CHAPTER 2

AN INTRODUCTION TO COST TERMS AND PURPOSES

TRUE/FALSE

1. Products, services, departments, and customers may be cost objects.

   Answer: True *Difficulty:* 1 *Objective:* 1
   Terms to Learn: cost object

2. Costs are accounted for in two basic stages: assignment followed by accumulation.

   Answer: False *Difficulty*: 1 *Objective*: 1
   Terms to Learn: cost accumulation
   Costs are accounted for in two basic stages: accumulation followed by assignment.

3. Actual costs and budgeted costs are two different terms referring to the same thing.

   Answer: False *Difficulty*: 1 *Objective*: 1
   Terms to Learn: budgeted costs
   Budgeted costs are what are planned before the beginning of the accounting period, while actual costs are those costs compiled at the end of the accounting period.

4. Accountants define a cost as a resource to be sacrificed to achieve a specific objective.

   Answer: True *Difficulty:* 1 *Objective:* 1
   Terms to Learn: cost

5. A cost object is always either a product or a service.

   Answer: False *Difficulty:* 2 *Objective:* 1
   Terms to Learn: cost object
   A cost object could be anything management wishes to determine the cost of, for example, a department.

6. A department could be considered a cost object.

   Answer: True *Difficulty:* 2 *Objective:* 1
   Terms to Learn: cost object

7. The same cost may be direct for one cost object and indirect for another cost object.

   Answer: True *Difficulty*: 3 *Objective*: 2
   Terms to Learn: cost object

8. Assigning direct costs poses more problems than assigning indirect costs.

Answer: False *Difficulty*: 2 *Objective*: 2
Terms to Learn: direct costs of a cost object, indirect costs of a cost object
Tracing direct costs is quite straightforward, whereas assigning indirect costs to a number of different cost objects can be very challenging.

9. Improvements in information-gathering technologies are making it possible to trace more costs as direct.

Answer: True *Difficulty*: 2 *Objective*: 2
Terms to Learn: direct costs of a cost object

10. Misallocated indirect costs may lead to promoting products that are not profitable.

Answer: True *Difficulty*: 2 *Objective*: 2
Terms to Learn: cost allocation

11. The materiality of the cost is a factor in classifying the cost as a direct or indirect cost.

Answer: True *Difficulty*: 2 *Objective*: 2
Terms to Learn: direct costs of a cost object, indirect costs of a cost object

12. The cost of a customized machine only used in the production of a single product would be classified as a direct cost.

Answer: True *Difficulty*: 1 *Objective*: 2
Terms to Learn: direct costs of a cost object

13. Some fixed costs may be classified as direct manufacturing costs.

Answer: True *Difficulty*: 1 *Objective*: 2
Terms to Learn: fixed costs, direct costs of a cost object

14. The distinction between direct and indirect costs is clearly set forth in Generally Accepted Accounting Principles (GAAP).

Answer: False *Difficulty*: 2 *Objective*: 2
Terms to Learn: direct costs of a cost object, indirect costs of a cost object
A cost object could be anything management wishes to determine the cost of, for example.

15. Fixed costs have no cost driver in the short run, but may have a cost driver in the long run.

Answer: True *Difficulty*: 2 *Objective*: 3

Terms to Learn: cost driver

16. Costs that are difficult to change over the short run are always variable over the long run.

Answer: True *Difficulty*: 2 *Objective*: 3
Terms to Learn: variable cost

17. A decision maker cannot adjust capacity over the short run.

Answer: True *Difficulty*: 1 *Objective*: 3
Terms to Learn: fixed cost

18. Fixed costs vary with the level of production or sales volume.

Answer: False *Difficulty*: 1 *Objective*: 3
Terms to Learn: fixed cost
Variable costs vary with the level of production or sales volume.

19. Currently, most administrative personnel costs would be classified as fixed costs.

Answer: True *Difficulty*: 1 *Objective*: 3
Terms to Learn: fixed cost

20. Fixed costs depend on the resources used, not the resources acquired.

Answer: False *Difficulty*: 2 *Objective*: 3
Terms to Learn: fixed cost
Fixed costs depend on the resources *acquired*, and not whether the resources are used or not.

21. The variable cost per unit of a product should stay the same throughout the relevant range of production.

Answer: True *Difficulty:* 2 *Objective:* 3
Terms to Learn: variable cost, relevant range

22. An appropriate cost driver for shipping costs might be the number of units shipped.

Answer: True *Difficulty:* 2 *Objective:* 3
Terms to Learn: cost driver

23. When making decisions using fixed costs, the focus should be on total costs and not unit costs.

Answer: True *Difficulty*: 2 *Objective*: 4

Terms to Learn: fixed cost

24. When 50,000 units are produced the fixed cost is $10 per unit. Therefore, when 100,000 units are produced fixed costs will remain at $10 per unit.

Answer: False *Difficulty*: 3 *Objective*: 4
Terms to Learn: fixed cost, unit cost
When 100,000 units are produced fixed costs will decrease to $5 per unit.

25. Unit costs and average costs are really the same thing.

Answer: True *Difficulty:* 2 *Objective:* 4
Terms to Learn: average cost, unit cost

26. Service-sector companies provide services or intangible products to their customers.

Answer: True *Difficulty*: 1 *Objective*: 5
Terms to Learn: service-sector companies

27. America on Line (AOL) would be an example of a merchandising company.

Answer: False *Difficulty:* 2 *Objective:* 5
Terms to Learn: service-sector companies, merchandising-sector companies
America on Line (AOL) would be an example of a service-sector company.

28. Merchandising companies purchase products and sell them to customers without changing their basic form.

Answer: True *Difficulty:* 2 *Objective:* 6
Terms to Learn: merchandising-sector companies

29. Merchandising companies only hold two types of inventories: merchandise inventory, and direct material.

Answer: False *Difficulty:* 2 *Objective:* 6
Terms to Learn: merchandising-sector companies
Merchandising companies normally hold only one type of inventory: merchandise inventory.

30. Manufacturing sector firms normally hold three types of inventory: direct materials inventory, work-in-process inventory, and finished goods inventory.

Answer: True *Difficulty:* 2 *Objective:* 6
Terms to Learn: merchandising-sector companies

31. Inventoriable costs are reported as an asset when incurred and expensed on the income statement when the product is sold.

Answer: True *Difficulty*: 2 *Objective*: 7
Terms to Learn: inventoriable costs

32. Cost of goods sold refers to the products brought to completion, whether they were started before or during the current accounting period.

Answer: False *Difficulty*: 1 *Objective*: 7
Terms to Learn: finished-goods inventory, cost of goods manufactured
Cost of goods *manufactured* refers to the products brought to completion, whether they were started before or during the current accounting period.

33. Operating income is sales revenue minus cost of goods manufactured.

Answer: False *Difficulty*: 1 *Objective*: 7
Terms to Learn: operating income
Operating income = sales revenue – cost of goods sold – operating expenses

34. All manufacturing costs are inventoriable costs.

Answer: True *Difficulty*: 2 *Objective*: 7
Terms to Learn: inventoriable costs

35. All costs reported on the income statement of a service-sector company are period costs.

Answer: True *Difficulty*: 1 *Objective*: 7
Terms to Learn: period costs

36. Period costs are never included as part of inventory.

Answer: True *Difficulty*: 1 *Objective*: 7
Terms to Learn: period costs

37. Conversion costs include all direct manufacturing costs.

Answer: False *Difficulty*: 1 *Objective*: 7
Terms to Learn: conversion costs
Prime costs include all direct manufacturing costs.

38. Inventory of a manufacturing firm includes goods partially worked on but not yet fully completed.

Answer: True *Difficulty*: 1 *Objective*: 7
Terms to Learn: work-in-process inventory

39. The wages of a plant supervisor would be classified as a period cost.

Answer: False *Difficulty*: 2 *Objective*: 7
Terms to Learn: period costs
The wages of a plant supervisor would be classified as a *product* cost.

40. For external reporting, GAAP requires that costs be classified as either variable or fixed.

Answer: False *Difficulty*: 2 *Objective*: 7
Terms to Learn: fixed cost, variable cost
For external reporting, GAAP requires that costs be classified as either product or period costs.

41. Depreciation can be classified as either an inventoriable cost or a period cost, depending on what is being depreciated.

Answer: True *Difficulty:* 2 *Objective:* 7
Terms to Learn: inventoriable cost, period cost

42. Insurance on a factory can be classified as a period cost.

Answer: False *Difficulty:* 2 *Objective:* 7
Terms to Learn: inventoriable cost, period cost
Insurance on a factory is classified as a product cost.

43. Overtime premium consists of the wages paid to all workers (for both direct labor and indirect labor) in excess of their straight-time wage rates.

Answer: True *Difficulty*: 1 *Objective*: 8
Terms to Learn: overtime premium

44. A product cost that is useful for one decision may not be useful information for another decision.

Answer: True *Difficulty*: 2 *Objective*: 8
Terms to Learn: product cost

45. For external reporting purposes, indirect manufacturing costs must be allocated to individual units.

Answer: True *Difficulty*: 2 *Objective*: 8
Terms to Learn: indirect manufacturing costs, cost allocation

46. Overtime premium is normally considered as a component of direct labor.

Answer: False *Difficulty:* 2 *Objective:* 8
Terms to Learn: direct manufacturing labor costs, overtime premium
Overtime premium is normally considered as part of indirect labor since it is usually not associated with a particular job.

47. If a worker is paid for 8 hours, but is idle for 1 of those 8 hours, the 1 hour of idle time would be considered a component of direct labor.

Answer: False *Difficulty:* 2 *Objective:* 8
Terms to Learn: direct manufacturing labor costs, overtime premium
Idle time is normally considered a component of indirect labor since it is usually not associated with a particular job.

48. The role of the cost accountant is to tailor the cost calculation to fit the current decision situation.

Answer: True *Difficulty*: 1 *Objective*: 9
Terms to Learn: cost

49. Cost accounting and cost management include calculating various costs, obtaining financial and nonfinancial information, and analyzing relevant information for decision making.

Answer: True *Difficulty*: 1 *Objective*: 9
Terms to Learn: cost, variable cost

50. A costing system traces direct costs and allocates indirect costs to products.

Answer: True *Difficulty:* 2 *Objective:* 9
Terms to Learn: cost tracing, cost allocation

51. Management accountants help managers identify which information is relevant to a particular decision.

Answer: *True* *Difficulty:* *1* *Objective:* *9*
Terms to Learn: cost

MULTIPLE CHOICE

52. Cost objects include:
    a. products
    b. customers
    c. departments
    d. All of these answers are correct.

    Answer: d *Difficulty*: 2 *Objective*: 1
    Terms to Learn: cost object

53. Actual costs are:
    a. the costs incurred
    b. budgeted costs
    c. estimated costs
    d. forecasted costs

    Answer: a *Difficulty*: 1 *Objective*: 1
    Terms to Learn: actual cost

54. The general term used to identify both the tracing and the allocation of accumulated costs to a cost object is:
    a. cost accumulation
    b. cost assignment
    c. cost tracing
    d. conversion costing

    Answer: b *Difficulty*: 1 *Objective*: 1
    Terms to Learn: cost assignment

55. The collection of accounting data in some organized way is:
    a. cost accumulation
    b. cost assignment
    c. cost tracing
    d. conversion costing

    Answer: a *Difficulty*: 1 *Objective*: 1
    Terms to Learn: cost accumulation

56. Budgeted costs are:
    a. the costs incurred this year
    b. the costs incurred last year
    c. planned or forecasted costs
    d. competitor's costs

    Answer: c *Difficulty*: 2 *Objective*: 1
    Terms to Learn: budgeted costs

57. Cost assignment is:
    a. always arbitrary
    b. includes tracing and allocating
    c. the same as cost accumulation
    d. finding the difference between budgeted and actual costs

    Answer: b *Difficulty*: 2 *Objective*: 1
    Terms to Learn: cost assignment

58. Which of the following does NOT affect the direct/indirect classification of a cost?
    a. the level of budgeted profit for the next year
    b. the materiality of the cost in question
    c. available technology to gather information about the cost
    d. the design of the operation

    Answer: a *Difficulty*: 2 *Objective*: 2
    Terms to Learn: direct costs of a cost object, indirect costs of a cost object

59. Which of the following statements about the direct/indirect cost classification is NOT true?
    a. Direct costs are always traced.
    b. Direct costs are always allocated.
    c. The design of operations affects the direct/indirect classification.
    d. The direct/indirect classification depends on the choice of cost object.

    Answer: b *Difficulty*: 2 *Objective*: 2
    Terms to Learn: direct costs of a cost object, indirect costs of a cost object

60. Cost tracing is:
    a. the assignment of direct costs to the chosen cost object
    b. a function of cost allocation
    c. the process of tracking both direct and indirect costs associated with a cost object
    d. the process of determining the actual cost of the cost object

    Answer: a *Difficulty*: 2 *Objective*: 2
    Terms to Learn: cost tracing

61. Cost allocation is:
    a. the process of tracking both direct and indirect costs associated with a cost object
    b. the process of determining the actual cost of the cost object
    c. the assignment of indirect costs to the chosen cost object
    d. a function of cost tracing

    Answer: c *Difficulty*: 2 *Objective*: 2
    Terms to Learn: cost allocation

62. The determination of a cost as either direct or indirect depends upon the:
    a. accounting system
    b. allocation system
    c. cost tracing system
    d. cost object chosen

    Answer: d *Difficulty*: 2 *Objective*: 2
    Terms to Learn: direct costs of a cost object, indirect costs of a cost object

63. Classifying a cost as either direct or indirect depends upon:
    a. the behavior of the cost in response to volume changes
    b. whether the cost is expensed in the period in which it is incurred
    c. whether the cost can be easily identified with the cost object
    d. whether an expenditure is avoidable or not in the future

    Answer: c *Difficulty*: 2 *Objective*: 2
    Terms to Learn: direct costs of a cost object, indirect costs of a cost object

64. A manufacturing plant produces two product lines: football equipment and hockey equipment. Direct costs for the football equipment line are the:
    a. beverages provided daily in the plant break room
    b. monthly lease payments for a specialized piece of equipment needed to manufacture the football helmet
    c. salaries of the clerical staff that work in the company administrative offices
    d. utilities paid for the manufacturing plant

    Answer: b *Difficulty*: 2 *Objective*: 2
    Terms to Learn: direct costs of a cost object

65. A manufacturing plant produces two product lines: football equipment and hockey equipment. An indirect cost for the hockey equipment line is the:
    a. material used to make the hockey sticks
    b. labor to bind the shaft to the blade of the hockey stick
    c. shift supervisor for the hockey line
    d. plant supervisor

    Answer: d *Difficulty*: 2 *Objective*: 2
    Terms to Learn: indirect costs of a cost object

66. Which one of the following items is a direct cost?
    a. Customer-service costs of a multiproduct firm; Product A is the cost object.
    b. Printing costs incurred for payroll check processing; payroll check processing is the cost object.
    c. The salary of a maintenance supervisor in a multiproduct manufacturing plant; Product B is the cost object.
    d. Utility costs of the administrative offices; the accounting department is the cost object.

    Answer: b *Difficulty*: 2 *Objective*: 2
    Terms to Learn: direct costs of a cost object

67. Indirect manufacturing costs:
    a. can be traced to the product that created the costs
    b. can be easily identified with the cost object
    c. generally include the cost of material and the cost of labor
    d. may include both variable and fixed costs

    Answer: d *Difficulty*: 2 *Objective*: 2
    Terms to Learn: indirect manufacturing costs

68. All of the following are true EXCEPT that indirect costs:
    a. may be included in prime costs
    b. are not easily traced to products or services
    c. vary with the selection of the cost object
    d. may be included in manufacturing overhead

    Answer: a *Difficulty*: 2 *Objective*: 2
    Terms to Learn: indirect manufacturing costs

69. Which statement is TRUE?
    a. All variable costs are direct costs.
    b. Because of a cost-benefit tradeoff, some direct costs may be treated as indirect costs.
    c. All fixed costs are indirect costs.
    d. All direct costs are variable costs.

    Answer: b *Difficulty*: 3 *Objective*: 3
    Terms to Learn: variable costs, fixed costs, indirect costs of a cost object

70. Cost behavior refers to:
    a. how costs react to a change in the level of activity
    b. whether a cost is incurred in a manufacturing, merchandising, or service company
    c. classifying costs as either inventoriable or period costs
    d. whether a particular expense has been ethically incurred

    Answer: a *Difficulty*: 2 *Objective*: 3
    Terms to Learn: fixed cost, variable cost

71. An understanding of the underlying behavior of costs helps in all of the following EXCEPT:
    a. costs can be better estimated as volume expands and contracts
    b. true costs can be better evaluated
    c. process inefficiencies can be better identified and as a result improved
    d. sales volume can be better estimated

    Answer: d *Difficulty*: 2 *Objective*: 3
    Terms to Learn: fixed cost, variable cost

72. At a plant where a union agreement sets annual salaries and conditions, annual labor costs usually:
    a. are considered a variable cost
    b. are considered a fixed cost
    c. depend on the scheduling of floor workers
    d. depend on the scheduling of production runs

    Answer: b *Difficulty*: 2 *Objective*: 3
    Terms to Learn: fixed cost

73. Variable costs:
    a. are always indirect costs
    b. increase in total when the actual level of activity increases
    c. include most personnel costs and depreciation on machinery
    d. can always be traced directly to the cost object

Answer: b *Difficulty*: 2 *Objective*: 3
Terms to Learn: variable cost

74. Fixed costs:
    a. may include either direct or indirect costs
    b. vary with production or sales volumes
    c. include parts and materials used to manufacture a product
    d. can be adjusted in the short run to meet actual demands

Answer: a *Difficulty*: 2 *Objective*: 3
Terms to Learn: fixed cost

75. Fixed costs depend on the:
    a. amount of resources used
    b. amount of resources acquired
    c. volume of production
    d. volume of sales

Answer: b *Difficulty*: 3 *Objective*: 3
Terms to Learn: fixed cost

76. Which one of the following is a variable cost for an insurance company?
    a. rent
    b. president's salary
    c. sales commissions
    d. property taxes

Answer: c *Difficulty*: 1 *Objective*: 3
Terms to Learn: variable cost

77. Which of the following is a fixed cost for an automobile manufacturing plant?
    a. administrative salaries
    b. electricity used by assembly-line machines
    c. sales commissions
    d. windows for each car produced

Answer: a *Difficulty*: 2 *Objective*: 3
Terms to Learn: fixed cost

78. If each furnace requires a hose that costs $20 and 2,000 furnaces are produced for the month, the total cost for hoses is:
    a. considered to be a direct fixed cost
    b. considered to be a direct variable cost
    c. considered to be an indirect fixed cost
    d. considered to be an indirect variable cost

Answer: b *Difficulty*: 3 *Objective*: 3
Terms to Learn: direct costs of a cost object, variable cost

79. The MOST likely cost driver of distribution costs is the:
    a. number of parts within the product
    b. number of miles driven
    c. number of products manufactured
    d. number of production hours

Answer: b *Difficulty*: 2 *Objective*: 3
Terms to Learn: cost driver

80. The MOST likely cost driver of direct material costs is the:
    a. number of parts within the product
    b. number of miles driven
    c. number of products manufactured
    d. number of production hours

Answer: c *Difficulty*: 2 *Objective*: 3
Terms to Learn: cost driver

81. Which of the following statements is FALSE?
    a. There is a cause-and-effect relationship between the cost driver and the level of activity.
    b. Fixed costs have cost drivers over the short run.
    c. Over the long run all costs have cost drivers.
    d. Volume of production is a cost driver of direct manufacturing costs.

Answer: b *Difficulty*: 2 *Objective*: 3
Terms to Learn: cost driver

82. A band of normal activity or volume in which specific cost-volume relationships are maintained is referred to as the:
    a. average range
    b. cost-allocation range
    c. cost driver range
    d. relevant range

Answer: d *Difficulty*: 1 *Objective*: 3
Terms to Learn: relevant range

83. Within the relevant range, if there is a change in the level of the cost driver, then
    a. total fixed costs and total variable costs will change
    b. total fixed costs and total variable costs will remain the same
    c. total fixed costs will remain the same and total variable costs will change

d. total fixed costs will change and total variable costs will remain the same

Answer: c *Difficulty*: 2 *Objective*: 3
Terms to Learn: fixed cost, variable cost

84. Within the relevant range, if there is a change in the level of the cost driver, then
a. fixed and variable costs per unit will change
b. fixed and variable costs per unit will remain the same
c. fixed costs per unit will remain the same and variable costs per unit will change
d. fixed costs per unit will change and variable costs per unit will remain the same

Answer: d *Difficulty*: 2 *Objective*: 3
Terms to Learn: relevant range

85. Which of the following would be LEAST likely to be a cost driver for a company's accounting costs?
a. the number of employees in the accounting department
b. the number of invoices processed
c. the number of units sold
d. the square footage of the office space used by the accounting department

Answer: c *Difficulty*: 2 *Objective*: 3
Terms to Learn: cost driver

86. When 10,000 units are produced, fixed costs are $14 per unit. Therefore, when 20,000 units are produced fixed costs will:
a. increase to $28 per unit
b. remain at $14 per unit
c. decrease to $7 per unit
d. total $280,000

Answer: c *Difficulty*: 3 *Objective*: 4
Terms to Learn: fixed cost

87. When 10,000 units are produced, variable costs are $6 per unit. Therefore, when 20,000 units are produced:
a. variable costs will total $120,000
b. variable costs will total $60,000
c. variable unit costs will increase to $12 per unit
d. variable unit costs will decrease to $3 per unit

Answer: a *Difficulty*: 3 *Objective*: 4
Terms to Learn: variable cost

88. Christi Manufacturing provided the following information for last month:

Sales	$10,000
Variable costs	3,000
Fixed costs	5,000
Operating income	$2,000

If sales double next month, what is the projected operating income?

a. $4,000
b. $7,000
c. $9,000
d. $12,000

Answer: c *Difficulty*: 3 *Objective*: 4
($10,000 x 2) – ($3,000 x 2) – $5,000 = $9,000
Terms to Learn: fixed cost, variable cost

89. Kym Manufacturing provided the following information for last month:

Sales	$12,000
Variable costs	4,000
Fixed costs	1,000
Operating income	$7,000

If sales double next month, what is the projected operating income?

a. $14,000
b. $15,000
c. $18,000
d. $19,000

Answer: b *Difficulty*: 3 *Objective*: 4
($12,000 x 2) – ($4,000 x 2) – $1,000 = $15,000
Terms to Learn: fixed cost, variable cost

90. Wheel and Tire Manufacturing currently produces 1,000 tires per month. The following per unit data apply for sales to regular customers:

Direct materials	$20
Direct manufacturing labor	3
Variable manufacturing overhead	6
Fixed manufacturing overhead	10
Total manufacturing costs	$39

The plant has capacity for 3,000 tires and is considering expanding production to 2,000 tires. What is the total cost of producing 2,000 tires?

a. $39,000
b. $78,000
c. $68,000
d. $62,000

Answer: c *Difficulty*: 2 *Objective*: 4
[($20 + $3 + $6) x 2,000 units] + ($10 x 1,000 units) = $68,000
Terms to Learn: fixed cost, variable cost

91. XIAN Manufacturing produces a unique valve, and has the capacity to produce 50,000 valves annually. Currently XIAN produces 40,000 valves and is thinking about increasing production to 45,000 valves next year. What is the most likely behavior of total manufacturing costs and unit manufacturing costs given this change?

a. Total manufacturing costs will increase and unit manufacturing costs will stay the same.
b. Total manufacturing costs will increase and unit manufacturing costs will decrease.
c. Total manufacturing costs will stay the same and unit manufacturing costs will stay the same.
d. Total manufacturing costs will stay the same and unit manufacturing costs will decrease.

Answer: b *Difficulty*: 3 *Objective*: 4
Terms to Learn: fixed cost, variable cost

92. Tire and Spoke Manufacturing currently produces 1,000 bicycles per month. The following per unit data apply for sales to regular customers:

Direct materials	$50
Direct manufacturing labor	5
Variable manufacturing overhead	14
Fixed manufacturing overhead	10
Total manufacturing costs	$79

The plant has capacity for 3,000 bicycles and is considering expanding production to 2,000 bicycles. What is the per unit cost of producing 2,000 bicycles?

a. $79 per unit
b. $158 per unit
c. $74 per unit
d. $134 per unit

Answer: c *Difficulty*: 3 *Objective*: 4
[($50 + $5 + $14) x 2,000 units] + ($10 x 1,000 units) = $148,000 / 2,000 units = $74
Terms to Learn: unit cost

THE FOLLOWING INFORMATION APPLIES TO QUESTIONS 93 AND 94:
Axle and Wheel Manufacturing currently produces 1,000 axles per month. The following per unit data apply for sales to regular customers:

Direct materials	$30
Direct manufacturing labor	5
Variable manufacturing overhead	10
Fixed manufacturing overhead	40
Total manufacturing costs	$85

93 The plant has capacity for 2,000 axles and is considering expanding production to 1,500 axles. What is the total cost of producing 1,500 axles?

a. $85,000
b. $170,000
c. $107,500
d. $102,500

Answer: c *Difficulty*: 2 *Objective*: 4
[($30 + $5 + $10) x 1,500 units] + ($40 x 1,000 units) = $107,500
Terms to Learn: fixed cost, variable cost

94. What is the per unit cost when producing 1,500 axles?
    a. $71.67
    b. $107.50
    c. $85.00
    d. $170.00

    Answer: a *Difficulty*: 2 *Objective*: 4
    $107,500 / 1,500 = $71.67
    Terms to Learn: unit cost

THE FOLLOWING INFORMATION APPLIES TO QUESTIONS 95 THROUGH 97:
Pederson Company reported the following:

Manufacturing costs	$2,000,000
Units manufactured	50,000
Units sold	47,000 units sold for $75 per unit
Beginning inventory	0 units

95. What is the average manufacturing cost per unit?
    a. $40.00
    b. $42.55
    c. $0.025
    d. $75.00

    Answer: a *Difficulty*: 1 *Objective*: 4
    $2,000,000 / 50,000 = $40.00
    Terms to Learn: average cost, unit cost

96. What is the amount of ending finished goods inventory?
    a. $1,880,000
    b. $120,000
    c. $225,000
    d. $105,000

    Answer: b *Difficulty*: 2 *Objective*: 4
    (50,000 – 47,000) x ($2,000,000 / $50,000) = $120,000
    Terms to Learn: finished-goods inventory

97. What is the amount of gross margin?
    a. $1,750,000
    b. $3,525,000
    c. $5,405,000
    d. $1,645,000

    Answer: d *Difficulty*: 3 *Objective*: 7
    47,000 x ($75 – ($2,000,000 / $50,000)) = $1,645,000
    Terms to Learn: manufacturing-sector companies

THE FOLLOWING INFORMATION APPLIES TO QUESTIONS 98 THROUGH 100:
The following information pertains to Alleigh's Mannequins:

Manufacturing costs	$1,500,000
Units manufactured	30,000
Units sold	29,500 units sold for $85 per unit
Beginning inventory	0 units

98. What is the average manufacturing cost per unit?
    a. $50.00
    b. $50.85
    c. $17.65
    d. $85.00

    Answer: a *Difficulty*: 1 *Objective*: 4
    $1,500,000 / 30,000 = $50.00
    Terms to Learn: unit cost

99. What is the amount of ending finished goods inventory?
    a. $42,500
    b. $25,424
    c. $25,000
    d. $1,475,000

    Answer: c *Difficulty*: 2 *Objective*: 4
    (30,000 – 29,500) x ($1,500,000 / $30,000) = $25,000
    Terms to Learn: finished-goods inventory

100. What is the amount of gross margin?
    a. $1,475,000
    b. $1,500,000
    c. $2,507,500
    d. $1,032,500

    Answer: d *Difficulty*: 3 *Objective*: 7
    29,500 x ($85 – ($1,500,000 / $30,000)) = $1,032,500
    Terms to Learn: manufacturing-sector company

101. Which of the following companies is part of the service sector of our economy?
    a. Wal-Mart
    b. Bank of America
    c. General Motors
    d. Amazon.com

    Answer: b *Difficulty*: 1 *Objective*: 5
    Terms to Learn: service-sector companies

102. Which of the following companies is part of the merchandising sector of our economy?
    a. General Motors
    b. Intel
    c. The GAP
    d. Robert Meyer Accounting Firm

    Answer: c *Difficulty*: 1 *Objective*: 5
    Terms to Learn: merchandising-sector companies

103. Which of the following companies is part of the manufacturing sector of our economy?
    a. Nike
    b. Barnes & Noble
    c. Corvette Law Firm
    d. Sears, Roebuck, and Company

    Answer: a *Difficulty*: 1 *Objective*: 5
    Terms to Learn: manufacturing-sector companies

104. Google, an internet search firm, would be classified as:
    a. a manufacturing-sector company
    b. a merchandising-sector company
    c. a service sector company
    d. None of these answers are correct.

    Answer: c *Difficulty*: 2 *Objective*: 5
    Terms to Learn: service-sector companies

105. Service-sector companies report:
    a. only merchandise inventory
    b. only finished goods inventory
    c. direct materials inventory, work-in-process inventory, and finished goods inventory accounts
    d. no inventory accounts

Answer: d *Difficulty*: 1 *Objective*: 6
Terms to Learn: service-sector companies

106. Manufacturing-sector companies report:
    a. only merchandise inventory
    b. only finished goods inventory
    c. direct materials inventory, work-in-process inventory, and finished goods inventory accounts
    d. no inventory accounts

Answer: c *Difficulty*: 1 *Objective*: 6
Terms to Learn: manufacturing-sector companies

107. For a manufacturing company, direct material costs may be included in:
    a. direct materials inventory only
    b. merchandise inventory only
    c. both work-in-process inventory and finished goods inventory
    d. direct materials inventory, work-in-process inventory, and finished goods inventory accounts

Answer: d *Difficulty*: 3 *Objective*: 6
Terms to Learn: manufacturing-sector companies, direct material costs

108. For a manufacturing company, direct labor costs may be included in:
    a. direct materials inventory only
    b. merchandise inventory only
    c. both work-in-process inventory and finished goods inventory
    d. direct materials inventory, work-in-process inventory, and finished goods inventory accounts

Answer: c *Difficulty*: 3 *Objective*: 6
Terms to Learn: manufacturing sector companies, direct manufacturing labor costs

109. For a manufacturing company, indirect manufacturing costs may be included in:
    a. direct materials inventory only
    b. merchandise inventory only
    c. both work-in-process inventory and finished goods inventory
    d. direct materials inventory, work-in-process inventory, and finished goods inventory accounts

Answer: c *Difficulty*: 3 *Objective*: 6
Terms to Learn: indirect manufacturing costs

110. For a manufacturing-sector company, the cost of factory insurance is classified as a:
    a. direct material cost
    b. direct manufacturing labor cost
    c. manufacturing overhead cost
    d. period cost

    Answer: c *Difficulty*: 1 *Objective*: 6
    Terms to Learn: period costs

111. For a printing company, the cost of paper is classified as a:
    a. direct material cost
    b. direct manufacturing labor cost
    c. manufacturing overhead cost
    d. period cost

    Answer: a *Difficulty*: 1 *Objective*: 6
    Terms to Learn: direct material costs

112. Wages paid to machine operators on an assembly line are classified as a:
    a. direct material cost
    b. direct manufacturing labor cost
    c. manufacturing overhead cost
    d. period cost

    Answer: b *Difficulty*: 1 *Objective*: 6
    Terms to Learn: direct manufacturing labor costs

113. Manufacturing overhead costs in an automobile manufacturing plant MOST likely include:
    a. labor costs of the painting department
    b. indirect material costs such as lubricants
    c. sales commissions
    d. steering wheel costs

    Answer: b *Difficulty*: 1 *Objective*: 6
    Terms to Learn: manufacturing overhead costs

114. Manufacturing overhead costs are also referred to as:
    a. indirect manufacturing costs
    b. prime costs
    c. period costs
    d. direct material

    Answer: a *Difficulty*: 1 *Objective*: 6
    Terms to Learn: manufacturing overhead costs

115. Merchandising companies normally report:
    a. only merchandise inventory
    b. only finished goods inventory
    c. direct materials inventory, work-in-process inventory, and finished goods inventory accounts
    d. no inventory accounts

    Answer: a *Difficulty*: 1 *Objective*: 6
    Terms to Learn: merchandising-sector companies

116. Direct materials inventory would normally include:
    a. direct materials in stock and awaiting use in the manufacturing process
    b. goods partially worked on but not yet fully completed
    c. goods fully completed but not yet sold
    d. products in their original form intended to be sold without changing their basic form

    Answer: a *Difficulty*: 1 *Objective*: 6
    Terms to Learn: direct materials inventory

117. Work-in-process inventory would normally include:
    a. direct materials in stock and awaiting use in the manufacturing process
    b. goods partially worked on but not yet fully completed
    c. goods fully completed but not yet sold
    d. products in their original form intended to be sold without changing their basic form

    Answer: b *Difficulty*: 1 *Objective*: 6
    Terms to Learn: work-in-process inventory

118. Finished goods inventory would normally include:
    a. direct materials in stock and awaiting use in the manufacturing process
    b. goods partially worked on but not yet fully completed
    c. goods fully completed but not yet sold
    d. products in their original form intended to be sold without changing their basic form

    Answer: c *Difficulty*: 1 *Objective*: 6
    Terms to Learn: finished-goods inventory

119. Merchandise inventory would normally include:
    a. direct materials in stock and awaiting use in the manufacturing process
    b. goods partially worked on but not yet fully completed
    c. goods fully completed but not yet sold
    d. products in their original form intended to be sold without changing their basic form

    Answer: d *Difficulty*: 1 *Objective*: 6
    Terms to Learn: merchandising-sector companies

120. The income statement of a manufacturing firm reports:
    a. period costs only
    b. inventoriable costs only
    c. both period and inventoriable costs
    d. period and inventoriable costs but at different times; the reporting varies

    Answer: c *Difficulty*: 2 *Objective*: 7
    Terms to Learn: period costs, inventoriable costs

121. The income statement of a service-sector firm reports:
    a. period costs only
    b. inventoriable costs only
    c. both period and inventoriable costs
    d. period and inventoriable costs but at different times; the reporting varies

    Answer: a *Difficulty*: 2 *Objective*: 7
    Terms to Learn: service-sector companies, period costs

122. Manufacturing costs include all of the following EXCEPT:
    a. costs incurred inside the factory
    b. both direct and indirect costs
    c. both variable and fixed costs
    d. both inventoriable and period costs

    Answer: d *Difficulty*: 2 *Objective*: 7
    Terms to Learn: manufacturing-sector companies

123. Inventoriable costs:
    a. include administrative and marketing costs
    b. are expensed in the accounting period in which the products are sold
    c. are particularly useful in management accounting
    d. are also referred to as nonmanufacturing costs

    Answer: b *Difficulty*: 2 *Objective*: 7
    Terms to Learn: inventoriable costs

124. Inventoriable costs are expensed on the income statement:
    a. when direct materials for the product are purchased
    b. after the products are manufactured
    c. when the products are sold
    d. not at any particular time, it varies

    Answer: c *Difficulty*: 2 *Objective*: 7
    Terms to Learn: inventoriable costs

125. Costs that are initially recorded as assets and expensed when sold are called:
    a. period costs
    b. inventoriable costs
    c. variable costs
    d. fixed costs

    Answer: b *Difficulty*: 2 *Objective*: 7
    Terms to Learn: inventoriable costs

126. For merchandising companies, inventoriable costs include:
    a. the cost of the goods themselves
    b. incoming freight costs
    c. insurance costs for the goods
    d. All of these answers are correct.

    Answer: d *Difficulty*: 2 *Objective*: 7
    Terms to Learn: inventoriable costs, merchandising-sector companies

127. For manufacturing firms, inventoriable costs include:
    a. plant supervisor salaries
    b. research and development costs
    c. costs of dealing with customers after the sale
    d. distribution costs

    Answer: a *Difficulty*: 2 *Objective*: 7
    Terms to Learn: inventoriable costs, manufacturing-sector companies

128. A plant manufactures several different products. The wages of the plant supervisor can be classified as a(n):
    a. direct cost
    b. inventoriable cost
    c. variable cost
    d. period cost

    Answer: b *Difficulty*: 2 *Objective*: 7
    Terms to Learn: inventoriable cost

129. The cost of inventory reported on the balance sheet may include all of the following EXCEPT:
    a. customer-service costs
    b. wages of the plant supervisor
    c. depreciation of the factory equipment
    d. the cost of parts used in the manufacturing process

    Answer: a *Difficulty*: 2 *Objective*: 7
    Terms to Learn: inventoriable costs, period costs

130. For a computer manufacturer, period costs include the cost of:
    a. the keyboard
    b. labor used for assembly and packaging
    c. distribution
    d. assembly-line equipment

    Answer: c *Difficulty*: 1 *Objective*: 7
    Terms to Learn: period costs, manufacturing-sector company

131. Period costs:
    a. include only fixed costs
    b. seldom influence financial success or failure
    c. include the cost of selling, delivering, and after-sales support for customers
    d. should be treated as an indirect cost rather than as a direct manufacturing cost

    Answer: c *Difficulty*: 2 *Objective*: 7
    Terms to Learn: period costs

132. Period costs:
    a. are treated as expenses in the period they are incurred
    b. are directly traceable to products
    c. include direct labor
    d. are also referred to as manufacturing overhead costs

    Answer: a *Difficulty*: 2 *Objective*: 7
    Terms to Learn: period costs

133. Which of the following is NOT a period cost?
    a. marketing costs
    b. general and administrative costs
    c. research and development costs
    d. manufacturing costs

    Answer: d *Difficulty*: 1 *Objective*: 7
    Terms to Learn: period costs

134. Costs expensed on the income statement in the accounting period incurred are called:
    a. direct costs
    b. indirect costs
    c. period costs
    d. inventoriable costs

    Answer: c *Difficulty*: 1 *Objective*: 7
    Terms to Learn: period costs

135. Prime costs include:
    a. direct materials and direct manufacturing labor costs
    b. direct manufacturing labor and manufacturing overhead costs
    c. direct materials and manufacturing overhead costs
    d. only direct materials

    Answer: a *Difficulty*: 1 *Objective*: 7
    Terms to Learn: prime costs

136. Conversion costs include:
    a. direct materials and direct manufacturing labor costs
    b. direct manufacturing labor and manufacturing overhead costs
    c. direct materials and manufacturing overhead costs
    d. only direct materials

    Answer: b *Difficulty*: 1 *Objective*: 7
    Terms to Learn: conversion costs

137. Total manufacturing costs equal:
    a. direct materials + prime costs
    b. direct materials + conversion costs
    c. direct manufacturing labor costs + prime costs
    d. direct manufacturing labor costs + conversion costs

    Answer: b *Difficulty*: 2 *Objective*: 7
    Terms to Learn: prime costs, conversion costs

138. In the cost classification system used by manufacturing firms, total manufacturing costs would include all of the following EXCEPT:
    a. direct materials costs and conversion costs
    b. direct materials costs, direct manufacturing labor costs, and manufacturing overhead costs
    c. indirect materials costs, indirect manufacturing labor costs, and manufacturing overhead costs
    d. prime costs and manufacturing overhead costs

    Answer: c *Difficulty*: 2 *Objective*: 7
    Terms to Learn: prime costs, conversion costs

139. Manufacturing overhead costs may include all of the following EXCEPT:
    a. salaries of the plant janitorial staff
    b. labor that can be traced to individual products
    c. wages paid for unproductive time due to machine breakdowns
    d. overtime premiums paid to plant workers

    Answer: b *Difficulty*: 3 *Objective*: 7
    Terms to Learn: manufacturing overhead costs

140. Which of the following formulas determine cost of goods sold in a merchandising entity?
    a. Beginning inventory + Purchases + Ending inventory = Cost of goods sold
    b. Beginning inventory + Purchases - Ending inventory = Costs of goods sold
    c. Beginning inventory – Purchases + Ending inventory = Cost of goods sold
    d. Beginning inventory – Ending inventory – Purchases = Cost of goods sold

    Answer: b *Difficulty*: 1 *Objective*: 7
    Terms to Learn: merchandising-sector companies

141. Which of the following formulas determine cost of goods sold in a manufacturing entity?
    a. Beginning work-in-process inventory + Cost of goods manufactured – Ending work-in-process inventory = Cost of goods sold
    b. Beginning work-in-process inventory + Cost of goods manufactured + Ending work-in-process inventory = Cost of goods sold
    c. Cost of goods manufactured - Beginning finished goods inventory – Ending finished goods inventory = Cost of goods sold
    d. Cost of goods manufactured + Beginning finished goods inventory – Ending finished goods inventory = Cost of goods sold

    Answer: d *Difficulty*: 2 *Objective*: 7
    Terms to Learn: manufacturing-sector companies

142. The following information pertains to the Cannady Corporation:

Beginning work-in-process inventory	$ 50,000
Ending work-in-process inventory	48,000
Beginning finished goods inventory	180,000
Ending finished goods inventory	195,000
Cost of goods manufactured	1,220,000

What is cost of goods sold?
a. $1,235,000
b. $1,205,000
c. $1,218,000
d. $1,222,000

Answer: b *Difficulty*: 3 *Objective*: 7
$180,000 + $1,220,000 – $195,000 = $1,205,000
Terms to Learn: cost of goods manufactured

143. The following information pertains to the Duggan Corporation:

Beginning work-in-process inventory	$ 20,000
Ending work-in-process inventory	23,000
Beginning finished goods inventory	36,000
Ending finished goods inventory	34,000
Cost of goods manufactured	246,000

What is cost of goods sold?
a. $244,000
b. $248,000
c. $243,000
d. $249,000

Answer: b *Difficulty*: 2 *Objective*: 7
$36,000 + $246,000 – $34,000 = $248,000
Terms to Learn: cost of goods manufactured

THE FOLLOWING INFORMATION APPLIES TO QUESTIONS 144 THROUGH 146:

Beginning finished goods, 1/1/20X3	$ 80,000
Ending finished goods, 12/31/20X3	67,000
Cost of goods sold	270,000
Sales revenue	500,000
Operating expenses	145,000

144. What is cost of goods manufactured for 20X3?
    a. $230,000
    b. $257,000
    c. $283,000
    d. $355,000

    Answer: b *Difficulty*: 2 *Objective*: 7
    $270,000 + $67,000 – $80,000 = $257,000
    Terms to Learn: cost of goods manufactured

145. What is gross margin for 20X3?
    a. $283,000
    b. $355,000
    c. $230,000
    d. $257,000

    Answer: c *Difficulty*: 2 *Objective*: 7
    $500,000 – $270,000 = $230,000
    Terms to Learn: revenues, period costs

146. What is operating income for 20X3?
    a. $85,000
    b. $112,000
    c. $62,000
    d. $230,000

    Answer: a *Difficulty*: 2 *Objective*: 7
    $500,000 – $270,000 – $145,000 = $85,000
    Terms to Learn: revenues, period costs

THE FOLLOWING INFORMATION APPLIES TO QUESTIONS 147 THROUGH 149:

Beginning finished goods, 1/1/20X5	$ 40,000
Ending finished goods, 12/31/20X5	33,000
Cost of goods sold	250,000
Sales revenue	600,000
Operating expenses	120,000

147. What is cost of goods manufactured for 20X5?
    a. $257,000
    b. $350,000
    c. $243,000
    d. $250,000

    Answer: c *Difficulty*: 2 *Objective*: 7
    $250,000 + $33,000 – $40,000 = $243,000
    Terms to Learn: cost of goods manufactured

148. What is gross margin for 20X5?
    a. $243,000
    b. $527,000
    c. $357,000
    d. $350,000

    Answer: d *Difficulty*: 2 *Objective*: 7
    $600,000 – $250,000 = $350,000
    Terms to Learn: revenues

149. What is operating income for 20X5?
    a. $230,000
    b. $123,000
    c. $107,000
    d. $157,000

    Answer: a *Difficulty*: 2 *Objective*: 7
    $600,000 – $250,000 – $120,000 = $230,000
    Terms to Learn: revenues, period costs

THE FOLLOWING INFORMATION APPLIES TO QUESTIONS 150 THROUGH 153:
The Singer Company manufactures several different products. Unit costs associated with Product ICT101 are as follows:

Direct materials	$ 60
Direct manufacturing labor	10
Variable manufacturing overhead	18
Fixed manufacturing overhead	32
Sales commissions (2% of sales)	4
Administrative salaries	16
Total	$140

150. What are the variable costs per unit associated with Product ICT101?
    a. $18
    b. $22
    c. $88
    d. $92

    Answer: d *Difficulty*: 2 *Objective*: 3
    $60 + $10 + $18 + $4 = $92
    Terms to Learn: variable cost

151. What are the fixed costs per unit associated with Product ICT101?
    a. $102
    b. $48
    c. $52
    d. $32

    Answer: b *Difficulty*: 2 *Objective*: 3
    $32 + 16 = $48
    Terms to Learn: fixed cost

152. What are the inventoriable costs per unit associated with Product ICT101?
    a. $120
    b. $140
    c. $50
    d. $88

    Answer: a *Difficulty*: 2 *Objective*: 7
    $60 + $10 + $18 + $32 = $120
    Terms to Learn: inventoriable cost

153. What are the period costs per unit associated with Product ICT101?
    a. $4
    b. $16
    c. $20
    d. $52

    Answer: c *Difficulty*: 2 *Objective*: 7
    $4 + 16 = $20
    Terms to Learn: period cost

THE FOLLOWING INFORMATION APPLIES TO QUESTIONS 154 THROUGH 157:
The West Company manufactures several different products. Unit costs associated with Product ORD203 are as follows:

Direct materials	$ 40
Direct manufacturing labor	8
Variable manufacturing overhead	12
Fixed manufacturing overhead	23
Sales commissions (2% of sales)	6
Administrative salaries	9
Total	$98

154. What are the variable costs per unit associated with Product ORD203?
    a. $60
    b. $83
    c. $66
    d. $48

    Answer: c *Difficulty*: 2 *Objective*: 3
    $40 + $8 + $12 + $6 = $66
    Terms to Learn: variable cost

155. What are the fixed costs per unit associated with Product ORD203?
    a. $23
    b. $32
    c. $35
    d. $44

    Answer: b *Difficulty*: 2 *Objective*: 3
    $23 + 9 = $32
    Terms to Learn: fixed cost

156. What are the inventoriable costs per unit associated with Product ORD203?
    a. $60
    b. $66
    c. $48
    d. $83

    Answer: d *Difficulty*: 2 *Objective*: 7
    $40 + $8 + $12 + $23 = $83
    Terms to Learn: inventoriable cost

157. What are the period costs per unit associated with Product ORD203?
    a. $15
    b. $6
    c. $9
    d. $27

    Answer: a *Difficulty*: 2 *Objective*: 7
    $6 + 9 = $15
    Terms to Learn: period cost

158. For last year, Wampum Enterprises reported revenues of $420,000, cost of goods sold of $108,000, cost of goods manufactured of $101,000, and total operating costs of $70,000. Operating income for that year was:
a. $319,000
b. $312,000
c. $249,000
d. $242,000

Answer: d *Difficulty*: 2 *Objective*: 7
$420,000 – $108,000 – $70,000 = $242,000
Terms to Learn: revenues, cost of goods manufactured, period costs

159. For last year, Wampum Enterprises reported revenues of $420,000, cost of goods sold of $108,000, cost of goods manufactured of $101,000, and total operating costs of $70,000. Gross margin for last year was:
a. $319,000
b. $312,000
c. $249,000
d. $242,000

Answer: b *Difficulty*: 2 *Objective*: 7
$420,000 – $108,000 = $312,000
Terms to Learn: revenues, cost of goods manufactured, period costs

160. For last year, Lewisburn Manufacturing reported the following:

Revenue	$420,000
Beginning inventory of direct materials, January 1	22,000
Purchases of direct materials	146,000
Ending inventory of direct materials, December 31	16,000
Direct manufacturing labor	18,000
Indirect manufacturing costs	40,000
Beginning inventory of finished goods, January 1	35,000
Cost of goods manufactured	104,000
Ending inventory of finished goods, December 31	36,000
Operating costs	140,000

What was Lewisburn's cost of goods sold?
a. $103,000
b. $152,000
c. $268,000
d. $317,000

Answer: a *Difficulty*: 3 *Objective*: 7
$35,000 + $104,000 – $36,000 = $103,000
Terms to Learn: Revenues, cost of goods manufactured

161. For last year, Lewisburn Manufacturing reported the following:

Revenue	$420,000
Beginning inventory of direct materials, January 1	22,000
Purchases of direct materials	146,000
Ending inventory of direct materials, December 31	16,000
Direct manufacturing labor	18,000
Indirect manufacturing costs	40,000
Beginning inventory of finished goods, January 1	35,000
Cost of goods manufactured	104,000
Ending inventory of finished goods, December 31	36,000
Operating costs	140,000

What was Lewisburn's gross margin (or gross profit)?
a. $103,000
b. $152,000
c. $268,000
d. $317,000

Answer: d *Difficulty*: 3 *Objective*: 7
$420,000 – ($35,000 + $104,000 – $36,000) = $317,000
Terms to Learn: Revenues, cost of goods manufactured

162. For last year, Lewisburn Manufacturing reported the following:

Revenue	$420,000
Beginning inventory of direct materials, January 1	22,000
Purchases of direct materials	146,000
Ending inventory of direct materials, December 31	16,000
Direct manufacturing labor	18,000
Indirect manufacturing costs	40,000
Beginning inventory of finished goods, January 1	35,000
Cost of goods manufactured	104,000
Ending inventory of finished goods, December 31	36,000
Operating costs	140,000

What was Lewisburn's operating income?
a. $76,000
b. $128,000
c. $177,000
d. $280,000

Answer: c *Difficulty*: 3 *Objective*: 7
$420,000 – ($35,000 + $104,000 – $36,000) – $140,000 = $177,000
Terms to Learn: Revenues, cost of goods manufactured

163. For last year, Lewisburn Manufacturing reported the following:

Revenue	$420,000
Beginning inventory of direct materials, January 1	22,000
Purchases of direct materials	146,000
Ending inventory of direct materials, December 31	16,000
Direct manufacturing labor	18,000
Indirect manufacturing costs	40,000
Beginning inventory of finished goods, January 1	35,000
Cost of goods manufactured	104,000
Ending inventory of finished goods, December 31	36,000
Operating costs	140,000

How much of the above would be considered period costs for Lewisburn Manufacturing?

a. $104,000
b. $140,000
c. $246,000
d. $390,000

Answer: b *Difficulty:* 3 *Objective:* 7
$140,000
Terms to Learn: period costs

164. Product costs may refer to:

a. inventoriable costs for external reporting
b. design costs plus manufacturing costs for government contracts
c. all costs incurred along the value chain for pricing decisions
d. All of these answers are correct.

Answer: d *Difficulty*: 3 *Objective*: 8
Terms to Learn: product costs

165. Product costs used for pricing and product-mix decisions generally include:

a. manufacturing costs only
b. design costs plus manufacturing costs
c. all costs incurred along the value chain
d. distribution costs only

Answer: c *Difficulty*: 3 *Objective*: 8
Terms to Learn: product costs

166. Product costs used for government contracts generally include:
    a. manufacturing costs only
    b. design costs plus manufacturing costs
    c. all costs incurred along the value chain
    d. distribution costs only

    Answer: b *Difficulty*: 3 *Objective*: 8
    Terms to Learn: product costs

167. Product costs used for external reporting generally include:
    a. manufacturing costs only
    b. design costs plus manufacturing costs
    c. all costs incurred along the value chain
    d. All of these answers are correct.

    Answer: a *Difficulty*: 2 *Objective*: 8
    Terms to Learn: product costs

168. Inventoriable costs for external reporting purposes are also called:
    a. product costs
    b. period costs
    c. variable costs
    d. direct manufacturing costs

    Answer: a *Difficulty*: 1 *Objective*: 8
    Terms to Learn: inventoriable costs

169. For external reporting:
    a. costs are classified as either inventoriable or period costs
    b. costs reflect current values
    c. there are no prescribed rules since no one is exactly sure how investors and creditors will use these numbers
    d. costs include amounts that reflect both current and future benefits

    Answer: a *Difficulty*: 2 *Objective*: 8
    Terms to Learn: inventoriable costs, period costs

170. Which of the following statements is FALSE?
    a. Product costs and inventoriable costs are interchangeable terms.
    b. Inventoriable costs are important for GAAP.
    c. Inventoriable costs are a special case of product costs.
    d. "Product costs" refers to the particular costs of a product for the purpose at hand.

    Answer: a *Difficulty*: 3 *Objective*: 8
    Terms to Learn: product costs, inventoriable costs

171. Debated items that some companies include as direct manufacturing labor include:
    a. fringe benefits
    b. vacation pay
    c. training time
    d. All of these answers are correct.

    Answer: d *Difficulty*: 2 *Objective*: 8
    Terms to Learn: direct manufacturing labor costs

172. Brenda Hicks is paid $10 an hour for straight-time and $15 an hour for overtime. One week she worked 42 hours, which included 2 hours of overtime. Compensation would be reported as:
    a. $400 of direct labor and $30 of manufacturing overhead
    b. $400 of direct labor and $0 of manufacturing overhead
    c. $420 of direct labor and $10 of manufacturing overhead
    d. $430 of direct labor and $0 of manufacturing overhead

    Answer: c *Difficulty*: 2 *Objective*: 8
    Direct labor (42 hours x $10) + Overtime premium (2 hrs x $5) = $430
    Terms to Learn: overtime premium, direct manufacturing labor costs

173. Rodney Worsham is paid $10 an hour for straight-time and $15 an hour for overtime. One week he worked 45 hours, which included 5 hours of overtime, and 3 hours of idle time caused by material shortages. Compensation would be reported as:
    a. $370 of direct labor and $105 of manufacturing overhead
    b. $420 of direct labor and $55 of manufacturing overhead
    c. $450 of direct labor and $25 of manufacturing overhead
    d. $445 of direct labor and $30 of manufacturing overhead

    Answer: b *Difficulty*: 3 *Objective*: 8
    Direct labor (42 hours x $10) + Idle time (3 hrs x $10) + Overtime premium (5 hrs x $5) = $475
    Terms to Learn: overtime premium, direct manufacturing labor costs, idle time

174. Joseph Davis worked 44 hours last week for Breakgood Manufacturing. Of the 44 hours 4 hours were considered overtime, and also Davis was idle for 5 of the 44 hours due to an equipment malfunction. Davis makes $20 per hour and is paid $30 an hour (time and a half) for overtime. Davis' total compensation for that week would be _____, and assuming Breakgood charges overtime premium and idle time to indirect labor, the amount of this compensation credited to indirect labor would be _____.
    a. $840; $40
    b. $840; $140
    c. $920; $40
    d. $920; $140

    Answer: d *Difficulty*: 3 *Objective*: 8
    total compensation (40 x $20) + (4 x $30) = $920;
    indirect labor (5 x $20) + (4 x $10) = $140
    Terms to Learn: indirect manufacturing costs, overtime premium, idle time

175. When making decisions:
    a. it is best to use average costs
    b. it is best to use unit costs
    c. it is best to use total costs rather than unit costs
    d. All of these types of costs can be used for decision making; it varies depending on the decision required.

    Answer: d *Difficulty*: 2 *Objective*: 9
    Terms to Learn: average cost, total cost, unit cost

EXERCISES AND PROBLEMS

176. Lucas Manufacturing has three cost objects that it uses to accumulate costs for its manufacturing plants. They are:

Cost object #1: The physical buildings and equipment
Cost object #2: The use of buildings and equipment
Cost object #3: The availability and use of manufacturing labor

The following manufacturing overhead cost categories are found in the accounting records:

a. Depreciation on buildings and equipment
b. Lubricants for machines
c. Property insurance
d. Supervisors' salaries
e. Fringe benefits
f. Property taxes
g. Utilities

Required:

Assign each of the above costs to the most appropriate cost object.

Answer:

Cost object # 1 includes categories a, c, and f.

Cost object # 2 includes categories b and g.

Cost object # 3 includes categories d and e.

Difficulty: 2 *Objective*: 1 *Terms to Learn:* cost object

177. Archambeau Products Company manufactures office furniture. Recently, the company decided to develop a formal cost accounting system and classify all costs into three categories. Categorize each of the following items as being appropriate for (1) cost tracing to the finished furniture, (2) cost allocation of an indirect manufacturing cost to the finished furniture, or (3) as a nonmanufacturing item.

Item	Cost Tracing	Cost Allocation	Nonmanu-facturing
Carpenter wages	_____	_____	_____
Depreciation - office building	_____	_____	_____
Glue for assembly	_____	_____	_____
Lathe department supervisor	_____	_____	_____
Lathe depreciation	_____	_____	_____
Lathe maintenance	_____	_____	_____
Lathe operator wages	_____	_____	_____
Lumber	_____	_____	_____
Samples for trade shows	_____	_____	_____
Metal brackets for drawers	_____	_____	_____
Factory washroom supplies	_____	_____	_____

Answer:

Item	Cost Tracing	Cost Allocation	Nonmanu-facturing
Carpenter wages	X		
Depreciation - office building			X
Glue for assembly		X	
Lathe department supervisor		X	
Lathe depreciation		X	
Lathe maintenance		X	
Lathe operator wages		X	
Lumber	X		
Samples for trade shows			X
Metal brackets for drawers	X		
Factory washroom supplies		X	

Difficulty: 2 *Objective*: 2 *Terms to Learn:* cost tracing, cost allocation

178. Butler Hospital wants to estimate the cost for each patient stay. It is a general health care facility offering only basic services and not specialized services such as organ transplants.

Required:

a. Classify each of the following costs as either direct or indirect with respect to each patient.
b. Classify each of the following costs as either fixed or variable with respect to hospital costs per day.

	Direct	**Indirect**	**Fixed**	**Variable**
Electronic monitoring	_____	_____	_____	_____
Meals for patients	_____	_____	_____	_____
Nurses' salaries	_____	_____	_____	_____
Parking maintenance	_____	_____	_____	_____
Security	_____	_____	_____	_____

Answer:

	Direct	**Indirect**	**Fixed**	**Variable**
Electronic monitoring	X			X
Meals for patients	X			X
Nurses' salaries		X	X	
Parking maintenance		X	X	
Security		X	X	

Difficulty: 2 *Objectives*: 2, 3 *Terms to Learn:* direct costs, indirect costs, fixed costs, variable costs

179. Springfield Manufacturing produces electronic storage devices, and uses the following three-part classification for its manufacturing costs: direct materials, direct manufacturing labor, and indirect manufacturing costs. Total indirect manufacturing costs for January were $300 million, and were allocated to each product on the basis of direct manufacturing labor costs of each line. Summary data (in millions) for January for the most popular electronic storage device, the Big Bertha, was:

	Big Bertha
Direct manufacturing costs	$9,000,000
Direct manufacturing labor costs	$3,000,000
Indirect manufacturing costs	$8,500,000
Units produced	40,000

Required:

a. Compute the manufacturing cost per unit for each product produced in January.

b. Suppose production will be reduced to 30,000 units in February. Speculate as to whether the unit costs in February will most likely be higher or lower than unit costs in January; it is not necessary to calculate the exact February unit cost. Briefly explain your reasoning.

Answer:

a. Unit costs for January were:
($9,000,000 + $3,000,000 + $8,500,000) / 40,000 = $512.50 per unit

b. Unit costs should be higher in February if only 30,000 units are to be produced. Indirect manufacturing costs most likely include both fixed and variable components. Since fewer units are expected to be produced in February, total fixed costs will be spread over fewer units. This will result in an increase in total cost per unit since variable costs per unit will most likely not change with the decreased production.

Difficulty: 2 *Objectives:* 2,3,4 *Terms to Learn:* unit cost

180. Whippany manufacturing wants to estimate costs for each product they produce at its Troy plant. The Troy plant produces three products at this plant, and runs two flexible assembly lines. Each assembly line can produce all three products.

Required:

a. Classify each of the following costs as either direct or indirect for each product.

b. Classify each of the following costs as either fixed or variable with respect to the number of units produced of each product.

	Direct	**Indirect**	**Fixed**	**Variable**
Assembly line labor wages	_____	_____	_____	_____
Plant manager's wages	_____	_____	_____	_____
Depreciation on the assembly line equipment	_____	_____	_____	_____
Component parts for the product	_____	_____	_____	_____
Wages of security personnel for the factory	_____	_____	_____	_____

Answer:

	Direct	**Indirect**	**Fixed**	**Variable**
Assembly line labor wages	X			X
Plant manager's wages		X	X	
Depreciation on the assembly line equipment		X	X	
Component parts for the product	X			X
Adhesive to hold the parts together and is an insignificant part of the final cost of the product		X		X

Difficulty: 2 *Objectives:* 2,3,4 *Terms to Learn:* fixed cost, variable cost, direct cost, indirect cost

181. The list of representative cost drivers in the right column below are randomized with respect to the list of functions in the left column. That is, they do not match.

	Function		Representative Cost Driver
1.	Purchasing	A.	Number of employees
2.	Billing	B.	Number of shipments
3.	Shipping	C.	Number of customers
4.	Computer Support	D.	Number of invoices
5.	Personnel	E.	Number of desktop computers
6.	Customer Service	F.	Number of purchase orders

Required:

Match each business function with its representative cost driver.

	Function	**Insert letter of appropriate driver (A through F)**
1.	Purchasing	
2.	Billing	
3.	Shipping	
4.	Computer Support	
5.	Personnel	
6.	Customer service	

Answer:

	Function	**Insert letter of appropriate driver (A through F)**
1.	Purchasing	F
2.	Billing	D
3.	Shipping	B
4.	Computer support	E
5.	Personnel	A
6.	Customer service	C

Difficulty: 2 *Objective:* 3 *Terms to Learn:* cost driver

182. Combs, Inc., reports the following information for September sales:

Sales	$15,000
Variable costs	3,000
Fixed costs	4,000
Operating income	$ 8,000

Required:

If sales double in October, what is the projected operating income?

Answer:

($15,000 x 2) – ($3,000 x 2) – $4,000 = $20,000

Difficulty: 2 *Objective*: 4 *Terms to Learn:* fixed cost, variable cost

183. Axle and Wheel Manufacturing currently produces 1,000 axles per month. The following per unit data apply for sales to regular customers:

Direct materials	$200
Direct manufacturing labor	30
Variable manufacturing overhead	60
Fixed manufacturing overhead	40
Total manufacturing costs	$330

The plant has capacity for 2,000 axles.

Required:

a. What is the total cost of producing 1,000 axles?
b. What is the total cost of producing 1,500 axles?
c. What is the per unit cost when producing 1,500 axles?

Answer:

a. [($200 + $30 + $60) x 1,000 units] + ($40 x 1,000 units) = $330,000
b. [($200 + $30 + $60) x 1,500 units] + $40,000 = $475,000
c. $475,000 / 1,500 = $316.67 per unit

Difficulty: 2 *Objective*: 4 *Terms to Learn:* fixed cost, variable cost, unit cost

184. The following information pertains to Ball Company:

Manufacturing costs	$2,400,000
Units manufactured	40,000
Beginning inventory	0 units

39,800 units are sold during the year for $100 per unit.

Required:

a. What is the average manufacturing cost per unit?
b. What is the amount of ending finished goods inventory?
c. What is the amount of gross margin?

Answer:

a. $2,400,000 / 40,000 = $60.00
b. (40,000 – 39,800) x $60 = $12,000
c. 39,800 x ($100 – $60) = $1,592,000

Difficulty: 2 *Objectives*: 3, 4, 7 *Terms to Learn:* unit cost, finished goods

185. Evans Inc., had the following activities during 20X5:

Direct materials:	
Beginning inventory	$ 40,000
Purchases	123,200
Ending inventory	20,800
Direct manufacturing labor	32,000
Manufacturing overhead	24,000
Beginning work-in-process inventory	1,600
Ending work-in-process inventory	8,000
Beginning finished goods inventory	48,000
Ending finished goods inventory	32,000

Required:

a. What is the cost of direct materials used during 20X5?
b. What is cost of goods manufactured for 20X5?
c. What is cost of goods sold for 20X5?
d. What amount of prime costs was added to production during 20X5?
e. What amount of conversion costs was added to production during 20X5?

Answer:

a. $40,000 + $123,200 – $20,800 = $142,400
b. $142,400 + $32,000 + $24,000 + $1,600 – $8,000 = $192,000
c. $192,000 + $48,000 – $32,000 = $208,000
d. $142,400 + $32,000 = $174,400
e. $32,000 + $24,000 = $56,000

Difficulty: 2 *Objectives*: 6, 7 *Terms to Learn:* direct cost, indirect cost, prime cost, conversion cost

186. Helmer Sporting Goods Company manufactured 100,000 units in 20X5and reported the following costs:

Sandpaper	$ 32,000	Leasing costs — plant	$ 384,000
Materials handling	320,000	Depreciation — equipment	224,000
Coolants & lubricants	22,400	Property taxes — equipment	32,000
Indirect manufacturing labor	275,200	Fire insurance — equipment	16,000
Direct manufacturing labor	2,176,000	Direct material purchases	3,136,000
Direct materials, 1/1/X5	384,000	Direct materials, 12/31/X5	275,200
Finished goods, 1/1/X5	672,000	Sales revenue	12,800,000
Finished goods, 12/31/X5	1,280,000	Sales commissions	640,000
Work-in-process, 1/1/X5	96,000	Sales salaries	576,000
Work-in-process, 12/31/X5	64,000	Advertising costs	480,000
		Administration costs	800,000

Required:

a. What is the amount of direct materials used during 20X5?
b. What manufacturing costs were added to WIP during 20X5?
c. What is cost of goods manufactured for 20X5?
d. What is cost of goods sold for 20X5?

Answer:

a. $384,000 + $3,136,000 – $275,200 = $3,244,800

b. $3,244,800 + $2,176,000 + $32,000 + $320,000 + $22,400 + $275,200 + $384,000 + $224,000 + $32,000 + $16,000 = $6,726,400

c. $6,726,400 + $96,000 – $64,000 = $6,758,400

d. $6,758,400 + $672,000 – $1,280,000 = $6,150,400

Difficulty: 3 *Objectives*: 6, 7 *Terms to Learn:* cost of goods manufactured

187. Messinger Manufacturing Company had the following account balances for the quarter ending March 31, unless otherwise noted:

Work-in-process inventory (January 1)	$ 140,400
Work-in-process inventory (March 31)	171,000
Finished goods inventory (January 1)	540,000
Finished goods inventory (March 31)	510,000
Direct materials used	378,000
Indirect materials used	84,000
Direct manufacturing labor	480,000
Indirect manufacturing labor	186,000
Property taxes on manufacturing plant building	28,800
Salespersons' company vehicle costs	12,000
Depreciation of manufacturing equipment	264,000
Depreciation of office equipment	123,600
Miscellaneous plant overhead	135,000
Plant utilities	92,400
General office expenses	305,400
Marketing distribution costs	30,000

Required:

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

Answer:

a.

Messinger Manufacturing Company
Cost of Goods Manufactured Schedule
For quarter ending March 31

Direct materials used		$ 378,000
Direct manufacturing labor		480,000
Manufacturing overhead		
Depreciation of manufacturing equipment	$264,000	
Indirect manufacturing labor	186,000	
Indirect materials	84,000	
Miscellaneous plant overhead	135,000	
Plant utilities	92,400	
Property taxes on building	28,800	790,200
Manufacturing costs incurred		$1,648,200
Add beginning work-in-process inventory		140,400
Total manufacturing costs		$1,788,600
Less ending work-in-process inventory		171,000
Cost of goods manufactured		$1,617,600

b.

Messinger Manufacturing Company
Cost of Goods Sold Schedule
For the quarter ending March 31

Beginning finished goods inventory	$ 540,000
Cost of goods manufactured	1,617,600
Cost of goods available for sale	2,157,600
Ending finished goods inventory	(510,000)
Cost of goods sold	$1,647,600

Difficulty: 2 *Objectives*: 6, 7 *Terms to Learn:* cost of goods manufactured

188. Using the following information find the unknown amounts. Assume each set of information is an independent case.

a.	Merchandise Inventory	Purchases	$420,000
		Cost of goods sold	446,000
		Beginning balance	82,000
		Ending balance	?
b.	Direct Materials	Beginning balance	$ 14,000
		Ending balance	28,000
		Purchases	96,000
		Direct materials used	?
c.	Work-in-process Inventory	Ending balance	$ 44,000
		Cost of goods manufactured	42,000
		Beginning balance	16,000
		Current manufacturing costs	?
d.	Finished Goods Inventory	Cost of goods manufactured	$124,000
		Ending balance	40,000
		Cost of goods sold	122,000
		Beginning balance	?

Answer:

a. Ending balance of merchandise inventory:
$82,000 + $420,000 – $446,000 = $56,000

b. Direct materials used:
$14,000 + $96,000 – $28,000 = $82,000

c. Current manufacturing costs:
$42,000 + $44,000 – $16,000 = $70,000

d. Beginning balance of finished goods inventory:
$40,000 + $122,000 – $124,000 = $38,000

Difficulty: 2 *Objectives*: 6, 7 *Terms to Learn:* cost of goods manufactured

189. Each of the following items pertains to one of these companies: Bedell Electronics (a manufacturing company), Gregory Food Retailers (a merchandising company), and Larson Real Estate (a service sector company). Classify each item as either inventoriable (I) costs or period (P) costs.

		inventoriable (I) costs or period (P) costs
a.	Salary of Bedell Electronics president	
b.	Depreciation on Bedell Electronics assembly equipment.	
c.	Salaries of Bedell's assembly line workers	
d	Purchase of frozen food for sale to customers by Gregory Food Retailers	
e	Salaries of frozen food personnel at Gregory Food Retailing	
f	Depreciation on freezers at Gregory Food Retailing	
g.	Salary of a receptionist at Larson Real Estate	
h.	Depreciation on a computer at Larson Real Estate	
i.	Salary of a real estate agent at Larson Real Estate	

Answer:

		inventoriable (I) costs or period (P) costs
a.	Salary of Bedell Electronics president	P
b.	Depreciation on Bedell Electronics assembly equipment.	I
c.	Salaries of Bedell's assembly line workers	I
d	Purchase of frozen food for sale to customers by Gregory Food Retailers	I
e	Salaries of frozen food personnel at Gregory Food Retailing	P
f	Depreciation on freezers at Gregory Food Retailing	P
g.	Salary of a receptionist at Larson Real Estate	P
h.	Depreciation on a computer at Larson Real Estate	P
i.	Salary of a real estate agent at Larson Real Estate	P

Difficulty: 2 *Objective: 7* *Terms to Learn:* inventoriable costs, period costs

190. On the assembly floor, Cynthia Evans is paid $20 an hour for straight-time and $30 an hour for overtime. One week she worked 43 hours, which included 3 hours of overtime.

Required:

a. What is Cynthia's total compensation for the week?
b. What amount of compensation would be reported as direct manufacturing labor?
c. What amount of compensation would be reported as manufacturing overhead?

Answer:

a. Direct labor (43 hours x $20) + Overtime premium (3 hrs x $10) = $890
b. Direct manufacturing labor (43 hours x $20) = $860
c. Manufacturing overhead costs = Overtime premium (3 hrs x $10) = $30

Difficulty: 2 *Objective*: 7 *Terms to Learn:* overtime premium

191. In the manufacturing plant, Leslie Grant is paid $20 an hour for straight-time and $30 an hour for overtime. One week she worked 46 hours, which included 6 hours of overtime, and 4 hours of idle time caused by material shortages.

Required:

a. What is Leslie's total compensation for the week?
b. What amount of compensation would be reported as direct manufacturing labor?
c. What amount of compensation would be reported as manufacturing overhead?

Answer:

a. Direct manufacturing labor (42 hours x $20) + Idle time (4 hrs x $20) + Overtime premium (6 hrs x $10) = $980
b. Direct manufacturing labor (42 hours x $20) = $840
c. Manufacturing overhead costs = Idle time (4 hrs x $20) + Overtime premium (6 hrs x $10) = $140

Difficulty: 2 *Objective*: 7 *Terms to Learn:* overtime premium, idle time

CRITICAL THINKING

192. What is the meaning of the term "cost object"? Give an example of a cost object that would be used in a manufacturing company, a merchandising company, and a service sector company?

Answer:
A cost object is anything for which a measurement of costs is desired. An example of a cost object for a manufacturing company might be the cost of manufacturing a particular product. An example of a cost object for a merchandising company might be a particular department of a retail store. An example of a cost object for a service sector company might be the cost to serve or supply a particular customer.

Difficulty: 3 *Objectives:* 1,5 *Terms to Learn:* cost object

193. Why is it possible that a raw material such as glue might be considered as an indirect material for one furniture manufacturer and as a direct material for another furniture manufacture?

Answer:
It is possible for a raw material such as glue to be considered as an indirect material by one furniture manufacturer and as a direct material by another furniture manufacturer. The decision is largely a choice by the manufacturer and depends on a number of factors including the materiality of the cost in question, the cost of gathering the information, and the design of the manufacturing process. If the product in question has an insignificant cost, it might not be worth the trouble to trace the cost of the glue to each piece of furniture, and the glue would be considered indirect. If the cost of tracing the cost of the glue is high in relation to the benefits received from tracing it, the glue would likely be considered as indirect material. If the design of the manufacturing process easily permits all the glue to be traced to a single type of furniture, then it would be easy for a company to consider that material to be direct. Overall, the direct/indirect classification is decided on a cost/benefit basis.

Difficulty: 3 *Objective:* 2 *Terms to Learn:* direct material

194. What are the differences between direct costs and indirect costs? Give an example of each.

Answer:
Direct costs are costs that can be traced easily to the product manufactured or the service rendered. Examples of direct costs include direct materials and direct manufacturing labor used in a product. *Indirect* costs cannot be easily identified with individual products or services rendered, and are usually assigned using allocation formulas. In a plant that manufactures multiple products, examples of indirect costs include the plant supervisor's salary and the cost of machines used to produce more than one type of product.

Difficulty: 2 *Objective*: 2 *Terms to Learn:* direct costs, indirect costs

195. Describe a variable cost. Describe a fixed cost. Explain why the distinction between variable and fixed costs is important in cost accounting.

Answer:
Total variable costs increase with increased production or sales volumes.
Fixed costs are not influenced by fluctuations in production or sales volumes.
Without the knowledge of cost behaviors, budgets and other forecasting tools will be inaccurate and unreliable. Understanding whether a cost behaves as a variable or a fixed cost is essential to estimating and planning for business success.

Difficulty: 2 *Objective*: 3 *Terms to Learn:* variable cost, fixed cost

196. Explain the difference between an inventoriable cost and a period cost. What potential problems does an inaccurate classification of product and period costs cause?

Answer:
Inventoriable costs are all costs of a product that are considered as assets in the balance sheet when they are incurred and which become cost of goods sold only when the product is sold. Period costs are treated as expenses of the accounting period in which they are incurred. An inaccurate classification of inventoriable and period costs could lead to violations of the matching principle, which states that costs used in producing revenue should be matched on the income statement when the revenue is recognized. In extreme cases, net income for a given period might be significantly misstated if proper matching does not occur.

Difficulty: 2 *Objective*: 7 *Terms to Learn:* inventoriable cost

197. When should the overtime premium of direct manufacturing labor be considered an indirect manufacturing cost? A direct manufacturing cost?

Answer:
The overtime premium of direct manufacturing labor should be considered an indirect manufacturing cost when it is attributable to the overall volume of work, and a direct manufacturing cost when a "rush job" is the sole source of the overtime.

Difficulty: 2 *Objective*: 7 *Terms to Learn:* overtime premium