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MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) All costs incurred in a merchandising firm are considered to be period costs.
A) True
B) False
Answer: B

2) Depreciation is always considered a product cost for external financial reporting purposes in a manufacturing firm.
A) True
B) False
Answer: B

3) Advertising costs are considered product costs for external financial reports since they are incurred in order to promote specific products.
A) True
B) False
Answer: B

4) Property taxes and insurance premiums paid on a factory building are examples of manufacturing overhead.
A) True
B) False
Answer: A

5) Manufacturing overhead combined with direct materials is known as conversion cost.
A) True
B) False
Answer: B

6) If the ending inventory of finished goods is understated, net income will be overstated.
A) True
B) False
Answer: B

7) In a manufacturing company, goods available for sale equals the sum of the cost of goods manufactured and the beginning finished goods inventory.
A) True
B) False
Answer: A

8) Variable costs are costs whose per unit costs vary as the activity level rises and falls.
A) True
B) False
Answer: B

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9) On a per unit basis, a fixed cost varies inversely with the level of activity.
A) True
B) False
Answer: A

10) All the following would typically be considered indirect costs of manufacturing a particular Boeing 747 to be delivered to Singapore Airlines: electricity to run production equipment, the factory manager's salary, and the cost of the General Electric jet engines installed on the aircraft.
A) True
B) False
Answer: B

11) All the following costs should be considered direct costs of providing delivery room services to a particular mother and her baby: the costs of drugs administered in the operating room, the attending physician's fees, and a portion of the liability insurance carried by the hospital to cover the delivery room.
A) True
B) False
Answer: B

12) The following costs should be considered by a law firm to be indirect costs of defending a particular client in court: rent on the law firm's offices, the law firm's receptionist's wages, the costs of heating the law firm's offices, and the depreciation on the personal computer in the office of the attorney who has been assigned the client.
A) True
B) False
Answer: A

13) A cost that differs from one month to another is known as a differential cost.
A) True
B) False
Answer: B

14) Opportunity costs are always recorded as expenses in the accounts of an organization.
A) True
B) False
Answer: B

15) Sunk costs are irrelevant in making decisions.
A) True
B) False
Answer: A

16) The inventory accounts reported on the balance sheet of a manufacturing company will differ from those of a merchandising company.
A) True
B) False
Answer: A

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17) The corporate controller's salary would be considered a(n):
A) administrative cost.
B) product cost.
C) selling expense.
D) manufacturing cost.
Answer: A

18) The cost of fire insurance for a manufacturing plant is generally considered to be a:
A) period cost.
B) variable cost.
C) product cost.
D) fixed cost.
Answer: C

19) The cost of rent for a manufacturing plant is generally considered to be a:

	Prime cost	*Product cost*
a.	No	Yes
b.	No	No
c.	Yes	No
d.	Yes	Yes

A) choice a.
B) choice b.
C) choice c.
D) choice d.
Answer: A

20) Each of the following would be a period cost except:
A) the cost of a general accounting office.
B) the salary of the company president's secretary.
C) sales commissions.
D) depreciation of a machine used in manufacturing.
Answer: D

21) For a manufacturing company, which of the following is an example of a period rather than a product cost?
A) Wages of machine operators.
B) Insurance on factory equipment.
C) Depreciation of factory equipment.
D) Wages of salespersons.
Answer: D

22) Which of the following would be considered a product cost for external financial reporting purposes?
A) Cost of a warehouse used to store finished goods.
B) Cost of guided public tours through the company's facilities.
C) Cost of sand spread on the factory floor to absorb oil from manufacturing machines.
D) Cost of travel necessary to sell the manufactured product.
Answer: C

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23) Which of the following would NOT be treated as a product cost for external financial reporting purposes?

A) Indirect labour in the factory.
B) Advertising expenses.
C) Salaries of factory workers.
D) Depreciation on a factory building.

Answer: B

24) Transportation costs incurred by a manufacturing company to ship its product to its customers would be classified as which of the following?

A) Product cost.
B) Manufacturing overhead.
C) Administrative cost.
D) Period cost.

Answer: D

25) The salary of the president of a manufacturing company would be classified as which of the following?

A) Direct labour.
B) Period cost.
C) Product cost.
D) Manufacturing overhead.

Answer: B

26) Micro Computer Company has set up a toll-free telephone line for customer inquiries regarding computer hardware produced by the company. The cost of this toll-free line would be classified as which of the following?

A) Direct labour.
B) Manufacturing overhead.
C) Period cost.
D) Product cost.

Answer: C

27) The wages of factory maintenance personnel would usually be considered to be:

	Indirect labour	*Manufacturing overhead*
a.	No	Yes
b.	Yes	No
c.	Yes	Yes
d.	No	No

A) choice a.
B) choice b.
C) choice c.
D) choice d.

Answer: C

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28) Direct materials are a part of:

	Conversion cost	*Manufacturing cost*	*Prime cost*
a.	Yes	Yes	No
b.	Yes	Yes	Yes
c.	No	Yes	Yes
d.	No	No	No

A) choice a. B) choice b. C) choice c. D) choice d.

Answer: C

29) Manufacturing overhead consists of:

A) all manufacturing costs.
B) all manufacturing costs, except direct materials and direct labour.
C) indirect labour but not indirect materials.
D) indirect materials but not indirect labour.

Answer: B

30) Which of the following should NOT be included as part of manufacturing overhead at a company that makes office furniture?

A) Idle time for direct labour.
B) Taxes on a factory building.
C) Sheet steel in a file cabinet made by the company.
D) Manufacturing equipment depreciation.

Answer: C

31) Rossiter Company failed to record a credit sale at the end of the year, although the reduction in finished goods inventories was correctly recorded when the goods were shipped to the customer. Which one of the following statements is correct?

A) Accounts receivable was understated, inventory was not affected, sales were understated, and cost of goods sold was not affected.
B) Accounts receivable was not affected, inventory was understated, sales were understated, and cost of goods sold was understated.
C) Accounts receivable was understated, inventory was overstated, sales were understated, and cost of goods sold was overstated.
D) Accounts receivable was not affected, inventory was not affected, sales were understated, and cost of goods sold was understated.

Answer: A

32) If the cost of goods sold is greater than the cost of goods manufactured, then:

A) total manufacturing costs must be greater than cost of goods manufactured.
B) work in process inventory has decreased during the period.
C) finished goods inventory has increased during the period.
D) finished goods inventory has decreased during the period.

Answer: D

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33) Last month, when 10,000 units of a product were manufactured, the cost per unit was $60. At this level of activity, variable costs are 50% of total unit costs. If 10,500 units are manufactured next month and cost behaviour patterns remain unchanged the?

A) fixed costs will increase in total.
B) total cost per unit will decrease.
C) total variable cost will remain unchanged.
D) variable cost per unit will increase.

Answer: B

34) Variable cost:

A) decreases on a per unit basis as the number of units produced increases.
B) remains the same in total as production increases.
C) remains constant on a per unit basis as the number of units produced increases.
D) increases on a per unit basis as the number of units produced increases.

Answer: C

35) Within the relevant range, the difference between variable costs and fixed costs is:

A) both total variable costs and total fixed costs fluctuate.
B) both total variable costs and total fixed costs are constant.
C) variable costs per unit are constant and fixed costs per unit fluctuate.
D) variable costs per unit fluctuate and fixed costs per unit remain constant.

Answer: C

36) Which of the following statements regarding fixed costs is incorrect?

A) Fixed costs expressed on a per unit basis will react inversely with changes in activity.
B) Assumptions by accountants regarding the behaviour of fixed costs rest heavily on the concept of the relevant range.
C) Expressing fixed costs on a per unit basis usually is the best approach for decision-making.
D) Fixed costs frequently represent long-term investments in property, plant, and equipment.

Answer: C

37) Last month, when 10,000 units of a product were manufactured, the cost per unit was $60. At this level of activity, variable costs are 50% of total unit costs. If 10,500 units are manufactured next month and cost behaviour patterns remain unchanged, the total cost of goods manufactured will be?

A) $615,000.
B) $585,000.
C) $630,000.
D) $600,000.

Answer: A

38) Which of the following statements is true?

A) An indirect cost can be easily traced to an individual cost object.
B) An indirect cost is one incurred to support a number of cost objects.
C) The determination of a cost object is nor relevant to the traceability of costs.
D) A direct cost cannot be easily and economically traced to a cost object.

Answer: B

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39) An opportunity cost is:
A) the difference in total costs which results from selecting one alternative instead of another.
B) a cost which may be shifted to the future with little or no effect on current operations.
C) a cost which may be saved by not adopting an alternative.
D) the potential benefit forgone by selecting one alternative instead of another.
Answer: D

40) The term differential cost refers to:
A) the potential benefit forgone by selecting one alternative instead of another.
B) a cost which does not entail any dollar outlay but which is relevant to the decision-making process.
C) a cost which continues to be incurred even though there is no activity.
D) a difference in cost between any two alternatives.
Answer: D

41) Which of the following costs is often important in decision making, but is omitted from conventional accounting records?
A) Opportunity cost.
B) Fixed cost.
C) Indirect cost.
D) Sunk cost.
Answer: A

42) When a decision is made among a number of alternatives, the potential benefit that is lost by choosing one alternative over another is the:
A) accrued cost.
B) conversion cost.
C) realized cost.
D) opportunity cost.
Answer: D

43) Conversion cost consists of which of the following?
A) Manufacturing overhead cost.
B) Direct labour and manufacturing overhead costs.
C) Direct materials and direct labour costs.
D) Direct labour cost.
Answer: B

44) Prime cost consists of direct materials combined with:
A) cost of goods manufactured.
B) direct labour.
C) manufacturing overhead.
D) indirect materials.
Answer: B

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45) Which one of the following costs should NOT be considered a direct cost of serving a particular customer who orders a customized personal computer by phone directly from the manufacturer?
A) The cost of leasing a machine on a monthly basis that automatically tests hard disk drives before they are installed in computers.
B) The cost of packaging the computer for shipment.
C) The cost of the hard disk drive installed in the computer.
D) The cost of shipping the computer to the customer.
Answer: A

46) The sequence of major activities that every organization carries out to fulfill its mission is known as:
A) the manufacturing process.
B) the value chain.
C) product planning and development.
D) marketing.
Answer: B

47) Which of the following major activities of a business will result in product costs?
A) Customer support.
B) General administrative.
C) Marketing.
D) Manufacturing.
Answer: D

48) Which one of the following costs should NOT be considered an indirect cost of serving a particular customer at a Dairy Queen fast food outlet?
A) The salary of the outlet's manager.
B) The wages of the employee who takes the customer's order.
C) The cost of the hamburger patty in the burger they ordered.
D) The cost of heating and lighting the kitchen.
Answer: C

49) Green Company's costs for the month of August were as follows: direct materials, $27,000; direct labour, $34,000; sales salaries, $14,000; indirect labour, $10,000; indirect materials, $15,000; general corporate administrative cost, $12,000; taxes on manufacturing facility, $2,000; and rent on factory, $17,000. The beginning work in process inventory was $16,000 and the ending work in process inventory was $9,000. What was the cost of goods manufactured for the month?
A) $112,000.
B) $105,000.
C) $132,000.
D) $138,000.
Answer: A

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50) A manufacturing company prepays its insurance coverage for a three-year period. The premium for the three years is $2,700 and is paid at the beginning of the first year. Eighty percent of the premium applies to manufacturing operations and 20% applies to selling and administrative activities. What amounts should be considered product and period costs respectively for the first year of coverage?

	Product	*Period*
a.	$2,700	$ 0
b.	$2,160	$540
c.	$1,440	$360
d.	$ 720	$180

A) choice a. B) choice b. C) choice c. D) choice d.

Answer: D

51) Using the following data, calculate the beginning work in process inventory.

Cost of goods sold	$70
Direct labour	$20
Direct materials	$15
Cost of goods manufactured	$80
Work in process ending	$10
Finished goods ending	$15
Manufacturing overhead	$30

The beginning work in process inventory is:

A) $55. B) $25. C) $20. D) $15.

Answer: B

52) During the month of May, Bennett Manufacturing Company purchased $43,000 of raw materials. Total manufacturing overhead was$27,000 and the total manufacturing costs were $106,000. Assuming a beginning inventory of raw materials of $8,000 and an ending inventory of raw materials of $6,000, direct labour was:

A) $34,000. B) $36,000. C) $45,000. D) $38,000.

Answer: A

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53) Using the following data for January, calculate the cost of goods manufactured:

Direct materials	$38,000
Direct labour	$24,000
Manufacturing overhead	$17,000
Beginning work in process inventory	$10,000
Ending work in process inventory	$11,000

The cost of goods manufactured was:

A) $79,000. B) $80,000. C) $89,000. D) $78,000.

Answer: D

54) During the month of June, Reardon Company incurred $17,000 of direct labour, $8,500 of manufacturing overhead and purchased $15,000 of raw materials. Between the beginning and the end of the month, the raw materials inventory increased by $2,000, the finished goods inventory increased by $1,500, and the work in process inventory decreased by $3,000. The cost of goods manufactured would be:

A) $38,500. B) $41,500. C) $43,500. D) $40,500.

Answer: B

55) Mueller Company reported the following data for the year just ended:

Raw materials used in production	$ 800,000
Direct labour	$ 700,000
Total overhead costs	$ 900,000
Ending work in process inventory	$ 400,000
Cost of goods manufactured	$ 2,500,000

The beginning work in process inventory was:

A) $300,000. B) $1,300,000. C) $100,000. D) $500,000.

Answer: D

56) Williams Company's direct labour cost is 25% of its conversion cost. If the manufacturing overhead cost for the last period was $45,000 and the direct materials cost was $25,000, the direct labour cost was:

A) $33,333. B) $60,000. C) $15,000. D) $20,000.

Answer: C

57) The Lyons Company's cost of goods manufactured was $120,000 when its sales were $360,000 and its gross margin was $220,000. If the ending inventory of finished goods was $30,000, the beginning inventory of finished goods must have been:

A) $150,000. B) $50,000. C) $110,000. D) $20,000.

Answer: B

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58) The gross margin for Cushing Company for the first quarter of last year was $325,000 when sales were $700,000. The beginning inventory of finished goods was $60,000 and the ending inventory of finished goods was $85,000. The cost of goods manufactured for the first quarter would have been:

A) $485,000. B) $400,000. C) $350,000. D) $375,000.

Answer: B

59) Last month a manufacturing company had the following operating results:

Beginning finished goods inventory	$ 74,000
Ending finished goods inventory	$ 73,000
Sales	$ 464,000
Gross margin	$ 52,000

What was the cost of goods manufactured for the month?

A) $411,000. B) $413,000. C) $412,000. D) $463,000.

Answer: A

60) The following information was provided by Wilson Company for the year just ended:

Beginning finished goods inventory	$ 150,750
Ending finished goods inventory	$ 140,475
Sales	$ 475,000
Gross margin	$ 150,000

The cost of goods manufactured for the year was:

A) $334,275. B) $314,725. C) $333,275. D) $325,000.

Answer: B

61) The following information was provided by Grand Company for the year just ended:

Beginning finished goods inventory	$ 130,425
Ending finished goods inventory	$ 125,770
Sales	$ 500,000
Gross margin	$ 100,000

The cost of goods manufactured for the year was:

A) $95,345. B) $395,345. C) $104,655. D) $404,655.

Answer: B

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62) The following inventory valuation errors were discovered by Knox Corporation's new controller just after the annual financial statements were published at the end of Year 3.

> The Year 3 ending inventory was understated by $17,000.
> The Year 2 ending inventory was understated by $61,000.
> The Year 1 ending inventory was overstated by $23,000.
The net income for Knox in each of these years was:

	Year 3	*Year 2*	*Year 1*
Net income	$168,000	$254,000	$138,000

Assuming there were no income taxes and no corrections were made prior to the discovery of the errors after the end of year 3, the net income in each year should be adjusted to:

	Year 3	*Year 2*	*Year 1*
a.	$212,000	$170,000	$161,000
b.	$124,000	$338,000	$115,000
c.	$ 90,000	$338,000	$161,000
d	$124,000	$170,000	$115,000

A) choice a. B) choice b. C) choice c. D) choice d.

Answer: B

63) Delta Merchandising, Inc. has provided the following information for the year just ended:

Net sales	$128,500
Beginning inventory	24,000
Purchases	80,000
Gross margin	38,550

The ending inventory for the company at year end was:

A) $14,050. B) $24,500. C) $9,950. D) $65,450.

Answer: A

64) The beginning balance of the Raw Materials inventory account for May was $27,500. The ending balance for May was $28,750 and $128,900 of raw materials were used during the month. The materials purchased during the month cost:

A) $127,650. B) $130,150. C) $157,650. D) $131,300.

Answer: B

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65) Gabel Inc. is a merchandising company. Last month the company's merchandise purchases totalled $63,000. The company's beginning merchandise inventory was $13,000 and its ending merchandise inventory was $15,000. What was the company's cost of goods sold for the month?

A) $91,000. B) $61,000. C) $63,000. D) $65,000.

Answer: B

66) Haack Inc. is a merchandising company. Last month the company's cost of goods sold was $84,000. The company's beginning merchandise inventory was $20,000 and its ending merchandise inventory was $18,000. What was the total amount of the company's merchandise purchases for the month?

A) $84,000. B) $122,000. C) $82,000. D) $86,000.

Answer: C

67) During January, the cost of goods manufactured was $93,000. The beginning finished goods inventory was $16,000 and the ending finished goods inventory was $20,000. What was the cost of goods sold for the month?

A) $93,000. B) $97,000. C) $129,000. D) $89,000.

Answer: D

68) An accounting course is taught in two classes per week for one hour and fifty minutes each. The classes are held in a building with 36 classrooms that are used for a variety of courses. The building has an advanced monitoring system which allows electricity costs to be determined for each classroom and for each course. If the cost object is the accounting course, which of the following is an indirect cost?

A) The course Instructor's salary for teaching the course (he only teaches this one course).
B) The cost of the preparation of the exam papers for this course.
C) The electricity cost for the course.
D) The salary of the building's custodian.

Answer: D

69) An accounting course is taught in two classes per week for one hour and fifty minutes each. The classes are held in a building with 36 classrooms that are used for a variety of courses. There are 15 other courses taught in the Accounting Department at this university. If the cost object is the accounting course, which of the following is a direct cost?

A) The salary of the building's custodian.
B) The course Instructor's salary for teaching the course (he only teaches this one course).
C) The property taxes on the land and classroom building.
D) The Accounting Department's secretary salary.

Answer: B

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70) The following information was provided by Jimbob Co. for the year just ended:

Cost of goods manufactured	$ 500,000
Ending finished goods inventory	$ 100,000
Sales	$ 800,000
Gross margin	$ 200,000

What was beginning finished goods inventory?

A) $200,000. B) $400,000. C) $300,000. D) $100,000.

Answer: A

71) The following account balances has been extracted from Jimbob Co.'s general ledger:

Direct materials used in production	$ 200,000.
Depreciation factory building	$10,000.
Depreciation factory equipment	$ 50,000.
Depreciation sales department automobiles	$ 10,000.
Direct wages factory employees	$ 200,000.
Sales department salaries and commissions	$ 150,000.
Factory manager's salary	$ 50,000.
Utility costs factory	$ 50,000.
Utility costs sales office	$ 20,000.

What was the total of manufacturing overhead?

A) $110,000. B) $400,000. C) $160,000. D) $740,000.

Answer: C

72) The following account balances has been extracted from Jimbob Co.'s general ledger:

Direct materials used in production	$ 200,000.
Depreciation factory building	$ 10,000.
Depreciation factory equipment	$ 50,000.
Depreciation sales department automobiles	$ 10,000.
Direct wages factory employees	$ 200,000.
Sales department salaries and commissions	$ 150,000.
Factory manager's salary	$ 50,000.
Utility costs factory	$ 50,000.
Utility costs sales office	$ 20,000.

What was the total of manufacturing costs?

A) $740,000. B) $560,000. C) $510,000. D) $400,000.

Answer: B

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73) The following account balances has been extracted from Jimbob Co.'s general ledger:

Direct materials used in production	$ 200,000.
Depreciation factory building	$ 10,000.
Depreciation factory equipment	$ 50,000.
Depreciation sales department automobiles	$ 10,000.
Direct wages factory employees	$ 200,000.
Sales department salaries and commissions	$ 150,000.
Factory manager's salary	$ 50,000.
Utility costs factory	$ 50,000.
Utility costs sales office	$ 20,000.

What was the total of nonmanufacturing costs?

A) $160,000. B) $150,000. C) $230,000. D) $180,000.

Answer: D

Reference: 02-01

The following data (in thousands of dollars) have been taken from the accounting records of Karling Corporation for the just completed year.

Sales	$990
Raw materials inventory, beginning	$ 40
Raw materials inventory, ending	$ 70
Purchases of raw materials	$120
Direct labour	$200
Manufacturing overhead	$230
Administrative expenses	$150
Selling expenses	$140
Work in process inventory, beginning	$ 70
Work in process inventory, ending	$ 50
Finished goods inventory, beginning	$120
Finished goods inventory, ending	$160

74) The cost of the raw materials used in production during the year (in thousands of dollars) was:

A) $150. B) $160. C) $90. D) $190.

Answer: C

75) The cost of goods manufactured for the year (in thousands of dollars) was:

A) $500. B) $570. C) $540. D) $590.

Answer: C

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76) The cost of goods sold for the year (in thousands of dollars) was:
A) $700. B) $660. C) $580. D) $500.
Answer: D

77) The net income for the year (in thousands of dollars) was:
A) $150. B) $250. C) $200. D) $490.
Answer: C

Reference: 02-02
The following data (in thousands of dollars) have been taken from the accounting records of Karlana Corporation for the just completed year.

Sales	$910
Raw materials inventory, beginning	$ 80
Raw materials inventory, ending	$ 20
Purchases of raw materials	$100
Direct labour	$130
Manufacturing overhead	$200
Administrative expenses	$160
Selling expenses	$140
Work in process inventory, beginning	$ 40
Work in process inventory, ending	$ 10
Finished goods inventory, beginning	$130
Finished goods inventory, ending	$150

78) The cost of the raw materials used in production during the year (in thousands of dollars) was:
A) $180. B) $160. C) $120. D) $40.
Answer: B

79) The cost of goods manufactured for the year (in thousands of dollars) was:
A) $530. B) $500. C) $460. D) $520.
Answer: D

80) The cost of goods sold for the year (in thousands of dollars) was:
A) $500. B) $670. C) $650. D) $540.
Answer: A

81) The net income for the year (in thousands of dollars) was:
A) $18. B) $110. C) $410. D) $40.
Answer: B

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Reference: 02-03
The following data (in thousands of dollars) have been taken from the accounting records of Karlist Corporation for the just completed year.

Sales	$800
Raw materials inventory, beginning	$ 60
Raw materials inventory, ending	$ 70
Purchases of raw materials	$180
Direct labour	$100
Manufacturing overhead	$190
Administrative expenses	$110
Selling expenses	$150
Work in process inventory, beginning	$ 70
Work in process inventory, ending	$ 80
Finished goods inventory, beginning	$120
Finished goods inventory, ending	$160

82) The cost of the raw materials used in production during the year (in thousands of dollars) was:
A) $170. B) $240. C) $250. D) $190.
Answer: A

83) The cost of goods manufactured or the year (in thousands of dollars) was:
A) $530. B) $540. C) $450. D) $470.
Answer: C

84) The cost of goods sold for the year (in thousands of dollars) was:
A) $410. B) $570. C) $490. D) $610.
Answer: A

85) The net income for the year (in thousands of dollars) was:
A) $70. B) $190. C) $130. D) $390.
Answer: C

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Reference: 02-04
The following data pertain to Harriman Company's operations during July:

	July 1	*July 31*
Raw materials inventory	0	$5,000
Work in process inventory	?	4,000
Finished goods inventory	$12,000	?
Other data:		
Cost of goods manufactured		$105,000
Raw materials used		40,000
Manufacturing overhead costs		20,000
Direct labour costs		39,000
Gross profit		100,000
Sales		210,000

86) The beginning work in process inventory was:
A) $14,000. B) $10,000. C) $4,000. D) $1,000.
Answer: B

87) The ending finished goods inventory was:
A) $12,000. B) $2,000. C) $17,000. D) $7,000.
Answer: D

Reference: 02-05
Bergeron Inc. reported the following data for last year:

Work in process inventory, beginning	$100
Work in process inventory, ending	$150
Finished goods inventory, beginning	$180
Finished goods inventory, ending	$200
Direct labour cost	$300
Direct materials cost	$500
Manufacturing overhead cost	$400

88) The prime cost was:
A) $800. B) $700. C) $900. D) $500.
Answer: A

89) The conversion cost was:
A) $700. B) $500. C) $900. D) $800.
Answer: A

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90) The cost of goods manufactured was:

A) $1,250. B) $1,150. C) $1,220. D) $1,180.

Answer: B

Reference: 02-06

Geneva Steel Corporation produces large sheets of heavy gauge steel. The company showed the following amounts relating to its production for the year just completed:

Direct materials used in production	$110,000
Direct labour costs for the year	55,000
Work in process, beginning	22,000
Finished goods, beginning	45,000
Cost of goods available for sale	288,000
Cost of goods sold	238,000
Work in process, ending	16,000

91) The balance of the finished goods inventory at the end of the year was:

A) $95,000. B) $193,000. C) $50,000. D) $45,000.

Answer: C

92) Manufacturing overhead cost for the year was:

A) $84,000. B) $78,000. C) $56,000. D) $72,000.

Answer: D

93) Cost of goods manufactured for the year was:

A) $171,000. B) $243,000. C) $244,000. D) $160,000.

Answer: B

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Reference: 02-07
Boardman Company reported the following data for the month of January:

Inventories:	*1/1*	*1/31*
Raw materials	$32,000	$31,000
Work in process	$18,000	$12,000
Finished goods	$30,000	$35,000

Additional information:	
Sales revenue	$210,000
Direct labour costs	40,000
Manufacturing overhead costs	70,000
Selling expenses	25,000
Administrative expenses	35,000

94) If raw materials costing $35,000 were purchased during January, the total manufacturing costs for the month was?
A) $146,000. B) $151,000. C) $144,000. D) $145,000.
Answer: A

95) Assume that cost of goods sold for January was $124,000. The net income for January was:
A) $61,000. B) $26,000. C) $25,000. D) $51,000.
Answer: B

96) Boardman Company's total conversion cost for January was:
A) $170,000. B) $130,000. C) $110,000. D) $135,000.
Answer: C

97) Assume that cost of goods sold for Boardman Company for January was $140,000. What was the cost of goods manufactured for the month?
A) $139,000 B) $145,000 C) $135,000 D) $140,000
Answer: B

Reference: 02-08
At a sales volume of 32,000 units, CD Company's total fixed costs are $64,000 and total variable costs are $60,000. (Do not round intermediate calculations)

98) If CD Company were to sell 43,000 units, the total expected cost would be?
A) $166,625. B) $124,000. C) $146,000. D) $144,625.
Answer: D

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99) If CD Company were to sell 50,000 units, the total expected cost per unit would be (Do not round intermediate calculations. Round the final answer to two decimal places):

A) $2.48. B) $3.20. C) $3.16. D) $3.88.

Answer: C

100) Jimbob Company has two business alternatives - A & B with different total annual costs as set out below:

Total annual costs:	*A*	*B*
Advertising	$32,000	$31,000
Other marketing costs	$18,000	$12,000
Other expenses	$30,000	$35,000

Additionally, if alternative B is chosen the business will have to use some space for its own purposes that are currently being rented to an outside business for $5,000 per year.
What are the total differential costs between the two alternatives?

A) $2,000. B) $7,000. C) $5,000. D) $3,000.

Answer: D

Reference: 02-09
Tech Computer manufactures computers in its plant located in Toronto and then ships the computers directly to distributors and retailers. The company's accountant has enlisted you to classify the following company's expenses:

101) Annual subscription fee paid to computer magazine.

A) Fixed period cost. B) Fixed product cost.
C) Variable period cost. D) Variable product cost.

Answer: A

102) Straight line depreciation on the factory building.

A) Fixed period cost. B) Variable period cost.
C) Fixed product cost. D) Variable product cost.

Answer: C

103) Units of production depreciation on the factory equipment.

A) Fixed product cost. B) Variable period cost.
C) Variable product cost. D) Fixed period cost.

Answer: C

104) The delivery charges incurred when shipping the computers to distributors and retailers.

A) Variable period cost. B) Fixed period cost.
C) Variable product cost. D) Fixed product cost.

Answer: A

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105) The delivery charges incurred when shipping the computer hard drives to be installed in the computer.

A) Fixed product cost.
B) Variable product cost.
C) Variable period cost.
D) Fixed period cost.

Answer: B

106) The hard drive installed in each computer.

A) Fixed product cost.
B) Fixed period cost.
C) Variable product cost.
D) Variable period cost.

Answer: C

107) Wages of factory supervisor.

A) Fixed period cost.
B) Variable product cost.
C) Variable period cost.
D) Fixed product cost.

Answer: D

108) Cost of a warehouse (i.e. rent) used to store finished goods (computers) prior to selling them to the customer.

A) Fixed period cost.
B) Variable product cost.
C) Fixed product cost.
D) Variable period cost.

Answer: A

Reference: 02-10
Charlie's Chocolate Factory manufactures chocolate bars and ships them directly to wholesalers and retailers across the country. The company has two product lines: milk chocolate bars and chocolate covered almonds. Classify the following company's expenses if the cost object is a single product line (either milk chocolate bars o chocolate covered almonds).

109) The cost of cocoa used in the factory.

A) Indirect period cost.
B) Indirect product cost.
C) Direct period cost.
D) Direct product cost.

Answer: B

110) Rent on the production factory.

A) Indirect period cost.
B) Direct period cost.
C) Indirect product cost.
D) Direct product cost.

Answer: C

111) Almonds used in the chocolate covered almonds.

A) Indirect period cost.
B) Direct period cost.
C) Direct product cost.
D) Indirect product cost.

Answer: C

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112) Shipping costs to send the finished milk chocolate bars and chocolate covered almonds to wholesalers.

A) Indirect product cost.
B) Indirect period cost.
C) Direct period cost.
D) Direct product cost.

Answer: B

113) Salaries for milk chocolate bars production line workers

A) Direct period cost.
B) Indirect period cost.
C) Direct product cost.
D) Indirect product cost.

Answer: C

114) Advertising campaign for chocolate covered almonds.

A) Direct product cost.
B) Indirect period cost.
C) Direct period cost.
D) Indirect product cost.

Answer: C

115) Advertising campaign for Charlie's Chocolate Factory, no specific products were mentioned in the campaign.

A) Direct product cost.
B) Indirect period cost.
C) Direct period cost.
D) Indirect product cost.

Answer: B

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Reference: 02-11
Frosting Corp. has provided the following relating to the most recent month (August 31, 2016) of operations, for their main product, cupcakes

Baker's salaries	20,000
Finished goods inventory, beginning	18,000
Finished goods inventory, ending	20,000
General & administrative expenses	20,000
Indirect materials	17,500
Production Supervisor, Salary	21,000
Purchases of raw materials	28,000
Raw materials inventory, ending	19,000
Raw materials inventory, beginning	18,000
Rent on production factory	19,000
Rent, retail store	18,000
Sales	243,000
Utilities on production factory	17,500
Utilities, retail store	17,000
Wages, retail staff	20,000
WIP inventory, beginning	19,500
WIP inventory, ending	21,500

116) What was the amount of raw materials used in production?
A) $46,000 B) $28,000 C) $27,000 D) $18,000
Answer: C

117) What was the total manufacturing overhead incurred during the period?
A) $57,500 B) $92,000 C) $75,000 D) $40,000
Answer: C

118) What was the total manufacturing costs for the period?
A) $102,000 B) $122,000 C) $47,000 D) $95,000
Answer: B

119) What was the total prime costs for the period?
A) $27,000 B) $20,000 C) $47,000 D) $95,000
Answer: C

120) What was the cost of goods manufactured for the period?
A) $122,000 B) $124,000 C) $138,000 D) $120,000
Answer: D

121) What was the cost of goods sold for the period?
A) $118,000 B) $121,000 C) $123,000 D) $120,000
Answer: A

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122) What was the operating income for the period?

A) $125,000 B) $50,000 C) $68,000 D) $88,000

Answer: B

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

123) Stony Electronics Corporation manufactures a portable radio designed for mounting on the wall of th bathroom. The following list represents some of the different types of costs incurred in the manufacture of these radios:

1) The plant manager's salary.
2) The cost of heating the plant.
3) The cost of heating executive offices.
4) The cost of printed circuit boards used in the radios.
5) Salaries and commissions of company salespersons.
6) Depreciation on office equipment used in the executive offices.
7) Depreciation on production equipment used in the plant.
8) Wages of janitorial personnel who clean the plant.
9) The cost of insurance on the plant building.
10) The cost of electricity to light the plant.
11) The cost of electricity to power plant equipment.
12) The cost of maintaining and repairing equipment in the plant.
13) The cost of printing promotional materials for trade shows.
14) The cost of solder used in assembling the radios.
15) The cost of telephone service for the executive offices.

Required:

Classify each of the items above as product (inventoriable) cost or period (noninventoriable) costs for the purpose of preparing external financial statements.

Answer: 1) Product.
2) Product.
3) Period.
4) Product.
5) Period.
6) Period.
7) Product.
8) Product.
9) Product.
10) Product.
11) Product.
12) Product.
13) Period.
14) Product.
15) Period.

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124) Bill Pope has developed a new device that is so exciting he is considering quitting his job in order to produce and market it on a large-scale basis. Bill will rent a garage for $300 per month for production purposes. Utilities will cost $40 per month. Bill has already taken an industrial design course at the local community college to help prepare for this venture. The course cost $300. Bill will rent production equipment at a monthly cost of $800. He estimates the material cost per unit will be $5, and the labour cost will be $3. He will hire workers and spend his time promoting the product. To do this he will quit his job, which pays $3,000 per month. Advertising and promotion will cost $900 per month.

Required:

Complete the chart below by placing an "X" under each heading that helps to identify the cost involved. There can be "Xs" placed under more than one heading for a single cost, e.g., a cost might be a sunk cost, an overhead cost and a product cost; there would be an "X" placed under each of these headings opposite the cost.

	Opportunity Cost	Sunk Cost	Variable Cost	Fixed Cost	Manuf. Overhead	Product Cost	Selling Cost	Differential Cost*
General rent								
Utilities								
Cost of the industrial design course								
Equipment rented								
Material cost								
Labour cost								
Present salary								
Advertising								

*Between the alternatives of going into business to make the device or not going into business to make the device.

Answer:

	Opportunity Cost	Sunk Cost	Variable Cost	Fixed Cost	Manuf. Overhead	Product Cost	Selling Cost	Differential Cost
General rent				X	X	X		X
Utilities				X	X	X		X
Cost of the industrial design course		X						
Equipment rented				X	X	X		X
Material cost			X			X		X
Labour cost			X			X		X
Present salary	X							X
Advertising				X			X	X

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125) Logan Products, a small manufacturer, has submitted the items below concerning last year's operations. The president's secretary, trying to be helpful, has alphabetized the list.

Administrative salaries	$ 2,400
Advertising expense	1,200
Depreciation–factory building	800
Depreciation–factory equipment	1,600
Depreciation–office equipment	180
Direct labour cost	21,900
Raw materials inventory, beginning	2,100
Raw materials inventory, ending	3,200
Finished goods inventory, beginning	46,980
Finished goods inventory, ending	44,410
General liability insurance expense	240
Indirect labour cost	11,800
Insurance on factory	1,400
Purchases of raw materials	14,600
Repairs and maintenance of factory	900
Sales salaries	2,000
Taxes on factory	450
Travel and entertainment expense	1,410
Work in process inventory, beginning	1,670
Work in process inventory, ending	1,110

Required:

a. Prepare a schedule of Cost of Goods Manufactured in good form for the year.
b. Determine the Cost of Goods Sold for the year.

Answer: a.

LOGAN COMPANY		
Schedule of Cost of Goods Manufactured		
Raw materials used:		
Beginning inventory	$ 2,100	
Purchases	14,600	
Available	16,700	
Less ending inventory	3,200	$ 13,500
Direct labour		21,900
Manufacturing overhead:		
Depreciation–factory building	800	
Depreciation–factory equipment	1,600	
Indirect labour cost	11,800	
Insurance on factory	1,400	

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Repairs and maintenance	900	
Taxes on factory	450	16,950
Total manufacturing cost		52,350
Add work in process inventory, beginning		1,670
		54,020
Less work in process inventory, ending		1,110
Cost of goods manufactured		$ 52,910

b. Cost of Goods Sold

Finished goods inventory, beginning	$ 46,980
Cost of goods manufactured (above)	52,910
Available for sale	99,890
Less finished goods inventory, ending	44,410
Cost of goods sold	$ 55,480

126) Laco Company acquired its factory building about 20 years ago. For a number of years the company has rented out a small, unused part of the building. The renter's lease will expire soon. Rather than renewing the lease, Laco Company is considering using the space itself to manufacture a new product. Under this option, the unused space will continue to be depreciated on a straight-line basis, as in past years.

Direct materials and direct labour cost for the new product would be $50 per unit. In order to have a place to store finished units of the new product, the company would have to rent a small warehouse nearby. The rental cost would be $2,000 per month. It would cost the company an additional $4,000 each month to advertise the new product. A new production supervisor would be hired to oversee production of the new product who would be paid $3,000 per month. The company would pay a sales commission of $10 for each unit of product that is sold.

Required:

Complete the chart below by placing an "X" under each column heading that helps to identify the costs listed to the left. There can be "X's" placed under more than one heading for a single cost. For example, a cost might be a product cost, an opportunity cost, and a sunk cost; there would be an "X" placed under each of these headings on the answer sheet opposite the cost.

	Opportunity Cost	Sunk Cost	Variable Cost	Fixed Cost	Product Cost	Selling & Admin. Cost	Differential Cost*
Rent on unused factory space							
Depreciation on the factory space							
Direct material and direct labour							
Rental cost of the small warehouse							
Advertising cost							

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Production supervisor's salary							
Sales commissions							

*Between the alternatives of (1) renting the space out again or (2) using the space to produce the new product.

Answer:

	Opportunity Cost	Sunk Cost	Variable Cost	Fixed Cost	Product Cost	Selling & Admin. Cost	Differential Cost*
Rent on unused factory space	X						§
Depreciation on the factory space		X		X	X		
Direct material and direct labour			X		X		X
Rental cost of the small warehouse				X		X	X
Advertising cost				X		X	X
Production supervisor's salary				X	X		X
Sales commissions			X			X	X

We suggest you allow either answers (a blank or an X) in this cell. Some experts would consider an opportunity cost to be a differential cost and others would not. It is all a matter of definition and the definitions given in the text do not really cover this contingency.

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127) A list of accounts for a manufacturing company for an accounting period is given below. Find the unknown amounts indicated by question marks.

Sales	$39,000
Cost of goods sold	?
Purchases of direct materials	11,000
Direct labour	5,000
Finished goods inventory, beginning	5,000
Work in process, beginning	800
Work in process, ending	3,000
Gross margin	11,700
Finished goods inventory, ending	?
Accounts payable, beginning	4,000
Accounts payable, ending	2,800
Direct materials inventory, beginning	1,000
Direct materials inventory, ending	3,000
Indirect labour	2,000
Indirect materials used	4,000
Utilities expense, factory	3,000
Cost of goods manufactured	?
Depreciation on factory equipment	7,000

Answer: Cost of goods sold = 39,000 - 11,700 = 27,300.
Direct materials used = 1,000 + 11,000 - 3,000 = 9,000.
Cost of goods manufactured = 9,000 + 5,000 + (2,000 + 4,000 + 3,000 + 7,000) + 800 - 3,000 = 27,800.
Finished goods inventory, ending = 5,000 + 27,800 - 27,300 = 5,500.

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128) Use the following information to determine the gross margin for Pacific States Manufacturing for the year just ended (all amounts are in thousands ($000) of dollars):

Sales	$31,800
Purchases of direct materials	7,000
Direct labour	5,000
Work in process inventory, 1/1	800
Work in process inventory, 12/31	3,000
Finished goods inventory, 1/1	4,000
Finished goods inventory, 12/31	5,300
Accounts payable, 1/1	1,700
Accounts payable, 12/31	1,500
Direct materials inventory, 1/1	6,000
Direct materials inventory, 12/31	1,000
Indirect labour	600
Indirect materials used	500
Utilities expense, factory	1,900
Depreciation on factory equipment	3,500

Answer: Direct materials used = 6,000 + 7,000 - 1,000 = 12,000.
Cost of goods manufactured = 12,000 + 5,000 + (600 + 500 + 1,900 + 3,500) + 800 - 3,000 = 21,300.
Cost of goods sold = 4,000 + 21,300 - 5,300 = 20,000.
Gross margin = 31,800 - 20,000 = 11,800

129) The following information is from Marchant Manufacturing Co. for September:

Direct materials used in production	$ 95,000
Direct labour	67,000
Total manufacturing cost	234,000
Raw materials inventory, Sept. 1	24,000
Work in process inventory, Sept. 1	6,000
Finished goods inventory, Sept. 1	101,000
Purchases of raw materials	102,000
Cost of goods manufactured	233,000
Administrative expense	41,000
Selling expense	56,000
Sales	344,000
Gross margin	127,000
Net income	30,000

Required:

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a. Compute the Cost of Goods Sold.
b. Compute the balance in Finished Goods Inventory at September 30.
c. Compute the balance in Work in Process Inventory at September 30.
d. Compute the balance in Raw Materials Inventory at September 30.
e. Compute the total Manufacturing Overhead.

(Hint: The easiest method of solving this problem is to sketch out the income statement and the schedule of cost of goods manufactured, enter the given amounts, and then enter the unknowns as plug figures.)

Answer:

MARCHANT MANUFACTURING	
Schedule of Cost of Goods Manufactured	
Direct materials used:	
Inventory, Sept. 1	$ 24,000
Purchases	102,000
	126,000
Inventory, Sept. 30 (d)	31,000
Direct materials used–given	95,000
Direct labour	67,000
Manufacturing overhead (e)	72,000
Total manufacturing cost–given	234,000
Inventory of work in process, Sept 1	6,000
	240,000
Inventory of work in process, Sept 30 (c)	7,000
Cost of goods manufactured–given	$ 233,000

MARCHANT MANUFACTURING		
Income Statement		
Sales		$ 344,000
Cost of goods sold:		
Finished goods, Sept 1	$ 101,000	
Cost of goods manufactured–above	233,000	
Available for sale	334,000	
Finished goods, Sept 30 (b)	117,000	
Cost of goods sold (a)		217,000
Gross margin–given		127,000
Operating expenses:		
Administrative expenses	41,000	
Selling expenses	56,000	97,000
Net income–given		$ 30,000

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130) The following data (in thousands of dollars) have been taken from the accounting records of Larsen Corporation for the just completed year.

Sales	$860
Purchases of raw materials	$150
Direct labour	$110
Manufacturing overhead	$210
Administrative expenses	$130
Selling expenses	$180
Raw materials inventory, beginning	$ 40
Raw materials inventory, ending	$ 80
Work in process inventory, beginning	$ 20
Work in process inventory, ending	$ 80
Finished goods inventory, beginning	$ 80
Finished goods inventory, ending	$150

Required:

a. Prepare a Schedule of Cost of Goods Manufactured in good form.
b. Compute the Cost of Goods Sold.
c. Using data from your answers above as needed, prepare an Income Statement in good form.

Answer: a.

Larsen Corporation
Schedule of Cost of Goods Manufactured

	Direct materials:	
	Raw materials inventory, beginning	$ 40
	Add: Purchases of raw materials	150
	Raw materials available for use	190
	Deduct: Raw materials inventory, ending	80
	Raw materials used in production	110
	Direct labour	110
	Manufacturing overhead	210
	Total manufacturing cost	430
	Add: Work in process inventory, beginning	20
		450
	Deduct: Work in process inventory, ending	80
	Cost of goods manufactured	$ 370

b. Computation of cost of goods sold

	Finished goods inventory, beginning	$ 80
	Add: Cost of goods manufactured	370
	Goods available for sale	450

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	Deduct: Finished goods inventory, ending	150
	Cost of goods sold	$ 300

c.

Larsen Corporation
Income Statement

	Sales	$ 860
	Less: Cost of goods sold	300
	Gross margin	560
	Less: Administrative expenses	130
	Less: Selling expenses	180
	Net income	$ 250

131) The following data (in thousands of dollars) have been taken from the accounting records of Larner Corporation for the just completed year.

Sales	$870
Purchases of raw materials	$110
Direct labour	$130
Manufacturing overhead	$200
Administrative expenses	$160
Selling expenses	$140
Raw materials inventory, beginning	$ 30
Raw materials inventory, ending	$ 60
Work in process inventory, beginning	$ 50
Work in process inventory, ending	$ 10
Finished goods inventory, beginning	$150
Finished goods inventory, ending	$140

Required:

a. Prepare a Schedule of Cost of Goods Manufactured in good form.
b. Compute the Cost of Goods Sold.
c. Using data from your answers above as needed, prepare an Income Statement in good form.

Answer: a.

Larner Corporation
Schedule of Cost of Goods Manufactured

	Direct materials:	
	Raw materials inventory, beginning	$ 30
	Add: Purchases of raw materials	110

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	Raw materials available for use	140
	Deduct: Raw materials inventory, ending	60
	Raw materials used in production	80
	Direct labour	130
	Manufacturing overhead	200
	Total manufacturing cost	410
	Add: Work in process inventory, beginning	50
		460
	Deduct: Work in process inventory, ending	10
	Cost of goods manufactured	$ 450

b. Computation of cost of goods sold

	Finished goods inventory, beginning	$ 150
	Add: Cost of goods manufactured	450
	Goods available for sale	600
	Deduct: Finished goods inventory, ending	140
	Cost of goods sold	$ 460

c.

Larner Corporation
Income Statement

	Sales	$870
	Less: Cost of goods sold	460
	Gross margin	410
	Less: Administrative expenses	160
	Less: Selling expenses	140
	Net income	$110

132) The following data (in thousands of dollars) have been taken from the accounting records of Larmont Corporation for the just completed year.

Sales	$990
Purchases of raw materials	$100
Direct labour	$240
Manufacturing overhead	$210
Administrative expenses	$100
Selling expenses	$140
Raw materials inventory, beginning	$ 20
Raw materials inventory, ending	$ 80
Work in process inventory, beginning	$ 50

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Work in process inventory, ending	$ 30
Finished goods inventory, beginning	$160
Finished goods inventory, ending	$150

Required:

a. Prepare a Schedule of Cost of Goods Manufactured in good form.
b. Compute the Cost of Goods Sold.
c. Using data from your answers above as needed, prepare an Income Statement in good form.

Answer: a.

Larmont Corporation
Schedule of the Cost of Goods Manufactured

	Direct materials:	
	Raw materials inventory, beginning	$ 20
	Add: Purchases of raw materials	100
	Raw materials available for use	120
	Deduct: Raw materials inventory, ending	80
	Raw materials used in production	40
	Direct labour	240
	Manufacturing overhead	210
	Total manufacturing cost	490
	Add: Work in process inventory, beginning	50
		540
	Deduct: Work in process inventory, ending	30
	Cost of goods manufactured	$ 510

b. Computation of cost of goods sold

	Finished goods inventory, beginning	$ 160
	Add: Cost of goods manufactured	510
	Goods available for sale	670
	Deduct: Finished goods inventory, ending	150
	Cost of goods sold	$ 520

c.

Larmont Corporation
Income Statement

	Sales	$ 990
	Less: Cost of goods sold	520
	Gross margin	470

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	Less: Administrative expenses	100
	Less: Selling expenses	140
	Net income	$ 230

133) The following costs relate to one month's activity in Martin Company:

Indirect materials	$ 300
Rent on factory building	500
Maintenance of equipment	50
Direct material used	1,200
Utilities on factory	250
Direct labour	1,500
Selling expense	500
Administrative expense	300
Work in process inventory, beginning	600
Work in process inventory, ending	800
Finished goods inventory, beginning	500
Finished goods inventory, ending	250

Required:

a. Prepare a Schedule of Cost of Goods Manufactured in good form.
b. Determine the Cost of Goods Sold.

Answer: a.

Martin Company
Schedule of the Cost of Goods Manufactured

Direct materials		$1,200
Direct labour		1,500
Manufacturing overhead:		
Indirect materials	$300	
Rent	500	
Maintenance	50	
Utilities	250	1,100
Total manufacturing costs		3,800
Add: WIP, beginning		600
		4,400
Deduct: WIP, ending		800
Cost of goods manufactured		$ 3,600

b.

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Cost of Goods Sold

Finished goods, beginning		$ 500
Add: Cost of goods manufactured		3,600
Goods available for sale		4,100
Finished goods, ending		250
Cost of goods sold		$ 3,850

134) Simply Sweets has provided the following relating to the most recent month (August 31, 2016) of operations, for their main product, cookies.

Baker's salary	3,000
Finished goods inventory, beginning	1,000
Finished goods inventory, ending	3,000
General & administrative expenses	3,500
Indirect materials	500
Production Supervisor, Salary	4,000
Purchases of raw materials	11,000
Raw materials inventory, ending	2,000
Raw materials inventory, beginning	1,000
Rent on production factory	2,000
Rent, retail store	1,000
Sales	40,000
Utilities on production factory	500
Utilities, retail store	500
Wages, retail staff	3,000
WIP inventory, beginning	2,500
WIP inventory, ending	4,500

Required:
a. Prepare a schedule of cost of goods manufactured in good format.
b. Prepare the cost of goods sold section of the income statement.
c. Prepare an income statement in good format.

Answer: Simply Sweets
Schedule of Cost of Goods Manufactured
For the month ended August 31, 2016

Raw materials, beginning	1,000	
Purchases of raw materials	11,000	
Raw materials available	12,000	
Raw materials inventory, ending	2,000	
Raw materials used in production		10,000
Baker's salary		3,000

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Manufacturing Overhead:		
Rent on production factory	2,000	
Utilities on production factory	500	
Production Supervisor, Salary	4,000	
Indirect materials	500	7,000
Total manufacturing costs		20,000
Add: WIP inventory, beginning		2,500
Less: WIP inventory, ending		4,500
Cost of Goods Manufactured		18,000

Simply Sweets
Cost of Goods Sold Section
For the month ended August 31, 2016

Finished goods inventory, beginning	1,000	
Add: Cost of Goods Manufactured	18,000	
Finished goods available for sale	19,000	
Less: Finished goods inventory, ending	3,000	
Cost of Goods Sold		16,000

Simply Sweets
Income Statement
For the month ended August 31, 2016

Sales		40,000
Finished goods inventory, beginning	1,000	
Add: Cost of Goods Manufactured	18,000	
Finished goods available for sale	19,000	
Less: Finished goods inventory, ending	3,000	
Cost of Goods Sold		16,000
Gross Margin		24,000
Rent, retail store	1,000	
Wages, retail staff	3,000	
Utilities, retail store	500	
General & administrative expenses	3,500	
Total operating expenses		8,000
Net Income		16,000

135) Sprinkles Inc. has provided the following relating to the most recent month (October 31, 2016) of operations, for their main product, cupcakes.

Baker's salary	4,000
General & administrative expenses	4,500

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Indirect materials	1,500
Production Supervisor, Salary	5,000
Raw material purchases	12,000
Rent on production factory	3,000
Rent, retail store	2,000
Sales	41,000
Utilities on production factory	1,500
Utilities, retail store	1,500
Wages, retail staff	4,000

Inventory Balances:	**Beginning**	**Ending**
Raw Materials	2,000	3,000
Work in Process	3,500	5,500
Finished Goods	2,000	4,000

a. Prepare a schedule of cost of goods manufactured in good format.
b. Prepare the cost of goods sold section of the income statement.
c. Prepare an income statement in good format.

Answer: Sprinkles Inc.
Schedule of Cost of Goods Manufactured
For the month ended October 31, 2016

Raw materials, beginning	2,000	
Purchases of raw materials	12,000	
Raw materials available	14,000	
Raw materials inventory, ending	3,000	
Raw materials used in production		11,000
Baker's salary		4,000
Manufacturing Overhead:		
Rent on production factory	3,000	
Utilities on production factory	1,500	
Production Supervisor, Salary	5,000	
Indirect materials	1,500	11,000
Total manufacturing costs		26,000
Add: WIP inventory, beginning		3,500
Less: WIP inventory, ending		5,500
Cost of Goods Manufactured		24,000

Sprinkles Inc.
Cost of Goods Sold Section
For the month ended October 31, 2016

Finished goods inventory, beginning	2,000	
Add: Cost of Goods Manufactured	24,000	

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Finished goods available for sale	26,000	
Less: Finished goods inventory, ending	4,000	
Cost of Goods Sold		22,000

Sprinkles Inc.
Income Statement
For the month ended October 31, 2016

Sales		41,000
Finished goods inventory, beginning	2,000	
Add: Cost of Goods Manufactured	24,000	
Finished goods available for sale	26,000	
Less: Finished goods inventory, ending	4,000	
Cost of Goods Sold		22,000
Gross Margin		19,000
Rent, retail store	2,000	
Wages, retail staff	4,000	
Utilities, retail store	1,500	
General & administrative expenses	4,500	
Total operating expenses	2,000	12,000
Net Income	24,000	7,000

136) Snickerdoodle Inc. has provided the following relating to the most recent month (September 30, 201(of operations, for their main product, cookies.

Baker's salary	13,000
General & administrative expenses	13,500
Indirect materials	10,500
Production Supervisor, Salary	14,000
Raw material purchases	21,000
Rent on production factory	12,000
Rent, retail store	11,000
Sales	140,000
Utilities on production factory	10,500
Utilities, retail store	10,500
Wages, retail staff	13,000

Inventory Balances:	**Beginning**	**Ending**
Raw Materials	11,000	12,000
Work in Process	12,500	14,500
Finished Goods	11,000	13,000

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Required:
1. Prepare a schedule of cost of goods manufactured in good format.
2. Prepare the cost of goods sold section of the income statement.
3. Prepare an income statement in good format.

Answer: Snickerdoodle Inc.
Schedule of Cost of Goods Manufactured
For the month ended October 31, 2016

Raw materials, beginning	11,000	
Purchases of raw materials	21,000	
Raw materials available	32,000	
Raw materials inventory, ending	12,000	
Raw materials used in production		20,000
Baker's salary		13,000
Manufacturing Overhead:		
Rent on production factory	12,000	
Utilities on production factory	10,500	
Production Supervisor, Salary	14,000	
Indirect materials	10,500	47,000
Total manufacturing costs		80,000
Add: WIP inventory, beginning		12,500
Less: WIP inventory, ending		14,500
Cost of Goods Manufactured		78,000

Snickerdoodle Inc.
Cost of Goods Sold Section
For the month ended October 31, 2016

Finished goods inventory, beginning	11,000	
Add: Cost of Goods Manufactured	78,000	
Finished goods available for sale	89,000	
Less: Finished goods inventory, ending	13,000	
Cost of Goods Sold		76,000

Snickerdoodle Inc.
Income Statement
For the month ended October 31, 2016

Sales		140,000
Finished goods inventory, beginning	11,000	
Add: Cost of Goods Manufactured	78,000	
Finished goods available for sale	89,000	

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Less: Finished goods inventory, ending	13,000	
Cost of Goods Sold		76,000
Gross Margin		64,000
Rent, retail store	11,000	
Wages, retail staff	13,000	
Utilities, retail store	10,500	
General & administrative expenses	13,500	
Total operating expenses		48,000
Net Income		16,000

137) Snickerdoodle Inc. has provided the following relating to the most recent month (September 30, 201(of operations, for their main product, cookies.

Baker's salary	13,000
General & administrative expenses	13,500
Indirect materials	10,500
Production Supervisor, Salary	14,000
Raw material purchases	21,000
Rent on production factory	12,000
Rent, retail store	11,000
Sales	140,000
Utilities on production factory	10,500
Utilities, retail store	10,500
Wages, retail staff	13,000

Inventory Balances:	**Beginning**	**Ending**
Raw Materials	11,000	12,000
Work in Process	12,500	14,500
Finished Goods	11,000	13,000

Required:
Calculate the following:
1. Raw materials used in production
2. Total manufacturing overhead
3. Total manufacturing costs
4. Cost of Goods Manufactured
5. Cost of Goods Sold
6. Gross Margin
7. Operating Income (Loss)
8. Prime Costs
9. Conversion Costs

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Answer: Snickerdoodle Inc.
Schedule of Cost of Goods Manufactured
For the month ended September 30, 2016

Raw materials, beginning	11,000	
Purchases of raw materials	21,000	
Raw materials available	32,000	
Raw materials inventory, ending	12,000	
Raw materials used in production		20,000
Baker's salary		13,000
Manufacturing Overhead:		
Rent on production factory	12,000	
Utilities on production factory	10,500	
Production Supervisor, Salary	14,000	
Indirect materials	10,500	47,000
Total manufacturing costs		80,000
Add: WIP inventory, beginning		12,500
Less: WIP inventory, ending		14,500
Cost of Goods Manufactured		78,000

Snickerdoodle Inc.
Income Statement
For the month ended August 31, 2016

Sales		140,000
Finished goods inventory, beginning	11,000	
Add: Cost of Goods Manufactured	78,000	
Finished goods available for sale	89,000	
Less: Finished goods inventory, ending	13,000	
Cost of Goods Sold		76,000
Gross Margin		64,000
Rent, retail store	11,000	
Wages, retail staff	13,000	
Utilities, retail store	10,500	
General & administrative expenses	13,500	
Total operating expenses		48,000
Net Income		16,000

Prime Costs (RM used + Direct Labor)		33,000
Conversion Costs (Direct Labor + MOH)		60,000

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138) Frosting Corp. has provided the following relating to the most recent month (August 31, 2016) of operations, for their main product, cupcakes.

Baker's salaries	20,000
Finished goods inventory, beginning	18,000
Finished goods inventory, ending	20,000
General & administrative expenses	20,000
Indirect materials	17,500
Production Supervisor, Salary	21,000
Purchases of raw materials	28,000
Raw materials inventory, ending	19,000
Raw materials inventory, beginning	18,000
Rent on production factory	19,000
Rent, retail store	18,000
Sales	243,000
Utilities on production factory	17,500
Utilities, retail store	17,000
Wages, retail staff	20,000
WIP inventory, beginning	19,500
WIP inventory, ending	21,500

Required:
1. Prepare a schedule of cost of goods manufactured in good format.
2. Prepare the cost of goods sold section of the income statement.
3. Prepare an income statement in good format.

Answer: Frosting Corp.
Schedule of Cost of Goods Manufactured
For the month ended August 31, 2016

Raw materials, beginning	18,000	
Purchases of raw materials	28,000	
Raw materials available	46,000	
Raw materials inventory, ending	19,000	
Raw materials used in production		27,000
Baker's salary		20,000
Manufacturing Overhead:		
Rent on production factory	19,000	
Utilities on production factory	17,500	
Production Supervisor, Salary	21,000	
Indirect materials	17,500	75,000
Total manufacturing costs		122,000
Add: WIP inventory, beginning		19,500
Less: WIP inventory, ending		21,500

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Cost of Goods Manufactured		120,000

Frosting Corp.
Cost of Goods Sold Section
For the month ended August 31, 2016

Finished goods inventory, beginning	18,000	
Add: Cost of Goods Manufactured	120,000	
Finished goods available for sale	138,000	
Less: Finished goods inventory, ending	20,000	
Cost of Goods Sold		118,000

Frosting Corp.
Income Statement
For the month ended August 31, 2016

Sales		243,000
Finished goods inventory, beginning	18,000	
Add: Cost of Goods Manufactured	120,000	
Finished goods available for sale	138,000	
Less: Finished goods inventory, ending	20,000	
Cost of Goods Sold		118,000
Gross Margin		125,000
Rent, retail store	18,000	
Wages, retail staff	20,000	
Utilities, retail store	17,000	
General & administrative expenses	20,000	
Total operating expenses		75,000
Net Income		50,000

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