Manufacturing overhead            | \$520  |
| Direct materials used             | \$450  |
| Direct labor                      | \$290  |
| Beginning raw materials inventory | \$190  |

What was the ending raw materials inventory?

- A) \$760
- B) \$450
- C) \$50
- D) \$330

Answer: C

Explanation: C) Calculations:  $\$190 + 310 = 500 - 450 = \$50$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

- 66) Gross profit is calculated by
- A) subtracting cost of goods sold from sales.
  - B) adding sales to operating expenses.
  - C) subtracting operating expenses from sales.
  - D) adding profit to sales.

Answer: A

Diff: 1

LO: 2-5

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

- 67) Sales minus cost of goods sold equals gross profit.

Answer: TRUE

Diff: 1

LO: 2-5

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

- 68) Cost of goods manufactured reflects
- A) goods sold during the period.
  - B) goods completed during the period.
  - C) goods still in the factory at the end of the period.
  - D) goods not yet started at the end of the period.

Answer: B

Diff: 2

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

- 69) Direct materials used reflects

- A) materials used to package the finished product for distribution/shipping to the customers.
- B) all materials used throughout the company including but not limited to office materials, shipping materials, all raw materials, etc.
- C) materials directly traced to the finished product that are requisitioned into the factory to be used in production.
- D) materials acquired for use in production but that have not been requisitioned by the production supervisor yet.

Answer: C

Diff: 2

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

70) Direct materials used is the same thing as raw materials.

Answer: FALSE

Diff: 1

LO: 2-5

AACSB: Reflective thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

71) Zoolander Inc. manufacturers high end fashion accessories and has provided the following data for the latest quarter ended March 31st:

|                                         |           |
|-----------------------------------------|-----------|
| Beginning Inventory for Raw Materials   | \$60,000  |
| Ending Inventory for Raw Materials      | \$44,600  |
| Beginning Inventory for Work in Process | \$83,000  |
| Ending Inventory for Work in Process    | \$92,000  |
| Beginning Inventory for Finished Goods  | \$45,000  |
| Ending Inventory for Finished Goods     | \$51,000  |
| Purchases of Raw Materials              | \$40,000  |
| Wages paid to assembly line workers     | \$115,000 |
| Wages paid to factory supervisor        | \$25,000  |
| Property insurance paid on factory      | \$4,500   |
| Utilities for the factory               | \$9,000   |
| Indirect materials used in production   | \$3,000   |
| Sales Revenue                           | \$525,000 |
| General & Administrative Expenses       | \$135,000 |

Calculate direct materials used for Zoolander Inc.'s first quarter.

A) \$55,400

B) \$40,000

C) \$24,600

D) \$31,000

Answer: A

Explanation: A) Beg Inv. RM \$60,000 + Purchases \$40,000 - End Inv. RM \$44,600 = DM Used \$55,400

Diff: 3

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

72) Zoolander Inc. manufacturers high end fashion accessories and has provided the following data for the latest quarter ended March 31st:

|                                         |           |
|-----------------------------------------|-----------|
| Beginning Inventory for Raw Materials   | \$60,000  |
| Ending Inventory for Raw Materials      | \$44,600  |
| Beginning Inventory for Work in Process | \$83,000  |
| Ending Inventory for Work in Process    | \$92,000  |
| Beginning Inventory for Finished Goods  | \$45,000  |
| Ending Inventory for Finished Goods     | \$51,000  |
| Purchases of Raw Materials              | \$40,000  |
| Wages paid to assembly line workers     | \$115,000 |
| Wages paid to factory supervisor        | \$25,000  |
| Property insurance paid on factory      | \$4,500   |
| Utilities for the factory               | \$9,000   |
| Indirect materials used in production   | \$3,000   |
| Sales Revenue                           | \$525,000 |
| General & Administrative Expenses       | \$135,000 |

Calculate cost of goods manufactured for Zoolander Inc.'s first quarter.

A) \$199,900

B) \$202,900

C) \$187,500

D) \$197,000

Answer: B

Explanation: B) Beg Inv. RM \$60,000 + Purchases \$40,000 - End Inv. RM \$44,600 = DM Used \$55,400

Beg. Inv. WIP \$83,000 + DM Used \$55,400 + DL \$115,000 + MOH (\$25,000 + \$4,500 + \$9,000 + \$3,000) - End.

Inv. WIP \$92,000 = \$202,900 CGM

Diff: 3

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

73) Zoolander Inc. manufacturers high end fashion accessories and has provided the following data for the latest quarter ended March 31st:

|                                         |           |
|-----------------------------------------|-----------|
| Beginning Inventory for Raw Materials   | \$60,000  |
| Ending Inventory for Raw Materials      | \$44,600  |
| Beginning Inventory for Work in Process | \$83,000  |
| Ending Inventory for Work in Process    | \$92,000  |
| Beginning Inventory for Finished Goods  | \$45,000  |
| Ending Inventory for Finished Goods     | \$51,000  |
| Purchases of Raw Materials              | \$40,000  |
| Wags paid to assembly line workers      | \$115,000 |
| Wages paid to factory supervisor        | \$25,000  |
| Property insurance paid on factory      | \$4,500   |
| Utilities for the factory               | \$9,000   |
| Indirect materials used in production   | \$3,000   |
| Sales Revenue                           | \$525,000 |
| General & Administrative Expenses       | \$135,000 |

Calculate cost of goods sold for Zoolander Inc.'s first quarter.

- A) \$181,500
- B) \$196,900
- C) \$187,500
- D) \$193,000

Answer: B

Explanation: B) Beg Inv. RM \$60,000 + Purchases \$40,000 - End Inv. RM \$44,600 = DM Used \$55,400

Beg. Inv. WIP \$83,000 + DM Used \$55,400 + DL \$115,000 + MOH (\$25,000 + \$4,500 + \$9,000 + \$3,000) - End. Inv. WIP \$92,000 = \$202,900 CGM

Beg. Inv. FG \$45,000 + CGM \$202,900 - End. Inv. FG \$51,000 = CGS \$196,900

Diff: 3

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.



74) Zoolander Inc. manufacturers high end fashion accessories and has provided the following data for the latest quarter ended March 31st:

|                                       |           |
|---------------------------------------|-----------|
| Cost of Goods Manufactured            | \$197,300 |
| Cost of Goods Sold                    | \$163,750 |
| Property insurance paid on factory    | \$4,500   |
| Utilities for the factory             | \$9,000   |
| Indirect materials used in production | \$3,000   |
| Sales Revenue                         | \$650,000 |
| Operating Expenses                    | \$205,000 |

Calculate gross profit for Zoolander Inc.'s first quarter.

- A) \$281,250
- B) \$445,000
- C) \$452,700
- D) \$486,250

Answer: D

Explanation: D) Sales Revenue \$650,000 - CGS \$163,750 = GP \$486,250

Diff: 2

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

75) Zoolander Inc. manufacturers high end fashion accessories and has provided the following data for the latest quarter ended March 31st:

|                                       |           |
|---------------------------------------|-----------|
| Cost of Goods Manufactured            | \$197,300 |
| Cost of Goods Sold                    | \$163,750 |
| Property insurance paid on factory    | \$4,500   |
| Utilities for the factory             | \$9,000   |
| Indirect materials used in production | \$3,000   |
| Sales Revenue                         | \$650,000 |
| Operating Expenses                    | \$205,000 |

Calculate operating income for Zoolander Inc.'s first quarter.

- A) \$281,250
- B) \$445,000
- C) \$452,700
- D) \$486,250

Answer: A

Explanation: A) Sales Revenue \$650,000 - CGS \$163,750 = GP \$486,250 - Operating Expenses \$205,000 = \$281,250

Diff: 3

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

76) The main difference between the current assets on the balance sheet of a service company and a manufacturer is that a manufacturer has

- A) inventory and a service company does not.
- B) cost of goods sold and a service company does not.
- C) accounts receivable and a service company does not.
- D) accounts payable and a service company does not.

Answer: A

Diff: 1

LO: 2-5

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

77) Use the appropriate letter(s) to indicate if the following costs would be found on the income statement of a

- A. service company.
- B. merchandising company.
- C. manufacturing company.

You may use more than one letter for each answer.

|       |                            |
|-------|----------------------------|
| _____ | Revenue                    |
| _____ | Salaries expense           |
| _____ | Customer service expense   |
| _____ | Cost of goods manufactured |
| _____ | Cost of goods sold         |

Answer:

|         |                            |
|---------|----------------------------|
| A, B, C | Revenue                    |
| A, B, C | Salaries expense           |
| A, B, C | Customer service expense   |
| C       | Cost of goods manufactured |
| B, C    | Cost of goods sold         |

Diff: 2

LO: 2-5

EOC: E2-22A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

78) Compute the missing amounts.

|                                     | Miami Company | Orlando Company |
|-------------------------------------|---------------|-----------------|
| Sales                               | \$300,000     | (D)             |
| Cost of Goods Sold                  |               |                 |
| Beginning Inventory                 | (A)           | 65,000          |
| Purchases and Freight-In            | 119,000       | (E)             |
| Cost of goods available for sale    | (B)           | 192,000         |
| Ending inventory                    | 5,000         | 3,000           |
| Cost of goods sold                  | 115,000       | (F)             |
| Gross Margin                        | 185,000       | 124,000         |
| Selling and Administrative Expenses | (C)           | 90,000          |
| Operating Income                    | 32,000        | (G)             |

Answer:

(A)  $120,000 - 119,000 = 1,000$

(B)  $115,000 + 5,000 = 120,000$

(C)  $185,000 - 32,000 = 153,000$

(D)  $124,000 + 189,000 = 313,000$

(E)  $192,000 - 65,000 = 127,000$

(F)  $192,000 - 3,000 = 189,000$

(G)  $124,000 - 90,000 = 34,000$

Diff: 3

LO: 2-5

EOC: E2-27A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

|                                  |          |
|----------------------------------|----------|
| Merchandise inventory, beginning | \$12,000 |
| Merchandise inventory, ending    | 6,000    |
| Purchases                        | 97,000   |
| Operating expenses               | 62,000   |
| Sales revenue                    | 195,000  |

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

Answer:

| Kitch Company                       |           |            |  |
|-------------------------------------|-----------|------------|--|
| Income Statement                    |           |            |  |
| Year Ended December 31              |           |            |  |
|                                     |           |            |  |
| Sales revenue                       |           | \$ 195,000 |  |
| Cost of good sold:                  |           |            |  |
| Beginning inventory                 | \$ 12,000 |            |  |
| Purchases                           | 97,000    |            |  |
| Cost of goods available for sale    | 109,000   |            |  |
| Ending inventory                    | 6,000     |            |  |
| Cost of good sold:                  |           | 103,000    |  |
| Gross profit                        |           | \$ 92,000  |  |
| Selling and administrative expenses |           | 62,000     |  |
| Operating income                    |           | \$ 30,000  |  |

Diff: 3

LO: 2-5

EOC: E2-23A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

|                          |         |
|--------------------------|---------|
| Utilities for store      | 7,000   |
| Rent for store           | 6,500   |
| Sales commissions        | 2,500   |
| Purchases of merchandise | 65,000  |
| Inventory, ending        | 21,500  |
| Inventory, beginning     | 28,000  |
| Sales revenue            | 120,000 |

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

Answer:

| Swirzoff Company                 |           |            |
|----------------------------------|-----------|------------|
| Income Statement                 |           |            |
| Year Ended December 31           |           |            |
| Sales revenue                    |           | \$ 120,000 |
| Cost of goods sold:              |           |            |
| Beginning inventory              | \$ 28,000 |            |
| Purchases of merchandise         | 65,000    |            |
| Cost of goods available for sale | 93,000    |            |
| Ending inventory                 | 21,500    |            |
| Cost of goods sold:              |           | 71,500     |
| Gross profit                     |           | \$ 48,500  |
| Operating expenses:              |           |            |
| Utilities expense                | \$ 7,000  |            |
| Rent expense                     | 6,500     |            |
| Sales commissions expense        | 2,500     | 16,000     |
| Operating income                 |           | \$ 32,500  |

Diff: 3

LO: 2-5

EOC: E2-23A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

81) North Pacific Company used \$65,000 of direct materials and incurred \$43,000 of direct labor costs during the most recent year. Indirect labor amounted to \$1,700 while indirect materials used totaled \$1,800. Other operating costs pertaining to the factory included utilities of \$4,300; maintenance of \$6,800; supplies of \$1,500; depreciation expense of \$8,900; and property taxes of \$2,400. There was no beginning or ending finished goods inventory, but work in process inventory began the year with a \$6,400 balance and ended the year with a \$7,800 balance.

Required: Prepare a schedule of cost of goods manufactured for North Pacific Company for the year ended December 31.

Answer:

| North Pacific Company                              |          |           |                  |
|----------------------------------------------------|----------|-----------|------------------|
| Schedule of Cost of Goods Manufactured             |          |           |                  |
| Year Ended December 31                             |          |           |                  |
| Beginning work in process inventory                |          |           | \$ 6,400         |
| Add:                                               |          |           |                  |
| Direct materials used                              |          | \$ 65,000 |                  |
| Direct labor                                       |          | 43,000    |                  |
| Manufacturing overhead:                            |          |           |                  |
| Indirect labor                                     | \$ 1,700 |           |                  |
| Indirect materials                                 | 1,800    |           |                  |
| Utilities                                          | 4,300    |           |                  |
| Maintenance                                        | 6,800    |           |                  |
| Supplies                                           | 1,500    |           |                  |
| Depreciation expense                               | 8,900    |           |                  |
| Property taxes                                     | 2,400    | 27,400    |                  |
| Total manufacturing costs incurred during the year |          |           | 135,400          |
| Total manufacturing costs to account for           |          |           | 141,800          |
| Less: Ending work in process inventory             |          |           | (7,800)          |
| Cost of goods manufactured                         |          |           | <u>\$134,000</u> |

Diff: 3

LO: 2-5

EOC: E2-25A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

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

|                                        |          |                                  |          |
|----------------------------------------|----------|----------------------------------|----------|
| Raw materials inventory – beg. of year | \$52,000 | Depreciation – plant & equipment | \$28,000 |
| Raw materials inventory – end of year  | 46,000   | Repairs and maintenance – plant  | 4,000    |
| Work in process inv. – beg. of year    | 110,000  | Insurance on plant               | 12,000   |
| Work in process inv. – end of year     | 85,000   | General and administration exp.  | 29,000   |
| Finished goods inv. – beg. of year     | 26,000   | Indirect labor                   | 27,000   |
| Finished goods inv. – end of year      | 54,000   | Direct labor                     | 178,000  |
| Purchase of direct materials           | 37,000   | Marketing expenses               | 62,000   |

Answer:

| Excellent Manufacturing Company                    |          |          |           |
|----------------------------------------------------|----------|----------|-----------|
| Schedule of Cost of Goods Manufactured             |          |          |           |
| Beginning work in process inventory                |          |          | \$110,000 |
| Add: Direct Materials Used                         |          |          |           |
| Beginning raw materials inventory                  | \$52,000 |          |           |
| Purchase of direct materials                       | 37,000   |          |           |
| Available for use                                  | 89,000   |          |           |
| Ending raw materials inventory                     | (46,000) | \$43,000 |           |
| Direct Labor                                       |          | 178,000  |           |
| Manufacturing overhead:                            |          |          |           |
| Indirect labor                                     | 27,000   |          |           |
| Insurance on plant                                 | 12,000   |          |           |
| Depreciation – plant & equipment                   | 28,000   |          |           |
| Repairs and maintenance - plant                    | 4,000    | 71,000   |           |
| Total manufacturing costs incurred during the year |          |          | 292,000   |
| Total manufacturing costs to account for           |          |          | 402,000   |
| Less: Ending work in process inventory             |          |          | (85,000)  |
| Cost of goods manufactured                         |          |          | 317,000   |

| Excellent Manufacturing Company              |            |
|----------------------------------------------|------------|
| Schedule of Cost of Goods Sold               |            |
| Beginning finished goods inventory           | \$ 26,000  |
| Cost of goods manufactured*                  | 317,000    |
| Cost of goods available for sale             | 343,000    |
| Ending finished goods inventory              | (54,000)   |
| Cost of good sold                            | \$ 289,000 |
|                                              |            |
|                                              |            |
| *From schedule of cost of goods manufactured |            |
|                                              |            |

Diff: 3

LO: 2-5

EOC: E2-24A

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

83) Lighthouse Merchandise Group is a global operation that sells lighthouse merchandise to consumers and groups in the marketplace. The managerial accountant reported the following information:

| Lighthouse Merchandise Group     |           |             |
|----------------------------------|-----------|-------------|
| Income Statement                 |           |             |
| Month Ended October 31, 20XX     |           |             |
| Sales Revenue                    |           | \$1,000,000 |
| Cost of goods sold:              |           |             |
| Beginning inventory              | \$25,000  |             |
| Purchases and freight-In         | \$250,000 |             |
| Cost of goods available for sale | ?         |             |
| Ending inventory                 | (75,000)  |             |
| Cost of goods sold               | ?         |             |

Compute the cost of goods available for sale at Lighthouse Merchandise Group. What is the cost of goods sold?

Answer: To compute the cost of goods available for sale:  $\$25,000 + \$250,000 = \$275,000$

Cost of Goods Sold:  $\$275,000 - \$75,000 = \$200,000$

Diff: 2

LO: 2-5

EOC: S-10

AACSB: Analytical thinking

Learning Outcome: Define basic managerial accounting concepts and prepare an income statement for different types of organizations.

## 2.6 Describe costs that are relevant and irrelevant for decision making

1) Over the long-term, all costs are uncontrollable.

Answer: FALSE

Diff: 1

LO: 2-6

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

2) Differential cost is the difference in cost between two alternatives.

Answer: TRUE

Diff: 1

LO: 2-6

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

3) Decision making is guided only by differential costs.

Answer: FALSE

Diff: 2

LO: 2-6

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.



4) Irrelevant factors should not be considered when making decisions.

Answer: TRUE

Diff: 1

LO: 2-6

EOC: S2-14

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

5) You are trying to decide whether or not to sell back your accounting textbook at the end of the class. The cost you paid for the book is not relevant to your decision.

Answer: TRUE

Diff: 2

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

6) Sunk costs are irrelevant to the decision making process.

Answer: TRUE

Diff: 1

LO: 2-6

EOC: S2-14

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

7) Costs that remain the same among alternatives are

A) sunk costs.

B) irrelevant costs.

C) controllable costs.

D) uncontrollable costs.

Answer: B

Diff: 1

LO: 2-6

EOC: S2-14

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

8) Which of the following types of information differs between alternatives and can affect the future?

A) Historical

B) Irrelevant

C) Relevant

D) Predictable

Answer: C

Diff: 1

LO: 2-6

EOC: S2-14

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

9) Which of the following represents a sunk cost?

- A) A historical cost that is always relevant
- B) A historical cost that is never relevant
- C) An outlay expected to be incurred in the future
- D) A cost that is relevant to any decision

Answer: B

Diff: 2

LO: 2-6

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

10) Subtracting the costs of one alternative from the costs of the other alternative would be called the \_\_\_\_\_ cost.

- A) sunk
- B) imported
- C) alternative
- D) differential

Answer: D

Diff: 2

LO: 2-6

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

11) When deciding to buy a new computer, all of the following should be considered **except** for the

- A) cost of the new computer.
- B) cost of the old computer.
- C) games that come with the new computer.
- D) warranty on the new computer.

Answer: B

Diff: 2

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

12) When making a decision to buy a new computer, all of the following should be considered **except**

- A) differential costs.
- B) relevant costs.
- C) qualitative characteristics.
- D) sunk costs.

Answer: D

Diff: 2

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

13) A company is deciding whether to purchase production equipment that can produce units more quickly than the current equipment. Which of the following costs would be relevant to its decision?

- A) The cost of the new equipment
- B) The salary of the factory manager
- C) The cost of raw materials
- D) The original purchase price of the current machinery

Answer: A

Diff: 1

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

14) A company is deciding whether to purchase production equipment that can produce units more quickly than the current equipment. Which of the following costs would be relevant to its decision?

- A) The original purchase price of the current machinery
- B) The additional labor required to run the new equipment
- C) The accumulative repairs costs of the current machinery over the years
- D) The cost of raw materials

Answer: B

Diff: 1

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

15) A restaurant is facing a decision about whether it should bake its own apple pies or whether it should continue to purchase the pies from a local bakery. Which of the following costs would be relevant to its decision?

- A) The salary of the restaurant manager
- B) The price the restaurant sells the apple pies for
- C) The purchase price of the apple pies purchased from the local bakery
- D) The original purchase price of the current machinery

Answer: C

Diff: 1

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

16) A company is deciding whether to purchase hybrid cars for its salespeople or gasoline-engine cars. All of the following costs would be relevant to its decision **except**

- A) the total estimated cost of gas to be used by each vehicle.
- B) the purchase price of the hybrid model.
- C) the book value of the current fleet of sales vehicles.
- D) the purchase price of the gasoline-engine model.

Answer: C

Diff: 1

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

17) An example of a controllable cost is

- A) property taxes.
- B) advertising.
- C) depreciation on headquarters building.
- D) property insurance.

Answer: B

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

18) An example of an uncontrollable cost is

- A) property taxes.
- B) property insurance.
- C) depreciation on factory equipment.
- D) all of the above.

Answer: D

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

19) Controllable costs are those costs that the management has immediate control over such as depreciation on factory equipment.

Answer: FALSE

Diff: 2

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

20) Controllable costs include all the following except

- A) employee development.
- B) research and development.
- C) real estate taxes of the corporate headquarters building.
- D) advertising.

Answer: C

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

21) A relevant cost in determining whether to take the train to Phoenix or fly to Phoenix would be

- A) the cost of a housesitter for your pets.
- B) the cost of the plane ticket.
- C) the cost of the hotel room in Phoenix.
- D) the cost of the rental car in Phoenix.

Answer: B

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

22) A \_\_\_\_\_ cost is always irrelevant.

- A) conversion
- B) differential
- C) sunk
- D) manufacturing

Answer: C

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

23) An example of a sunk cost is

- A) the purchase price of new equipment being considered for purchase.
- B) maintenance costs of new equipment.
- C) the cost of installation of the new equipment.
- D) the purchase price of the old equipment.

Answer: D

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

24) Chilton Corporation is analyzing its controllable costs to see where it can save money. Which of the following costs should it ignore during this analysis?

- A) employee development
- B) factory property insurance
- C) employee bonuses
- D) advertising

Answer: B

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

25) Stallard Corporation is analyzing its controllable costs to see where it can save money in the coming year. All of the following costs except \_\_\_\_\_ should be analyzed.

- A) factory real estate taxes
- B) charitable contributions
- C) paid internship program
- D) employee raises

Answer: A

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

26) Factory property taxes, factory property insurance, and depreciation on current equipment are all examples of uncontrollable costs.

Answer: TRUE

Diff: 1

LO: 2-6

AACSB: Reflective thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

27) Label each item below as relevant or irrelevant in making a decision.

- A. \_\_\_\_\_ cost of insurance on a new vehicle when evaluating purchase of new vehicle
- B. \_\_\_\_\_ cost of roof repair made on rental property last year when evaluating sale of rental property
- C. \_\_\_\_\_ original cost of old equipment that is being evaluated for replacement
- D. \_\_\_\_\_ cost of new equipment that is under evaluation to replace used equipment
- E. \_\_\_\_\_ accumulated depreciation on old equipment being evaluated for replacement
- F. \_\_\_\_\_ cost of previous year's insurance policy on old equipment being evaluated for replacement

Answer:

- A. relevant
- B. irrelevant
- C. irrelevant
- D. relevant
- E. irrelevant
- F. irrelevant

Diff: 2

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

28) Differentiate between relevant and irrelevant costs and give an example using both.

Answer: When making a decision, those costs that differ between alternatives are relevant costs. Costs that do not differ between alternatives are irrelevant. For example, when deciding to buy a new car, the cost of the cars under consideration is relevant as is the insurance cost for each car. If they both have the same fuel economy ratings, then the cost of gasoline is irrelevant to the decision.

Diff: 2

LO: 2-6

EOC: E2-28A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

29) On the line in front of each statement, enter the letter corresponding to the term that best fits that statement. You may use a letter more than once and some letters may not be used at all.

|    |                  |    |                   |
|----|------------------|----|-------------------|
| A. | Direct costs     | F. | Variable costs    |
| B. | Marginal cost    | G. | Indirect cost     |
| C. | Average cost     | H. | Sunk cost         |
| D. | Conversion costs | I. | Differential cost |
| E. | Prime costs      |    |                   |

- \_\_\_\_\_ The combination of direct materials and direct labor.
- \_\_\_\_\_ Costs that change in total in direct proportion to changes in volume.
- \_\_\_\_\_ A cost that relates to the cost object, but cannot be traced to it.
- \_\_\_\_\_ A cost that has already been incurred.

Answer: E, F, G, H

Diff: 2

LO: 2-6

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

30) Sally wants to purchase a new sofa because she purchased a new home at the beach. Sally visited two stores and she narrowed down her choices to a red sofa and a blue sofa. Sally owns pets so she considers the cost of insurance to insure each sofa. Sally compiled the following data and she realizes that the sales tax to purchase the sofa is 10% in her state.

|           | Red Sofa | Blue Sofa |
|-----------|----------|-----------|
| Price     | \$8,000  | \$8,400   |
| Insurance | \$950    | \$350     |

Which sofa should Sally purchase? What costs are relevant in her decision? Why?

Answer:

|                            | Red Sofa | Blue Sofa | Differential Cost |
|----------------------------|----------|-----------|-------------------|
| Price                      | \$8,000  | \$8,400   | (\$400)           |
| <b>Sales Tax (10%)</b>     | \$800    | \$840     | (\$40)            |
| <b>Insurance</b>           | \$950    | \$350     | \$600             |
| <b>Total Relevant Cost</b> | \$9,750  | \$9,590   | \$160             |

Which sofa should Sally purchase? Why?

Answer: Sally should purchase the blue sofa. The costs that are relevant in her decision include the price of the sofa, the taxes, and the cost of the insurance to insure the sofa. Although the cost and taxes associated with the blue sofa are higher, the cost to purchase insurance on the blue sofa is more cost effective compared to the red sofa.

Diff: 3

LO: 2-6

EOC: P2-45A

AACSB: Analytical thinking

Learning Outcome: Describe the basics of managerial accounting and its function within an organization.

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

1) Variable costs per unit decrease as production volume increases.

Answer: FALSE

Diff: 1

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

2) Fixed costs vary in total over a wide range of activity levels.

Answer: FALSE

Diff: 1

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.



3) All costs contain both a fixed and a variable portion.

Answer: FALSE

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

4) The total cost of a product equals the total fixed costs plus the total variable costs.

Answer: TRUE

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

5) A marginal cost is the cost of making one more unit of a product.

Answer: TRUE

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

6) To forecast total costs at a given level of production, management would use which of the following calculations?

A) Average cost  $\times$  total units predicted

B) Total fixed cost  $\times$  total units predicted

C) Total fixed cost + (variable cost per unit  $\times$  total units predicted)

D) Total fixed cost + variable cost per unit

Answer: C

Diff: 1

LO: 2-7

EOC: E2-29A

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

7) Average variable costs

A) remain the same as production decreases.

B) remain the same as production increases.

C) remain the same no matter if production increases or decreases.

D) go down as production decreases.

Answer: C

Diff: 1

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

8) What is the cost of making one more unit called?

- A) Unit cost
- B) Marginal cost
- C) Variable cost
- D) None of the above

Answer: B

Diff: 1

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

9) Plowin' Supply plans to make 15,000 tractors at its plant. Fixed costs are \$540,000 and variable costs are \$200 per tractor. What is the average cost per tractor?

- A) \$200
- B) \$2700
- C) \$236
- D) \$36

Answer: C

Explanation: C) Calculations:  $(\$540,000 + (\$200 \times 15,000))/15,000 = \$236$

Diff: 1

LO: 2-7

EOC: E2-47B

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

10) A(n) \_\_\_\_\_ cost is one whose total amount changes in direct proportion to a change in volume.

- A) fixed
- B) irrelevant
- C) variable
- D) mixed

Answer: C

Diff: 1

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

11) An example of a fixed cost for a manufacturer would be which of the following?

- A) Sales commissions
- B) Salary of plant manager
- C) Direct materials
- D) Delivery costs

Answer: B

Diff: 1

LO: 2-7

EOC: S2-16

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

12) Which of the following is an example of a fixed cost for a manufacturer?

- A) Income Taxes
- B) Machine Repair Expense
- C) Fire Insurance on buildings
- D) Delivery Fuel Expense

Answer: C

Diff: 1

LO: 2-7

EOC: S2-16

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

13) How do variable costs per unit behave?

- A) They decrease as production increases.
- B) They increase as production decreases.
- C) They decrease as production decreases.
- D) They remain the same throughout production levels within the relevant range.

Answer: D

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

14) How do total variable costs behave?

- A) They decrease as production decreases.
- B) They remain the same throughout production levels within the relevant range.
- C) They decrease as production increases.
- D) They increase as production decreases.

Answer: A

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

15) Which of the following describes the way in which total fixed costs behave?

- A) They will decrease as production increases.
- B) They will decrease as production decreases.
- C) They will remain the same throughout production levels within the relevant range.
- D) They will increase as production decreases.

Answer: C

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

16) How do fixed costs per unit behave?

- A) They remain the same throughout production levels within the relevant range.
- B) They decrease as production decreases.
- C) They increase as production decreases.
- D) They increase as production increases.

Answer: C

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

17) Variable costs

- A) are fixed per unit and vary in total as production levels change.
- B) are fixed in total as production levels change.
- C) decrease per unit as production volume increases.
- D) vary per unit of output as production levels change.

Answer: A

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

18) A company has monthly fixed costs of \$115,500. The variable costs are \$5.00 per unit. If the sales price of a unit is \$15.00 and we sell 7700 units, the company's average fixed costs per unit will be

- A) \$10.00 per unit.
- B) \$5.00 per unit.
- C) \$20.00 per unit.
- D) \$15.00 per unit.

Answer: D

Explanation: D) Calculations:  $115,500 / 7700 = 15$

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

19) A company has monthly fixed costs of \$96,000. The variable costs are \$8.00 per unit. If the sales price of a unit is \$14.00 and we sell 8000 units, the company's total variable costs will be

- A) \$96,000.
- B) \$64,000.
- C) \$112,000.
- D) \$48.

Answer: B

Explanation: B) Calculations:  $8000 \times \$8.00 = \$64,000$

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

20) A company has monthly fixed costs of \$96,000. The variable costs are \$8.00 per unit. If the sales price of a unit is \$14.00 and we sell 8000 units, the total sales revenue will be

- A) \$48.
- B) \$96,000.
- C) \$112,000.
- D) \$95,950.

Answer: C

Explanation: C) Calculations:  $\$14.00 \times 8000 = \$112,000$

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

21) London Plastics has monthly fixed costs of \$87,000, while its variable costs are \$4.60 per unit. If the sales price of a unit is \$14.00 and London Plastics sell 15,000 units, the company's average fixed costs per unit will be

- A) \$5.80 per unit.
- B) \$10.40 per unit.
- C) \$4.60 per unit.
- D) \$9.40 per unit.

Answer: A

Explanation: A) Calculations:  $87,000 / 15,000 = \$5.80$

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

22) London Plastics has monthly fixed costs of \$84,000, while its variable costs are \$4.70 per unit. If the sales price of a unit is \$15.50 and London Plastics sell 14,000 units, the company's total variable costs will be

- A) \$151,200.
- B) \$65,800.
- C) \$217,000.
- D) \$84,000.

Answer: B

Explanation: B) Calculations:  $\$4.70 \times 14,000 = \$65,800$

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

23) London Plastics has monthly fixed costs of \$92,500, while its variable costs are \$4.10 per unit. If the sales price of a unit is \$14.25 and London Plastics sell 14,800 units, the company's total sales revenue will be

- A) \$150,220.
- B) \$210,900.
- C) \$92,500.
- D) \$179,080.

Answer: B

Explanation: B) Calculations:  $14,800 \times \$14.25 = \$210,900$

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

24) A company has fixed costs of \$60,000 per month. If sales double from 6,000 to 12,000 units during the month, fixed costs in total will

- A) double.
- B) remain the same.
- C) be cut in half.
- D) be none of the above.

Answer: B

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

25) A company produces toy airplanes at a variable cost of \$24 per toy. If 7090 toys are produced at a total variable cost of \$170,160, the total variable cost at 4540 toys will be

- A) \$170,160.
- B) \$24.
- C) \$108,960.
- D) \$279,120.

Answer: C

Explanation: C) Calculations:  $\$24 \times 4540 = \$108,960$

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

26) Kramer Manufacturing produces blenders. Its total fixed costs are \$30,000. Its variable costs are \$55.00 per blender. As production of blenders increases (within the relevant range), fixed costs will

- A) stay the same per unit.
- B) decrease as production increases.
- C) decrease per unit as production increases.
- D) increase as production decreases.

Answer: C

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

27) A company's total costs are calculated by

- A) subtracting total fixed costs from total variable costs.
- B) subtracting total variable costs from total fixed costs.
- C) subtracting total fixed costs and total variable costs from sales.
- D) adding total fixed costs to total variable costs.

Answer: D

Diff: 1

LO: 2-7

EOC: E2-41B

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

28) Marginal cost is essentially variable cost because fixed costs do not change in total.

Answer: TRUE

Diff: 2

LO: 2-7

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

29) Harper Inc. has fixed costs of \$600,000 when it produces 300,000 units. Its total variable costs are \$150,000. When Harper Inc. produces 400,000 units which is within the relevant range, fixed costs will be

- A) \$600,000.
- B) \$800,000.
- C) \$200,000.
- D) \$225,000.

Answer: A

Explanation: A) fixed costs do not change in total

Diff: 2

LO: 2-7

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

30) Harper Inc. has fixed costs of \$600,000 when it produces 300,000 units. Its total variable costs are \$150,000. When Harper Inc. produces 400,000 units, its variable cost per unit will be

- A) \$2.00.
- B) \$0.38.
- C) \$2.50.
- D) \$0.50.

Answer: D

Explanation: D)  $\$150,000 / 300,000 \text{ units} = \$0.50 \text{ per unit}$

Diff: 2

LO: 2-7

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

31) Harper Inc. has fixed costs of \$600,000 when it produces 300,000 units. Its total variable costs are \$150,000. When Harper Inc. produces 400,000 units, its total variable cost per unit will be

- A) \$152,000.
- B) \$225,000.
- C) \$200,000.
- D) \$150,000.

Answer: C

Explanation: C)  $\$150,000 / 300,000 \text{ units} = \$0.50 \text{ per unit} \times 400,000 \text{ units} = \$200,000$

Diff: 2

LO: 2-7

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

32) How do fixed costs react in total and on a per unit basis?

- A) Fixed costs remain constant in total and decrease per unit as production increases.
- B) Fixed costs remain constant in total and on a per unit basis as production increases.
- C) Fixed costs increase in total as production increases and remain constant on a per unit basis.
- D) Fixed costs increase in total and on a per unit basis.

Answer: A

Diff: 2

LO: 2-7

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

33) Average cost can be used to calculate total cost at a new level of production.

Answer: FALSE

Diff: 1

LO: 2-7

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.



34) Which of the following costs would be considered variable?

- A) direct materials
- B) sales commission
- C) hourly wages of employees
- D) all of the above

Answer: D

Diff: 1

LO: 2-7

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

35) An example of a fixed cost would be

- A) rent.
- B) direct materials.
- C) hourly wages.
- D) sales commission.

Answer: A

Diff: 1

LO: 2-7

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

36) All of the following are considered fixed costs except

- A) property taxes.
- B) property insurance.
- C) tires used in production of cars.
- D) rent on the factory storage for finished goods.

Answer: C

Diff: 1

LO: 2-7

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

37) All of the following are considered variable costs except

- A) cost of sugar used to produce chocolate candy bars.
- B) salary of the factory supervisor.
- C) shipping costs of an online retailer.
- D) cost of chicken nuggets used at a fast food chain.

Answer: B

Diff: 1

LO: 2-7

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

38) On the line in front of each statement, enter the letter corresponding to the term that best fits that statement. You may use a letter more than once and some letters may not be used at all.

|    |                  |    |                   |
|----|------------------|----|-------------------|
| A. | Direct costs     | E. | Variable costs    |
| B. | Marginal cost    | F. | Indirect cost     |
| C. | Average cost     | G. | Sunk cost         |
| D. | Conversion costs | H. | Differential cost |

- \_\_\_\_\_ The total cost divided by the total volume.  
\_\_\_\_\_ The difference in cost between two alternative courses of action.  
\_\_\_\_\_ The combination of direct labor and manufacturing overhead costs.  
\_\_\_\_\_ The cost of producing one more unit.  
\_\_\_\_\_ Costs that can be traced to the cost object.

Answer: C, H, D, B, A

Diff: 2

LO: 2-7

EOC: E2-29A

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

39) Differentiate between fixed and variable costs and give an example of each.

Answer: Fixed costs stay constant in total over a wide range of activity levels. For instance, the rent on a factory is the same whether 10,000 products are produced each month or 1,000 products are produced.

Variable costs change in total in direct proportion to changes in volume. If the variable cost of producing one item is \$1, and if 10,000 units are produced, the cost will be \$10,000 and if only 1,000 units are produced, the cost will be only \$1,000.

Diff: 2

LO: 2-7

EOC: S2-15

AACSB: Reflective thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

40) Getting to school for your 8 a.m. class doesn't leave much time for breakfast, and you are quite hungry by the time class ends. It is a long walk to the cafeteria, the lines are long once you get there, and you find yourself having to decide between having breakfast and getting to your next class on time. Many of your friends have expressed the same problem. The administration has agreed to let you set up a table just outside the building where you will sell various snacks for \$1 each. You have agreed to pay the administration \$400 per month and salaries to your friends to run the business will be another \$400 per month. It will cost you 60 cents each to buy the pre-packaged snacks. You believe you can sell 2,500 snack packs per month.

- What are the total fixed costs per month?
- What are the total variable costs per month?
- What is the fixed cost per snack pack?
- What is the variable cost per snack pack?
- What is the average cost per snack pack?
- What is the average profit margin per snack pack?
- Based on your analysis, should you start the snack pack business?

Answer:

- \$800 ( $\$400 + \$400$ )
- \$1,500 ( $60 \text{ cents} \times 2,500 \text{ snack packs}$ )
- 32 cents ( $\$800/2,500 \text{ snack packs}$ )
- 60 cents (given in the problem)
- \$.92
- \$0.08 ( $\$1 - 60 \text{ cents} - 32 \text{ cents}$ )
- Yes, I will make 8 cents per snack pack and if I sell 2,500 I will make a profit of \$200.

Diff: 2

LO: 2-7

EOC: E2-41B

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

41) How are average cost and marginal cost computed?

Answer: The average cost is the total cost divided by the number of units produced. Marginal cost is the cost of making one more unit.

Diff: 1

LO: 2-7

EOC: S2-15

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

42) Sydney's Barbecue manufactures barbecue equipment for consumers and businesses in the marketplace. The managerial accountant at Sydney's Barbecue reported the following data:

|                                                       |           |
|-------------------------------------------------------|-----------|
| Sydney's Barbecue                                     |           |
| Period Ending December 31, 20XX                       |           |
| Manufacturing costs                                   | 4,900,000 |
| Units manufactured                                    | 70,000    |
| Beginning inventory                                   | 0         |
| Note: 45,000 units sold during year at \$270 per unit |           |

What is the average manufacturing cost per unit at Sydney's Barbecue? (Round your answer)

- A) \$70.00
- B) \$80.00
- C) \$87.00
- D) \$97.00
- E) \$107.00

Answer: A

Explanation: A) The average manufacturing cost per unit is \$70.00.  $\$4,900,000 / 70,000 = \$70.00$ .

Diff: 3

LO: 2-7

EOC: E2-41B

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

43) Sydney's Barbecue reported the following information:

|                                                       |           |
|-------------------------------------------------------|-----------|
| Sydney's Barbecue                                     |           |
| Period Ending December 31, 20XX                       |           |
| Manufacturing costs                                   | 4,200,000 |
| Units manufactured                                    | 60,000    |
| Beginning inventory                                   | 0         |
| Note: 45,100 units sold during year at \$270 per unit |           |

What is the amount of ending finished goods inventory for the period ending December 31, 20XX?

- A) \$1,023,000
- B) \$1,033,000
- C) \$1,043,000
- D) \$1,053,000
- E) \$1,063,000

Answer: C

Explanation: C)  $60,000 \text{ units} - 45,100 \text{ units} = 14,900 \text{ units} \times \$70 \text{ per unit} = \$1,043,000$

Diff: 3

LO: 2-7

EOC: P2-43A

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.

44) Stacy's Manufacturing Company manufactures parts to accommodate the needs of bicycle shops. The managerial accountant reported the following data:

| Stacy's Manufacturing                                 |             |
|-------------------------------------------------------|-------------|
| Manufacturing costs                                   | \$2,250,000 |
| Units manufactured                                    | 50,000      |
| Beginning inventory                                   | 0           |
| NOTE: 30,000 units sold during year at \$200 per unit |             |

Compute the average manufacturing cost per unit. What is the amount of ending finished goods inventory?

Answer: The average manufacturing cost per unit:  $\$2,250,000 / 50,000 = \$45.00$ .

The amount of finished goods inventory:  $50,000 \text{ units} - 30,000 = 20,000 \text{ units} \times \$45 = \$900,000$

Diff: 3

LO: 2-7

EOC: P2-43A

AACSB: Analytical thinking

Learning Outcome: Define and distinguish among variable, fixed and mixed costs.