Horngrens Accounting The Managerial Chapters 13th edition Nobles Test Bank

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Horngren's Accounting: The Managerial Chapters, 13e **(Miller-Nobles)**
Chapter M: 1 Introduction to Managerial Accounting

Learning Objective M:1-1

1) Managerial accounting focuses on providing information for internal planning and control.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

2) Financial accounting prepares reports for internal purposes, whereas managerial accounting provides information to external stakeholders.
Answer: FALSE
Explanation: The reverse is true. Financial accounting serves external stakeholder information needs while managerial accounting serves the needs of managers and internal staff.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

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
Explanation: Financial statements provide mostly historical information; relevant and faithfully representative information and focused on the past.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

4) Managerial accounting reporting by a public firm is required to follow the rules of GAAP.
Answer: FALSE
Explanation: Managerial accounting information is not guided by GAAP but rather by the concept of usefulness to management for decision making purposes.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

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5) Financial reporting is typically much more detailed than managerial accounting.
Answer: FALSE
Explanation: Financial reporting is typically less detailed than managerial accounting information. Financial accounting reporting is usually summary reports, prepared primarily on the company as a whole, usually on a quarterly or annual basis.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

6) 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 and therefore serves the information needs of internal parties such as managers and staff.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

7) Which of the following is a focus 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 businesses
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: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

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, direct 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: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

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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, direct and control operations
D) its investors to make their investment decisions
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

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 future focused 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, directing and controlling day-to-day operations.
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

11) Which of the following is the primary focus 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: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

12) 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 information to managers to assist in planning, directing and controlling operations
D) providing highly detailed information on product lines, regions, and divisions
Answer: B
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

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13) Connie is analyzing the financial statements of MegaMart and Bullseye Company. She wants to invest in one of the companies and is trying to decide which company has the better past performance. Connie is examining _____.
A) managerial accounting information
B) financial accounting information
C) regulatory accounting information
D) organizational accounting information
Answer: B
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

14) Who is a primary user of managerial accounting information?
A) investors
B) company managers
C) creditors
D) government authorities
Answer: B
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

15) Which of the following statements is true of managerial accounting?
A) It is required to follow GAAP.
B) The focus is on the future.
C) An external audit by an independent CPA is required for managerial accounting information.
D) Summary reports are prepared primarily for the company as a whole.
Answer: B
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

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16) Which of the following statements is true of financial accounting?
A) Summary reports are prepared primarily on the company as a whole.
B) It provides future focused information needed for managing and delegating operations.
C) It does not need to follow GAAP.
D) It focuses on planning, directing and controlling day-to-day operations.
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

17) Which of the following would be primary users of financial accounting information?
A) supervisors
B) company managers
C) foremen
D) government authorities
Answer: D
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

18) Miguel, a manager for Sierra Company, is inspecting the reports provided by his company's accounting department. He wants to decide how to schedule his department's employees in production next week. Miguel is examining _____.
A) managerial accounting information
B) financial accounting information
C) regulatory accounting information
D) organizational accounting information
Answer: A
Explanation: Managerial accounting information is for internal users and is future focused.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Why Is Managerial Accounting Important? (H1)

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19) Financial and managerial accounting both provide useful information, but each has a different emphasis. Briefly distinguish between financial and managerial accounting as they relate to the 1) primary users, 2) purpose of information, and 3) focus and time dimension of the information.
Answer: The primary users of financial information are parties external to the company, while the primary users of managerial information are internal parties such as managers and staff of the company. Financial information helps investors and creditors make investment and credit decisions, while managerial information assists managers and employees to plan, direct and control the company's operations. The focus of financial information is on the past, ensuring relevant and faithfully representative information, while managerial information is focused on providing relevant information for future decisions.
Diff: 2
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

20) 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: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Why Is Managerial Accounting Important? (H1)

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21) A company's organizational chart shows the relationships between departments and divisions and the managers that are responsible for each section.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

22) Most companies structure their organizations along departments or divisions.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

23) A company's president or chief executive officer (CEO) is selected by the stockholders.
Answer: FALSE
Explanation: The president is selected by the Board of Directors.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

24) Staff positions are directly involved in providing goods or services to customers.
Answer: FALSE
Explanation: Line positions are directly involved with customers.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

25) The chief financial officer, controller, and treasurer are all examples of staff positions.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

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26) Which of the following functions might be classified as a staff position as opposed to a line position?
A) Division Manager
B) Production Manager
C) Sales Manager
D) Payroll Processing Manager
Answer: D
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

27) The officer of the company who has the ultimate responsibility for implementing the company's long and short-term goals is the _____.
A) Chief Financial Officer
B) Chair of the Board
C) Chief Executive Officer
D) Chief Officer for Human Relations
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

28) Which of the following functions might be classified as a staff position as opposed to a line position?
A) Chief Executive Officer
B) Chief Operating Officer
C) Division Manager
D) Treasurer
Answer: D
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

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29) Which of the following functions might be classified as a line position as opposed to a staff position?
A) Chief Operating Officer
B) Controller
C) Payroll Processor
D) Treasurer
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

30) Which of the following functions might be classified as a staff position as opposed to a line position?
A) Chief Financial Officer
B) Chief Operating Officer
C) Division Manager
D) Chief Executive Officer
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

31) Which of the following functions might be classified as a line position as opposed to a staff position?
A) Chief Financial Officer
B) Controller
C) Division Manager
D) Treasurer
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

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32) _____ shows the relationship between departments and divisions and managers responsible for each section.
A) Board of Directors chart
B) Controllers chart
C) Organizational chart
D) Treasurer's chart
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

33) The _____ is elected by the stockholders of the corporation.
A) Chief Operating Officer
B) Chief Financial Officer
C) Chief Executive Officer
D) Board of Directors
Answer: D
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

34) _____ has the ultimate responsibility for implementing the company's short and long-term plans.
A) Chief Financial Officer
B) Controller
C) Chief Executive Officer
D) Treasurer
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

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35) The _____ is responsible for developing the strategic goals of a corporation.
A) Chief Operating Officer
B) Chief Financial Officer
C) Chief Executive Officer
D) Board of Directors
Answer: D
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

36) The jobs that are directly involved in providing goods or services to customers are called _____.
A) staff positions
B) functional positions
C) line positions
D) human relations positions
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

37) The managerial role that involves the day-to-day running of the business is the _____.
A) directing function
B) planning function
C) controlling function
D) strategic planning function
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

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38) A diagram that shows the relationships between departments and divisions, and the managers that are responsible for each section is called a(n) _____.
A) departmentalization chart
B) work specialization chart
C) organizational chart
D) chain of command chart
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managers' Role in the Organization

39) Planning requires managers to look to the future and establish goals for the business.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

40) Strategic planning focuses on short term actions while operational planning involves developing long-term strategies.
Answer: FALSE
Explanation: The reverse is true. Strategic planning focuses on a long-term horizon while operational planning is for the short-term.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

41) Controlling involves running the day-to-day operations of a business.
Answer: FALSE
Explanation: Controlling is the process of monitoring day-to-day operations and keeping the company on track. Controlling involves comparing actual results to expected results.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

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42) Planning means choosing goals and deciding how to achieve them.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

43) Controlling involves the process of monitoring day-to-day operations and keeping the company on track.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

44) _____ involves running the day-to-day operation of a business.
A) Planning
B) Directing
C) Controlling
D) Operational Planning
Answer: B
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

45) _____ means choosing goals and deciding how to achieve them.
A) Planning
B) Directing
C) Controlling
D) Operational Planning
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

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46) _____ is the process of monitoring day-to-day operations and keeping the company on track.
A) Planning
B) Directing
C) Controlling
D) Operational Planning
Answer: C
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

47) Anika, a division manager, is purchasing materials to ensure she has enough to meet customers' demands. Anika is engaging in the _____.
A) planning function
B) directing function
C) controlling function.
D) decision function
Answer: B
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

48) Monitoring operations and keeping the company on track is part of the _____.
A) controlling function
B) directing function
C) planning function
D) strategic function
Answer: A
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

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49) 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 to expected results
B) choosing goals and deciding how to achieve them
C) monitoring operations to keep the company on track
D) monitoring and evaluating the results of operations
Answer: B
Diff: 1
LO: M:1-1
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

50) Comparing actual results to expected results 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: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions

51) Define planning. List and briefly discuss the two types of planning managers perform.
Answer: Planning is the process of choosing goals and deciding how to achieve them. Managers engage in strategic and operational planning. Strategic planning involves developing long-term strategies to achieve a company's goals. Operational planning focuses on short-term actions dealing with a company's day-to-day operations.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Managerial Accounting Functions

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For the following questions, match each term with its correct definition.

A) Financial accounting
B) Organizational chart
C) Directing
D) Line position
E) Controlling
F) Managerial accounting
G) Planning

52) The role managers play when they evaluate why results were different from expectations.
Diff: 1
LO: M:1-1
AACSB:
AICPA Functional:
Application of knowledge
Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions / Managers' Role in the Organization / Why is Managerial Accounting Important? (H1)

53) This role requires managers to look to the future.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions / Managers' Role in the Organization / Why is Managerial Accounting Important? (H1)

54) An accounting field that helps managers plan and control operations.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions / Managers' Role in the Organization / Why is Managerial Accounting Important? (H1)

55) An accounting field that is required to follow Generally Accepted Accounting Principles.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions / Managers' Role in the Organization / Why is Managerial Accounting Important? (H1)

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56) The Board of Directors is shown at the top of this diagram.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions / Managers' Role in the Organization / Why is Managerial Accounting Important? (H1)

57) Job that is directly involved in providing goods or services to customers.
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions / Managers' Role in the Organization / Why is Managerial Accounting Important? (H1)

58) The role managers play when they are motivating employees
Diff: 1
LO: M:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Managerial Accounting Functions / Managers' Role in the Organization / Why is Managerial Accounting Important? (H1)

Answers: 52) E 53) G 54) F 55) A 56) B 57) D 58) C

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

60) 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
Explanation: The fact that a fraudulent act does not result in a material misstatement does not change the morality of the act. The act was deliberately carried out to deceive and is therefore an unethical act. It also violates the ethical standards of the IMA.
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

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61) The IMA Statement of Ethical Professional Practice includes confidentiality, competence, credibility, and integrity.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

62) At the end of the year, Mary's supervisor asked her to record sales transactions for products that would not ship until the following year, and she complied. Mary has violated IMA ethical standards.
Answer: TRUE
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ethical Standards of Managers

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

64) 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: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

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65) 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?
A) integrity
B) confidentiality
C) competence
D) objectivity
Answer: C
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

66) Which of the following is NOT one of the key standards of ethical practice published by the Institute of Management Accountants (IMA)?
A) social responsibility
B) integrity
C) competence
D) confidentiality
Answer: A
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

67) If information is not communicated fairly and objectively, this violates _____.
A) integrity
B) competence
C) confidentiality
D) credibility
Answer: D
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

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68) Refraining from engaging in any conduct that would prejudice carrying out of duties ethically is acting in accordance with which ethical professional practice?
A) integrity
B) confidentiality
C) competence
D) objectivity
Answer: A
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

69) If organizational policies do not resolve an ethical dilemma, the IMA suggests discussing with _____.
A) only an immediate supervisor
B) only an objective advisor
C) only an attorney
D) an immediate supervisor, an objective advisor, and/or an attorney depending on the situation
Answer: D
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

70) Maintaining an appropriate level of professional expertise by continually developing knowledge and skills is acting in accordance with which ethical professional practice?
A) integrity
B) confidentiality
C) competence
D) credibility
Answer: C
Diff: 1
LO: M:1-1
AACSB: Ethical understanding and reasoning
AICPA Functional: Reporting
PE Question Type: Concept
H2: Ethical Standards of Managers

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Learning Objective M:1-2

1) Service companies sell their time, skills, and knowledge.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Are Costs Classified? (H1)

2) How costs are classified depends on the type of business the company engages in.
Answer: TRUE
Explanation:
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Are Costs Classified? (H1)

3) Merchandising companies sell their time, skills and knowledge.
Answer: FALSE
Explanation: The description is more relevant to service based businesses. Merchandising companies sell merchandise and although they may also provide services (time, skills, knowledge), most of the revenue of a merchant is from the sale of tangible products - merchandise (i.e., retailers and wholesalers).
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Are Costs Classified? (H1)

4) Merchandising companies resell products they buy from suppliers.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Are Costs Classified? (H1)

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5) Which of the following is most likely a merchandising company?
A) a law firm
B) a car dealership
C) an accounting firm
D) a doctor's office
Answer: B
Diff: 1
LO: M:1-2
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: How Are Costs Classified? (H1)

6) A service company may sell _____.
A) time, knowledge and/or skills
B) merchandise
C) products
D) replacement parts
Answer: A
Diff: 1
LO: M:1-2
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: How Are Costs Classified? (H1)

7) Which of the following is most likely a service company?
A) Home Depot
B) ABC Taxi Company
C) Old Navy
D) Wal-Mart
Answer: B
Diff: 1
LO: M:1-2
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: How Are Costs Classified? (H1)

8) 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: M:1-2
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: How Are Costs Classified? (H1)

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9) Manufacturing companies have inventory accounts, but merchandising companies do not.
Answer: FALSE
Explanation: Both types of firms have inventory accounts. A manufacturer's inventory accounts include materials, work-in-process, and finished goods while a merchandising company's inventory is usually tracked in one general ledger account called Merchandise Inventory.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Manufacturing Companies

10) Manufacturing companies produce their own products, but merchandising companies do not.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Manufacturing Companies

11) Noble, Inc. purchases each unit of product X for $100 and can sell it in the market for $135. The price of the product for Noble would most likely be $100.
Answer: FALSE
Explanation: The $100 amount is the cost of the goods but the $135 — which includes a mark-up, would most likely be the price.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

12) The primary activity of manufacturing companies is to purchase goods from a wholesaler and resell them.
Answer: FALSE
Explanation: The description is an activity of a retailer (a type of merchandiser) not that of a manufacturer. A manufacturer's primary activity is to produce a product by converting materials into a finished good for sale to a customer who is usually a wholesaler or retailer.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

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13) _____ includes materials to be used to make the product.
A) Raw Materials Inventory
B) Work-in-Process Inventory
C) Manufacturing Overhead
D) Finished Goods Inventory
Answer: A
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

14) A manufacturing company uses labor, equipment, supplies, and facilities to convert _____ into finished products.
A) Raw Materials Inventory
B) Work-in-Process Inventory
C) Manufacturing Overhead
D) Finished Goods Inventory
Answer: A
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

15) _____ includes goods that are in the manufacturing process but are not yet completed.
A) Raw Materials Inventory
B) Work-in-Process Inventory
C) Manufacturing Overhead
D) Finished Goods Inventory
Answer: B
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

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16) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Manufacturing Companies

17) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

18) 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 returned by customers
Answer: B
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

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19) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

20) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

21) 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. The cost of raw materials that are purchased by the company are debited to the raw materials account.
Work-in-Process Inventory includes goods that are in the manufacturing process but are not yet complete. The cost of materials, labor, and overhead are debited to work-in-process.
Finished Goods Inventory includes completed goods that have not yet been sold. The cost of units (material, labor, and overhead) are debited to the finished goods inventory (and credited in the work-in-process account) when the units are finished and ready for sale to customers.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Companies

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22) A cost object is anything for which managers want to separate the measurement of cost and may be a product, department, sales territory, or activity.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Direct and Indirect Costs

23) The cost of direct materials cannot be easily traced to the manufactured product, and therefore, it is a component of manufacturing overhead.
Answer: FALSE
Explanation: Direct materials are traced to the manufactured product.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Direct and Indirect Costs

24) Direct costs and indirect costs can be easily traced directly to a cost object.
Answer: FALSE
Explanation: Only direct costs can be easily traced to the cost object.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Direct and Indirect Costs

25) Indirect labor costs might include the salary of the production manager.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Direct and Indirect Costs

26) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Direct and Indirect Costs

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27) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Direct and Indirect Costs

28) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Direct and Indirect Costs

29) Manufacturing overhead includes all manufacturing costs, such as direct labor and direct materials.
Answer: FALSE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

30) Factory rent, as well as factory property taxes and insurance, are included in manufacturing overhead.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

31) Manufacturing overhead includes indirect manufacturing costs, such as insurance and depreciation on the factory building.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

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32) In a manufacturing plant, indirect materials costs from lubricants and cleaning fluids are product costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

33) Indirect materials costs are included in manufacturing overhead.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

34) The salary of a manufacturing plant manager will be included in manufacturing overhead.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

35) Sales commissions are included in manufacturing overhead.
Answer: FALSE
Explanation: Sales commissions are selling expense and are not an indirect manufacturing costs. Sales commissions are not in any way related to the production process.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

36) Repair and maintenance costs for manufacturing equipment are included in manufacturing overhead.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

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37) The cloth used to make a chair would be considered a direct material.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

38) Direct materials used in production are not easily traced to a product.
Answer: FALSE
Explanation: All direct costs (direct materials and direct labor) are easily traced to the product.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

39) The salary of the production supervisor is generally considered direct labor.
Answer: FALSE
Explanation: The salary of a production supervisor is an overhead (indirect manufacturing) cost.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

40) Direct labor costs include wages and salaries of employees who convert the raw materials into a finished product.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

41) 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: M:1-2
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PE Question Type: Concept
H2: Manufacturing Costs

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42) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

43) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

44) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

45) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

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46) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

47) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

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

Advertising Costs	$14,600
Sales Salary	17,000
Sales Revenue	650,000
President's Salary	54,000
Administrative Office Rent	65,500
Manufacturing Equipment Depreciation	1,500
Indirect Materials Used	9,800
Indirect Labor	14,100
Factory Repair and Maintenance	540
Direct Materials Used	31,590
Direct Labor	35,000
Delivery Vehicle Depreciation	800
Administrative Salaries	29,600

How much was Carried Away's manufacturing overhead?
A) $23,900
B) $24,440
C) $25,940
D) $66,590
Answer: C
Explanation:

Indirect Labor	$14,100
Indirect Materials	9,800
Factory Repair and Maintenance	540
Manufacturing Equipment Depreciation	1,500
Total Manufacturing Overhead	$25,940

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

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

Factory Utilities	$3,000
Indirect Materials Used	37,500
Direct Materials Used	281,000
Property Taxes on Factory Building	6,700
Sales Commissions	82,000
Indirect Labor Incurred	24,000
Direct Labor Incurred	147,000
Depreciation on Factory Equipment	6,500

What is the total manufacturing overhead?
A) $428,000
B) $61,500
C) $77,700
D) $16,200
Answer: C
Explanation:

Factory Utilities	$3,000
Indirect Materials Used	37,500
Property Taxes on Factory Building	6,700
Indirect Labor Incurred	24,000
Depreciation on Factory Equipment	6,500
Total Factory Overhead	$77,700

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

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50) Mars Supplies Company provided the following information for the year:

Beginning Balance—Work-in-Process Inventory	$28,000
Ending Balance—Work-in-Process Inventory	57,000
Beginning Balance— Direct Materials Inventory	82,000
Ending Balance— Direct Materials Inventory	61,000
Purchases — Direct Materials	356,000
Direct Labor	472,000
Indirect Labor	19,000
Depreciation on Factory Plant and Equipment	22,000
Plant Utilities and Insurance	268,000

What was the amount of the manufacturing overhead costs?
A) $309,000
B) $41,000
C) $290,000
D) $491,000
Answer: A
Explanation:

Plant Utilities and Insurance	268,000
Depreciation on Factory Plant and Equipment	22,000
Indirect Labor	19,000
Total Manufacturing Overhead Costs	$309,000

Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

51) _____ are the cost of raw materials that are converted into finished product and are easily traced to the product.
A) Indirect materials
B) Indirect labor
C) Direct materials
D) Direct labor
Answer: C
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

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52) A chair manufacturer would consider which of the following a direct material?
A) glue used to glue the material ends
B) screws to keep the chair frame together
C) thread for sewing
D) leather or cloth to cover the chair cushion
Answer: D
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Manufacturing Costs

53) 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 products. Examples include (1) glue, screws and other fasteners, tape, oil, grease, and other manufacturing and cleaning supplies.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

54) 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 factory maintenance employees.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Manufacturing Costs

55) Direct materials and manufacturing overhead are prime costs.
Answer: FALSE
Explanation: Prime costs are direct materials and direct labor.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Prime and Conversion Costs

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56) Direct labor and manufacturing overhead are conversion costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Prime and Conversion Costs

57) Prime and conversion costs both include direct labor.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Prime and Conversion Costs

58) Direct materials and direct labor are prime costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Prime and Conversion Costs

59) For decision-making purposes, _____ 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Prime and Conversion Costs

60) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Prime and Conversion Costs

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61) Which of the following represents the combined sum of direct labor costs and manufacturing overhead costs?
A) conversion costs
B) period costs
C) prime costs
D) fixed costs
Answer: A
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Prime and Conversion Costs

62) Which of the following represents the combined sum of direct materials costs and direct labor costs?
A) conversion costs
B) period costs
C) prime costs
D) fixed costs
Answer: C
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Prime and Conversion Costs

63) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Prime and Conversion Costs

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64) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Prime and Conversion Costs

65) The following information represent the costs for ABC Company:

Direct Materials	$20,000
Direct Labor	$50,000
Manufacturing Overhead	$10,000

1. What are the total prime costs?
2. What are the total conversion costs?

Answer:
1. Prime costs are $70,000 ($20,000 + $50,000)
2. Conversion costs are $60,000 ($50,000 + $10,000)

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Prime and Conversion Costs

66) All costs incurred in the manufacturing of completed products are product costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

67) In a manufacturing company, wages and benefits of assembly line workers are period costs.
Answer: FALSE
Explanation: Wages could be either direct or indirect costs depending on the type of labor and the ability to trace the cost of the labor easily to the cost object (product) and benefits for assembly line workers would most likely be part of overhead (indirect manufacturing costs) but not period costs.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

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68) In a manufacturing company, wages and benefits of assembly line workers are included in manufacturing overhead.
Answer: FALSE
Explanation: Compensation of assembly line workers would be a direct labor cost.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

69) In a manufacturing company, wages and benefits of factory managers are treated as product costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

70) Product costs, such as direct materials costs, are expensed in the period they are incurred.
Answer: FALSE
Explanation: product costs are not an expense until the product is sold when they become cost of goods sold.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Product and Period Costs

71) The three categories of period costs are direct materials, direct labor, and manufacturing overhead.
Answer: FALSE
Explanation: All the costs mentioned are product costs.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

72) In a manufacturing company, the salary of the sales staff is an example of a period cost.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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73) Product costs, such as manufacturing overhead, should be treated as an asset in an inventory account until the product is sold.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

74) For a manufacturer, rent paid for an office building is an example of a period cost.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

75) Freight costs paid to ship raw materials to a company warehouse are considered product costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

76) In a manufacturing company, advertising and marketing costs are examples of period costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

77) In a manufacturing company, advertising and marketing costs are included in manufacturing overhead.
Answer: FALSE
Explanation: These are period costs.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

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78) In a manufacturing company, accounting, legal, and administrative costs are typical examples of product costs.
Answer: FALSE
Explanation: These are period costs.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

79) In a manufacturing company, administrative costs are included in period costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

80) Repair and maintenance costs for manufacturing equipment are product costs.
Answer: TRUE
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

81) Repair and maintenance costs of vehicles used to deliver products to customers are product costs.
Answer: FALSE
Explanation: Repair and maintenance costs of vehicles are period costs.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

82) Repair and maintenance costs of vehicles used to deliver products to the customers are included in manufacturing overhead.
Answer: FALSE
Explanation: Repair and maintenance costs of vehicles are period costs.
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

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83) The wages of factory janitors are considered to be direct labor costs because they are directly related to the manufacturing process.
Answer: FALSE
Explanation: The wages of factory janitors are indirect costs of the manufacturing process and are considered manufacturing overhead.
Diff: 1
LO: M:1-2
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Product and Period Costs

84) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

85) Period costs are the _____.
A) product costs that must be paid in the accounting period in which they are incurred.
B) operating costs that are expensed in the accounting period in which they are incurred.
C) costs related to production of products.
D) same as manufacturing overhead costs.
Answer: B
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

86) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

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87) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

88) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

89) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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90) Castillo Corporation, a manufacturer, reports costs for the year as follows:

Direct Materials Used	$550,000
Wages to Line Workers	655,000
Office Rent	12,000
Indirect Materials Used	795,000

How much is the total period costs for Castillo?
A) $550,000
B) $655,000
C) $12,000
D) $795,000
Answer: C
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

91) Rios Corporation reports costs for the year as follows:

Direct Materials Used	$430,000
Wages to Line Workers	120,000
Office Rent	44,500
Indirect Materials Used	605,000

How much is the total product costs for the year?
A) $605,000
B) $1,155,000
C) $1,199,500
D) $550,000
Answer: B
Explanation: Total product costs = Raw Materials + Wages to Line Workers + Indirect Materials = $430,000 + $120,000 + $605,000 = $1,155,000
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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92) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

93) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

94) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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95) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

96) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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97) The following information relates to Wagner, Inc.:

Advertising Costs	$18,200
Administrative Salaries	15,200
Delivery Vehicle Depreciation	2,000
Factory Repair and Maintenance	600
Indirect Labor	15,500
Indirect Materials	20,000
Manufacturing Equipment Depreciation	1,400
Administrative Office Rent	62,000
President's Salary	2,800
Sales Revenue	630,000
Sales Salary	5,500

How much were Wagner's period costs?
A) $105,700
B) $37,500
C) $635,500
D) $8,300
Answer: A
Explanation:

Advertising Costs	$18,200
President's Salary	2,800
Administrative Office Rent	62,000
Sales Salary	5,500
Delivery Vehicle Depreciation	2,000
Administrative Salaries	15,200
Total Period Cost	$105,700

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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98) The following information relates to Myer, Inc.:

Advertising Costs	$13,000
Sales Salary	12,200
Sales Revenue	470,000
President's Salary	270,000
Administrative Office Rent	64,000
Manufacturing Equipment Depreciation	1,800
Indirect Materials Used	4,200
Indirect Labor	10,000
Factory Repair and Maintenance	860
Direct Materials Used	38,000
Direct Labor	44,000
Delivery Vehicle Depreciation	1,500
Administrative Salaries	28,500

How much were Myer's product costs?
A) $589,200
B) $298,500
C) $483,000
D) $98,860
Answer: D
Explanation:

Indirect Labor	$10,000
Indirect Materials	4,200
Factory Repair and Maintenance	860
Manufacturing Equipment Depreciation	1,800
Direct Materials	38,000
Direct Labor	44,000
Total Product Cost	$98,860

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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99) The following information was obtained from Durand, Inc.:

Advertising Costs	$11,400
Indirect Labor	5,000
CEO's Salary	530,000
Direct Labor	59,000
Indirect Materials Used	5,500
Direct Materials Used	360,000
Factory Utilities	780
Factory Janitorial Costs	2,500
Manufacturing Equipment Depreciation	1,100
Delivery Vehicle Depreciation	2,310
Administrative Wages and Salaries	28,400

How much were Durand's period costs?
A) $433,880
B) $572,110
C) $13,710
D) $569,800
Answer: B
Explanation:

Advertising Costs	$11,400
CEO's Salary	530,000
Delivery Vehicle Depreciation	2,310
Administrative Wages and Salaries	28,400
Total Period Costs	$572,110

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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100) The following information was obtained from Moreau Manufacturing, Inc.:

Advertising Costs	$9,900
Indirect Labor	82,000
CEO's Salary	460,000
Direct Labor	40,000
Indirect Materials Used	4,500
Direct Materials Used	61,000
Factory Utilities	860
Factory Janitorial Costs	2,000
Manufacturing Equipment Depreciation	1,200
Delivery Vehicle Depreciation	3,500
Administrative Wages and Salaries	21,000

Calculate Moreau Manufacturing's total product costs.
A) $191,560
B) $494,400
C) $101,000
D) $187,500
Answer: A
Explanation:

Indirect labor	$82,000
Direct Labor	40,000
Indirect Materials	4,500
Direct Materials Used	61,000
Factory Utilities	860
Factory Janitorial Costs	2,000
Manufacturing Equipment Depreciation	1,200
Total Product Costs	$191,560

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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101) Which of the following would be considered a product cost for a manufacturing business?
A) research and development
B) factory property taxes
C) advertising
D) delivery costs
Answer: B
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

102) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

103) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

104) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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105) Which of the following will most likely be considered an indirect labor cost for a bakery?
A) shift supervisor
B) pastry baker
C) employee who mixes the dough
D) employee who packages the pastries
Answer: A
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

106) A(n) _____ is the amount the company incurs to acquire the goods or service.
A) sales price
B) cost
C) expense
D) revenue
Answer: B
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

107) _____ is a cost that can be easily and cost-effectively traced to a cost object.
A) Work-in-process
B) Manufacturing overhead
C) Indirect cost
D) Direct cost
Answer: D
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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108) The following information was obtained from Smith Manufacturing, Inc.:

Advertising Costs	$9,900
Indirect Labor	51,000
CEO's Salary	650,000
Direct Labor	41,000
Indirect Materials Used	7,000
Direct Materials Used	65,000
Factory Utilities	750
Factory Janitorial Costs	1,600
Manufacturing Equipment Depreciation	3,300
Delivery Vehicle Depreciation	1,400
Administrative Wages and Salaries	21,000

Calculate Smith Manufacturing's manufacturing overhead costs.
A) $169,650
B) $682,300
C) $106,000
D) $63,650
Answer: D
Explanation:

Indirect labor	$51,000
Indirect Materials	7,000
Factory Utilities	750
Factory Janitorial Costs	1,600
Manufacturing Equipment Depreciation	3,300
Total Manufacturing Overhead	$63,650

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

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109) The following information was obtained from Johnson Manufacturing, Inc.:

Advertising Costs	$12,700
Indirect Labor	91,000
CEO's Salary	720,000
Direct Labor	57,000
Indirect Materials Used	7,800
Direct Materials Used	64,000
Factory Utilities	180
Factory Janitorial Costs	2,400
Manufacturing Equipment Depreciation	3,800
Delivery Vehicle Depreciation	1,200
Administrative Wages and Salaries	27,000

Calculate Smith Manufacturing's manufacturing overhead costs.
A) $227,380
B) $760,900
C) $105,180
D) $114,080
Answer: C
Explanation:

Indirect labor	$91,000
Indirect Materials	7,800
Factory Utilities	180
Factory Janitorial Costs	2,400
Manufacturing Equipment Depreciation	3,800
Total Manufacturing Overhead	$105,180

Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

110) Manufacturing overhead consists of all of the following *except*
A) factory equipment depreciation
B) indirect labor
C) indirect materials
D) administrative office equipment depreciation
Answer: D
Diff: 2
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Product and Period Costs

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111) 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: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

For the following questions, identify each cost as a period cost or a product cost.

A) Period cost
B) Product cost

112) Depreciation on the office equipment
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

113) Depreciation on manufacturing equipment
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

114) CEO's salary
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

115) Production supervisor's salary
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

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116) Wages for the assembly line workers
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

117) Materials used in making products
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

118) Delivery expense
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

119) Production supervisor's salary
Diff: 1
LO: M:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product and Period Costs

Answers: 112) A 113) B 114) A 115) B 116) B 117) B 118) A 119) B

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

Cost	PR or PE
Vice president of marketing's salary	
Delivery expense	
Wood used to make dining 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: 2
LO: M:1-2
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Product and Period Costs

Learning Objective M:1-3

1) The inventory of a merchandising company consists of Raw Materials Inventory, Work-in-Process Inventory, and Finished Goods Inventory.
Answer: FALSE
Explanation: The description is that of the inventory of a manufacturer.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

2) The inventories of a manufacturing company consist of Raw Materials Inventory, Work-in-Process Inventory, and Finished Goods Inventory.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

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3) The inventory of a merchandising company consists of Finished Goods Inventory.
Answer: FALSE
Explanation: Finished goods inventory is one of the inventory accounts of a manufacturer.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

4) A service business typically has no merchandise inventory accounts.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

5) 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

6) The balance sheet of a _____ company will include Finished Goods Inventory as a line item.
A) manufacturing
B) merchandising
C) service
D) trading
Answer: A
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

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7) The balance sheet of a _____ company will include Merchandise Inventory as a line item.
A) manufacturing
B) merchandising
C) service
D) trading
Answer: B
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

8) 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

9) Selling and administrative expenses are subtracted from gross profit to obtain operating income.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Income Statement

10) Merchandising companies, like service companies, do not use a Cost of Goods Sold account.
Answer: FALSE
Explanation: Merchandising companies sell products and therefore have cost of goods sold.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Income Statement

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11) For external reporting purposes, GAAP requires companies to treat period costs as assets.
Answer: FALSE
Explanation: Period costs are immediately expensed under GAAP.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

12) Unlike merchandising companies, income statements of service companies typically include cost of goods sold as a line item.
Answer: FALSE
Explanation: Service companies do not have product sales and therefore do not report the cost of those sales (cost of goods sold.)
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Income Statement

13) 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

14) In the income statements of both manufacturing and merchandising companies, the Cost of Goods Sold account is usually the largest expense.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

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15) 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

16) One of the primary activities of Perez, Inc. is to purchase hats from Toppers, Inc. in Texas and sell them to its customers in New York for a profit. It is likely that Perez is a _____.
A) manufacturing company
B) hybrid company
C) service company
D) merchandising company
Answer: D
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Income Statement

17) 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

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18) 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	3,700	
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	
Cost of Goods Available for Sale	27,000	
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: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

19) Which of the following formulas represent 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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

Sales Revenue	$505,000
Purchases (excluding Freight In)	345,000
Selling and Administrative Expenses	36,500
Freight In	15,800
Beginning Merchandise Inventory	42,000
Ending Merchandise Inventory	59,000

How much is the gross profit for the year?
A) $197,700
B) $343,800
C) $161,200
D) $160,000
Answer: C
Explanation: Cost of Goods Sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = $42,000 + $345,000 + $15,800 - 59,000 = $343,800

Gross Profit = Sales Revenue - Cost of Goods Sold = $505,000 - $343,800 = $161,200
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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21) Stone Beauty, Inc. is a merchandiser of stone ornaments. The company sold 7,000 units during the year. The company has provided the following information:

Sales Revenue	$579,000
Purchases (excluding freight in)	300,000
Selling and Administrative Expenses	67,000
Freight In	14,000
Beginning Merchandise Inventory	43,000
Ending Merchandise Inventory	42,000

What is the cost of goods available for sale for the year?
A) $357,000
B) $315,000
C) $343,000
D) $329,000
Answer: A
Explanation: Cost of goods available for sale = Beginning Merchandise Inventory + Purchases + Freight In = $43,000 + $300,000 + $14,000 = $357,000
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

22) The following is the year ended data for Tiger Company:

Sales Revenue	$59,000
Cost of Goods Manufactured	25,000
Beginning Finished Goods Inventory	1,000
Ending Finished Goods Inventory	2,000
Selling Expenses	15,000
Administrative Expenses	3,000

What is the cost of goods available for sale?
A) $26,000
B) $24,000
C) $35,000
D) $17,000
Answer: A
Explanation: $1,000 + $25,000 =$26,000
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

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23) The following is the year ended data for Baker Company:

Sales Revenue	$152,000
Cost of Goods Manufactured	122,000
Beginning Finished Goods Inventory	10,200
Ending Finished Goods Inventory	12,200
Selling Expenses	5,700
Administrative Expenses	13,700

What is the cost of goods available for sale?
A) $12,600
B) $32,000
C) $120,000
D) $132,200
Answer: D
Explanation: $10,200 + $122,000 = $132,200
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

24) The following is the year ended data for Tiger Company:

Sales Revenue	$59,000
Cost of Goods Manufactured	25,000
Beginning Finished Goods Inventory	1,800
Ending Finished Goods Inventory	3,600
Selling Expenses	15,100
Administrative Expenses	3,300

What is the cost of goods sold?
A) $26,800
B) $23,200
C) $35,800
D) $17,400
Answer: B
Explanation: $1,800 + $25,000 - $3,600 = $23,200
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

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25) The following is the year ended data for Baker Company:

Sales Revenue	$152,000
Cost of Goods Manufactured	129,000
Beginning Finished Goods Inventory	10,400
Ending Finished Goods Inventory	12,400
Selling Expenses	5,700
Administrative Expenses	13,800

What is the cost of goods sold?
A) $5,500
B) $25,000
C) $127,000
D) $23,000
Answer: C
Explanation: $10,400 + $129,000 - $12,400 = $127,000
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

26) The following is the year ended data for Tiger Company:

Sales Revenue	$56,000
Cost of Goods Manufactured	20,000
Beginning Finished Goods Inventory	1,900
Ending Finished Goods Inventory	3,800
Selling Expenses	15,500
Administrative Expenses	3,000

What is the gross profit?
A) $21,900
B) $18,100
C) $37,900
D) $19,400
Answer: C
Explanation: $56,000 – ($1,900+ $20,000 - $3,800) = $37,900
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

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27) The following is the year ended data for Baker Company:

Sales Revenue	$153,000
Cost of Goods Manufactured	125,000
Beginning Finished Goods Inventory	10,500
Ending Finished Goods Inventory	12,500
Selling Expenses	5,600
Administrative Expenses	13,200

What is the gross profit?
A) $11,200
B) $30,000
C) $123,000
D) $28,000
Answer: B
Explanation: $153,000 – ($10,500 + $125,000 - $12,500) = $30,000
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

28) The following is the year ended data for Tiger Company:

Sales Revenue	$53,000
Cost of Goods Manufactured	26,000
Beginning Finished Goods Inventory	1,600
Ending Finished Goods Inventory	3,200
Selling Expenses	15,800
Administrative Expenses	3,300

What is the operating income?
A) $27,600
B) $24,400
C) $28,600
D) $9,500
Answer: D
Explanation: $53,000 – ($1,600 + $26,000 - $3,200) - $15,800 - $3,300 = $9,500
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

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29) The following is the year ended data for Baker Company:

Sales Revenue	$151,000
Cost of Goods Manufactured	125,000
Beginning Finished Goods Inventory	10,900
Ending Finished Goods Inventory	12,900
Selling Expenses	5,400
Administrative Expenses	13,500

What is the operating income?
A) $9,100
B) $28,000
C) $123,000
D) $26,000
Answer: A
Explanation: $151,000 – ($10,900 + $125,000 - $12,900) - $5,400- $13,500 = $9,100
Diff: 2
LO: M:1-3
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: Income Statement

30) Oaktree, Inc. is a merchandiser of inlaid wooden boxes. The company sold 7,500 units during the year. The company has provided the following information:

Sales Revenue	$558,000
Purchases (excluding freight in)	301,000
Selling and Administrative Expenses	69,000
Freight In	14,000
Beginning Merchandise Inventory	43,000
Ending Merchandise Inventory	42,000

What is the cost of goods sold for the year?
A) $358,000
B) $316,000
C) $314,000
D) $302,000
Answer: B
Explanation: Cost of goods sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = $43,000 + $301,000 + $14,000 - $42,000 = $316,000
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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31) Artisan Inspiration, Inc. is a merchandiser of stone ornaments. The company sold 7,500 units during the year. The company has provided the following information:

Sales Revenue	$599,000
Purchases (excluding Freight In)	301,000
Selling and Administrative Expenses	69,000
Freight In	14,000
Beginning Merchandise Inventory	45,000
Ending Merchandise Inventory	42,000

What is the operating income for the year? (Round your answer to the nearest whole dollar.)
A) $212,000
B) $318,000
C) $281,000
D) $530,000
Answer: A
Explanation: Cost of Goods Sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = $45,000 + $301,000 + $14,000 - $42,000 = $318,000

Operating Income = Sales Revenue - Cost of Goods Sold - Selling and Administrative Expenses = $599,000 - $318,000 - $69,000 = $212,000
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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32) Stone Beauty, Inc. is a merchandiser of stone ornaments. The company sold 7,000 units during the year. The company has provided the following information:

Sales Revenue	$579,000
Purchases (excluding freight in)	300,000
Selling and Administrative Expenses	67,000
Freight In	14,000
Beginning Merchandise Inventory	43,000
Ending Merchandise Inventory	42,000

What is the cost of goods available for sale for the year?
A) $357,000
B) $315,000
C) $343,000
D) $329,000
Answer: A
Explanation: Cost of goods available for sale = Beginning Merchandise Inventory + Purchases + Freight In = $43,000 + $300,000 + $14,000 = $357,000
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

33) Oaktree, Inc. is a merchandiser of inlaid wooden boxes. The company sold 7,500 units during the year. The company has provided the following information:

Sales Revenue	$558,000
Purchases (excluding freight in)	301,000
Selling and Administrative Expenses	69,000
Freight In	14,000
Beginning Merchandise Inventory	43,000
Ending Merchandise Inventory	42,000

What is the cost of goods sold for the year?
A) $358,000
B) $316,000
C) $314,000
D) $302,000
Answer: B
Explanation: Cost of goods sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = $43,000 + $301,000 + $14,000 - $42,000 = $316,000
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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

Sales Revenue	$505,000
Purchases (excluding Freight In)	345,000
Selling and Administrative Expenses	36,500
Freight In	15,800
Beginning Merchandise Inventory	42,000
Ending Merchandise Inventory	59,000

How much is the gross profit for the year?
A) $197,700
B) $343,800
C) $161,200
D) $160,000
Answer: C
Explanation: Cost of Goods Sold = Beginning Merchandise Inventory + Purchases + Freight In - Ending Merchandise Inventory = $42,000 + $345,000 + $15,800 - 59,000 = $343,800

Gross Profit = Sales Revenue - Cost of Goods Sold = $505,000 - $343,800 = $161,200
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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35) Onyx Corporation has provided the following information about 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 Onyx's income statement for the year ended December 31, including the heading. 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:

Onyx 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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36) Citrine 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: Citrine 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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37) Accuracy Accounting, Inc. sells accounting textbooks. The following information summarizes Accuracy Accounting'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 Accuracy Accounting, Inc.'s income statement for the year ended December 31.
Answer:

Accuracy Accounting, 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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38) Rossi, Inc. sells plasticware. The following information summarizes Rossi's 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 Rossi, Inc., a merchandiser, for the year ended December 31 using the format below. Include a proper heading.

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: Rossi, 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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39) Herrera, Inc., a merchandiser, sells office supplies. The following information summarizes Herrera'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 Herrera, Inc. for the year ended December 31, using the format below. Include a proper heading.

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: Herrera, 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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40) Yoga Universe, Inc. is a fitness center in Tampa, Florida. 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 Expense	60,000
Depreciation Expense—Equipment	25,000
Office Supplies Expense	30,000
Utilities Expense	89,700
Trainer's Salary	25,000

Required: Prepare Yoga Universe's income statement for the month of October, 2025.

Answer:

Yoga Universe
Income Statement
For the month ended October 31, 2025

Revenue		
Service Revenue		$550,000
Expenses		
Utilities Expense	$89,700	
Salaries Expense	75,000	
Gym Rent Expense	60,000	
Office Supplies Expense	30,000	
Depreciation Expense—Equipment	25,000	
Total Expenses		279,700
Operating Income		$270,300

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

41) Costs are transferred from the balance sheet to the income statement as cost of goods sold when finished goods are sold.

Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

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42) The cost of direct materials and direct labor flow directly into Finished Goods Inventory, without flowing through Work-in-Process.
Answer: FALSE
Explanation: The costs of direct materials, direct labor, and manufacturing overhead flow through work-in-process before they flow into finished goods inventory.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

43) The cost of finish goods flow to Cost of Goods Sold when the product is sold.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

44) Allocated manufacturing overhead flows to work-in-process.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

45) Costs are transferred from the balance sheet to the income statement as cost of goods sold when _____.
A) finished goods are sold
B) goods are transferred from the Work-in-Process Inventory account to the Finished Goods Inventory account
C) direct materials, direct labor and manufacturing overhead are transferred to the beginning Work-in-Process Inventory account
D) the total of Cost of Goods Manufactured is determined
Answer: A
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

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46) 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

47) 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

48) Which of the following does NOT appear on the balance sheet?
A) Cost of Goods Sold
B) Merchandise Inventory
C) Work-in-Process Inventory
D) Finished Goods Inventory
Answer: A
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

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49) Work-in-Process Inventory flows into _____.
A) Cost of Goods Sold
B) Finished Goods Inventory
C) Work-in-Process Inventory
D) Manufacturing Overhead
Answer: B
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

50) Direct Materials, Direct Labor, and Manufacturing Overhead all flow into _____.
A) Cost of Goods Sold
B) Finished Goods Inventory
C) Work-in-Process Inventory
D) Inventory
Answer: C
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

51) 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Product Costs Flow Through a Manufacturing Company

52) Direct materials used plus allocated Manufacturing Overhead equals the Cost of Goods Manufactured.
Answer: FALSE
Explanation: Beginning Finished Goods Inventory plus the Cost of Goods Manufactured less Ending Finished Goods Inventory equals the Cost of Goods Sold.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

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53) Beginning Work-in-Process Inventory is added to Total Manufacturing Costs, then ending Work-in-Process Inventory is subtracted to calculate Cost of Goods Manufactured.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

54) Materials purchased and materials used are always the same amount when calculating Cost of Goods Manufactured.
Answer: FALSE
Explanation: Materials purchased and materials used may not be equal as some materials purchased many not have yet been requisitioned into manufacturing.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

55) Indirect materials and indirect labor are part of Manufacturing Overhead when calculating Cost of Goods Manufactured.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

56) The cost of goods sold for Frye Manufacturing in the year was $363,000. The January 1 Finished Goods Inventory balance was $32,000, and the December 31 Finished Goods Inventory balance was $25,400. Calculate the cost of goods manufactured during the year.
A) $388,400
B) $57,400
C) $356,400
D) $6,600
Answer: C
Explanation: Cost of goods manufactured = Cost of goods sold + Ending finished goods inventory - Beginning finished goods inventory = $363,000 + $25,400 - $32,000 = $356,400
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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57) The cost of goods manufactured includes selling expenses, administrative expenses, and manufacturing overhead.
Answer: FALSE
Explanation: Cost of goods manufactured does not include period costs such as selling and administrative expenses.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

58) 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

59) At the beginning of the year, Swift, Inc.'s Work-in-Process Inventory account had a balance of $120,000. During the year, $250,000 of direct materials were used in production, and $72,000 of direct labor costs were incurred. Manufacturing overhead amounted to $820,000. The cost of goods manufactured was $675,000. What is the balance in the Work-in-Process Inventory account on December 31?
A) $1,142,000
B) $1,350,000
C) $675,000
D) $587,000
Answer: D
Explanation:

Beginning Work-in-Process Inventory	$120,000
Direct Materials Used	250,000
Direct Labor	72,000
Manufacturing Overhead	820,000
Total Manufacturing Costs to account for	1,262,000
Cost of Goods Manufactured	(675,000)
Ending Work-in-Process Inventory	$587,000

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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60) 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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

Cost of Goods Manufactured	$146,500
Work-in-Process Inventory, Jan. 1	19,000
Work-in-Process Inventory, Dec. 31	22,500
Direct Materials Used	15,500

What is the total of manufacturing costs incurred by Fire Cat, Inc. during the year?
A) $150,000
B) $143,000
C) $26,000
D) $34,500
Answer: A
Explanation: Total manufacturing costs incurred = Ending Work-in-Process Inventory + Cost of Goods Manufactured - Beginning Work-in-Process Inventory = $22,500 + $146,500 - $19,000 = $150,000
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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62) Argento Supplies, Inc. selected cost data for the year are shown below:

Work-in-Process Inventory, Jan. 1	$5,790
Direct Materials Used	104,000
Work-in-Process Inventory, Dec. 31	2,840
Cost of Goods Manufactured	193,000

Assuming manufacturing overhead costs of $27,800, what is the amount of direct labor incurred by Argento Supplies, Inc. during the year?
A) $61,200
B) $190,050
C) $58,250
D) $131,800
Answer: C
Explanation: Total Manufacturing Cost = Ending Work-in-Process Inventory + Cost of Goods Manufactured - Beginning Work-in-Process Inventory = $2,840 + $193,000 - $5,790 = $190,050

Direct labor costs = Total Manufacturing Cost - Manufacturing overhead costs - Direct Materials Used = $190,050 - $27,800 - $104,000 = $58,250
Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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63) Beckett, Inc. reports the following cost information for March:

Cost of Goods Manufactured	$73,000
Manufacturing Overhead	18,600
Finished Goods Inventory, March 1	8,000
Finished Goods Inventory, March 31	4,000
Work-in-Process Inventory, March 1	9,600
Work-in-Process Inventory, March 31	1,250
Direct Materials Used	25,200

What is the amount of direct labor incurred by Beckett, Inc. in March?
A) $64,650
B) $6,600
C) $73,000
D) $20,850
Answer: D
Explanation:

Cost of Goods Manufactured	$73,000
Direct Materials Used	(25,200)
Manufacturing Overhead	(18,600)
Work-in-Process Inventory, March 1	(9,600)
Work-in-Process Inventory, March 31	1,250
Direct Labor	$20,850

Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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64) Keegan Corporation reports the following cost information for March:

Cost of Goods Manufactured	$75,000
Manufacturing Overhead	18,600
Finished Goods Inventory, March 1	5,000
Finished Goods Inventory, March 31	4,000
Work-in-Process Inventory, March 1	9,690
Work-in-Process Inventory, March 31	1,220
Direct Labor	36,600

What is the amount of direct materials used by the company in March?
A) $11,330
B) $8,470
C) $18,000
D) $19,800
Answer: A
Explanation:

Cost of Goods Manufactured	$75,000
Direct Labor	(36,600)
Manufacturing Overhead	(18,600)
Work-in-Process Inventory, March 1	(9,690)
Work-in-Process Inventory, March 31	1,220
Direct Materials Used	$11,330

Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

65) A corporation used $35,000 of direct materials. It incurred $74,000 in direct labor costs and $114,000 in manufacturing overhead costs during the period. What is the cost of goods manufactured if the beginning and ending Work-in-Process Inventories were $28,500 and $22,000, respectively?
A) $251,500
B) $229,500
C) $216,500
D) $223,000
Answer: B
Explanation: Cost of goods manufactured = Beginning Work-in-Process Inventory + Direct Materials + Direct Labor Cost + Manufacturing Overhead Costs - Ending Work-in-Process Inventory = $28,500 + $35,000 + $74,000 + $114,000 - $22,000 = $229,500
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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66) Enzo Design Corporation reports the following cost information for March:

Cost of Goods Manufactured	$85,000
Finished Goods Inventory, March 1	4,000
Finished Goods Inventory, March 31	2,600
Work-in-Process Inventory, March 1	9,680
Work-in-Process Inventory, March 31	1,275
Direct Labor	36,300
Direct Materials Used	16,900

What is the amount of manufacturing overhead incurred by the company in March?
A) $40,295
B) $149,155
C) $23,395
D) $22,120
Answer: C
Explanation:

Cost of Goods Manufactured	$85,000
Direct Labor	(36,300)
Direct Materials Used	(16,900)
Work-in-Process Inventory, March 1	(9,680)
Work-in-Process Inventory, March 31	1,275
Manufacturing Overhead	$23,395

Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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

Direct Labor Incurred	$64,000
Manufacturing Overhead Incurred	179,000
Direct Materials Used	155,000
Finished Goods Inventory, Jan. 1	198,000
Finished Goods Inventory, Dec. 31	98,000
Work-in-Process Inventory, Jan. 1	222,000
Work-in-Process Inventory, Dec. 31	110,000

A) $398,000
B) $510,000
C) $288,000
D) $186,000
Answer: B
Explanation:

Work-in-Process Inventory, Jan. 1	$222,000
Direct Materials Used	155,000
Direct Labor Incurred	64,000
Manufacturing Overhead Incurred	179,000
Work-in-Process Inventory, Dec. 31	(110,000)
Cost of Goods Manufactured	$510,000

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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68) The following information has been provided by Crosby Corporation:

Direct Labor	$6,400
Direct Materials Used	2,400
Direct Materials Purchased	9,000
Cost of Goods Manufactured	18,000
Ending Work-in-Process Inventory	1,400
Corporate Headquarters' Property taxes	600
Manufacturing Overhead Incurred	500

The beginning balance of Work-in-Process Inventory account was _____.
A) $10,000
B) $10,100
C) $25,900
D) $9,300
Answer: B
Explanation:

Cost of Goods Manufactured	$18,000
Direct Labor	(6,400)
Direct Materials Used	(2,400)
Manufacturing Overhead	(500)
Ending Work-in-Process Inventory	1,400
Beginning Work-in-Process Inventory	$10,100

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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69) Garrett Corporation provided the following information for the year:

Beginning Balance—Work-in-Process Inventory	$27,000
Ending Balance—Work-in-Process Inventory	56,000
Beginning Balance—Direct Materials	87,000
Ending Balance— Direct Materials	62,000
Purchases — Direct Materials	357,000
Direct Labor	471,000
Indirect Labor	21,000
Depreciation on Factory Plant and Equipment	24,000
Plant Utilities and Insurance	270,000

What was the amount of direct materials used in production during the year?
A) $68,000
B) $357,000
C) $382,000
D) $828,000
Answer: C
Explanation:

Beginning Balance—Direct Materials	$87,000
Purchases—Direct Materials	357,000
Ending Balance—Direct Materials Inventory	(62,000)
Direct Materials Used	$382,000

Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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70) Quinton 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— Direct Materials	85,000
Ending Balance— Direct Materials	60,000
Purchases — Direct Materials	356,000
Direct Labor	472,000
Indirect Labor	21,000
Depreciation on Factory Plant and Equipment	22,000
Plant Utilities and Insurance	270,000

What was the total manufacturing costs incurred during the year?
A) $694,000
B) $313,000
C) $853,000
D) $1,166,000
Answer: D
Explanation:

Beginning Balance—Direct Materials Inventory	$85,000
Purchases—Direct Materials	356,000
Ending Balance—Direct Materials Inventory	(60,000)
Direct Materials Used	$381,000

Plant Utilities and Insurance	$270,000
Depreciation on Factory Plant and Equipment	22,000
Indirect Labor	21,000
Total Manufacturing Overhead Costs	$313,000

Direct Materials Used	$381,000
Direct Labor	472,000
Manufacturing Overhead	$313,000
Total Manufacturing Cost Incurred During Year	$1,166,000

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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71) Payton Corporation provided the following information for the year:

Beginning Balance—Work-in-Process Inventory	$24,000
Ending Balance—Work-in-Process Inventory	58,000
Beginning Balance— Direct Materials	82,000
Ending Balance— Direct Materials	59,000
Purchases — Direct Materials	357,000
Direct Labor	468,000
Indirect Labor	18,000
Depreciation on Factory Plant and Equipment	25,000
Plant Utilities and Insurance	272,000

What was the amount of the cost of goods manufactured for the year?
A) $1,363,000
B) $1,163,000
C) $1,129,000
D) $1,197,000
Answer: C
Explanation:

Beginning Balance—Direct Materials Inventory	$82,000
Purchases—Direct Materials	357,000
Ending Balance—Direct Materials Inventory	(59,000)
Direct Materials Used	$380,000

Plant Utilities and Insurance	$272,000
Depreciation on Factory Plant and Equipment	25,000
Indirect Labor	18,000
Total Manufacturing Overhead Costs	$315,000

Direct Materials Used	$380,000
Direct Labor	468,000
Manufacturing Overhead	$315,000
Total Manufacturing Cost Incurred During Year	$1,163,000

Beginning Balance—Work-in-Process Inventory	$24,000
Total Manufacturing Cost Incurred During Year	1,163,000
Ending Balance—Work-in-Process Inventory	(58,000)
Cost of Goods Manufactured	$1,129,000

Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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72) Titus Manufacturing, Inc. provided the following information for the year:

Purchases — Direct Materials	$90,000
Plant Utilities and Insurance	68,000
Indirect Materials	11,130
Indirect Labor	4,130
Direct Materials Used in Production	97,000
Direct Labor	118,000
Depreciation on Factory Plant & Equipment	4,000

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

Direct Materials	$40,000
Work-in-Progress Inventory	11,000
Finished Goods Inventory	50,000

What is the ending balance in the Direct Materials account?
A) $130,000
B) $7,000
C) $108,130
D) $33,000
Answer: D
Explanation: Beginning Direct Materials + Purchases Direct Materials - Direct Materials Used in Production = Ending Direct Materials
$40,000 + $90,000 -$97,000 = $33,000
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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73) Darius Manufacturing, Inc. provided the following information for the year:

Purchases — Direct Materials	$91,000
Plant Utilities and Insurance	67,500
Indirect Materials Used	11,210
Indirect Labor	4,900
Direct Materials Used in Production	96,000
Direct Labor	117,500
Depreciation on Factory Plant and Equipment	4,000
Cost of Goods Manufactured	290,000

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

Direct Materials	$44,000
Work-in-Process Inventory	1,300
Finished Goods Inventory	48,500

What is the ending balance in the Work-in-Process Inventory account?
A) $12,410
B) $1,300
C) $48,500
D) $42,700
Answer: A
Explanation:

Indirect Materials	$11,210
Indirect Labor	4,900
Depreciation on Factory Plant and Equipment	4,000
Plant Utilities & Insurance	67,500
Total Manufacturing Overhead	$87,610

Beginning—Work-in-Process Inventory	$1,300
Direct Materials Used in Production	96,000
Direct Labor	117,500
Manufacturing Overhead	87,610
Cost of Goods Manufactured	(290,000)
Ending—Work-in-Process Inventory	$12,410

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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74) Ryker Manufacturing, Inc. provided the following information for the year:

Purchases — Direct Materials	$89,000
Plant Utilities and Insurance	66,000
Indirect Materials Used	11,500
Indirect Labor	4,490
Direct Materials Used in Production	96,000
Direct Labor	118,000
Depreciation on Factory Plant and Equipment	4,000
Cost of Goods Manufactured	290,000
Cost of Goods Sold	291,500

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

Direct Materials	$43,000
Work-in-Progress Inventory	11,000
Finished Goods Inventory	304,500

What is the ending balance in the Finished Goods Inventory?
A) $304,500
B) $306,000
C) $303,000
D) $594,500
Answer: C
Explanation:

Beginning Balance—Finished Goods Inventory	$304,500
Cost of Goods Manufactured	290,000
Cost of Goods Sold	(291,500)
Ending Balance—Finished Goods Inventory	$303,000

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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75) Vermont State, Inc. used $151,000 of direct materials and incurred $62,000 of direct labor costs during the year. Indirect labor amounted to $272,000, while indirect materials used totaled $52,000. Other operating costs pertaining to the factory included utilities of $135,500; maintenance of $70,800; repairs of $53,950; depreciation of $132,500; and property taxes of $70,380. 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 $7,300 balance.

How much is the cost of goods manufactured?
A) $12,900
B) $998,430
C) $1,005,730
D) $1,000,130
Answer: B
Explanation:

Beginning Work-in-Process Inventory	$5,600
Direct Materials Used	151,000
Direct Labor	62,000
Manufacturing Overhead	
(272,000 + 52,000 + 135,500 + 70,800 + 53,950 + 132,500 + 70,380)	787,130
Total Manufacturing Costs Incurred during the Year	1,000,130
Total Manufacturing Costs to Account For	1,005,730
Ending Work-in-Process Inventory	(7,300)
Cost of Goods Manufactured	$998,430

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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

Beginning Balance—Work-in-Process Inventory	$150,000
Ending Balance—Work-in-Process Inventory	62,000
Beginning Balance— Direct Materials	269,000
Ending Balance— Direct Materials	52,400
Purchases — Direct Materials	135,500
Direct Labor	71,620
Indirect Materials	53,700
Indirect Labor	133,500
Depreciation on Factory Plant and Equipment	74,540
Plant Utilities and Insurance	71,180

How much is the cost of goods manufactured?
A) $844,640
B) $756,640
C) $906,640
D) $770,100
Answer: A
Explanation:

Beginning Balance—Work-in-Process Inventory			$150,000
Direct Materials Used:			
Beginning Balance—Direct Materials Inventory	269,000		
Purchases—Direct Materials	135,500		
Direct Materials Available for Use	404,500		
Ending Balance—Direct Materials Inventory	(52,400)		
Direct Materials Used		352,100	
Direct Labor		71,620	
Manufacturing Overhead			
(53,700 + 133,500 + 74,540 + 71,180)		332,920	
Total Manufacturing Costs Incurred during the Year			$756,640
Total Manufacturing Costs to Account For			$906,640
Ending Work-in-Process Inventory			(62,000)
Cost of Goods Manufactured			$844,640

Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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

Direct Labor	$25,500
Direct Materials Used	11,500
Direct Materials Purchased	16,920
Cost of Goods Manufactured	49,000
Ending Work-in-Process Inventory	11,300
Corporate Headquarters' Property Taxes	2,000
Manufacturing Overhead	19,400

Calculate the beginning balance of the Work-in-Process Inventory account.
A) $94,100
B) $60,300
C) $3,900
D) $45,100
Answer: C
Explanation:

Cost of Goods Manufactured	$49,000
Direct Materials Used	(11,500)
Direct Labor	(25,500)
Manufacturing Overhead	(19,400)
Ending Work-in-Process Inventory	11,300
Beginning Work-in-Process Inventory	$3,900

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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78) Varda, 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 Varda, Inc. using the format below.

Schedule of 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

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79) Haggan Manufacturing, Inc. provided the following information for the year:

Purchases — Direct 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—Direct Materials	45,000
Direct Labor	352,500
Depreciation on Factory Plant and Equipment	18,000
Beginning Balance—Work-in-Process Inventory	18,000
Beginning Balance— Direct Materials	63,000

Required: Prepare a schedule 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 Direct Materials			
Purchases of Direct Materials			
Direct Materials Available for Use			
Ending Direct Materials			
Direct Materials Used			
Direct Labor			
Manufacturing Overhead:			
Indirect Materials			
Indirect Labor			
Depreciation—Plant and Equipment			
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 Direct Materials	$63,000		
Purchases of Direct Materials	270,000		
Direct Materials Available for Use	333,000		
Ending Direct Materials	(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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured

80) Ending Finished Goods Inventory is added to Cost of Goods Manufactured when calculating Cost of Goods Sold.
Answer: FALSE
Explanation: Beginning Finished Goods Inventory is added to Cost of Goods Manufactured when calculating Cost of Goods Sold.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

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81) Ending Work-in Process Inventory is subtracted from Cost of Goods Manufactured when calculating Cost of Goods Sold.
Answer: FALSE
Explanation: Ending Finished Goods Inventory is subtracted from Cost of Goods Manufactured when calculating Cost of Goods Sold.
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

82) Cost of Goods Sold is calculated by taking beginning Finished Goods Inventory, plus Cost of Goods Manufactured, less ending Finished Goods Inventory.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

83) Cost of Goods Sold appears on the income statement.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost of Goods Manufactured

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

Sales Revenue	$22,000
Beginning Finished Goods Inventory	13,000
Ending Finished Goods Inventory	11,500
Cost of Goods Manufactured	19,600

Compute cost of goods available for sale.
A) $19,600
B) $31,100
C) $32,600
D) $21,100
Answer: C
Explanation:
Fontana Manufacturing
Income Statement
Month Ended March 31, 20XX

Revenues:		
Sales Revenue		$22,000
Cost of Goods Sold:		
Beginning Finished Goods Inventory	$13,000	
Cost of Goods Manufactured	19,600	
Cost of Goods Available for Sale	32,600	
Ending Finished Goods Inventory	(11,500)	
Cost of Goods Sold		21,100
Gross Profit		$900

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Sold

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85) Super Tread Inc. is a large manufacturer of auto tires. Super Tread has provided the following information:

Sales Revenue	$70,000
Beginning Finished Goods Inventory	17,000
Cost of Goods Sold	36,500
Cost of Goods Manufactured	55,500

Calculate the amount of ending Finished Goods Inventory reported on Super Tread's balance sheet.
A) $14,500
B) $72,500
C) $36,000
D) $19,000
Answer: C
Explanation:

Beginning Finished Goods Inventory	$17,000
Add: Cost of Goods Manufactured	55,500
Cost of Goods Available for Sale	72,500
Less: Cost of Goods Sold	(36,500)
Ending Finished Goods Inventory	$36,000

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Sold

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

Sales Revenue	$18,000
Beginning Finished Goods Inventory	8,000
Ending Finished Goods Inventory	6,500
Cost of Goods Manufactured	19,600

Compute cost of goods sold.
A) $19,600
B) $18,100
C) $21,100
D) $26,100
Answer: C
Explanation:

Franklin Manufacturing		
Income Statement		
Month Ended March 31, 20XX		
Revenues:		
Sales Revenue		$18,000
Cost of Goods Sold		
Beginning Finished Goods Inventory	$8,000	
Cost of Goods Manufactured	19,600	
Cost of Goods Available for Sale	27,600	
Ending Finished Goods Inventory	(6,500)	
Cost of Goods Sold		21,100
Gross Profit		$(3,100)

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Sold

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

Sales Revenue	$32,000
Beginning Finished Goods Inventory	13,000
Ending Finished Goods Inventory	8,500
Cost of Goods Manufactured	10,600

Compute gross profit.
A) $16,900
B) $21,400
C) $25,900
D) $12,900
Answer: A
Explanation:

Lakeshore Manufacturing		
Income Statement		
Month Ended March 31, 20XX		
Revenues:		
Sales Revenue		$32,000
Cost of Goods Sold		
Beginning Finished Goods Inventory	$13,000	
Cost of Goods Manufactured	10,600	
Cost of Goods Available for Sale	23,600	
Ending Finished Goods Inventory	(8,500)	
Cost of Goods Sold		15,100
Gross Profit		$16,900

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Sold

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

Cost of Goods Manufactured	$74,700
Manufacturing Overhead	18,100
Finished Goods Inventory, March 1	4,500
Finished Goods Inventory, March 31	2,900
Work-in-Process Inventory, March 1	9,800
Work-in-Process Inventory, March 31	1,800
Direct Materials Used	26,400

What is the cost of goods sold for March?
A) $1,500
B) $73,100
C) $76,300
D) $79,200
Answer: C
Explanation:

Finished Goods Inventory, March 1	$4,500
Cost of Goods Manufactured	74,700
Finished Goods Inventory, March 31	(2,900)
Cost of Goods Sold	$76,300

Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Sold

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

Direct Labor Incurred	$64,000
Manufacturing Overhead Incurred	175,000
Direct Materials Used	151,000
Finished Goods Inventory, Jan. 1	199,000
Finished Goods Inventory, Dec. 31	96,000
Work-in-Process Inventory, Jan. 1	221,500
Work-in-Process Inventory, Dec. 31	108,000

A) $503,500
B) $611,500
C) $606,500
D) $295,000
Answer: C
Explanation:

Work-in-Process Inventory, Jan. 1	$221,500
Direct Materials Used	151,000
Direct Labor Incurred	64,000
Manufacturing Overhead Incurred	175,000
Work-in-Process Inventory, Dec. 31	(108,000)
Cost of Goods Manufactured	$503,500

Finished Goods Inventory, Jan. 1	$199,000
Cost of Goods Manufactured	503,500
Finished Goods Inventory, Dec. 31	(96,000)
Cost of Goods Sold	$606,500

Diff: 3
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Sold

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

Cost of Goods Manufactured	$1,299,000
Beginning Balance—Finished Goods Inventory	100,000
Ending Balance—Finished Goods Inventory	86,000

What is the cost of goods sold?
A) $186,000
B) $1,313,000
C) $1,299,000
D) $1,285,000
Answer: B
Explanation:

Beginning Balance—Finished Goods Inventory	$100,000
Cost of Goods Manufactured	1,299,000
Ending Balance—Finished Goods Inventory	(86,000)
Cost of Goods Sold	$1,313,000

Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Sold

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91) Doggie Delights manufactures its own brand of pet toys. At the end of June, 2025 the accounting records showed the following:

Inventories:	**Beginning**	**Ending**
Direct Materials	$14,200	$ 9,600
Work-in-Process	0	3,600
Finished Goods	0	6,800
Other Information:		
Direct materials purchases		40,000
Plant janitorial services		4,200
Sales salaries		6,000
Delivery costs		2,900
Sales revenue		206,000
Utilities for plant		10,200
Rent on plant		27,000
Customer service hotline costs		3,000
Direct labor		29,000

(a) Prepare a schedule of cost of goods manufactured for Doggie Delights and
(b) Prepare an income statement for Doggie Delights for the year ended June 30, 2025
Answer: (a)

Doggie Delights
Schedule of Cost of Goods Manufactured
Year Ended June 30, 2025

Beginning Work-in-Process			$0
Direct Materials Used:			
Beginning Direct Materials	$14,200		
Purchases of Direct Materials	40,000		
Direct Materials Available for Use	54,200		
Ending Direct Materials	(9,600)		
Direct Materials Used		$44,600	
Direct Labor		29,000	
Manufacturing Overhead			
Plant janitorial services	4,200		
Utilities for plant	10,200		
Rent on plant	27,000		
Total Manufacturing Overhead		41,400	
Total Manufacturing Costs Incurred			115,000
Total Manufacturing Costs to Account For			115,000
Ending Work-in-Process Inventory			(3,600)
Cost of Goods Manufactured			$111,400

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(b)

Doggie Delights
Income Statement
Year Ended June 30, 2025

Sales Revenue		$206,000
Cost of Goods Sold:		
Beginning Finished Goods Inventory	$0	
Cost of Goods Manufactured	111,400	
Cost of Goods Available for Sale	111,400	
Ending Finished Goods Inventory	(6,800)	
Cost of Goods Sold		104,600
Gross Profit		101,400
Selling and Administrative Expenses:		
Sales Salaries Expense	6,000	
Delivery Expense	2,900	
Customer Service Hotline Expense	3,000	
Total Selling and Administrative Expenses		11,900
Operating Income		$89,500

Diff: 3
LO: M:1-2, M:13
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured, Calculating Cost of Goods Sold, Income Statement

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92) Grant's Ironhorse Company manufactures model railroad cars. At the end of October, 2025 the accounting records showed the following:

Inventories:	**Beginning**	**Ending**
Direct Materials	$10,000	$5,000
Work-in-Process	15,000	20,000
Finished Goods	0	5,800
Other Information:		
Direct Materials Purchases		40,000
Plant maintenance services		6,800
Plant supervisor's salary		31,500
Sales salaries		12,700
Delivery costs		3,100
Sales revenue		236,000
Utilities for plant		10,500
Rent on plant		23,000
Advertising		8,000
Direct labor		30,000

(a) Prepare a schedule of cost of goods manufactured for Grant's Ironhorse Company and
(b) Prepare an income statement for Grant's Ironhorse Company for the year ended October 31, 2025
Answer: (a)

Grant's Ironhorse Company
Schedule of Cost of Goods Manufactured
Year Ended October 31, 2025

Beginning Work-in-Process			$15,000
Direct Materials Used:			
Beginning Direct Materials	$10,000		
Purchases of Direct Materials	40,000		
Direct Materials Available for Use	50,000		
Ending Direct Materials	(5,000)		
Direct Materials Used		$45,000	
Direct Labor		30,000	
Manufacturing Overhead:			
Plant maintenance services	6,800		
Utilities for plant	10,500		
Plant supervisor's salary	31,500		
Rent on plant	23,000		
Total Manufacturing Overhead		71,800	
Total Manufacturing Costs Incurred			146,800
Total Manufacturing Costs to Account For			161,800
Ending Work-in-Process Inventory			(20,000)
Cost of Goods Manufactured			$141,800

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(b)

Grant's Ironhorse Company
Income Statement
Year Ended October 31, 2025

Sales Revenue		$236,000
Cost of Goods Sold:		
Beginning Finished Goods Inventory	$0	
Cost of Goods Manufactured	141,800	
Cost of Goods Available for Sale	141,800	
Ending Finished Goods Inventory	(5,800)	
Cost of Goods Sold		136,000
Gross Profit		100,000
Selling and Administrative Expenses:		
Sales Salaries Expense	12,700	
Delivery Expense	3,100	
Advertising	8,000	
Total Selling and Administrative Expenses		23,800
Operating Income		$76,200

Diff: 2
LO: M:1-2, M:13
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost of Goods Manufactured, Calculating Cost of Goods Sold, Income Statement

93) 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Flow of Costs Through the Inventory Accounts

94) 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Flow of Costs Through the Inventory Accounts

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95) The cost of direct materials used flows initially to _____.
A) Cost of Goods Sold
B) Finished Goods Inventory
C) Work-in-Process Inventory
D) Income Statement
Answer: C
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Flow of Costs Through the Inventory Accounts

96) Cost of Goods Manufactured flows initially to _____.
A) Cost of Goods Sold
B) Finished Goods Inventory
C) Work-in-Process Inventory
D) Income Statement
Answer: B
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Flow of Costs Through the Inventory Accounts

97) Beginning Finished Goods Inventory plus Cost of Goods Manufactured is _____.
A) Cost of Goods Sold
B) Finished Goods Inventory
C) Work-in-Process Inventory
D) Cost of Goods Available for Sale
Answer: D
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Flow of Costs Through the Inventory Accounts

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98) 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 of raw material 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Flow of Costs Through the Inventory Accounts

99) Unit product costs can be used to measure operating income and determine the cost of Finished Goods Inventory.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Using the Schedule of Cost of Goods Manufactured to Calculate Unit Product Cost

100) The unit product cost is only part of the information that is needed to determine the sales price for each product.
Answer: TRUE
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Using the Schedule of Cost of Goods Manufactured to Calculate Unit Product Cost

101) A manufacturer produced 10,500 total units. The cost of goods manufactured is $91,000 and the cost of goods sold is $72,000. The unit product cost is $6.86.
Answer: FALSE
Explanation: Cost of goods manufactured / Total units produced = Unit product cost
$91,000 / 10,500 = $8.67
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Using the Schedule of Cost of Goods Manufactured to Calculate Unit Product Cost

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102) Velasco Productions has provided the following information for the year:

Direct Labor	$152,000
Beginning Work-in-Process Inventory	62,000
Direct Materials Used	269,000
Ending Work-in-Process Inventory	53,000
Manufacturing Overhead	134,000

During the year, Velasco produced 70,700 units of product. Calculate the unit product cost. (Round your answer to the nearest cent.)
A) $7.98
B) $6.83
C) $7.85
D) $8.73
Answer: A
Explanation:

Beginning Work-in-Process Inventory		$62,000
Direct Materials Used:	$269,000	
Direct Labor	152,000	
Manufacturing Overhead	134,000	
Total Mfg. Costs Incurred		555,000
Total Mfg. Costs to Account For		617,000
Ending Work-in-Process Inventory		(53,000)
Cost of Goods Manufactured		$564,000

Unit product cost: Cost of Goods Manufactured / Units produced
Unit product cost: $7.98 per unit
Diff: 2
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Using the Schedule of Cost of Goods Manufactured to Calculate Unit Product Cost

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103) Hernando Manufacturing, Inc. reported the following information for the year:

Number of Units Produced	151,000
Number of Units Sold	63,000
Cost of Goods Manufactured	$268,000
Cost of Goods Sold	52,500
Sales Revenue	133,000
Gross Profit	71,220
Operating Expense	728,000

What was the unit product cost? (Round your answer to the nearest cent.)
A) $4.25
B) $0.88
C) $0.83
D) $1.77
Answer: D
Explanation: Unit product cost = Cost of goods manufactured / units = $268,000 / 151,000 = $1.77
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Using the Schedule of Cost of Goods Manufactured to Calculate Unit Product Cost

104) The following information is available from Avery Company, a manufacturer of security cameras:

Cost of Goods Manufactured	$297,000
Total Units Produced	1,100
Number of Units Sold	950
Cost of Goods Sold	$275,000

The unit product cost for a security camera is:
A) $270.00
B) $279.02
C) $312.63
D) $289.47
Answer: A
Explanation: Cost of Goods Manufactured / Total Units Produced = Unit Product Cost
297,000/1,100 =270.00
Diff: 1
LO: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Using the Schedule of Cost of Goods Manufactured to Calculate Unit Product Cost

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105) 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: M:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Using the Schedule of Cost of Goods Manufactured to Calculate Unit Product Cost

Learning Objective M:1-4

1) The United States Bureau of Labor Statistics predicts that the manufacturing sector will account for the majority of projected job growth from 2014-2024.
Answer: FALSE
Explanation: The United States Bureau of Labor Statistics predicts service-providing sectors will account for more than 90% of projected job growth from 2016 to 2026, especially in health care and social assistance, professional and business services, and leisure and hospitality sectors.
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Shift Toward a Service Economy

2) The United States Bureau of Labor Statistics predicts that the greatest service-providing sector growth will be in healthcare and social assistance jobs from 2014-2024.
Answer: TRUE
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Shift Toward a Service Economy

3) Companies that provide healthcare, communication, banking and other benefits to society are called _____.
A) service companies
B) societal organizations
C) merchandising companies
D) consumer organizations
Answer: A
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Shift Toward a Service Economy

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4) Managers in the service industry need to understand all *except*:
A) the costs of providing services
B) the costs of supporting customers
C) planning for the future
D) the cost of materials when manufacturing a product
Answer: D
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Shift Toward a Service Economy

5) Managerial accounting concepts can be used to help managers make decisions about outsourcing.
Answer: TRUE
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Global Competition

6) In order to reach new markets, many companies are moving operations to other countries.
Answer: TRUE
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Global Competition

7) To be competitive in global markets, many companies are doing all of the following *except*
A) moving operations to other countries
B) partnering with foreign companies to meet local needs.
C) moving to be closer to new markets.
D) looking at future expansion, regardless of the cost savings.
Answer: D
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Global Competition

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8) Managerial accounting concepts can be used in global competition to help managers _____.
A) prepare financials according to GAAP
B) make decisions about outsourcing portions of production process and delivery of goods to customers in different geographic markets
C) concentrate on mass production over the quality of the product
D) only in a service business
Answer: B
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Global Competition

9) ERP systems can integrate all of a company's functions, departments, and data into a single system.
Answer: TRUE
Diff: 1
LO: M:1-4
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Time-Based Competition

10) TQM has a philosophy of continuous improvement of products, but not processes.
Answer: FALSE
Explanation: TQM is a philosophy of continuous improvement of products and processes
Diff: 1
LO: M:1-4
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Time-Based Competition

11) E-commerce _____.
A) allows companies to sell to customers by providing 24/7 access to company information and products
B) integrates software within all department and company functions
C) is a cost management system that produces products just in time to satisfy customer needs
D) cannot be implemented in service companies
Answer: A
Diff: 1
LO: M:1-4
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Time-Based Competition

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12) The goal of JIT is to decrease costs by _____.
A) having large amounts of inventories
B) having large amounts of finished goods
C) getting materials just in time for production
D) having large amounts of raw materials
Answer: C
Diff: 1
LO: M:1-4
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Time-Based Competition

13) 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: M:1-4
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Time-Based Competition

14) 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 helps managers cut costs by speeding the transformation of raw materials into finished products.
C) It is a cost management approach that focuses on maintaining large finished goods inventory levels.
D) It is an inventory approach that stockpiles raw materials to protect against supply interruptions.
Answer: B
Diff: 2
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Time-Based Competition

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15) 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: M:1-4
AACSB: Application of knowledge
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Time-Based Competition

16) The value chain includes both the upstream and downstream activities of a business.
Answer: TRUE
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Total Quality Management

17) TQM does not consider customer support.
Answer: FALSE
Explanation: TQM emphasizes the importance of each person in the organization, creating a culture of cooperation across all business processes: research and development, design, production, marketing and sales, distribution, and customer support.
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Total Quality Management

18) Value added activities include all *except*
A) design
B) production
C) communications
D) distribution
Answer: C
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Total Quality Management

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19) _____ 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: M:1-4
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Total Quality Management

20) 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: M:1-4
AACSB: Application of knowledge
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Total Quality Management

21) 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: M:1-4
AACSB: Information technology
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Total Quality Management

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22) 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: M:1-4
AACSB: Application of knowledge
AICPA Functional: Leverage technology to develop and enhance functional competencies
PE Question Type: Concept
H2: Total Quality Management

23) Value added activities which begin in research and development through product design and production are called _____.
A) downstream activities
B) design activities
C) upstream activities
D) sustainability activities
Answer: C
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Total Quality Management

24) Evaluating a company's performance by its economic, social, and environmental impact is called the triple bottom line.
Answer: TRUE
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Triple Bottom Line

25) Evaluating a company's performance by its economic, social and environmental impact is called the _____.
A) triple bottom line
B) whole company concept
C) value chain
D) downstream cost
Answer: A
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Triple Bottom Line

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26) Triple bottom line refers to all *except*
A) production
B) people
C) profits
D) planet
Answer: A
Diff: 1
LO: M:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Triple Bottom Line

Learning Objective M:1-5

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

3) Managers of a service company use all of the following *except*
A) planning
B) directing
C) controlling
D) manufacturing
Answer: D
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Is Managerial Accounting Used in Service and Merchandising Companies? (H1)

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4) A service business often considers _____ as part of its cost of service.
A) cost of the product produced
B) cost per unit
C) operating expenses
D) interest expense
Answer: C
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Is Managerial Accounting Used in Service and Merchandising Companies? (H1)

5) 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: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculating Cost Per Service

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

7) Nurix, Inc. is a business consulting firm. During the month of February, Nurix earned $55,600 of revenues by providing services to 48 clients. Operating costs for February were $10,000 and non-operating costs were $6,000. What is the unit cost per service? (Round your answer to the nearest cent.)
A) $125.00
B) $208.33
C) $1,158.33
D) $333.33
Answer: B
Explanation: Cost per service = Operating expenses / Clients = $10,000 / 48 = $208.33
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

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

Service Revenue	$55,000
Operating Expenses	21,000
Net Income	34,000
Number of Services Provided for the Year	8,500

How much was the unit cost per service? (Round your answer to the nearest cent.)
A) $6.47
B) $4.00
C) $2.47
D) $8.94
Answer: C
Explanation: Cost per service = Operating Expenses / Services = $21,000 / 8,500 = $2.47
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

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

Building Rent Expense	$5,000
Depreciation Expense—Equipment	1,700
Supplies Expense	8,000
Utilities Expense	2,350

Fuchsia provided services to 1,500 clients in the month of March and generated $25,000 as revenue. How much is the cost per service? (Round your answer to the nearest cent.)
A) $11.37
B) $3.33
C) $10.64
D) $6.03
Answer: A
Explanation: Cost per service = Total costs / Services = $17,050 / 1,500 = $11.37
Diff: 2
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

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10) The cost per item for a service business is calculated by _____.
A) Total operating costs / Total number of services provided
B) Total cost of goods sold / Total number of items sold
C) Total number of services provided / Total costs
D) Total number of items sold / total cost of goods sold
Answer: A
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

11) Star Health, Inc. is a fitness center in Oklahoma City. In October, the company earned $555,000 in revenues and incurred the following operating costs from 400 customers:

Manager's Salary	$5,100
Gym Rent	1,800
Depreciation Expense—Equipment	7,000
Office Supplies Expense	2,500
Utilities Expense	1,600
Trainer's Salary	20,000

How much is the unit cost per customer? (Round your answer to the nearest cent.)
A) $62.75
B) $14.75
C) $1,387.50
D) $95.00
Answer: D
Explanation:

Manager's Salary	$5,100
Gym Rent	1,800
Depreciation Expense—Equipment	7,000
Office Supplies Expense	2,500
Utilities Expense	1,600
Trainer's Salary	20,000
Total Operating Expense	$38,000

Unit cost per service = $38,000 / 400 customers = $95.00
Diff: 2
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

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12) Service businesses do not have _____.
A) product costs.
B) selling expenses.
C) administrative expenses.
D) labor costs
Answer: A
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

13) Service businesses may split _____ between service costs and nonservice costs.
A) product costs.
B) period costs
C) cost of goods sold
D) labor costs
Answer: B
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

14) The cost per item for a merchandising business is calculated as _____.
A) Total costs / Total number of services provided
B) Total cost of goods sold / Total number of items sold
C) Total number of services provided / Total costs
D) Total number of items sold / Total cost of goods sold
Answer: B
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

15) Merchandising businesses need to know _____ to determine which products are most profitable.
A) cost per item
B) selling expenses.
C) administrative expenses.
D) inventory costs
Answer: A
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

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16) For a merchandising business, knowing the _____ helps managers set appropriate selling prices.
A) inventory costs
B) period costs
C) cost of goods sold
D) unit cost per item
Answer: D
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Service

17) 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
= $5,730 / 245
= $23.39 per dog groomed
Diff: 2
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost Per Service

18) 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: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculating Cost Per Service

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

20) Merchandising companies do not need to know cost per item to be able to determine which products are most profitable.
Answer: FALSE
Explanation: Merchandising companies do need to know the cost per item in order to determine which products are most profitable.
Diff: 2
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Calculate Cost Per Item

21) Dakota, Inc. is a merchandiser of medallions. The company sold 15,100 units during the year. The company has provided the following information:

Sales Revenue	$558,000
Purchases (excluding Freight In)	280,000
Selling and Administrative Expenses	68,000
Freight In	14,000
Beginning Merchandise Inventory	47,000
Ending Merchandise Inventory	50,000

What is the unit cost per item sold? (Round your answer to the nearest cent.)
A) $19.27
B) $16.16
C) $22.58
D) $19.47
Answer: A
Explanation:

Purchases (excluding Freight In)	280,000
Freight In	14,000
Beginning Merchandise Inventory	47,000
Ending Merchandise Inventory	(50,000)
Cost of Goods Sold	$291,000

Cost per unit sold = $291,000 / 15,100 units = $19.27
Diff: 2
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Item

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

Sales Revenue	$157,000
Cost of Goods Sold	64,000
Operating Expenses	67,500
Net Income	25,500
Number of Units Sold	30,000

How much was the unit cost per item of product sold? (Round your answer to the nearest cent.)
A) $4.38
B) $5.23
C) $2.13
D) $100.85
Answer: C
Explanation: Cost per unit of product sold = Cost of Goods Sold / Units = $64,000 / 30,000 = $2.13
Diff: 1
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Item

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23) Silver Crafts, Inc. purchases and sells bracelets. The following information summarizes the company's operating activities for the year:

Selling and Administrative Expenses	$5,100
Purchases	156,000
Sales Revenue	789,000
Merchandise Inventory, January 1	2,450
Merchandise Inventory, December 31	38,900

If the company sold 7,400 bracelets during the year, how much is the unit cost for one bracelet? (Round your answer to the nearest cent.)
A) $21.08
B) $16.16
C) $21.41
D) $5.59
Answer: B
Explanation:

Merchandise Inventory, January 1	$2,450
Purchases	156,000
Merchandise Inventory, December 31	(38,900)
Total cost of goods sold	$119,550

Unit cost per item = $119,550 / 7,400 units = $16.16
Diff: 2
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Item

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

Selling Expenses	$9,200
Merchandise Inventory on December 31	34,000
Merchandise Inventory on January 1	46,500
Purchases of merchandise	84,500
Rent for store	12,900
Sales commissions	7,400
Sales revenue	163,500

What is the cost per box of dry fruits if Crabapples sold 5,000 boxes of dry fruit during the year? (Round your answer to the nearest cent.)
A) $6.80
B) $32.70
C) $26.20
D) $19.40
Answer: D
Explanation:

Merchandise Inventory on January 1, 2017	$46,500
Purchases of Merchandise	84,500
Merchandise Inventory on December 31, 2017	(34,000)
Cost of Goods Sold	$97,000

Cost per box = $97,000 / 5,000 boxes = $19.40
Diff: 2
LO: M:1-5
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Application
H2: Calculating Cost Per Item

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25) 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: M:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Calculate Cost Per Item

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