Horngrens Accounting The Managerial Chapters 11th edition Miller-Nobles Test Bank

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Horngren's Accounting,11e **(Miller-Nobles)**
Chapter 18 Introduction to Managerial Accounting

Learning Objective 18-1

1) Managerial accounting focuses on providing information for internal planning and control.
Answer: TRUE
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

2) Financial accounting prepares reports for internal purposes, whereas managerial accounting provides information to external stakeholders.
Answer: FALSE
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

3) Financial statements prepared for investors and creditors often include forward-looking information because they make decisions based on a company's future prospects.
Answer: FALSE
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

4) Managerial accounting reporting by a public firm is required to follow the rules of GAAP and guidelines of the Securities and Exchange Commission.
Answer: FALSE
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

5) A budget is a managerial accounting tool used in the planning process.
Answer: TRUE
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

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6) Financial reporting is typically much more detailed than managerial accounting.
Answer: FALSE
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

7) Which of the following is an objective of managerial accounting?
A) to generate a company's financial statements for tax reporting
B) to provide information to business managers to assist them in controlling their business
C) to provide information to shareholders to assist them with their investment decisions
D) to ensure that the reports produced for internal and external business purposes are GAAP compliant
Answer: B
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

8) Which of the following statements is true of managerial accounting?
A) The external stakeholders of a company are the primary users of managerial accounting.
B) Managerial accounting information is used to help managers plan and control their operations.
C) An external audit by an independent CPA is required for managerial accounting information.
D) Managerial accounting information must comply with Generally Accepted Accounting Principles.
Answer: B
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

9) Managerial accounting information for a company is primarily used by _____.
A) its customers to understand the pricing of the product
B) its creditors to understand the credibility of the business
C) its employees to plan and control operations
D) its investors to make their investment decisions
Answer: C
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

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10) Which of the following statements is true of financial accounting?
A) It provides information to investors needed for their investment decisions.
B) It provides forward-looking information needed for managing and delegating operations.
C) It focuses on detailed reports for parts of the company rather than the whole company.
D) It focuses on planning and controlling day-to-day operations.
Answer: A
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

11) Managerial accounting includes the planning function. Which of the following items would be part of the planning function of a business's managerial accounting?
A) comparing actual performance to previously budgeted amounts
B) creating detailed budgets
C) implementing operational plans
D) evaluating results of operations
Answer: B
Diff: 1
LO: 18-1
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

12) Comparing actual performance to previously budgeted amounts is part of the _____.
A) controlling function of managerial accounting
B) planning function of managerial accounting
C) reporting function of managerial accounting
D) organizing function of managerial accounting
Answer: A
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

13) Which of the following is the primary objective of managerial accounting?
A) providing information that managers need to make operational decisions
B) providing historical data to investors and creditors
C) providing summarized results of operations
D) providing information to comply with laws and regulations of government bodies
Answer: A
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

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14) Which of the following is the primary focus of financial accounting?
A) providing information that managers need to make operational decisions
B) providing summarized information on operational results to investors and creditors
C) providing budgets for future periods
D) providing highly detailed information on product lines, regions, and divisions
Answer: B
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

15) For each of the following, indicate whether the statement relates to managerial accounting (MA) or financial accounting (FA):

Statement	**Applies to MA or FA**
How reports will affect employee behavior is a concern.	
Summary reports are prepared primarily on the company as a whole, usually on a quarterly or annual basis.	
Relevant information and focus on the future.	
Primary users include investors, creditors, and government authorities.	
There is no requirement to follow GAAP.	

Answer:

Statement	**Applies to MA or FA**
How reports will affect employee behavior is a concern.	MA
Summary reports are prepared primarily on the company as a whole, usually on a quarterly or annual basis.	FA
Relevant information and focus on the future.	MA
Primary users include investors, creditors, and government authorities.	FA
There is no requirement to follow GAAP.	MA

Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

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16) Define planning. List and briefly discuss a planning tool that managers can use.
Answer: Planning is the process of choosing goals and deciding how to achieve them. The budget is a common planning tool. The budget shows the expected financial impact of decisions and helps identify the resources needed to achieve goals.
Diff: 1
LO: 18-1
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Financial Versus Managerial Accounting

17) Management accountability is the manager's responsibility to the various stakeholders of the company to maximize profits.
Answer: FALSE
Explanation: Management accountability is the manager's responsibility to the various stakeholders of the company to wisely manage the resources of the organization.
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Management Accountability

18) Managerial accounting provides financial statements that report results of operations, financial position, and cash flows both to managers and to external stockholders.
Answer: FALSE
Explanation: Managerial accounting provides the information needed to plan and control operations.
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Management Accountability

19) Management's accountability to its suppliers and vendors is to _____.
A) provide products to customers that are safe and free of defects
B) obey laws and pay taxes timely
C) provide a return on shareholders' investment
D) make timely payments and comply with contract terms
Answer: D
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Management Accountability

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20) How is the management of a company accountable to its employees?
A) The management must provide products that are safe and free of defects.
B) The management must provide a safe workplace.
C) The management must ensure that it earns a net positive return on its investments.
D) The management must ensure the business is environmentally responsible to its community.
Answer: B
Diff: 1
LO: 18-1
AACSB: Interpersonal relations and teamwork
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Management Accountability

21) Management of a company is accountable to _____ for obeying laws and paying taxes.
A) the natural environment
B) its asset vendors
C) the securities exchange
D) the government
Answer: D
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Management Accountability

22) In which of the following ways is the management of a company accountable to its communities?
A) making timely interest payments to creditors and dividend payments to investors
B) ensuring the company's environmental impact is not harmful to its community
C) providing a capital return on the shareholders' investment
D) repaying principal and interest to the suppliers
Answer: B
Diff: 1
LO: 18-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Management Accountability

23) ERP systems can integrate all of a company's functions, departments, and data into a single system.
Answer: TRUE
Diff: 1
LO: 18-1
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2 : Today's Business Environment

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24) _____ is a philosophy of continuous improvement of products and processes.
A) Just-in-Time (JIT) Management
B) Enterprise Resource Planning (ERP)
C) Supply Chain Management (SCM)
D) Total Quality Management (TQM)
Answer: D
Diff: 1
LO: 18-1
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2 : Today's Business Environment

25) Which of the following describes a system in which suppliers deliver materials at the time they are needed and finished units are completed when customer orders need to be filled?
A) Supply Chain Management (SCM)
B) Just-in-Time (JIT) Management
C) Enterprise Resource Planning (ERP)
D) Total Quality Management (TQM)
Answer: B
Diff: 1
LO: 18-1
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2 : Today's Business Environment

26) What is Total Quality Management (TQM)?
A) a philosophy of supplying customers with superior products and services
B) an exchange of information with suppliers and customers to create efficient and effective processes
C) a software system that integrates a company's functions, departments, and data into a single system
D) a system that speeds the transformation of raw materials into finished products
Answer: A
Diff: 1
LO: 18-1
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2 : Today's Business Environment

27) An Enterprise Resource Planning system (ERP) _____.
A) is a cost management system in which a company produces products just in time to satisfy needs
B) requires the implementation of Total Quality Management
C) integrates all worldwide functions, departments, and data of a company into a single system
D) cannot be implemented in service companies
Answer: C
Diff: 1
LO: 18-1
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2 : Today's Business Environment

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28) Which of the following correctly describes Just-in-Time (JIT) Management?
A) It is a production approach that maintains surplus goods at each stage of manufacture.
B) It is an inventory purchase approach that seeks purchase discounts on buying large quantities.
C) It is a cost management approach that focuses on maintaining lean inventory levels.
D) It is an inventory approach that stockpiles raw materials to protect against supply interruptions.
Answer: C
Diff: 2
LO: 18-1
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2 : Today's Business Environment

29) Which of the following is true of Just-in-Time (JIT) Management?
A) It results in more storage and insurance costs.
B) It is a system in which the company produces products only after receiving an order.
C) It promotes surplus inventory to prevent production shut-down in case of supply interruptions.
D) It requires a surplus inventory of finished goods to ensure timely, or just-in-time, delivery to customers.
Answer: B
Diff: 2
LO: 18-1
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2 : Today's Business Environment

30) Which of the following is a philosophy designed to integrate all organizational areas in order to provide customers with superior products and services, while meeting organizational goals throughout the value chain?
A) Supply Chain Management (SCM)
B) Just-in-Time (JIT) Management
C) Enterprise Resource Planning (ERP)
D) Total Quality Management (TQM)
Answer: D
Diff: 1
LO: 18-1
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2 : Today's Business Environment

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31) The entire sequence of activities that add value to a company's products and services is called _____.
A) the value chain
B) the planning process
C) TQM production chain
D) Enterprise Resource Planning
Answer: A
Diff: 1
LO: 18-1
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2 : Today's Business Environment

32) The IMA standards of ethical practice require managerial accountants to maintain their professional competence.
Answer: TRUE
Diff: 1
LO: 18-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Ethical Standards

33) The accountant for Myra Lido deliberately recorded operating expenses as operating assets in order to record a higher net income for the company. As long as the amount of the misstatement was not material, this would not be considered unethical behavior.
Answer: FALSE
Diff: 1
LO: 18-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Ethical Standards

34) The IMA Standards of Ethical Practice include confidentiality, competence, credibility, and integrity.
Answer: TRUE
Diff: 1
LO: 18-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Ethical Standards

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35) Which of the following is one of the key standards of ethical practice published by the Institute of Management Accountants (IMA)?
A) objectivity
B) environmental sensitivity
C) technicality
D) confidentiality
Answer: D
Diff: 1
LO: 18-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Ethical Standards

36) Seria, Inc. has received a bulk order from an overseas client. As a result, the reported earnings of this year are expected to be significantly higher than the estimates of financial analysts. Joshua, an accountant at Seria, tells this to one of his friends. Which of the IMA standards has Joshua violated?
A) objectivity
B) competence
C) confidentiality
D) technicality
Answer: C
Diff: 1
LO: 18-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Ethical Standards

37) You did not understand what the term accrual meant and failed to accrue the interest due at the end of the year on the company's bonds. Which of the IMA standards appears to have been violated here?
A) integrity
B) confidentiality
C) competence
D) objectivity
Answer: C
Diff: 1
LO: 18-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Ethical Standards

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Learning Objective 18-2

1) Service companies sell their time, skills, and knowledge.
Answer: TRUE
Diff: 1
LO: 18-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Service Companies

2) The income statement of a service company will most likely include _____.
A) salaries expense
B) factory overhead
C) cost of goods sold
D) direct materials
Answer: A
Diff: 1
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Service Companies

3) Which of the following is true of service companies?
A) All costs of service companies are product costs.
B) Service companies modify and resell products they buy from manufacturers.
C) Revenues of service companies are only recorded on cash receipt.
D) Service companies carry no inventories of products for sale.
Answer: D
Diff: 1
LO: 18-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Service Companies

4) Which of the following is most likely a service company?
A) a law firm
B) a car dealership
C) a grocery store
D) a bakery
Answer: A
Diff: 1
LO: 18-2
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2 : Service Companies

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5) Star Health, Inc. is a fitness center in Oklahoma City. In October, the company earned $550,000 in revenues and incurred the following operating costs from 340 customers:

Manager's salary	$50,000
Gym Rent	60,000
Depreciation Expense—Equipment	25,000
Office Supplies Expense	30,000
Utilities Expense	89,700
Trainer's Salary	25,000

Required: Prepare Star Health's income statement for the month of October.
Answer:

Revenue		
Service Revenue		$550,000
Expenses		
Manager's salary	$50,000	
Gym Rent	60,000	
Depreciation Expense—Equipment	25,000	
Office Supplies	30,000	
Utilities Expense	89,700	
Trainer's Salary	25,000	
Total Expenses		279,700
Operating Income		$270,300

Diff: 2
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Service Companies

6) Unlike merchandising companies, income statements of service companies include cost of goods sold as a line item.
Answer: FALSE
Diff: 1
LO: 18-2
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Merchandising Companies

7) Royal, Inc. purchases each unit of product X for $100 and can sell it in the market for $135. The price of the product for Royal would be $100.
Answer: FALSE
Diff: 1
LO: 18-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Merchandising Companies

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8) Merchandising companies, like service companies, do not have a Cost of Goods Sold account.
Answer: FALSE
Diff: 1
LO: 18-2
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Merchandising Companies

9) Selling and administrative expenses are subtracted from gross profit to obtain operating income.
Answer: TRUE
Diff: 1
LO: 18-2
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Merchandising Companies

10) For external reporting purposes, GAAP requires companies to treat period costs as assets.
Answer: FALSE
Diff: 1
LO: 18-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Merchandising Companies

11) The primary activity of manufacturing companies is to purchase goods from a wholesaler and resell them.
Answer: FALSE
Diff: 1
LO: 18-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Merchandising Companies

12) One of the primary activities of Rex, Inc. is to purchase hats from Viva, Inc. in Texas and sell them to its customers in Washington for a profit. It is likely that Rex is a _____.
A) manufacturing company
B) hybrid company
C) service company
D) merchandising company
Answer: D
Diff: 1
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Merchandising Companies

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13) Product costs are expensed _____.
A) when the products are consumed or sold
B) when the accounting period they are incurred in comes to an end
C) when the products are transferred to the Work-in-Process Inventory account
D) when the market value of products goes above the recorded value
Answer: A
Diff: 1
LO: 18-2
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2 : Merchandising Companies

14) Which of the following is true of product costs?
A) They are expensed in the period they are paid.
B) For external reporting, GAAP requires that they be expensed before the products are sold.
C) They are first recorded in an inventory account.
D) For merchandising companies, product costs do not include freight costs.
Answer: C
Diff: 1
LO: 18-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Merchandising Companies

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15) Crystal, Inc. is a merchandiser of stone ornaments. The company sold 6,000 units during the year. The company has provided the following information:

Sales Revenue	$589,000
Purchases (excluding Freight In)	305,000
Selling and Administrative Expenses	69,000
Freight In	15,000
Beginning Merchandise Inventory	44,000
Ending Merchandise Inventory	42,000

What is the operating income for the year? (Round your answer to the nearest whole dollar.)
A) $198,000
B) $322,000
C) $267,000
D) $520,000
Answer: A
Explanation: A) Cost of Goods Sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = $44,000 + $305,000 + $15,000 - $42,000 = $322,000

Operating Income = Sales Revenue - Cost of Goods Sold - Selling and Administrative Expenses = $589,000 - $322,000 - $69,000 = $198,000
Diff: 2
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Merchandising Companies

16) Define product cost. How does a merchandising company treat these costs?
Answer: Product cost is the cost of purchasing or making a product. The cost is recorded as an asset and then expensed when the product is sold.
Diff: 1
LO: 18-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Merchandising Companies

17) Define period cost. Give three examples of period costs of a merchandising company.
Answer: Period cost is an operating cost that is expensed in the accounting period in which it is incurred. Examples include sales staff salaries, advertising, store utilities, office rent, office equipment depreciation, property taxes and insurance for the office, and delivery expenses.
Diff: 1
LO: 18-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Merchandising Companies

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18) Manufacturing companies have inventory accounts, but merchandising companies do not.
Answer: FALSE
Diff: 1
LO: 18-2
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Manufacturing Companies

19) Manufacturing companies produce their own products, but merchandising companies do not.
Answer: TRUE
Diff: 1
LO: 18-2
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Manufacturing Companies

20) A company that uses labor, equipment, supplies, and facilities to convert raw materials into finished products is a _____.
A) merchandising company
B) manufacturing company
C) service company
D) trading company
Answer: B
Diff: 1
LO: 18-2
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Manufacturing Companies

21) Goods that have been started in the manufacturing process but are not yet complete are included in the _____.
A) Finished Goods Inventory account
B) Work-in-Process Inventory account
C) Raw Materials Inventory account
D) Cost of Goods Sold account
Answer: B
Diff: 1
LO: 18-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Manufacturing Companies

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22) Which of the following would appear as a line item on the income statements of both a merchandiser and a manufacturer?
A) Direct Labor
B) Cost of Goods Manufactured
C) Direct Materials
D) Cost of Goods Sold
Answer: D
Diff: 1
LO: 18-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Manufacturing Companies

23) Damsel, Inc. is a large manufacturer of auto tires. Damsel has provided the following information:

Sales Revenue	$55,000
Beginning Finished Goods Inventory	18,500
Cost of Goods Sold	33,000
Cost of Goods Manufactured	52,000

Calculate the amount of ending Finished Goods Inventory reported on Damsel's balance sheet.
A) $3,000
B) $70,500
C) $37,500
D) $19,000
Answer: C
Explanation: C)

Beginning Finished Goods Inventory	$18,500
Add: Cost of Goods Manufactured	52,000
Cost of Goods Available for Sale	70,500
Less: Cost of Goods Sold	33,000
Ending Finished Goods Inventory	$37,500

Diff: 2
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Manufacturing Companies

24) The balance sheet of a _____ company will include Work-in-Process Inventory as a line item.
A) manufacturing
B) merchandising
C) service
D) trading
Answer: A
Diff: 1
LO: 18-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Manufacturing Companies

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25) Partial income statements of Company A and Company B are provided below:

Company A

Revenue		$80,000
Expenses:		
Utilities Expense	$5,000	
Salaries Expense	15,000	
Rent Expense	3,2000	
Total Expenses		23,700
Operating Income		$56,300

Company B

Revenue		$50,000
Cost of Goods Sold:		
Beginning Merchandise Inventory	$4,000	
Purchases and Freight In	23,000	
Ending Merchandise Inventory	(5,500)	
Cost of Goods Sold		21,500
Gross Profit		$28,500

Which of the following statements is true?
A) Company A is a merchandising company.
B) Company B is a manufacturing company.
C) Company A is a manufacturing company.
D) Company A is a service company.
Answer: D
Diff: 1
LO: 18-2
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2 : Manufacturing Companies

26) The Work-in-Process Inventory account includes the _____.
A) goods that are ready to be sold
B) goods that are partially completed
C) goods that have been sold in the market
D) goods that are damaged during production
Answer: B
Diff: 1
LO: 18-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Manufacturing Companies

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27) Which of the following is true of Finished Goods Inventory?
A) Finished Goods Inventory is an account used by a manufacturer and includes completed goods that have not yet been sold.
B) Finished Goods Inventory is an account used by a merchandiser and includes completed goods that have not yet been sold.
C) Finished Goods Inventory is an account used by service companies in lieu of raw materials inventory.
D) Finished Goods Inventory is an account used by a manufacturer in lieu of raw materials inventory.
Answer: A
Diff: 1
LO: 18-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Manufacturing Companies

28) Which of the following formulas represents cost of goods sold for a merchandising business?
A) Beginning Merchandise Inventory - Ending Merchandise Inventory = Cost of Goods Sold
B) Purchases and Freight In - Ending Merchandise Inventory = Cost of Goods Sold
C) Ending Merchandise Inventory + Purchases and Freight In - Beginning Merchandise Inventory = Cost of Goods Sold
D) Beginning Merchandise Inventory + Purchases and Freight In - Ending Merchandise Inventory = Cost of Goods Sold
Answer: D
Diff: 1
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Manufacturing Companies

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29) Lakeside Manufacturing provided the following information for the month ended March 31:

Sales Revenue	$23,000
Beginning Finished Goods Inventory	7,000
Ending Finished Goods Inventory	9,500
Cost of Goods Manufactured	13,600

Compute cost of goods available for sale.
A) $13,600
B) $23,100
C) $20,600
D) $11,100
Answer: C
Explanation: C)

Lakeside Manufacturing
Income Statement
Month Ended March 31, 20XX

Revenues:		
Sales Revenue		$23,000
Cost of Goods Sold		
Beginning Finished Goods Inventory	$7,000	
Cost of Goods Manufactured	13,600	
Cost of Goods Available for Sale	20,600	
Ending Finished Goods Inventory	(9,500)	
Cost of Goods Sold		11,100
Gross Profit		$11,900

Diff: 2
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Manufacturing Companies

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30) Poolside Manufacturing provided the following information for the month ended March 31:

Sales Revenue	$17,000
Beginning Finished Goods Inventory	12,000
Ending Finished Goods Inventory	10,500
Cost of Goods Manufactured	19,600

Compute cost of goods sold.
A) $19,600
B) $18,100
C) $21,100
D) $30,100
Answer: C
Explanation: C)

Poolside Manufacturing
Income Statement
Month Ended March 31, 20XX

Revenues:		
Sales Revenue		$17,000
Cost of Goods Sold		
Beginning Finished Goods Inventory	$12,000	
Cost of Goods Manufactured	19,600	
Cost of Goods Available for Sale	31,600	
Ending Finished Goods Inventory	(10,500)	
Cost of Goods Sold		21,100
Gross Profit		$(4,100)

Diff: 2
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Manufacturing Companies

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31) Riverside Manufacturing provided the following information for the month ended March 31:

Sales Revenue	$27,000
Beginning Finished Goods Inventory	14,000
Ending Finished Goods Inventory	10,500
Cost of Goods Manufactured	14,600

Compute gross profit.
A) $8,900
B) $12,400
C) $15,900
D) $1,900
Answer: A
Explanation: A)

Riverside Manufacturing
Income Statement
Month Ended March 31, 20XX

Revenues:		
Sales Revenue		$27,000
Cost of Goods Sold		
Beginning Finished Goods Inventory	$14,000	
Cost of Goods Manufactured	14,600	
Cost of Goods Available for Sale	28,600	
Ending Finished Goods Inventory	(10,500)	
Cost of Goods Sold		18,100
Gross Profit		$8,900

Diff: 2
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Manufacturing Companies

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32) New Hope, Inc. is a merchandiser of stone ornaments. It sold 15,000 units during the year. The company has provided the following information:

Sales Revenue	$535,000
Purchases (excluding Freight In)	347,000
Selling and Administrative Expenses	32,500
Freight In	15,200
Beginning Merchandise Inventory	43,000
Ending Merchandise Inventory	56,500

How much is the gross profit for the year?
A) $218,800
B) $348,700
C) $186,300
D) $188,000
Answer: C
Explanation: C) Cost of Goods Sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = $43,000 + $347,000 + $15,200 - 56,500 = $348,700

Gross Profit = Sales Revenue - Cost of Goods Sold = $535,000 - $348,700 = $186,300
Diff: 2
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Manufacturing Companies

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33) Robbinsdale, Inc. is a merchandiser of stone ornaments. The company sold 8,000 units during the year. The company has provided the following information:

Sales Revenue	$593,000
Purchases (excluding freight in)	300,000
Selling and Administrative Expenses	66,000
Freight In	15,000
Beginning Merchandise Inventory	46,000
Ending Merchandise Inventory	43,000

What is the cost of goods available for sale for the year?
A) $361,000
B) $318,000
C) $346,000
D) $331,000
Answer: A
Explanation: A) Cost of goods available for sale = Beginning Merchandise Inventory + Purchases + Freight In = $46,000 + $300,000 + $15,000 = $361,000
Diff: 2
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Manufacturing Companies

34) Bloomington, Inc. is a merchandiser of stone ornaments. The company sold 6,000 units during the year. The company has provided the following information:

Sales Revenue	$566,000
Purchases (excluding freight in)	300,000
Selling and Administrative Expenses	69,000
Freight In	13,000
Beginning Merchandise Inventory	44,000
Ending Merchandise Inventory	43,000

What is the cost of goods sold for the year?
A) $357,000
B) $314,000
C) $312,000
D) $301,000
Answer: B
Explanation: B) Cost of goods sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = $44,000 + $300,000 + $13,000 - $43,000 = $314,000
Diff: 2
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Manufacturing Companies

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35) Amber Corporation has provided the following information of its operating activities for the year:

Merchandise Inventory, January 1	$150,000
Merchandise Inventory, December 31	75,000
Purchases	854,000
Selling and Administrative Expenses	65,000
Sales Revenue	1,000,000

Required: Prepare Amber's income statement for the year ended December 31. Use the format provided below:

Sales Revenue		
Cost of Goods Sold		
Beginning Inventory		
Purchases		
Cost of Goods Available for Sale		
Ending Inventory		
Cost of Goods Sold		
Gross Profit		
Selling and Administrative Expenses		
Operating Income		

Answer: Amber Corporation
Income Statement
Year Ended December 31, 20XX

Sales Revenue		$1,000,000
Cost of Goods Sold		
Beginning Inventory	$150,000	
Purchases	854,000	
Cost of Goods Available for Sale	1,004,000	
Ending Inventory	(75,000)	
Cost of Goods Sold		929,000
Gross Profit		71,000
Selling and Administrative Expenses		65,000
Operating Income		$6,000

Diff: 2
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Manufacturing Companies

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36) Planet Manufacturing provided the following information for the month ended March 31:

Sales Revenue	$ 22,000
Beginning Finished Goods Inventory	7,000
Ending Finished Goods Inventory	6,500
Cost of Goods Manufactured	10,600
Selling and Administrative Expenses	5,125

Prepare the income statement.

Answer:

Planet Manufacturing
Income Statement
Month Ended March 31, 20XX

Revenues:		
Sales Revenue		$22,000
Cost of Goods Sold		
Beginning Finished Goods Inventory	$7,000	
Cost of Goods Manufactured	10,600	
Cost of Goods Available for Sale	17,600	
Ending Finished Goods Inventory	(6,500)	
Cost of Goods Sold		11,100
Gross Profit		10,900
Selling and Administrative Expenses		5,125
Operating Income		$5,775

Diff: 2
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Manufacturing Companies

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37) Excellent, Inc. sells accounting textbooks. The following information summarizes Excellent's operating activities for the year:

Merchandise Inventory, January 1	$10,000
Merchandise Inventory, December 31	7,000
Purchases	95,000
Selling and Administrative Expenses	65,000
Sales Revenue	180,000

Required: Prepare Excellent, Inc.'s income statement for the year ended December 31.
Answer: Excellent, Inc.

Income Statement

Year Ended December 31, 20XX

Sales Revenue		$180,000
Cost of Goods Sold		
Beginning Inventory	$10,000	
Purchases	95,000	
Cost of Goods Available for Sale	105,000	
Ending Inventory	(7,000)	
Cost of Goods Sold		98,000
Gross Profit		82,000
Selling and Administrative Expenses		65,000
Operating Income		$17,000

Diff: 2
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Manufacturing Companies

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38) Simons, Inc. sells plasticware. The following information summarizes Simons' operating activities for the year:

Utilities Expense	$ 65,000
Rent Expense	10,000
Sales Commissions Expense	32,500
Purchases of Merchandise	260,000
Merchandise Inventory on January 1	65,000
Merchandise Inventory on December 31	97,500
Sales Revenue	650,000

Prepare an income statement for Simons, Inc., a merchandiser, for the year ended December 31 using the format below:

Sales Revenue		
Cost of Goods Sold:		
Beginning Inventory		
Purchases		
Cost of Goods Available for Sale		
Ending Inventory		
Cost of Goods Sold		
Gross Profit		
Selling Expenses:		
Sales Commissions Expense		
Administrative Expenses:		
Rent Expense		
Utilities Expense		
Total Operating Expenses		
Operating Income		

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Answer: Simons, Inc.
Income Statement
Year Ended December 31, 20XX

Sales Revenue		$650,000
Cost of Goods Sold:		
Beginning Inventory	$65,000	
Purchases	260,000	
Cost of Goods Available for Sale	325,000	
Ending Inventory	(97,500)	
Cost of Goods Sold		227,500
Gross Profit		422,500
Selling Expenses:		
Sales Commissions Expense		32,500
Administrative Expenses:		
Rent Expense	10,000	
Utilities Expense	65,000	75,000
Total Operating Expenses		107,500
Operating Income		$315,000

Diff: 2
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Manufacturing Companies

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39) Best, Inc., a merchandiser, sells office supplies. The following information summarizes Best's operating activities during the year:

Utilities Expense	$6,000
Rent for Store Expense	8,000
Sales Commissions Expense	4,500
Purchases of Merchandise	54,000
Merchandise Inventory on January 1	30,000
Merchandise Inventory on December 31	20,500
Sales Revenue	108,000

Required: Prepare an income statement for Best, Inc. for the year ended December 31, using the format below.

Sales Revenue		
Cost of Goods Sold:		
Beginning Inventory		
Purchases		
Cost of Goods Available for Sale		
Ending Inventory		
Cost of Goods Sold		
Gross Profit		
Selling Expenses:		
Sales Commissions Expense		
Administrative Expenses:		
Rent Expense		
Utilities Expense		
Total Operating Expenses		
Operating Income		

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Answer: Best, Inc.
Income Statement
Year Ended December 31, 20XX

Sales Revenue		$108,000
Cost of Goods Sold:		
Beginning Inventory	$30,000	
Purchases	54,000	
Cost of Goods Available for Sale	84,000	
Ending Inventory	(20,500)	
Cost of Goods Sold		63,500
Gross Profit		44,500
Selling Expenses:		
Sales Commissions Expense	4,500	
Administrative Expenses:		
Rent Expense	8,000	
Utilities Expense	6,000	
Total Operating Expenses		18,500
Operating Income		$26,000

Diff: 3
LO: 18-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Manufacturing Companies

40) List the three kinds of inventory accounts that are used by manufacturing companies. Briefly discuss what each account includes.
Answer: Raw Materials Inventory includes materials used to make a product.
Work-in-Process Inventory includes goods that are in the manufacturing process but are not yet complete.
Finished Goods Inventory includes completed good that have not yet been sold.
Diff: 1
LO: 18-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Manufacturing Companies

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Learning Objective 18-3

1) The cost of direct materials cannot easily be traced to the manufactured product, and therefore, it is a component of manufacturing overhead.
Answer: FALSE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Direct and Indirect Costs

2) Direct costs and indirect costs can be easily traced directly to a cost object.
Answer: FALSE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Direct and Indirect Costs

3) The wages of manufacturing plant janitors are considered to be non-manufacturing overhead costs as these costs are not directly related to the manufacturing process.
Answer: FALSE
Diff: 1
LO: 18-3
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2 : Direct and Indirect Costs

4) In manufacturing, the cost objects are often units of product.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Direct and Indirect Costs

5) Which of the following will most likely be considered an indirect material cost for a bakery?
A) spices
B) flour
C) milk
D) eggs
Answer: A
Diff: 2
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Direct and Indirect Costs

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6) Anything for which managers want a separate measurement of cost is called a _____.
A) responsibility center
B) cost object
C) profit object
D) conversion cost
Answer: B
Diff: 1
LO: 18-3
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Direct and Indirect Costs

7) Define direct cost.
Answer: A direct cost is a cost that can be easily and cost-effectively traced to a cost object.
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Direct and Indirect Costs

8) Define indirect cost.
Answer: An indirect cost is a cost than cannot be easily or cost-effectively traced to a cost object.
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Direct and Indirect Costs

9) Product costs, such as factory overhead, should be treated as an asset until the product is sold.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

10) Manufacturing overhead includes all manufacturing costs, such as direct labor and direct materials.
Answer: FALSE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

11) Manufacturing overhead includes indirect manufacturing costs, such as insurance and depreciation on the factory building.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

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12) All costs incurred in the manufacture of final products are product costs.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

13) In a manufacturing company, wages and benefits of assembly line workers are period costs.
Answer: FALSE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

14) In a manufacturing company, wages and benefits of assembly line workers are included in manufacturing overhead.
Answer: FALSE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

15) In a manufacturing company, wages and benefits of factory managers are considered as product costs.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

16) Product costs, such as direct materials, are expensed in the period they are paid.
Answer: FALSE
Diff: 1
LO: 18-3
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Product Costs

17) The three categories of period costs are direct materials, direct labor, and manufacturing overhead.
Answer: FALSE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

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18) The salary of a manufacturing plant manager will be included in manufacturing overhead.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

19) In a manufacturing company, the salary of the sales staff is an example of period cost.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

20) In a manufacturing plant, indirect materials costs such as lubricants and cleaning fluids are product costs.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

21) Indirect materials costs are included in manufacturing overhead.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

22) For a manufacturer, rent paid for an office building is an example of a period cost.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

23) Factory rent, as well as factory property taxes and insurance, are included in manufacturing overhead.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

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24) Freight costs paid to ship raw materials to a company warehouse are considered product costs.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

25) Sales commissions are included in manufacturing overhead.
Answer: FALSE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

26) In a manufacturing company, advertising and marketing costs are examples of period costs.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

27) In a manufacturing company, advertising and marketing costs are included in manufacturing overhead.
Answer: FALSE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

28) In a manufacturing company, accounting, legal, and administrative costs are typical examples of product costs.
Answer: FALSE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

29) In a manufacturing company, administrative costs are included in period costs.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

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30) Repair and maintenance costs for manufacturing equipment are product costs.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

31) Repair and maintenance costs for manufacturing equipment are included in manufacturing overhead.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

32) Repair and maintenance costs of vehicles used to deliver products to customers are product costs.
Answer: FALSE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

33) Repair and maintenance costs of vehicles used to deliver products to the customers are included in manufacturing overhead.
Answer: FALSE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

34) Period costs are the _____.
A) product costs that must be paid in the accounting period in which they are incurred
B) costs that are incurred and expensed during the same accounting period
C) costs related to production of products the company purchases and sells
D) same as manufacturing overhead costs
Answer: B
Diff: 2
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

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35) Which of the following is an example of a period cost for a manufacturing company?
A) advertising expense
B) depreciation on factory equipment
C) indirect materials
D) property taxes for the factory
Answer: A
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

36) Which of the following is a part of manufacturing overhead?
A) cost of raw materials
B) wages of assembly line workers
C) factory insurance
D) depreciation on office furniture
Answer: C
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

37) Which of the following is a product cost for a manufacturing company?
A) salary of administrative staff
B) wages paid to factory janitor
C) commissions paid to sales staff
D) depreciation on corporate building
Answer: B
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

38) Which of the following is a period cost for a manufacturing company?
A) office rent
B) wages of factory janitor
C) insurance cost of production equipment
D) raw materials
Answer: A
Diff: 2
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

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39) For a manufacturing company, which of the following is a period cost?
A) direct materials used
B) office rent
C) wages expense of factory workers
D) indirect materials used
Answer: B
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

40) Which of the following is an example of direct labor cost in a factory?
A) wages of assembly line personnel
B) salary of vice president of production
C) wages of factory security guard
D) salary of production manager
Answer: A
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

41) Which of the following will be included in manufacturing overhead costs?
A) indirect labor and indirect materials used
B) salaries of salesmen
C) direct materials and direct labor
D) delivery costs to ship goods to customers
Answer: A
Diff: 2
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

42) Manufacturing overhead is also referred to as _____.
A) indirect manufacturing costs
B) direct manufacturing costs
C) prime costs
D) period costs
Answer: A
Diff: 2
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

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43) Kyanite Corporation, a manufacturer, reports costs for the year as follows:

Direct Materials Used	$535,000
Wages to Line Workers	470,000
Office Rent	29,000
Indirect Materials Used	370,000

How much is the total period costs for Kyanite?
A) $535,000
B) $470,000
C) $29,000
D) $370,000
Answer: C
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

44) Daryl Corporation reports costs for the year as follows:

Direct Materials Used	$390,000
Wages to Line Workers	225,000
Office Rent	53,500
Indirect Materials Used	785,000

How much is the total product costs for the year?
A) $785,000
B) $1,400,000
C) $1,453,500
D) $615,000
Answer: B
Explanation: B) Total product costs = Raw Materials + Wages to Line Workers + Indirect Materials = $390,000 + $225,000 + $785,000 = $1,400,000
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

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45) Which of the following is a product cost?
A) sales commissions
B) CEO's salary
C) delivery van depreciation
D) depreciation on production equipment
Answer: D
Diff: 2
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

46) Which of the following correctly describes the accounting for indirect labor costs?
A) Indirect labor costs are product costs and are expensed as incurred.
B) Indirect labor costs are period costs and are expensed as incurred.
C) Indirect labor costs are product costs and are expensed when the manufactured product is sold.
D) Indirect labor costs are period costs and are expensed when the manufactured product is sold.
Answer: C
Diff: 2
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

47) Which of the following correctly describes the accounting for factory depreciation?
A) Factory depreciation is a product cost and is expensed as incurred.
B) Factory depreciation is a period cost and is expensed as incurred.
C) Factory depreciation is a product cost and is expensed when the manufactured product is sold.
D) Factory depreciation is a period cost and is expensed when the manufactured product is sold.
Answer: C
Diff: 2
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

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48) Which of the following correctly describes the accounting for administrative expenses of a manufacturing company?
A) Administrative expenses are product costs and are expensed as incurred.
B) Administrative expenses are period costs and are expensed as incurred.
C) Administrative expenses are product costs and are expensed when the manufactured product is sold.
D) Administrative expenses are period costs and are expensed when the manufactured product is sold.
Answer: B
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

49) Which of the following correctly describes the accounting for advertising costs?
A) Advertising costs are product costs and are expensed as incurred.
B) Advertising costs are period costs and are expensed as incurred.
C) Advertising costs are product costs and are expensed when the manufactured product is sold.
D) Advertising costs are period costs and are expensed when the manufactured product is sold.
Answer: B
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

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50) The following information relates to Webster, Inc.:

Advertising Costs	$11,000
Administrative Salaries	15,600
Delivery Vehicle Depreciation	1,900
Factory Repair and Maintenance	200
Indirect Labor	19,500
Indirect Materials	10,000
Manufacturing Equipment Depreciation	1,000
Office Rent	50,000
President's Salary	2,200
Sales Revenue	530,000
Sales Salary	4,500

How much were Webster's period costs?
A) $85,200
B) $30,700
C) $534,500
D) $6,700
Answer: A
Explanation: A)

Advertising Costs	$11,000
President's Salary	2,200
Office Rent	50,000
Sales Salary	4,500
Delivery Vehicle Depreciation	1,900
Administrative Salaries	15,600
Total Period Cost	$85,200

Diff: 2
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

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51) The following information relates to Washington, Inc.:

Advertising Costs	$19,000
Sales Salary	14,000
Sales Revenue	530,000
President's Salary	340,000
Office Rent	64,500
Manufacturing Equipment Depreciation	1,400
Indirect Materials Used	7,600
Indirect Labor	12,000
Factory Repair and Maintenance	920
Direct Materials Used	30,000
Direct Labor	41,000
Delivery Vehicle Depreciation	1,750
Administrative Salaries	29,000

How much were Washington's product costs?
A) $658,250
B) $369,000
C) $549,000
D) $92,920
Answer: D
Explanation: D)

Indirect Labor	$12,000
Indirect Materials	7,600
Factory Repair and Maintenance	920
Manufacturing Equipment Depreciation	1,400
Direct Materials	30,000
Direct Labor	41,000
Total Product Cost	$92,920

Diff: 2
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

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52) The following information relates to Carried Away Hot Air Balloons, Inc.:

Advertising Costs	$16,800
Sales Salary	15,200
Sales Revenue	570,000
President's Salary	51,000
Office Rent	55,000
Manufacturing Equipment Depreciation	1,500
Indirect Materials Used	5,700
Indirect Labor	10,300
Factory Repair and Maintenance	860
Direct Materials Used	23,710
Direct Labor	34,600
Delivery Vehicle Depreciation	930
Administrative Salaries	22,400

How much was Carried Away's manufacturing overhead?
A) $16,000
B) $16,860
C) $18,360
D) $58,310
Answer: C
Explanation: C)

Indirect Labor	$10,300
Indirect Materials	5,700
Factory Repair and Maintenance	860
Manufacturing Equipment Depreciation	1,500
Total Manufacturing Overhead	$18,360

Diff: 2
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

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53) The following information was obtained from Fizz, Inc.:

Advertising Costs	$10,600
Indirect Labor	7,000
CEO's Salary	500,000
Direct Labor	56,000
Indirect Materials Used	7,500
Direct Materials Used	370,000
Factory Utilities	800
Factory Janitorial Costs	2,500
Manufacturing Equipment Depreciation	2,500
Delivery Vehicle Depreciation	2,600
Administrative Wages and Salaries	33,900

How much were Fizz's period costs?
A) $446,300
B) $547,100
C) $13,200
D) $544,500
Answer: B
Explanation: B)

Advertising Costs	$10,600
CEO's Salary	500,000
Delivery Vehicle Depreciation	2,600
Administrative Wages and Salaries	33,900
Total Period Costs	$547,100

Diff: 2
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

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54) The following information was obtained from MCB Manufacturing, Inc.:

Advertising Costs	$9,800
Indirect Labor	36,000
CEO's Salary	480,000
Direct Labor	50,000
Indirect Materials Used	4,000
Direct Materials Used	65,000
Factory Utilities	920
Factory Janitorial Costs	2,100
Manufacturing Equipment Depreciation	1,000
Delivery Vehicle Depreciation	2,700
Administrative Wages and Salaries	22,000

Calculate MCB Manufacturing's total product costs.
A) $159,020
B) $514,500
C) $115,000
D) $155,000
Answer: A
Explanation: A)

Indirect labor	$36,000
Direct Labor	50,000
Indirect Materials	4,000
Direct Materials Used	65,000
Factory Utilities	920
Factory Janitorial Costs	2,100
Manufacturing Equipment Depreciation	1,000
Total Product Costs	$159,020

Diff: 2
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

55) Which of the following would be considered a product cost for a manufacturing business?
A) research and development
B) property taxes on the factory
C) advertising
D) delivery costs
Answer: B
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

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56) Which of the following would be considered a product cost for a manufacturing company?
A) salary of the sales manager
B) salary of the CEO
C) salaries of the accounting staff
D) salary of the production manager
Answer: D
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

57) Which of the following would be considered a product cost for a manufacturing company?
A) depreciation on delivery vehicles
B) depreciation on administrative building furniture and fixtures
C) depreciation on manufacturing equipment
D) depreciation on the accounting department's computer equipment
Answer: C
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

58) Which of the following would be considered a direct labor cost for a manufacturing company?
A) wages of the assembly line staff
B) wages of the factory janitors
C) wages of the factory manager
D) salaries of the internal auditors
Answer: A
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

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59) Which of the following would be included as indirect manufacturing costs for a manufacturing company?
A) sales commissions
B) fuel and maintenance for delivery vehicles
C) wages of the assembly line workers
D) wages of the factory manager
Answer: D
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

60) Which of the following would be included as manufacturing overhead for a manufacturing company?
A) direct materials cost
B) indirect materials cost
C) direct labor
D) advertising
Answer: B
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

61) Which of the following would be considered a period cost for a manufacturing company?
A) indirect materials
B) factory utilities
C) direct labor
D) sales salaries
Answer: D
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Product Costs

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62) Classify each cost of a furniture manufacturer as either product cost (PR) or period cost (PE).

Cost	PR or PE
Vice president of marketing's salary	
Delivery expense	
Wood used to make tables	
Depreciation on office equipment	
Production supervisor's salary	
Factory insurance	
Corporate office rent	

Answer:

Cost	PR or PE
Vice president of marketing's salary	PE
Delivery expense	PE
Wood used to make dining tables	PR
Depreciation on office equipment	PE
Production supervisor's salary	PR
Factory insurance	PR
Corporate office rent	PE

Diff: 1
LO: 18-3
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2 : Product Costs

63) Define indirect materials and give two examples of indirect materials for a manufacturing company.
Answer: Indirect materials are used in making a product but either cannot be conveniently traced to specific, finished products or are not large enough to justify tracing to the specific product. Examples include glue used in making tables and manufacturing supplies.
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

64) The income statement of a manufacturing company separates the product costs from the period costs.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

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65) Define indirect labor and give two examples of indirect labor for a manufacturing company.
Answer: Indirect labor are labor costs for activities that support the production process but either cannot be conveniently traced directly to specific finished products or are not large enough to justify tracing to the specific products. Examples include production supervisor's salary and wages of factory janitors and maintenance employees.
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Product Costs

66) Direct materials and direct labor are prime costs.
Answer: TRUE
Diff: 1
LO: 18-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Prime and Conversion Costs

67) For decision-making purposes, _____ costs are often divided into prime costs and conversion costs.
A) fixed costs
B) product costs
C) period costs
D) sunk costs
Answer: B
Diff: 2
LO: 18-3
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Prime and Conversion Costs

68) Which of the following is a prime cost and a conversion cost?
A) manufacturing overhead
B) direct materials
C) direct labor
D) selling expenses
Answer: C
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2 : Prime and Conversion Costs

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69) Which of the following represents the combined sum of direct labor and manufacturing overhead?
A) conversion costs
B) period costs
C) prime costs
D) fixed costs
Answer: A
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Prime and Conversion Costs

70) Which of the following represents the combined sum of direct materials and direct labor?
A) conversion costs
B) period costs
C) prime costs
D) fixed costs
Answer: C
Diff: 1
LO: 18-3
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Prime and Conversion Costs

71) Which of the following will be classified as a conversion cost?
A) cost of direct materials used
B) depreciation on factory equipment
C) salary of sales personnel
D) depreciation on office furniture
Answer: B
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2 : Prime and Conversion Costs

72) Which of the following would be classified as a prime cost?
A) cost of direct materials used
B) depreciation on factory equipment
C) salary of sales personnel
D) depreciation on office furniture
Answer: A
Diff: 1
LO: 18-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2 : Prime and Conversion Costs

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Learning Objective 18-4

1) The cost of goods sold is added to net sales revenue to determine gross profit.
Answer: FALSE
Explanation: The cost of goods sold is subtracted from net sales revenue to determine gross profit.
Diff: 1
LO: 18-4
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Calculating Cost of Goods Sold

2) Jasper, Inc. reports the following cost information for March:

Cost of Goods Manufactured	$74,100
Manufacturing Overhead	18,800
Finished Goods Inventory, March 1	4,500
Finished Goods Inventory, March 31	2,000
Work-in-Process Inventory, March 1	9,100
Work-in-Process Inventory, March 31	1,100
Direct Materials Used	25,600

What is the cost of goods sold for March?
A) $2,300
B) $71,600
C) $76,600
D) $78,600
Answer: C
Explanation: C)

Finished Goods Inventory, March 1	$4,500
Cost of Goods Manufactured	74,100
Finished Goods Inventory, March 31	(2,000)
Cost of Goods Sold	$76,600

Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Sold

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3) Given the following information, determine the cost of goods sold.

Direct Labor Incurred	$61,000
Manufacturing Overhead Incurred	177,000
Direct Materials Used	155,000
Finished Goods Inventory, Jan. 1	198,000
Finished Goods Inventory, Dec. 31	97,500
Work-in-Process Inventory, Jan. 1	221,500
Work-in-Process Inventory, Dec. 31	109,000

A) $505,500
B) $614,500
C) $606,000
D) $295,500
Answer: C
Explanation: C)

Work-in-Process Inventory, Jan. 1	$221,500
Direct Materials Used	155,000
Direct Labor Incurred	61,000
Manufacturing Overhead Incurred	177,000
Work-in-Process Inventory, Dec. 31	(109,000)
Cost of Goods Manufactured	$505,500

Finished Goods Inventory, Jan. 1	$198,000
Cost of Goods Manufactured	505,500
Finished Goods Inventory, Dec. 31	(97,500)
Cost of Goods Sold	$606,000

Diff: 3
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Sold

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4) The cost of goods sold for Frye Manufacturing in the year was $373,000. The January 1 Finished Goods Inventory balance was $30,200, and the December 31 Finished Goods Inventory balance was $24,000. Calculate the cost of goods manufactured during the year.
A) $397,000
B) $54,200
C) $366,800
D) $6,200
Answer: C
Explanation: C) Cost of goods manufactured = Cost of goods sold + Ending finished goods inventory - Beginning finished goods inventory = $373,000 + $24,000 - $30,200 = $366,800
Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Sold

5) Viva, Inc. has provided the following information for the year:

Cost of Goods Manufactured	$1,293,000
Beginning Balance—Finished Goods Inventory	98,000
Ending Balance—Finished Goods Inventory	80,000

How much is the cost of goods sold?
A) $178,000
B) $1,311,000
C) $1,293,000
D) $1,275,000
Answer: B
Explanation: B)

Beginning Balance—Finished Goods Inventory	$98,000
Cost of Goods Manufactured	1,293,000
Ending Balance—Finished Goods Inventory	(80,000)
Cost of Goods Sold	$1,311,000

Diff: 1
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Sold

6) The cost of goods manufactured includes selling expenses, administrative expenses, and manufacturing overhead.
Answer: FALSE
Diff: 1
LO: 18-4
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Calculating Cost of Goods Manufactured

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7) The inventory of a merchandising company consists of Raw Materials Inventory, Work-in-Process Inventory, and Finished Goods Inventory.
Answer: FALSE
Diff: 1
LO: 18-4
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Calculating Cost of Goods Manufactured

8) Total manufacturing costs to account for during the year minus the ending Work-in-Process Inventory equals the cost of goods manufactured.
Answer: TRUE
Diff: 1
LO: 18-4
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Calculating Cost of Goods Manufactured

9) Which of the following statements is true of the flow of product and period costs for a manufacturer?
A) When the manufacturing process is completed, the costs are transferred to the Work-in-Process Inventory account.
B) The cost of the finished goods that the manufacturer sells becomes its Cost of Goods Sold on the income statement.
C) Period costs remain in inventory accounts on the balance sheet until the product is sold.
D) All product costs that have been paid are expensed and reported on the income statement at the end of the accounting period.
Answer: B
Diff: 2
LO: 18-4
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Calculating Cost of Goods Manufactured

10) Goods that are produced by a manufacturing company and are ready to sell are recorded in the _____ account.
A) Raw Materials Inventory
B) Work-in-Process Inventory
C) Manufacturing Overhead
D) Finished Goods Inventory
Answer: D
Diff: 1
LO: 18-4
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Calculating Cost of Goods Manufactured

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11) At the beginning of the year, Swift, Inc.'s Work-in-Process Inventory account had a balance of $123,000. During the year, $250,000 of direct materials were used in production, and $71,000 of direct labor costs were incurred. Manufacturing overhead amounted to $829,000. The cost of goods manufactured was $670,000. What is the balance in the Work-in-Process Inventory account on December 31?

A) $1,150,000
B) $1,340,000
C) $670,000
D) $603,000

Answer: D

Explanation: D)

Beginning Work-in-Process Inventory	$123,000
Direct Materials Used	250,000
Direct Labor	71,000
Manufacturing Overhead	829,000
Total Manufacturing Costs to account for	1,273,000
Cost of Goods Manufactured	(670,000)
Ending Work-in-Process Inventory	$603,000

Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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12) Selected data for Lemon Grass, Inc. for the year are provided below:

Factory Utilities	$1,200
Indirect Materials Used	34,000
Direct Materials Used	289,000
Property Taxes on Factory Building	6,000
Sales Commissions	80,000
Indirect Labor Incurred	21,000
Direct Labor Incurred	150,000
Depreciation on Factory Equipment	6,100

What is the total manufacturing overhead?
A) $439,000
B) $55,000
C) $68,300
D) $13,300
Answer: C
Explanation: C)

Factory Utilities	$1,200
Indirect Materials Used	34,000
Property Taxes on Factory Building	6,000
Indirect Labor Incurred	21,000
Depreciation on Factory Equipment	6,100
Total Factory Overhead	$68,300

Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

13) Which of the following describes the cost of goods manufactured?
A) the cost of the goods that were sold during the period
B) the total cost of all goods that were completed, or partially completed during the period
C) the cost of those goods that were completed during the period
D) the total costs in inventory at the end of the period
Answer: C
Diff: 2
LO: 18-4
AACSB: Interpersonal relations and teamwork
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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14) Fire Cat, Inc. selected cost data for the year are shown below:

Cost of Goods Manufactured	$146,800
Work-in-Process Inventory, Jan. 1	20,000
Work-in-Process Inventory, Dec. 31	23,000
Direct Materials Used	17,400

What is the total of manufacturing costs incurred by Fire Cat, Inc. during the year?
A) $149,800
B) $143,800
C) $25,600
D) $37,400
Answer: A
Explanation: A) Total manufacturing costs incurred = Ending Work-in-Process Inventory + Cost of Goods Manufactured - Beginning Work-in-Process Inventory = $23,000 + $146,800 - $20,000 = $149,800
Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

15) D&I Supplies, Inc. selected cost data for the year are shown below:

Work-in-Process Inventory, Jan. 1	$5,860
Direct Materials Used	102,000
Work-in-Process Inventory, Dec. 31	2,870
Cost of Goods Manufactured	193,800

Assuming manufacturing overhead costs of $27,820, what is the amount of direct labor incurred by D&I Supplies, Inc. during the year?
A) $63,980
B) $190,810
C) $60,990
D) $129,820
Answer: C
Explanation: C) Total Manufacturing Cost = Ending Work-in-Process Inventory + Cost of Goods Manufactured - Beginning Work-in-Process Inventory = $2,870 + $193,800 - $5,860 = $190,810

Direct labor costs = Total Manufacturing Cost - Manufacturing overhead costs - Direct Materials Used = $190,810 - $27,820 - $102,000 = $60,990
Diff: 3
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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16) XO, Inc. reports the following cost information for March:

Cost of Goods Manufactured	$71,000
Manufacturing Overhead	18,300
Finished Goods Inventory, March 1	4,000
Finished Goods Inventory, March 31	2,000
Work-in-Process Inventory, March 1	9,970
Work-in-Process Inventory, March 31	1,240
Direct Materials Used	25,020

What is the amount of direct labor incurred by XO in March?
A) $62,270
B) $6,720
C) $71,000
D) $18,950
Answer: D
Explanation: D)

Cost of Goods Manufactured	$71,000
Direct Materials Used	(25,020)
Manufacturing Overhead	(18,300)
Work-in-Process Inventory, March 1	(9,970)
Work-in-Process Inventory, March 31	1,240
Direct Labor	$18,950

Diff: 3
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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17) Houston Corporation reports the following cost information for March:

Cost of Goods Manufactured	$71,000
Manufacturing Overhead	19,000
Finished Goods Inventory, March 1	8,000
Finished Goods Inventory, March 31	2,000
Work-in-Process Inventory, March 1	9,660
Work-in-Process Inventory, March 31	1,260
Direct Labor	36,500

What is the amount of direct materials used by the company in March?
A) $7,100
B) $8,400
C) $17,500
D) $15,500
Answer: A
Explanation: A)

Cost of Goods Manufactured	$71,000
Direct Labor	(36,500)
Manufacturing Overhead	(19,000)
Work-in-Process Inventory, March 1	(9,660)
Work-in-Process Inventory, March 31	1,260
Direct Materials Used	$7,100

Diff: 3
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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18) A.S. Design Corporation reports the following cost information for March:

Cost of Goods Manufactured	$80,000
Finished Goods Inventory, March 1	4,500
Finished Goods Inventory, March 31	2,700
Work-in-Process Inventory, March 1	9,670
Work-in-Process Inventory, March 31	1,000
Direct Labor	36,300
Direct Materials Used	16,900

What is the amount of manufacturing overhead incurred by the company in March?
A) $35,030
B) $143,870
C) $18,130
D) $17,130
Answer: C
Explanation: C)

Cost of Goods Manufactured	$80,000
Direct Labor	(36,300)
Direct Materials Used	(16,900)
Work-in-Process Inventory, March 1	(9,670)
Work-in-Process Inventory, March 31	1,000
Manufacturing Overhead	$18,130

Diff: 3
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

19) A corporation used $35,000 of direct materials and incurred $73,000 in direct labor cost, and $112,500 in manufacturing overhead costs during the period. What is the cost of goods manufactured if the beginning and ending Work-in-Process Inventories were $28,000 and $21,500, respectively?
A) $248,500
B) $227,000
C) $214,000
D) $220,500
Answer: B
Explanation: B) Cost of goods manufactured = Beginning Work-in-Process Inventory + Direct Materials + Direct Labor Cost + Manufacturing Overhead Costs - Ending Work-in-Process Inventory = $28,000 + $35,000 + $73,000 + $112,500 - $21,500 = $227,000
Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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20) Given the following information, determine the cost of goods manufactured.

Direct Labor Incurred	$60,000
Manufacturing Overhead Incurred	177,000
Direct Materials Used	150,000
Finished Goods Inventory, Jan. 1	199,000
Finished Goods Inventory, Dec. 31	98,500
Work-in-Process Inventory, Jan. 1	221,000
Work-in-Process Inventory, Dec. 31	108,000

A) $387,000
B) $500,000
C) $279,000
D) $189,500
Answer: B
Explanation: B)

Work-in-Process Inventory, Jan. 1	$221,000
Direct Materials Used	150,000
Direct Labor Incurred	60,000
Manufacturing Overhead Incurred	177,000
Work-in-Process Inventory, Dec. 31	(108,000)
Cost of Goods Manufactured	$500,000

Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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21) The following information has been provided by Squash Corporation:

Direct Labor	$6,300
Direct Materials Used	2,700
Raw Materials Purchased	8,000
Cost of Goods Manufactured	18,000
Ending Work-in-Process Inventory	1,200
Corporate Headquarters' Property taxes	300
Manufacturing Overhead Incurred	510

The beginning balance of Work-in-Process Inventory account was _____.
A) $9,900
B) $9,690
C) $26,310
D) $9,510
Answer: B
Explanation: B)

Cost of Goods Manufactured	$18,000
Direct Labor	(6,300)
Direct Materials Used	(2,700)
Manufacturing Overhead	(510)
Ending Work-in-Process Inventory	1,200
Beginning Work-in-Process Inventory	$9,690

Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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22) Barricades Corporation provided the following information for the year:

Beginning Balance—Work-in-Process Inventory	$25,000
Ending Balance—Work-in-Process Inventory	56,000
Beginning Balance—Raw Materials Inventory	84,000
Ending Balance—Raw Materials Inventory	59,000
Purchases—Raw Materials	361,000
Direct Labor	468,000
Indirect Labor	19,000
Depreciation on Factory Plant and Equipment	25,000
Plant Utilities and Insurance	270,000

What was the amount of direct materials used in production during the year?
A) $65,000
B) $361,000
C) $386,000
D) $829,000
Answer: C
Explanation: C)

Beginning Balance—Raw Materials Inventory	$84,000
Purchases—Raw Materials	361,000
Ending Balance—Raw Materials Inventory	(59,000)
Direct Materials Used	$386,000

Diff: 1
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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23) KRD Supplies Corporation provided the following information for the year:

Beginning Balance—Work-in-Process Inventory	$24,000
Ending Balance—Work-in-Process Inventory	56,000
Beginning Balance—Raw Materials Inventory	83,000
Ending Balance—Raw Materials Inventory	60,000
Purchases—Raw Materials	362,000
Direct Labor	470,000
Indirect Labor	18,000
Depreciation on Factory Plant and Equipment	24,000
Plant Utilities and Insurance	272,000

What was the amount of the manufacturing overhead costs?
A) $314,000
B) $42,000
C) $296,000
D) $488,000
Answer: A
Explanation: A)

Plant Utilities and Insurance	272,000
Depreciation on Factory Plant and Equipment	24,000
Indirect Labor	18,000
Total Manufacturing Overhead Costs	$314,000

Diff: 1
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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24) Douban Corporation provided the following information for the year:

Beginning Balance—Work-in-Process Inventory	$26,000
Ending Balance—Work-in-Process Inventory	58,000
Beginning Balance—Raw Materials Inventory	83,000
Ending Balance—Raw Materials Inventory	61,000
Purchases—Raw Materials	359,000
Direct Labor	468,000
Indirect Labor	21,000
Depreciation on Factory Plant and Equipment	23,000
Plant Utilities and Insurance	271,000

What was the total manufacturing costs incurred during the year?
A) $696,000
B) $315,000
C) $849,000
D) $1,164,000
Answer: D

Explanation: D)

Beginning Balance—Raw Materials Inventory	$83,000
Purchases—Raw Materials	359,000
Ending Balance—Raw Materials Inventory	(61,000)
Direct Materials Used	$381,000

Plant Utilities and Insurance	$271,000
Depreciation on Factory Plant and Equipment	23,000
Indirect Labor	21,000
Total Manufacturing Overhead Costs	$315,000

Direct Materials Used	$381,000
Direct Labor	468,000
Manufacturing Overhead	$315,000
Total Manufacturing Cost Incurred During Year	$1,164,000

Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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25) Malibu Corporation provided the following information for the year:

Beginning Balance—Work-in-Process Inventory	$24,000
Ending Balance—Work-in-Process Inventory	57,000
Beginning Balance—Raw Materials Inventory	86,000
Ending Balance—Raw Materials Inventory	59,000
Purchases—Raw Materials	362,000
Direct Labor	471,000
Indirect Labor	20,000
Depreciation on Factory Plant and Equipment	22,000
Plant Utilities and Insurance	271,000

What was the amount of the cost of goods manufactured for the year?
A) $1,372,000
B) $1,173,000
C) $1,140,000
D) $1,206,000
Answer: C

Explanation: C)

Beginning Balance—Raw Materials Inventory	$86,000
Purchases—Raw Materials	362,000
Ending Balance—Raw Materials Inventory	(59,000)
Direct Materials Used	$389,000

Plant Utilities and Insurance	$271,000
Depreciation on Factory Plant and Equipment	22,000
Indirect Labor	20,000
Total Manufacturing Overhead Costs	$313,000

Direct Materials Used	$389,000
Direct Labor	471,000
Manufacturing Overhead	$313,000
Total Manufacturing Cost Incurred During Year	$1,173,000

Beginning Balance—Work-in-Process Inventory	$24,000
Total Manufacturing Cost Incurred During Year	1,173,000
Ending Balance—Work-in-Process Inventory	(57,000)
Cost of Goods Manufactured	$1,140,000

Diff: 3
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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26) Amoeba Manufacturing, Inc. provided the following information for the year:

Purchases—Raw Materials	$90,000
Plant Utilities and Insurance	68,000
Indirect Materials	11,740
Indirect Labor	4,050
Direct Materials Used in Production	99,000
Direct Labor	117,000
Depreciation on Factory Plant & Equipment	5,000

The inventory account balances as of January 1 are given below.

Raw Materials Inventory	$44,000
Work-in-Progress Inventory	11,000
Finished Goods Inventory	49,000

What is the ending balance in the Raw Materials Inventory account?
A) $134,000
B) $6,000
C) $110,740
D) $23,260
Answer: D
Explanation: D) Beginning Raw Materials Inventory + Purchases Raw Materials - Direct Materials Used in Production - Indirect Materials = Ending Raw Materials Inventory
$44,000 + $90,000 - $99,000 - $11,740 = $23,260
Diff: 1
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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27) Bentley Manufacturing, Inc. provided the following information for the year:

Purchases—Raw Materials	$91,000
Plant Utilities and Insurance	67,500
Indirect Materials Used	11,940
Indirect Labor	4,490
Direct Materials Used in Production	97,000
Direct Labor	117,000
Depreciation on Factory Plant and Equipment	6,000
Cost of Goods Manufactured	292,000

The inventory account balances as of January 1 are given below.

Raw Materials Inventory	$46,000
Work-in-Progress Inventory	1,100
Finished Goods Inventory	49,500

What is the ending balance in the Work-in-Process Inventory account?
A) $13,030

B) $1,100
C) $49,500
D) $44,900
Answer: A
Explanation: A)

Indirect Materials	$11,940
Indirect Labor	4,490
Depreciation on Factory Plant and Equipment	6,000
Plant Utilities & Insurance	67,500
Total Manufacturing Overhead	$89,930

Beginning—Work-in-Process Inventory	$1,100
Direct Materials Used in Production	97,000
Direct Labor	117,000
Manufacturing Overhead	89,930
Cost of Goods Manufactured	(292,000)
Ending—Work-in-Process Inventory	$13,030

Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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28) Red Tail Manufacturing, Inc. provided the following information for the year:

Purchases—Raw Materials	$91,000
Plant Utilities and Insurance	67,000
Indirect Materials Used	11,000
Indirect Labor	4,100
Direct Materials Used in Production	97,000
Direct Labor	117,000
Depreciation on Factory Plant and Equipment	7,000
Cost of Goods Manufactured	291,000
Cost of Goods Sold	290,000

The inventory account balances as of January 1 are given below.

Raw Materials Inventory	$46,000
Work-in-Progress Inventory	11,000
Finished Goods Inventory	304,600

What is the ending balance in the Finished Goods Inventory?
A) $304,600
B) $303,600
C) $305,600
D) $595,600
Answer: C
Explanation: C)

Beginning Balance—Finished Goods Inventory	$304,600
Cost of Goods Manufactured	291,000
Cost of Goods Sold	(290,000)
Ending Balance—Finished Goods Inventory	$305,600

Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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29) Regarding the flow of costs through the inventory accounts, which of the following statements is incorrect?
A) The final amount at each stage is added at the beginning of the next stage.
B) The costs flow from Raw Materials Inventory to Work-in-Process Inventory to Finished Goods Inventory.
C) Purchases and freight in are debited to the Work-in-Process Inventory account.
D) The format for computing the amount used, manufactured, or sold is the same for all three inventory accounts.
Answer: C
Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

30) South State, Inc. used $150,000 of direct materials and incurred $63,000 of direct labor costs during the year. Indirect labor amounted to $270,000, while indirect materials used totaled $52,500. Other operating costs pertaining to the factory included utilities of $133,500; maintenance of $74,880; repairs of $53,100; depreciation of $131,000; and property taxes of $74,120. There was no beginning or ending finished goods inventory, but Work-in-Process inventory began the year with a $5,600 balance and ended the year with a $7,500 balance.

How much is the cost of goods manufactured?
A) $13,100
B) $1,000,200
C) $1,007,700
D) $1,002,100
Answer: B
Explanation: B)

Beginning Work–in–Process Inventory		$5,600
Direct Materials Used		150,000
Direct Labor	63,000	
Manufacturing Overhead (270,000 + 52,500 + 133,500 + 74,880 + 53,100 + 131,000 + 74,120)	789,100	
Total Manufacturing Costs Incurred during the Year		1,002,100
Total Manufacturing Costs to Account For		1,007,700
Ending Work–in–Process Inventory		(7,500)
Cost of Goods Manufactured		$1,000,200

Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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31) Arturo Manufacturing, Inc. provided the following information for the year:

Beginning Balance—Work-in-Process Inventory	$151,000
Ending Balance—Work-in-Process Inventory	62,500
Beginning Balance—Raw Materials Inventory	268,000
Ending Balance—Raw Materials Inventory	53,700
Purchases—Raw Materials	135,500
Direct Labor	73,860
Indirect Materials	53,150
Indirect Labor	131,500
Depreciation on Factory Plant and Equipment	71,500
Plant Utilities and Insurance	72,840

How much is the cost of goods manufactured?
A) $841,150
B) $752,650
C) $903,650
D) $769,650
Answer: A

Explanation: A)

Beginning Balance—Work-in-Process Inventory			$151,000
Direct Materials Used:			
Beginning Balance—Raw Materials Inventory	268,000		
Purchases—Raw Materials	135,500		
Raw Materials Available for Use	403,500		
Ending Balance—Raw Materials Inventory	(53,700)		
Direct Materials Used		349,800	
Direct Labor		73,860	
Manufacturing Overhead			
(53,150 + 131,500 + 71,500 + 72,840)		328,990	
Total Manufacturing Costs Incurred during the Year			$752,650
Total Manufacturing Costs to Account For			$903,650
Ending Work-in-Process Inventory			(62,500)
Cost of Goods Manufactured			$841,150

Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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32) Ferrell, Inc. used $213,000 of direct materials and incurred $111,000 of direct labor costs during the year. Indirect labor amounted to $8,100, while indirect materials used totaled $4,800. Other operating costs pertaining to the factory included utilities of $9,300; maintenance of $13,500; repairs of $5,400; depreciation of $23,700; and property taxes of $7,800. There was no beginning or ending finished goods inventory. The Work-in-Process Inventory account reflected a balance of $16,500 at the beginning of the period and $22,500 at the end of the period.

Required: Prepare a schedule of cost of goods manufactured for Ferrell, Inc. using the format below.

Cost of Goods Manufactured

Beginning Work-in-Process Inventory			
Direct Materials Used			
Direct Labor			
Manufacturing Overhead:			
Indirect Labor Used			
Indirect Materials			
Utilities			
Maintenance			
Repairs			
Depreciation			
Property Taxes			
Total Manufacturing Overhead			
Total Manufacturing Costs Incurred during the Year			
Total Manufacturing Costs to Account For			
Ending Work-in-Process Inventory			
Cost of Goods Manufactured			

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Answer: **Schedule of Cost of Goods Manufactured**

Beginning Work-in-Process Inventory			$16,500
Direct Materials Used		$213,000	
Direct Labor		111,000	
Manufacturing Overhead:			
Indirect Labor	$8,100		
Indirect Materials Used	4,800		
Utilities	9,300		
Maintenance	13,500		
Repairs	5,400		
Depreciation	23,700		
Property Taxes	7,800		
Total Manufacturing Overhead		72,600	
Total Manufacturing Costs Incurred during the Year			396,600
Total Manufacturing Costs to Account For			413,100
Ending Work-in-Process Inventory			(22,500)
Cost of Goods Manufactured			$390,600

Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

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33) Dreams Manufacturing, Inc. provided the following information for the year:

Purchases—Raw Materials	$270,000
Plant Utilities and Insurance	202,500
Indirect Materials	35,250
Indirect Labor	14,250
Ending Balance—Work-in-Process Inventory	42,000
Ending Balance—Raw Materials Inventory	45,000
Direct Labor	352,500
Depreciation on Factory Plant and Equipment	18,000
Beginning Balance—Work-in-Process Inventory	18,000
Beginning Balance—Raw Materials Inventory	63,000

Required: Prepare a statement of the cost of goods manufactured using the following format:

Schedule of Cost of Goods Manufactured

Beginning Work-in-Process Inventory			
Direct Materials Used:			
Beginning Raw Materials Inventory			
Purchases of Raw Materials			
Raw Materials Available for Use			
Ending Raw Materials Inventory			
Direct Materials Used			
Direct Labor			
Manufacturing Overhead:			
Indirect Materials			
Indirect Labor			
Depreciation—Plant and Equip.			
Plant Utilities and Insurance			
Total Manufacturing Overhead			
Total Manufacturing Costs Incurred During the Year			
Total Manufacturing Costs to Account For			
Ending Work-in-Process Inventory			
Cost of Goods Manufactured			

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Answer: **Schedule of Cost of Goods Manufactured**

Beginning Work-in-Process Inventory			$18,000
Direct Materials Used			
Beginning Raw Materials Inventory	$63,000		
Purchases of Raw Materials	270,000		
Raw Materials Available for Use	333,000		
Ending Raw Materials Inventory	(45,000)		
Direct Materials Used		$288,000	
Direct Labor		352,500	
Manufacturing Overhead			
Indirect Materials	35,250		
Indirect Labor	14,250		
Depreciation on Factory Plant and Equipment	18,000		
Plant Utilities and Insurance	202,500		
Total Manufacturing Overhead		270,000	
Total Manufacturing Costs Incurred during the Year			910,500
Total Manufacturing Costs to Account For			928,500
Ending Work-in-Process Inventory			(42,000)
Cost of Goods Manufactured			$886,500

Diff: 3
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculating Cost of Goods Manufactured

34) Describe the flow of product costs for a manufacturer.
Answer: The flow of product costs for a manufacturer begins with the purchase of raw materials. The manufacturer then uses direct labor and manufacturing overhead to convert these materials into Work-in-Process Inventory. When the manufacturing process is complete, the costs are transferred to Finished Goods Inventory. The cost of the finished goods that the manufacturer sells becomes its Cost of Goods Sold on the income statement.
Diff: 2
LO: 18-4
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Calculating Cost of Goods Manufactured

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35) Manufacturing costs flow from Work-in-Process Inventory to Cost of Goods Sold to Finished Goods Inventory.
Answer: FALSE
Explanation: Manufacturing costs flow from Raw Materials Inventory to Work-in-Process Inventory to Finished Goods Inventory.
Diff: 1
LO: 18-4
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Flow of Costs Through a Process Costing System

36) The following format represents the flow of costs for all three manufacturing inventory accounts:
Beginning balance + Additions - Ending balance = Amount used, manufactured, or sold
Answer: TRUE
Diff: 1
LO: 18-4
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Flow of Costs Through a Process Costing System

37) The following information has been provided by New Age, Inc.:

Direct Labor	$25,800
Direct Materials Used	10,500
Raw Materials Purchased	16,820
Cost of Goods Manufactured	48,400
Ending Work-in-Process Inventory	11,100
Corporate Headquarters' Property Taxes	2,000
Manufacturing Overhead	19,200

Calculate the beginning balance of the Work-in-Process Inventory account.
A) $92,800
B) $59,500
C) $4,000
D) $44,400
Answer: C
Explanation: C)

Cost of Goods Manufactured	$48,400
Direct Materials Used	(10,500)
Direct Labor	(25,800)
Manufacturing Overhead	(19,200)
Ending Work-in-Process Inventory	11,100
Beginning Work-in-Process Inventory	$4,000

Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Flow of Costs Through a Process Costing System

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38) A manufacturer produced 10,500 total units. The cost of goods manufactured is $81,000 and the cost of goods sold is $67,000. The unit product cost is $6.38.
Answer: FALSE
Explanation: Cost of goods manufactured / Total units produced = Unit product cost
$81,000 / 10,500 = $7.71
Diff: 1
LO: 18-4
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Calculating Unit Product Cost

39) Unit product costs can be used to measure operating income and determine the cost of Finished Goods Inventory.
Answer: TRUE
Diff: 1
LO: 18-4
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Calculating Unit Product Cost

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40) Reed Productions has provided the following information for the year:

Direct Labor	$153,000
Beginning Work-in-Process Inventory	62,000
Direct Materials Used	269,000
Ending Work-in-Process Inventory	52,800
Manufacturing Overhead	132,500

During the year, Reed produced 72,960 units of product. Calculate the unit product cost. (Round your answer to the nearest cent.)
A) $7.73
B) $6.63
C) $7.60
D) $8.45
Answer: A
Explanation: A)

Beginning Work–in–Process Inventory		$62,000
Direct Materials Used:	$269,000	
Direct Labor	153,000	
Manufacturing Overhead	132,500	
Total Mfg. Costs Incurred		554,500
Total Mfg. Costs to Account For		616,500
Ending Work–in–Process Inventory		(52,800)
Cost of Goods Manufactured		$563,700

Unit product cost: Cost of Goods Manufactured / Units produced
Unit product cost $7.73 per unit
Diff: 2
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2 : Calculating Unit Product Cost

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41) Evanston Manufacturing, Inc. reported the following information for the year:

Number of Units Produced	153,000
Number of Units Sold	62,000
Cost of Goods Manufactured	$268,000
Cost of Goods Sold	52,600
Sales Revenue	132,000
Gross Profit	73,520
Operating Expense	727,000

What was the unit product cost? (Round your answer to the nearest cent.)
A) $4.32
B) $0.86
C) $0.85
D) $1.75
Answer: D
Explanation: D) Unit product cost = Cost of goods manufactured / units = $268,000 / 153,000 = $1.75
Diff: 1
LO: 18-4
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2 : Calculating Unit Product Cost

Learning Objective 18-5

1) Managerial accounting is used in manufacturing and merchandising companies, but not in service companies.
Answer: FALSE
Diff: 1
LO: 18-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : How Is Managerial Accounting Used in Service and Merchandising Companies? (H1)

2) Managerial accounting can be used to calculate costs for service and merchandising companies.
Answer: TRUE
Diff: 1
LO: 18-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : How Is Managerial Accounting Used in Service and Merchandising Companies? (H1)

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3) Service companies do not have product costs, so they often consider all operating expenses as part of their cost of service.
Answer: TRUE
Diff: 1
LO: 18-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Calculate Cost Per Service

4) A merchandiser does not need to calculate cost per unit because it resells goods that are already manufactured.
Answer: FALSE
Diff: 1
LO: 18-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Calculate Cost Per Service

5) Unit cost per service is calculated by dividing total costs by the total number of services provided.
Answer: TRUE
Diff: 1
LO: 18-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Calculate Cost Per Service

6) Nurix, Inc. is a business consulting firm. During the month of February, Nurix earned $55,600 of revenues by providing services to 46 clients. Operating expenses for February were $9,000 and non-operating expenses were $4,000.
What is the unit cost per service? (Round your answer to the nearest cent.)
A) $86.96
B) $195.65
C) $1,208.70
D) $282.61
Answer: B
Explanation: B) Cost per service = Operating expenses / Clients = $9,000 / 46 = $195.65
Diff: 1
LO: 18-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2 : Calculate Cost Per Service

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7) Samson, Inc. reported the following information for the year:

Service Revenue	$40,000
Operating Expenses	22,500
Net Income	17,500
Number of Services Provided for the Year	12,000

How much was the unit cost per service? (Round your answer to the nearest cent.)
A) $3.33
B) $1.46
C) $1.88
D) $5.21
Answer: C
Explanation: C) Cost per service = Operating Expenses / Services = $22,500 / 12,000 = $1.88
Diff: 1
LO: 18-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2 : Calculate Cost Per Service

8) Fuchsia, Inc. provides automobile repair services in the local community. The company provides the following information for the month of March:

Building Rent Expense	$5,100
Depreciation Expense—Equipment	1,500
Supplies Expense	9,000
Utilities Expense	2,450

Fuchsia provided services to 1,400 clients in the month of March and generated $24,000 as revenue. How much is the cost per service? (Round your answer to the nearest cent.)
A) $12.89
B) $3.64
C) $9.80
D) $6.46
Answer: A
Explanation: A) Cost per service = Total costs / Services = $18,050 / 1,400 = $12.89
Diff: 2
LO: 18-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2 : Calculate Cost Per Service

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9) Star Health, Inc. is a fitness center in Oklahoma City. In October, the company earned $550,000 in revenues and incurred the following operating costs from 300 customers:

Manager's Salary	$5,400
Gym Rent	1,400
Depreciation Expense—Equipment	7,000
Office Supplies Expense	2,450
Utilities Expense	1,600
Trainer's Salary	22,500

How much is the unit cost per customer? (Round your answer to the nearest cent.)
A) $93.00
B) $18.17
C) $1,833.33
D) $134.50
Answer: D
Explanation: D)

Manager's Salary	$5,400
Gym Rent	1,400
Depreciation Expense—Equipment	7,000
Office Supplies Expense	2,450
Utilities Expense	1,600
Trainer's Salary	22,500
Total Operating Expense	$40,350

Unit cost per service = $40,350 / 300 customers = $134.50
Diff: 1
LO: 18-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2 : Calculate Cost Per Service

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10) Poodle Grooming Salon provides dog grooming services. In March, the business groomed 245 dogs, earned $10,300 in revenues, and incurred the following operating costs:

Grooming Supplies Expense	$485
Wages Expense	3,260
Utilities Expense	285
Rent Expense	1,200
Depreciation Expense - Equipment	500

Compute the cost of one grooming. (Round to two decimal places.)
Answer:
Cost of one grooming = Total operating costs / Total number of dogs groomed
= ($485 + $3,260 + $285 + $1,200 + $500) / 245 dogs groomed
= $5730 / 245
= $23.39 per dog groomed
Diff: 2
LO: 18-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculate Cost Per Service

11) How does a service company calculate unit cost per service? Why do managers need to know the unit cost per service?
Answer: Unit cost per service is calculated by dividing total operating costs by total number of services provided. The unit cost per service helps managers set the price of each service provided.
Diff: 2
LO: 18-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculate Cost Per Service

12) Knowing the unit cost per item helps managers set appropriate selling prices.
Answer: TRUE
Diff: 1
LO: 18-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Calculating Cost Per Item

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13) If a merchandising company determines that the unit cost to purchase a product is less than the unit cost to manufacture the product, the company should make a decision to begin manufacturing the product
Answer: FALSE
Explanation: If a merchandising company determines that the unit cost to purchase an item is more than the unit cost to manufacture the item, the company should make a decision to begin manufacturing the product.
Diff: 2
LO: 18-5
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2 : Calculating Cost Per Item

14) Minnetonka, Inc. is a merchandiser of stone ornaments. The company sold 15,600 units during the year. The company has provided the following information:

Sales Revenue	$554,000
Purchases (excluding Freight In)	300,000
Selling and Administrative Expenses	66,000
Freight In	14,000
Beginning Merchandise Inventory	47,000
Ending Merchandise Inventory	55,500

What is the unit cost per item sold? (Round your answer to the nearest cent.)
A) $19.58
B) $16.57
C) $23.14
D) $20.13
Answer: A
Explanation: A)

Purchases (excluding Freight In)	300,000
Freight In	14,000
Beginning Merchandise Inventory	47,000
Ending Merchandise Inventory	(55,500)
Cost of Goods Sold	$305,500

Cost per unit sold = $305,500 / 15,600 units = $19.58
Diff: 2
LO: 18-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2 : Calculating Cost Per Item

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15) Five Seasons is a merchandiser of packed foods. The company provides the following information for the year:

Sales Revenue	$141,000
Cost of Goods Sold	60,000
Operating Expenses	66,000
Net Income	15,000
Number of Units Sold	23,000

How much was the unit cost per item of product sold? (Round your answer to the nearest cent.)
A) $5.48
B) $6.13
C) $2.61
D) $100.65
Answer: C
Explanation: C) Cost per unit of product sold = Cost of Goods Sold / Units = $60,000 / 23,000 = $2.61
Diff: 1
LO: 18-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2 : Calculating Cost Per Item

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16) Kentucky, Inc. purchases and sells widgets. The following information summarizes the company's operating activities for the year:

Selling and Administrative Expenses	$5,300
Purchases	156,000
Sales Revenue	783,000
Merchandise Inventory, January 1	2,300
Merchandise Inventory, December 31	38,800

If the company sold 7,000 units of widgets during the year, how much is the cost for one widget? (Round your answer to the nearest cent.)
A) $22.29
B) $17.07
C) $22.61
D) $5.87
Answer: B
Explanation: B)

Merchandise Inventory, January 1	$2,300
Purchases	156,000
Merchandise Inventory, December 31	(38,800)
Total cost of goods sold	$119,500

Unit cost per item = $119,500 / 7,000 units = $17.07
Diff: 2
LO: 18-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2 : Calculating Cost Per Item

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17) Crabapples, Inc. purchases and sells boxes of dried fruit. The following information summarizes its operating activities for the year:

Selling Expenses	$9,800
Merchandise Inventory on December 31	34,000
Merchandise Inventory on January 1	46,200
Purchases of merchandise	84,000
Rent for store	12,900
Sales commissions	7,400
Sales revenue	161,500

What is the cost per box of dry fruits if Crabapples sold 4,000 boxes of dry fruit during the year? (Round your answer to the nearest cent.)
A) $8.50
B) $40.38
C) $32.55
D) $24.05
Answer: D
Explanation: D)

Merchandise Inventory on January 1, 2017	$46,200
Purchases of Merchandise	84,000
Merchandise Inventory on December 31, 2017	(34,000)
Cost of Goods Sold	$96,200

Cost per box = $96,200 / 4,000 boxes = $24.05
Diff: 2
LO: 18-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2 : Calculating Cost Per Item

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18) Mason Cabinet Company sells standard kitchen cabinets. The following information summarizes Mason's operating activities for the year:

Selling and Administrative Expenses	$42,750
Purchases	85,700
Sales Revenue	154,500
Merchandise Inventory, January 1	12,500
Merchandise Inventory, December 31	16,200

Mason sold 950 cabinets during the year.
Calculate the operating income for the year.
Compute the unit cost for one cabinet (Round to two decimal places.)
Answer: Operating income for the year

Mason Cabinet Company
Income Statement
Year Ended December 31, 20XX

Sales Revenue		$154,500
Cost of Goods Sold:		
Beginning Merchandise Inventory	$12,500	
Purchases	85,700	
Cost of Goods Available for Sale	98,200	
Ending Merchandise Inventory	(16,200)	
Cost of Goods Sold		82,000
Gross Profit		72,500
Selling and Administrative Expenses		42,750
Operating Income		$29,750

Unit cost for one cabinet = Cost of goods gold / Total units sold
= $82,000 / 950 cabinets
= $86.32 per cabinet

Diff: 3
LO: 18-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculate Cost Per Item

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19) How does a manufacturing company calculate unit product cost? Why do managers need to know the unit product cost?
Answer: Unit product cost is calculated by dividing cost of goods manufactured by total units produced. The unit product cost helps managers decide on the prices to charge for each product to ensure that each product is profitable.
Diff: 2
LO: 18-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculate Cost Per Item

20) How does a merchandise company calculate unit cost per item? Why do managers need to know the unit cost per item?
Answer: Unit cost per item is calculated by dividing total cost of goods sold by total number of items sold. The unit cost per item helps managers know which products are most profitable. The unit cost per item also helps managers set appropriate selling prices.
Diff: 2
LO: 18-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Calculate Cost Per Item

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