

Chapter 02

True / False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True

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b. False

ANSWER: True

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

a. True

b. False

ANSWER: True

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

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: True

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

a. True

b. False

ANSWER: True

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

a. True

b. False

ANSWER: True

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

a. True

b. False

ANSWER: True

16. The revenue per unit is called cost.

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: True

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18. Costs are incurred to produce future benefits.

- a. True
- b. False

ANSWER: True

19. Expired costs are called assets.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

32. Marketing costs would be classified as period costs.

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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36. All manufacturing costs are classified as overhead.

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

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

- a. True
- b. False

ANSWER: False

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

- a. True
- b. False

ANSWER: True

Multiple Choice

42. Which of the following is true of expired costs?

- a. Expired costs are reported as fixed assets on a company's balance sheet.
- b. Expired costs are added to revenue to determine income on the income statement.
- c. Expired costs are used up in the production of revenue.
- d. Expired costs are recognized as liabilities on the balance sheet.

ANSWER: c

43. Which of the following is true of assigning costs to cost objects?

- a. Assigning costs to cost objects typically is more difficult than cost accumulation.
- b. Assigning costs to cost objects can be accomplished in a number of ways.
- c. The choice of a method for assigning costs to cost objects depends on a number of factors, such as the need for

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accuracy.

d. All of these are true.

ANSWER: d

44. Which of the following statements best describes an indirect cost?

- a. An indirect cost can be easily and accurately traced to a cost object.
- b. An indirect cost is assigned to a cost object using allocation.
- c. It is not important to assign an indirect cost as it can be traced to a cost object.
- d. None of these statements are true.

ANSWER: b

45. Which of the following is true of a variable cost?

- a. A variable cost in total changes in direct proportion to changes in output within the relevant range.
- b. A variable cost is a cost that is not linked to a company's output.
- c. A variable cost in total remains constant regardless of the level of output.
- d. A variable cost in total increases as output decreases and decreases as output increases.

ANSWER: a

46. Which of the following statements is true of cost?

- a. Cost is the difference between gross margin and operating expenses.
- b. Cost and price are always same for the owner of a company.
- c. Cost is a dollar measure of the resources used to achieve a given benefit.
- d. Cost is the revenue per unit.

ANSWER: c

47. Which of the following is true of price?

- a. Price must be greater than cost for a firm to earn income.
- b. Price is the difference between gross margin and the cost of goods sold.
- c. Price is a dollar measure of the resources used to achieve a given benefit.
- d. Price is the difference between cost per unit and income per unit.

ANSWER: a

48. Which of the following statements is true of assigning costs to a cost object?

- a. Assigning costs to a cost object is the way that costs are measured and recorded.
- b. Assigning costs to a cost object can be accomplished in a number of ways.
- c. Assigning costs to a cost object typically is simpler than cost accumulation.
- d. All of these

ANSWER: b

49. An opportunity cost is:

- a. the benefit given up or sacrificed when one alternative is chosen over another.
- b. the cost to market, distribute, and service a product or service.
- c. expensed in the period in which it is incurred; it is not inventoried.
- d. the difference between gross margin and operating expenses.

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ANSWER: a

50. Non-manufacturing costs include
- a. marketing and administration.
 - b. direct materials.
 - c. indirect materials.
 - d. overhead.

ANSWER: a

51. Which of the following is an example of a service?
- a. motorcycle
 - b. eye exam
 - c. stereo
 - d. television

ANSWER: b

52. Which of the following is an example of a tangible product?
- a. lawn care
 - b. accounting services
 - c. customer service
 - d. computer

ANSWER: d

53. Costs are subdivided into what two major functional categories?
- a. opportunity and allocation
 - b. fixed and variable
 - c. product and non-production
 - d. direct and indirect

ANSWER: c

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

ANSWER: d

55. Which of the following would *not* be a period cost?
- a. research and development
 - b. direct materials
 - c. advertising costs
 - d. office supplies

ANSWER: b

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56. Which of the following would be an example of a direct materials cost?
- a. engine on an airplane
 - b. lubricant used to manufacture a lighting fixture
 - c. glue used to build cabinets
 - d. nails used to manufacture a table

ANSWER: a

57. Product costs consist of
- a. period costs.
 - b. indirect materials, indirect labor, and administrative costs.
 - c. direct materials, direct labor, and selling costs.
 - d. direct materials, direct labor, and overhead.

ANSWER: d

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

ANSWER: d

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

ANSWER: a

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

ANSWER: b

61. Direct labor is a(n)
- a. product cost.
 - b. opportunity cost.
 - c. administrative cost.
 - d. fixed cost.

ANSWER: a

62. Overhead includes
- a. indirect labor.

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- b. indirect materials.
- c. factory supplies.
- d. all of these.

ANSWER: d

63. Which of the following would *not* be included in overhead?

- a. marketing costs
- b. property taxes on the factory
- c. factory utility costs
- d. depreciation on factory machinery

ANSWER: a

64. Indirect labor would include

- a. salary of the vice-president of marketing.
- b. salary of CEO.
- c. salary of factory supervisor.
- d. none of these are correct.

ANSWER: c

65. The unit cost

- a. is the total product costs divided by the number of units produced.
- b. includes period costs.
- c. is the total prime costs divided by the number of units produced.
- d. is the total conversion costs divided by the number of units produced.

ANSWER: a

66. Prime cost is

- a. indirect materials cost and direct labor cost.
- b. direct materials cost and direct labor cost.
- c. direct labor cost and indirect labor cost.
- d. direct materials cost and indirect labor cost.

ANSWER: b

67. Conversion cost is the sum of

- a. product costs and period costs.
- b. selling cost and administrative costs.
- c. direct labor cost and direct materials costs.
- d. direct labor cost and overhead costs.

ANSWER: d

68. Period costs

- a. are selling costs and administrative costs.
- b. are used to compute product cost.
- c. can be included in overhead costs.

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d. are carried in inventory until the goods are sold.

ANSWER: a

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

- a. research and development
- b. selling and marketing
- c. general accounting
- d. all of these

ANSWER: d

70. Cost of goods manufactured equals

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

ANSWER: b

71. Cost of goods manufactured equals

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

ANSWER: a

72. The cost of the partially completed goods at the end of the period would be

- a. ending work in process inventory.
- b. cost of goods sold.
- c. beginning finished goods inventory.
- d. beginning work in process inventory.

ANSWER: a

73. Product costs are expensed

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

ANSWER: c

74. Excellent Inc. had a per-unit conversion cost of \$3.00 during April and incurred direct materials cost of \$112,000, direct labor costs of \$84,000, and manufacturing overhead costs of \$50,400 during the month. How many units did it manufacture during the month?

- a. 70,000
- b. 18,000
- c. 44,800

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d. 30,000

ANSWER: c

75. Synergy Inc. manufactured 6,000 units during the month of March. They incurred direct materials cost of \$120,000 and manufacturing overhead costs of \$48,000. If their per-unit prime cost was \$31.20 per unit, how much direct labor cost did it incur during March?

- a. \$20,000
- b. \$35,000
- c. \$90,000
- d. \$67,200

ANSWER: d

76. During the month of January, Robinson & Green Inc. had total manufacturing costs of \$121,000. It incurred \$44,000 of direct labor cost and \$33,000 of manufacturing overhead cost during the month. If the materials inventory on January 1 was \$3,300 less than the materials inventory on January 31, what was the cost of materials purchased during the month?

- a. \$37,000
- b. \$47,300
- c. \$40,000
- d. None of these

ANSWER: b

77. Product costs that are *not* attached to units that are sold are reported as:

- a. selling expenses on the income statement.
- b. costs of goods sold on the balance sheet.
- c. administrative costs on the income statement.
- d. inventory on the balance sheet.

ANSWER: d

78. Information from the records of Davies & Moore Corporation for December of the current year is as follows:

Sales	\$1,353,000
Selling and administrative expenses	231,000
Direct materials used	290,400
Direct labor	330,000
Manufacturing overhead	445,500

	<u>Inventories</u>	
	<u>Dec. 1</u>	<u>Dec. 31</u>
Direct materials	\$39,600	\$46,200
Work in process	82,500	92,400
Finished goods	75,900	62,700

The conversion costs are:

- a. \$960,000.
- b. \$1,179,000.
- c. \$775,500.
- d. \$564,000.

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ANSWER: c

79. Information from the records of Garcia & Gordon Corp. for December of the current year is as follows:

Sales	\$1,353,000
Selling and administrative expenses	2,310,00
Direct materials used	290,400
Direct labor	330,000
Factory overhead	445,500

	<u>Inventories</u>	
	<u>Dec. 1</u>	<u>Dec. 31</u>
Direct materials	\$39,600	\$46,200
Work in process	82,500	92,400
Finished goods	75,900	62,700

The prime costs are:

- a. \$960,000.
- b. \$620,400.
- c. \$705,000.
- d. \$969,000.

ANSWER: b

80. Taylor & Edwards Inc. manufactures television sets. Last month, direct materials (electronic components, etc.) costing \$550,000 were put into production. Direct labor of \$880,000 was incurred, manufacturing overhead equaled \$495,000, and selling and administrative costs totaled \$396,000. The company manufactured 8,400 television sets during the month. Assume that there were no beginning or ending work in process balances. What was the per-unit conversion cost? (Note: Round answer to two decimal places.)

- a. \$218.75
- b. \$163.69
- c. \$162.54
- d. \$100.15

ANSWER: b

81. Atlas Inc. manufactures television sets. Last month, direct materials (electronic components, etc.) costing \$550,000 were put into production. Direct labor of \$880,000 was incurred, manufacturing overhead equaled \$495,000, and selling and administrative costs totaled \$396,000. The company manufactured 8,400 television sets during the month. Assume that there were no beginning or ending work in process balances. What was the total product cost for last month?

- a. \$1,925,000
- b. \$2,110,000
- c. \$1,300,000
- d. \$1,250,000

ANSWER: a

82. Taylor & Edwards Inc. manufactures television sets. Last month, direct materials (electronic components, etc.) costing \$550,000 were put into production. Direct labor of \$880,000 was incurred, manufacturing overhead equaled \$495,000, and selling and administrative costs totaled \$396,000. The company manufactured 8,400 television sets during the month. Assume that there were no beginning or ending work in process balances. What was the per unit prime cost? (Note: Round your answer to two decimal places.)

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- a. \$263.75
- b. \$62.50
- c. \$170.24
- d. \$156.25

ANSWER: c

83. Taylor & Edwards Inc. manufactures television sets. Last month, direct materials (electronic components, etc.) costing \$550,000 were put into production. Direct labor of \$880,000 was incurred, manufacturing overhead equaled \$495,000, and selling and administrative costs totaled \$396,000. The company manufactured 8,400 television sets during the month. Assume that there were no beginning or ending work in process balances. What was the amount of cost of goods manufactured last month?

- a. \$1,925,000
- b. \$1,250,000
- c. \$1,300,000
- d. \$2,110,000

ANSWER: a

84. In July, Greenwood Company purchased materials costing \$23,100 and incurred direct labor cost of \$19,800. Manufacturing overhead totaled \$35,200 for the month. Information on inventories was as follows:

	<u>July 1</u>	<u>July 31</u>
Materials	\$6,820	\$7,810
Work in process	770	1,320
Finished goods	3,630	2,970

What was the cost of direct materials used in production for the month of July?

- a. \$21,000
- b. \$22,110
- c. \$21,900
- d. \$20,500

ANSWER: b

85. In July, Noel & Vang Company purchased materials costing \$23,100 and incurred direct labor cost of \$19,800. Manufacturing overhead totaled \$35,200 for the month. Information on inventories was as follows:

	<u>July 1</u>	<u>July 31</u>
Materials	\$6,820	\$7,810
Work in process	770	1,320
Finished goods	3,630	2,970

What was the total manufacturing costs in July?

- a. \$71,000
- b. \$50,000
- c. \$69,600
- d. \$77,110

ANSWER: d

86. In July, Noel & Vang Company purchased materials costing \$23,100 and incurred direct labor cost of \$19,800.

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Direct labor	8.80
Manufacturing overhead	16.50

Last year, Wooten & McMahon Enterprises produced and sold 825 units at a sales price of \$74.80 each. Total selling and administrative expense was \$24,200. What was the per-unit prime cost? (Note: Round your answer to two decimal places.)

- a. \$21.80
- b. \$23.50
- c. \$34.20
- d. \$11.70

ANSWER: a

90. Wooten & McMahon Enterprises produces a product with the following per-unit costs:

Direct materials	\$13.00
Direct labor	8.80
Manufacturing overhead	16.50

Last year, Wooten & McMahon Enterprises produced and sold 825 units at a sales price of \$74.80 each. Total selling and administrative expense was \$24,200. What was the cost of goods sold last year? (Note: Round answer to two decimal places.)

- a. \$47,500.10
- b. \$31,597.50
- c. \$14,250.50
- d. \$51,000.20

ANSWER: b

91. Wooten & McMahon Enterprises produces a product with the following per-unit costs:

Direct materials	\$13.00
Direct labor	8.80
Manufacturing overhead	16.50

Last year, Wooten & McMahon Enterprises produced and sold 825 units at a sales price of \$74.80 each. Total selling and administrative expense was \$24,200. What was the total operating income last year? (Note: Round answer to two decimal places.)

- a. \$29,000.75
- b. \$51,000.00
- c. \$25,500.50
- d. \$5,912.50

ANSWER: d

92. Last year, Buckner & Jones Company incurred the following costs:

Direct materials	\$42,000
Direct labor	63,000
Manufacturing overhead	94,500
Selling expenses	25,200
Administrative expenses	23,100

Buckner & Jones produced and sold 2,060 units at a sales price of \$131.25 each. Assume that beginning and ending inventories of materials, work in process, and finished goods were zero.

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The total period expense was:

- a. \$24,000.
- b. \$190,000.
- c. \$48,300.
- d. \$250,000.

ANSWER: c

93. Last year, Buckner & Jones Company incurred the following costs:

Direct materials	\$42,000
Direct labor	63,000
Manufacturing overhead	94,500
Selling expenses	25,200
Administrative expenses	23,100

Buckner & Jones produced and sold 2,060 units at a sales price of \$131.25 each. Assume that beginning and ending inventories of materials, work in process, and finished goods were zero. What was the gross margin per unit? (Note: Round your answer to two decimal places.)

- a. \$125.25
- b. \$7.56
- c. \$95.50
- d. \$34.41

ANSWER: d

94. Last year, Buckner & Jones Company incurred the following costs:

Direct materials	\$42,000
Direct labor	63,000
Manufacturing overhead	94,500
Selling expenses	25,200
Administrative expenses	23,100

Buckner & Jones produced and sold 2,060 units at a sales price of \$131.25 each. Assume that beginning and ending inventories of materials, work in process, and finished goods were zero.

The total product costs were:

- a. \$199,500.
- b. \$100,000.
- c. \$150,000.
- d. \$236,000.

ANSWER: a

95. Last year, Buckner & Jones Company incurred the following costs:

Direct materials	\$42,000
Direct labor	63,000

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Manufacturing overhead	94,500
Selling expenses	25,200
Administrative expenses	23,100

Buckner & Jones produced and sold 2,060 units at a sales price of \$131.25 each. Assume that beginning and ending inventories of materials, work in process, and finished goods were zero. What was the conversion cost per unit? (Note: Round answer to two decimal places.)

- a. \$50.55
- b. \$76.46
- c. \$95.00
- d. \$125.65

ANSWER: b

96. Cost of goods sold

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

ANSWER: d

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

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

ANSWER: b

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

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

ANSWER: d

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

- a. sales revenue
- b. selling expenses
- c. factory equipment
- d. all of these are correct

ANSWER: c

100. Gross margin equals

- a. cost of goods sold – selling and administrative expenses.
- b. direct materials + direct labor + manufacturing overhead.
- c. sales revenue – cost of goods sold.

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d. cost of goods manufactured + selling and administrative expenses.

ANSWER: c

101. Operating income equals

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

ANSWER: a

102. Gross margin percent equals

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

ANSWER: c

103. Which of the following would *not* be found on an income statement of a service organization?

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

ANSWER: b

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

- a. revenues
- b. operating income
- c. administrative expenses
- d. all of these can be found on both.

ANSWER: d

105. A manufacturer normally has

- a. one inventory account.
- b. four inventory accounts.
- c. three inventory accounts.
- d. none of these are correct.

ANSWER: c

106. An income statement of a manufacturer

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

ANSWER: d

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107. On a manufacturer's income statement expenses are separated into the following three categories:

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

ANSWER: c

108. Hendrix & Franks Company had the following beginning and ending inventory balances for the current year ended December 31:

	<u>January 1</u>	<u>December 31</u>
Materials	\$11,000	\$ 8,800
Work in Process	19,800	18,700
Finished Goods	23,100	18,150

In addition, direct labor costs of \$33,000 were incurred, manufacturing overhead equaled \$46,200, materials purchased were \$29,700, and selling and administrative costs were \$24,200. Hendrix & Franks Co. sold 27,500 units of product during the year at a sales price of \$5.25 per unit. What was the amount of cost of goods manufactured for the year?

- a. \$101,000
- b. \$124,000
- c. \$100,000
- d. \$112,200

ANSWER: d

109. Hendrix & Franks Company had the following beginning and ending inventory balances for the current year ended December 31:

	<u>January 1</u>	<u>December 31</u>
Materials	\$11,000	\$ 8,800
Work in Process	19,800	18,700
Finished Goods	23,100	18,150

In addition, direct labor costs of \$33,000 were incurred, manufacturing overhead equaled \$46,200, materials purchased were \$29,700, and selling and administrative costs were \$24,200. Hendrix & Franks Co. sold 27,500 units of product during the year at a sales price of \$5.25 per unit. What was the amount of cost of goods sold for the year?

- a. \$102,000
- b. \$97,500
- c. \$117,150
- d. \$128,500

ANSWER: c

110. Hendrix & Franks Company had the following beginning and ending inventory balances for the current year ended December 31:

	<u>January 1</u>	<u>December 31</u>
Materials	\$11,000	\$ 8,800
Work in Process	19,800	18,700

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Finished Goods	23,100	18,150
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In addition, direct labor costs of \$33,000 were incurred, manufacturing overhead equaled \$46,200, materials purchased were \$29,700, and selling and administrative costs were \$24,200. Hendrix & Franks Co. sold 27,500 units of product during the year at a sales price of \$5.25 per unit. What were the total manufacturing costs for the year?

- a. \$111,100
- b. \$102,000
- c. \$123,000
- d. \$106,500

ANSWER: a

111. Hendrix & Franks Co. had the following beginning and ending inventory balances for the current year ended December 31:

	<u>January 1</u>	<u>December 31</u>
Materials	\$11,000	\$ 8,800
Work in Process	19,800	18,700
Finished Goods	23,100	18,150

In addition, direct labor costs of \$33,000 were incurred, manufacturing overhead equaled \$46,200, materials purchased were \$29,700, and selling and administrative costs were \$24,200. Hendrix & Franks Co. sold 27,500 units of product during the year at a sales price of \$5.25 per unit. What was the operating income (loss) for the year?

- a. \$18,500
- b. \$125,000
- c. \$3,025
- d. \$2,000

ANSWER: c

112. During the month of June, Carney & Whitley Inc. had cost of goods manufactured of \$123,200, direct materials cost of \$57,200, direct labor cost of \$40,700, and manufacturing overhead cost of \$28,600. The work in process balance on June 30 was equal to \$11,000. What was the work in process balance on June 1?

- a. \$7,700
- b. \$13,000
- c. \$10,000
- d. \$115,000

ANSWER: a

113. Emerson & Slater Inc. had materials inventory of \$13,200 on July 1. The materials inventory on July 31 was \$16,500 and the cost of direct materials used in production was \$22,000. What was the cost of materials purchased during the month?

- a. \$25,300
- b. \$17,000
- c. \$35,000
- d. \$20,000

ANSWER: a

114. Rocha & Noel Inc. had cost of goods sold of \$123,200 for the current year ended December 31. The finished goods

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inventory on January 1 was \$30,800, and the finished goods inventory on December 31 was \$18,700. What was the amount of cost of goods manufactured for the year?

- a. \$129,000
- b. \$111,100
- c. \$67,000
- d. \$113,000

ANSWER: b

115. Thomas & Cooke Inc. had a gross margin for the month of February totaling \$46,200. They sold 5,500 units during the month at a sales price of \$22 per unit. What was the amount of cost of goods sold for the month?

- a. \$100,000
- b. \$42,000
- c. \$74,800
- d. None of these are correct.

ANSWER: c

116. Wright & Boyle Inc. had the following income statement for the month of May:

Sales revenue	\$ 470,800.00
Cost of goods sold	<u>217,766.40</u>
Gross margin	\$ 253,033.60
Less:	
	\$
Selling expenses	86,199.20
Administrative expenses	<u>74,942.80</u>
	\$
Operating income	91,891.60

What was the sales revenue percent?

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

ANSWER: a

117. Wright & Boyle Inc. had the following income statement for the month of May:

Sales revenue	\$470,800.00
Cost of goods sold	217,766.40
Gross margin	\$253,033.60
Less:	
	\$
Selling expenses	86,199.20
Administrative expenses	74,942.80
	\$
Operating income	91,891.60

What was the cost of goods sold percent? (Note: Round answer to two decimal places.)

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- a. 100.51%
- b. 19.45%
- c. 52.56%
- d. 46.25%

ANSWER: d

118. Wright & Boyle Inc. had the following income statement for the month of May:

Sales revenue	\$470,800.00
Cost of goods sold	217,766.40
Gross margin	\$253,033.60
Less:	
	\$
Selling expenses	86,199.20
Administrative expenses	74,942.80
	\$
Operating income	91,891.60

What was the gross margin percent? (Note: Round answer to two decimal places.)

- a. 53.75%
- b. 48.75%
- c. 17.20%
- d. 19.14%

ANSWER: a

119. Wright & Boyle Inc. had the following income statement for the month of May:

Sales revenue	\$470,800.00
Cost of goods sold	217,766.40
Gross margin	\$253,033.60
Less:	
	\$
Selling expenses	86,199.20
Administrative expenses	74,942.80
	\$
Operating income	91,891.60

What was the selling expense percent? (Note: Round answer to two decimal places.)

- a. 17.25%
- b. 18.31%
- c. 16.20%
- d. No correct answer

ANSWER: b

120. Wright & Boyle Inc. had the following income statement for the month of May:

Sales revenue	\$470,800.00
Cost of goods sold	217,766.40
Gross margin	\$253,033.60
Less:	

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Selling expenses	\$ 86,199.20
Administrative expenses	74,942.80
Operating income	\$ 91,891.60

What was the administrative expense percent? (Note: Round answer to two decimal places.)

- a. 15.92%
- b. 19.85%
- c. 16.50%
- d. 15.50%

ANSWER: a

121. Wright & Boyle Inc. had the following income statement for the month of May:

Sales revenue	\$470,800.00
Cost of goods sold	217,766.40
Gross margin	\$253,033.60
Less:	
	\$
Selling expenses	86,199.20
Administrative expenses	74,942.80
	\$
Operating income	91,891.60

What was the operating income percent? (Note: Round your answer to two decimal places.)

- a. 15.75%
- b. 19.65%
- c. 17.55%
- d. 19.52%

ANSWER: d

122. Hill & Scott Company makes financial calculators. During the current year, Hill & Scott manufactured 106,700 financial calculators. Finished goods inventory had the following units on hand:

January 1	1,386 units
December 31	1,144 units

How many financial calculators did Hill & Scott sell during the year?

- a. 196,780
- b. 106,942
- c. 97,000
- d. 108,260

ANSWER: b

123. Hill & Scott Company makes financial calculators. During the current year, Hill & Scott manufactured 106,700 financial calculators. Finished goods inventory had the following units on hand:

January 1	1,386 units
December 31	1,144 units

If each financial calculator had a per-unit product cost of \$123.20, what was the cost of finished goods inventory on December 31? (Note: Round answer to two decimal places.)

- a. \$140,940.80

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- b. \$141,120.50
- c. \$24,640.75
- d. None of these are correct.

ANSWER: a

124. Hill & Scott Company makes financial calculators. During the current year, Hill & Scott manufactured 106,700 financial calculators. Finished goods inventory had the following units on hand:

January 1	1,386 units
December 31	1,144 units

If each financial calculator had a per-unit product cost of \$130, what was the cost of goods sold in the current year?

- a. \$10,864,000
- b. \$10,839,360
- c. \$11,005,120
- d. \$13,902,460

ANSWER: d

125. Knowles & Foreman Company took the following data from its income statement at the end of the current year:

Per-unit product cost	\$35
Gross margin percentage	41.20%
Selling and administrative expenses	\$30,900
Operating income	\$10,300

What was gross margin for the year?

- a. \$60,000
- b. \$100,000
- c. \$41,200
- d. None of these

ANSWER: c

126. Knowles & Foreman Company took the following data from its income statement at the end of the current year:

Per-unit product cost	\$35
Gross margin percentage	41.20%
Selling and administrative expenses	\$30,900
Operating income	\$10,300

What was cost of goods sold for the year?

- a. \$58,800
- b. \$40,600
- c. \$100,000
- d. None of these

ANSWER: a

127. Knowles & Foreman Company took the following data from its income statement at the end of the current year:

Per-unit product cost	\$35
Gross margin percentage	41.20%
Selling and administrative expenses	\$30,900

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Operating income \$10,300

How many units were sold during the year?

- a. 3,333 units
- b. 1,000 units
- c. 1,500 units
- d. 1,680 units

ANSWER: d

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

Per-unit product cost \$30

Gross margin percentage 40%

Selling and administrative expenses \$30,000

Operating income \$10,000

What was the sales price per unit?

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

ANSWER: a

129. If beginning work-in-process inventory is \$120,000, ending work-in-process inventory is \$160,000, cost of goods manufactured is \$400,000 and direct materials used are \$100,000, what are the conversion costs?

- a. \$140,000
- b. \$280,000
- c. \$300,000
- d. \$340,000

ANSWER: d

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

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

Net income for the month of December is:

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

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d. \$180,000.

ANSWER: b

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

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

The cost of direct materials purchased is:

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

ANSWER: b

Completion

132. Expired costs are called _____.

ANSWER: expenses

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

ANSWER: Cost

134. _____ is the way that a cost is linked to some cost object.

ANSWER: Assigning costs

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

ANSWER: cost object

136. Costs that can be easily and accurately traced to a cost object are called _____.

ANSWER: direct costs

137. The process of assigning an indirect cost to a cost object by using a reasonable and convenient method is called _____.

ANSWER: allocation.

138. A(n) _____ is the benefit given up or sacrificed when one alternative is chosen over another.

ANSWER: opportunity cost

139. A(n) _____ is a cost that does not increase in total as output increase and does not decrease in total as

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output decreases.

ANSWER: fixed cost

140. Organizations that produce products are called _____.

ANSWER: manufacturing organizations

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

ANSWER: Product costs

142. Materials that become part of a product usually are classified as _____.

ANSWER: direct materials.

143. Insurance coverage, medical care, and accounting are examples of _____ performed for customers.

ANSWER: service activities or services

144. _____ equals the sum of direct materials, direct labor, and manufacturing overhead.

ANSWER: Total product cost

145. All product costs other than direct materials and direct labor are put into a category called _____.

ANSWER: manufacturing overhead.

146. _____ is the sum of direct labor cost and manufacturing overhead cost.

ANSWER: Conversion cost

147. _____ and _____ costs are considered period costs.

ANSWER: Selling and administrative
selling, administrative
administrative, selling

148. Employees who convert direct materials into a product are classified as _____.

ANSWER: direct labor.

149. _____ is the cost of the partially completed goods that are still on the factory floor at the end of a time period.

ANSWER: Work in process

150. The difference between sales revenue and cost of goods sold is known as the _____.

ANSWER: gross margin

151. The _____ represents that total product cost of goods completed during the current period and transferred to finished goods inventory.

ANSWER: cost of goods manufactured

Matching

Select the appropriate classification for each of the following costs.

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- a. Period
- b. Product

152. Advertising costs

ANSWER: a

153. Cost accountant's salary

ANSWER: a

154. Factory supervisor's salary

ANSWER: b

155. Research and development costs

ANSWER: a

156. Marketing costs

ANSWER: a

157. Cost of shipping products to customers

ANSWER: a

158. Supplies for factory washroom

ANSWER: b

159. Assembly line worker's wages

ANSWER: b

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

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

160. cost of tires

ANSWER: a

161. factory supplies

ANSWER: c

162. general accounting costs

ANSWER: e

163. factory security costs

ANSWER: c

164. factory janitorial costs

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ANSWER: c

165. salary of chief executive officer

ANSWER: e

166. depreciation of vehicles used by sales personnel

ANSWER: d

167. cost of windshields used in the production process

ANSWER: a

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

a. Product cost

b. Period cost

168. Cost of nails used by a home builder

ANSWER: a

169. Fees paid to an advertising firm

ANSWER: b

170. Sugar used in soft drink production

ANSWER: a

171. Rental cost of executive Lear jet

ANSWER: b

172. Cost of conference for sales team

ANSWER: b

173. Factory supervisor's salary

ANSWER: a

174. Fees paid to outside auditing firm

ANSWER: b

175. Factory security costs

ANSWER: a

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

a. per-unit prime cost

b. per-unit conversion cost

c. per-unit cost of goods manufactured

176. (direct labor + overhead)/units produced

ANSWER: b

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

ANSWER: c

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

ANSWER: a

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

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

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

ANSWER: c

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

ANSWER: f

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

ANSWER: e

182. A manufacturing cost

ANSWER: g

183. A cost that is not inventoried

ANSWER: a

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

ANSWER: b

185. A cost that increases in total as output increases

ANSWER: d

Select the appropriate classification of the items listed below.

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

186. Chief of surgery's salary at a hospital

ANSWER: d

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187. Wages of assembly line workers in an automobile plant

ANSWER: d

188. Cost of lubricating factory machinery

ANSWER: e

189. Cost of shipping goods to customers

ANSWER: a

190. Glue used in the manufacture of furniture

ANSWER: e

191. Cost of engines in the manufacture of airplanes

ANSWER: c

192. Salary of chief executive officer

ANSWER: b

193. A professor's salary at a university

ANSWER: d

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

a. Tangible

b. Intangible

194. CPA firm

ANSWER: b

195. Car manufacturer

ANSWER: a

196. Law firm

ANSWER: b

197. Medical clinic

ANSWER: b

198. Bowling alley

ANSWER: b

199. Fast food restaurant

ANSWER: a

200. Video rental

ANSWER: b

201. Professional sports franchise

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ANSWER: b

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

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

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

ANSWER: b

203. Direct materials + direct labor + overhead

ANSWER: e

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

ANSWER: a

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

ANSWER: c

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

ANSWER: d

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

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

207. gross margin – selling and administrative expenses

ANSWER: e

208. marketing and distributing costs

ANSWER: b

209. price x units sold

ANSWER: c

210. sales revenue – cost of goods sold

ANSWER: a

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

ANSWER: d

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

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

212. Gross margin – selling and administrative expenses

ANSWER: e

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

ANSWER: d

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

ANSWER: b

215. Covers a particular period of time

ANSWER: a

216. Cost of partially completed goods

ANSWER: c

Subjective Short Answer

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

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

Fixed **Variable**

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

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

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

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

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

ANSWER:

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

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

Required:

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

ANSWER:

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

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

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

ANSWER:

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

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

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

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

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

ANSWER:

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

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9. Advertising cost	X
10. Cost of shipping vehicles to customers	X

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

Required:

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

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

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

Required:

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

ANSWER:

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

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

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

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

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

F. $(80,000 × \$18.50) = \$1,480,000$

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

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

Required:

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

ANSWER:

A.	Cost of goods sold	$\$560,000 / \$56 = 10,000$ units
B.	$10,000 \times \$34 - (\$200,000 \text{ of direct labor cost})$	$= \$140,000$
C.	$10,000 \times \$42 - (\$200,000 \text{ of direct labor cost})$	$= \$220,000$
D.	Sales revenue $(10,000 \times \$100)$	\$1,000,000
	Cost of goods sold	<u>560,000</u>
	Gross margin	\$ 440,000
E.	Gross margin	\$ 440,000
	Less: Sell. and admin.	<u>240,000</u>
	Operating income	\$ 200,000

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

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

- Wood—4000 ft. at \$1.20/ft.
- Glass—400 pieces at \$5.60/piece
- Cardboard—500 pieces at \$0.50/piece

Required:

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

ANSWER:

1. Direct materials:

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

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\$7,290

Direct labor: \$ 59,840 (22 × 160 × \$17)
 Overhead 55,000
 Total cost \$122,130

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

3. Gross margin = sales revenue – cost of goods sold
 Gross margin = \$225,000 (\$250 × 900) – \$122,130 = \$102,870

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

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

Required: Prepare a Statement of Cost of Goods Manufactured.

ANSWER:

Tucker Company
 Statement of Cost of Goods Manufactured
 For the Month of April

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

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

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

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Required:

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

ANSWER:

A. Materials, 6/1		\$ 3,000
Purchases		38,000
Materials, 6/30		<u>(2,700)</u>
Materials used		\$ 38,300
B. ($\$38,300 + \$42,000 + \$27,000$) = \$107,300		
C. Total manufacturing costs		\$107,300
Work in process, 6/1		1,000
Work in process, 6/30		<u>(1,275)</u>
Cost of goods manufactured		\$107,025
D. Cost of goods manufactured		\$107,025
Finished goods, 6/1		2,500
Finished goods, 6/30		<u>(1,775)</u>
Cost of goods sold		\$107,750

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

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

Required:

- A. Prepare a Statement of Cost of Goods Manufactured
- B. Prepare a Statement of Cost of Goods Sold

ANSWER:

Templar Company	
Statement of Cost of Goods Manufactured	
For the Month of November	
Materials inventory, Nov. 1	\$ 3,500
Purchases of materials	10,000
Materials inventory, Nov. 30	<u>(5,100)</u>

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

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

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

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

Required:

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

ANSWER:

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

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

Sales commissions	\$ 12,000
Sales revenue	120,000
Research and development	17,000
Finished goods inventory, Jan. 1	7,500

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Work in process inventory, Jan 1	9,000
Finished goods inventory, Dec. 31	6,000
Work in process inventory, Dec. 31	11,000
Cost of goods manufactured	52,000

Required: Prepare an income statement for Baleen Company.

ANSWER:

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

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

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

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

ANSWER:

Macon Company	
Income Statement	
For the Year Ended December 31, 2011	
Sales revenue	\$400,000
Cost of goods sold*	182,500
Gross margin	217,500
Less:	
Selling expenses	\$ 31,000
Administrative expenses	14,500
Operating income	<u>\$172,000</u>
 *Cost of goods manufactured**	 \$183,500

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Finished goods inventory, Jan. 1	26,000
Finished goods inventory, Dec. 31	<u>(27,000)</u>
Cost of goods sold	\$182,500
**Purchases of raw materials	\$ 62,000
Materials inventory, 1/1	21,000
Materials inventory, 12/31	<u>(23,500)</u>
Materials used	\$ 59,500
Direct labor	40,000
Overhead (\$50,000 + \$25,000)	<u>75,000</u>
Total manufacturing costs	\$174,500
Work in process inventory, Jan. 1	17,500
Work in process inventory, Dec. 31	<u>(8,500)</u>
Cost of goods manufactured	\$183,500

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

Direct labor cost	\$11,500
Purchases of raw materials	20,000
Factory depreciation	7,500
Advertising	10,000
Factory property taxes	6,500
Materials inventory, 5/1	1,250
Materials inventory, 5/31	2,500
Work in process inventory, 5/1	?
Work in process inventory, 5/31	1,500
Cost of goods manufactured	45,850
Sales revenue	?
Executive salary cost	25,000
Finished goods inventory, 5/1	5,500
Finished goods inventory, 5/31	4,250
Operating income	67,900
Gross margin	?

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

ANSWER:

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

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

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Bartlow Company
Income Statement
For the Month of May

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

233. See the following separate cases.

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

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

ANSWER:

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

234. See the following separate cases.

	<u>Case #1</u>	<u>Case #2</u>
Purchase of materials	\$ 5,000	C
Materials inventory (beginning balance)	A	\$ 220
Materials inventory (ending balance)	1,000	350
Direct labor	7,000	4,250
Factory supervision	1,500	1,100

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Factory supplies	1,250	900
Total manufacturing costs	14,500	D
Work in process inventory (beginning balance)	1,200	1,230
Work in process inventory (ending balance)	B	650
Cost of goods manufactured	14,600	10,200

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

ANSWER:

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

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

Rancor Company
Income Statement
For the Month of August

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

Required: (Round to the nearest whole percent)

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

ANSWER:

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

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

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

Required:

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

ANSWER:

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

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

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

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

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

ANSWER:

Rizzuto Company
Income Statement
For the Month of January

Sales revenue	\$500,000
Cost of goods sold (500,000 × 62%)	<u>310,000</u>
Gross margin (500,000 × 38%)	\$190,000
Less:	
Selling expense (500,000 × 6%)	30,000

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Administrative expense (500,000 × 13%)	65,000
Operating income	\$ 95,000

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

Operating income percent	10.5%
Gross margin percent	30%

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

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

ANSWER:

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

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

Direct materials	\$17
Direct labor	11
Overhead	12

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

Required: Solve for the following:

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

ANSWER:

A. $(\$17 + \$11 + \$12) \times 3,000 = \$120,000$	
B. & C. Sales revenue (3,000 × \$80)	\$240,000
Cost of goods sold	120,000
Gross margin	\$120,000
Less:	
Selling and administrative expenses	25,000
Operating income	\$ 95,000
D. $\$17 + \$11 = \$28$	

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

Direct materials	\$40,000
Direct labor	35,000

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Overhead	52,000
Selling expense	17,000
Administrative expense	12,000

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

Required: Solve for the following amounts.

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

ANSWER:

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

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

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

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

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

Factory supplies used	\$22,000
Depreciation on factory building	10,000
Commissions for sales personnel	32,000
Salary of company CFO	9,000
Factory janitorial costs	3,000
Research and development	5,000
Depreciation on corporate office	8,500
Advertising costs	2,500
Direct labor cost	40,000
Purchases of raw materials	15,000
Finished goods inventory units, May 1	4,000
Finished goods inventory units, May 31	6,500
Finished goods inventory, May 1	36,000
Finished goods inventory, May 31	59,865
Work in process inventory, May 1	7,500
Work in process inventory, May 31	3,300
Materials inventory, May 1	2,100
Materials inventory, May 31	4,200

Required:

- Prepare a Statement of Cost of Goods Manufactured.

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

ANSWER: A.

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

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

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

C.

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

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

D. Number of units sold:

Finished goods inventory, May 1	4000	
Units finished during May	10,000	
Finished goods inventory, May 31	<u>6,500</u>	
Units sold during May	7,500	

E.

Stabler Company
Income Statement
For the Month of May

Sales revenue (7,500 × \$35)	\$262,500	
Cost of goods sold	<u>68,235</u>	
Gross margin		\$194,265
Less:		
Selling expense		
Commissions	\$32,000	
Advertising	<u>2,500</u>	34,500
Administrative expense		
Salary of CFO	\$ 9,000	

Name: _____ Class: _____ Date: _____

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Research and development	5,000	
Depreciation on corporate office	<u>8,500</u>	<u>22,500</u>
Operating income		<u><u>\$137,265</u></u>