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CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) The cost of an item is a sacrifice of resources.
   - ◎ true
   - ◎ false

2) An expense is a cost charged against revenue in an accounting period.
   - ◎ true
   - ◎ false

3) If a cost is recorded as an asset (for example, prepaid rent for an office building), it becomes an expense when the asset has been consumed.
   - ◎ true
   - ◎ false

4) Accounting systems typically record opportunity costs as assets and treat them as intangible items on the financial statements.
   - ◎ true
   - ◎ false

5) Total cost of goods purchased minus beginning merchandise inventory plus ending merchandise inventory equals cost of goods sold.
   - ◎ true
   - ◎ false

6) Cost of goods sold includes the actual costs of the goods sold and the costs required to sell them to the customer.
   - ◎ true
   - ◎ false

7) Nonmanufacturing costs are expensed as they are incurred.
   - ◎ true
   - ◎ false

8) Only direct costs can be classified as product costs; indirect costs are classified as period costs.
   - ◎ true
   - ◎ false

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9) The three categories of product costs are direct materials, direct labor, and manufacturing overhead.
   - ◎ true
   - ◎ false

10) The first step in determining whether a cost is direct or indirect is to specify the cost allocation rule.
   - ◎ true
   - ◎ false

11) Total work-in-process during the period is the sum of the beginning work-in-process inventory and the total manufacturing costs incurred during the period.
   - ◎ true
   - ◎ false

12) Cost of goods sold plus the ending finished goods inventory minus the beginning finished goods inventory equals the cost of goods manufactured.
   - ◎ true
   - ◎ false

13) If the cost of goods manufactured during the period exceeds the cost of goods sold, the ending balance of Finished Goods Inventory account increased.
   - ◎ true
   - ◎ false

14) Total variable costs change inversely with changes in the volume of activity.
   - ◎ true
   - ◎ false

15) Fixed costs per unit change inversely with changes in the volume of activity.
   - ◎ true
   - ◎ false

16) The range within which fixed costs remain constant as volume of activity varies is known as the relevant range.
   - ◎ true
   - ◎ false

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17) The term full cost refers to the cost of manufacturing and selling a unit of product and includes both fixed and variable costs.
- ◎ true
- ◎ false

18) Variable marketing and administrative costs are included in determining full absorption costs.
- ◎ true
- ◎ false

19) Revenue minus cost of goods sold equals contribution margin.
- ◎ true
- ◎ false

20) The primary goal of the cost accounting system is to provide managers with information to prepare their annual financial statements.
- ◎ true
- ◎ false

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

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21) An opportunity cost is:
- A) a cost that is charged against revenue in an accounting period.
- B) the foregone benefit from the best alternative course of action.
- C) the excess of operating revenues over operating costs.
- D) the cost assigned to the products sold during the period.

22) Which of the following describes an outlay cost?
- A) Past, present, or future cash outflow.
- B) Forgone benefit from the best alternative course of action.
- C) Cost charged against revenue in an accounting period.
- D) Expense assigned to products sold during a period.

23) Which of the following statements is **false**?
- A) In general, the term expense is used for managerial purposes, while the term cost refers to external financial reports.
- B) An opportunity cost is the benefit forgone by selecting one alternative over another.
- C) An outlay cost is a past, present, or future cash outflow.
- D) A cost is a sacrifice of resources.

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24) Which of the following best distinguishes an opportunity cost from an outlay cost?
A) Opportunity costs are recorded, whereas outlay costs are not.
B) Outlay costs are speculative in nature, whereas opportunity costs are easily traceable to products.
C) Opportunity costs have very little utility in practical applications, whereas outlay costs are always relevant.
D) Opportunity costs are sacrifices from foregone alternative uses of resources, whereas outlay costs are cash outflows.

25) Which of the following accounts would be a period cost rather than a product cost?
A) Depreciation on manufacturing machinery.
B) Maintenance on factory machines.
C) Production manager's salary.
D) Freight out.

26) A company that manufactures custom-made machinery routinely incurs sizable telephone costs in the process of taking sales orders from customers. Which of the following is a proper classification of this cost?
A) Product cost
B) Period cost
C) Conversion cost
D) Prime cost

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

28) Tallon Company manufactures a single product. The product's prime costs consist of:
A) direct materials and direct labor.
B) direct materials and manufacturing overhead.
C) direct labor and manufacturing overhead.
D) direct materials, direct labor and manufacturing overhead.

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

30) An example of a period cost is:
A) fire insurance on a factory building.
B) salary of a factory supervisor.
C) direct materials.
D) rent on a headquarters building.

31) Transportation costs incurred by a manufacturing company to ship its product to its customers would be classified as which of the following?
A) Product cost
B) Manufacturing overhead
C) Period cost
D) Administrative cost

32) Doran Technical Company has set up a toll-free telephone line for customer inquiries regarding computer hardware produced by the company. The cost of this toll-free line would be classified as which of the following?
A) Product cost
B) Manufacturing overhead
C) Direct labor
D) Period cost

33) Which of the following costs is both a prime cost and a conversion cost?
A) Direct materials
B) Direct labor
C) Manufacturing overhead
D) Administrative costs

34) Marketing costs include all of the following **except:**
A) Advertising.
B) Shipping costs.
C) Sales commissions.
D) Legal and accounting fees.

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35) Property taxes on the manufacturing facility are an element of:

	Conversion Cost	Period Cost
a.	No	No
b.	No	Yes
c.	Yes	No
d.	Yes	Yes

A) Option A
B) Option B
C) Option C
D) Option D

36) The cost of direct labor will be treated as an expense on the income statement when the resulting:

A) payroll costs are paid.
B) payroll costs are incurred.
C) products are completed.
D) products are sold.

37) Calculate the conversion costs from the following information:

Fixed manufacturing overhead	$ 2,100
Variable manufacturing overhead	1,100
Direct materials	2,600
Direct labor	1,600

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A) $3,200
B) $4,200
C) $4,800
D) $5,300

38) Calculate the conversion costs from the following information:

Fixed manufacturing overhead	$ 2,000
Variable manufacturing overhead	1,000
Direct materials	2,500
Direct labor	1,500

A) $3,000
B) $4,000
C) $4,500
D) $5,000

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39) The corporate controller's salary would be considered a(n):

A) manufacturing cost.
B) product cost.
C) administrative cost.
D) selling expense.

40) The costs of direct materials are classified as:

	Conversion cost	Manufacturing cost	Prime cost
A	Yes	Yes	Yes
B	No	No	No
C	Yes	Yes	No
D	No	Yes	Yes

A) Choice A
B) Choice B
C) Choice C
D) Choice D

41) Grover Company has the following data for the production and sale of 1,600 units.

Sales price per unit	$ 850 per unit
Fixed costs:	
Marketing and administrative	$ 570,000 per period
Manufacturing overhead	$ 288,000 per period
Variable costs:	
Marketing and administrative	$ 60 per unit
Manufacturing overhead	$ 90 per unit
Direct labor	$ 110 per unit
Direct Materials	$ 210 per unit

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What is the conversion cost per unit?

A) $110
B) $200
C) $380
D) $410

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42) Grover Company has the following data for the production and sale of 2,000 units.

Sales price per unit	$ 800 per unit
Fixed costs:	
Marketing and administrative	$ 400,000 per period
Manufacturing overhead	$ 200,000 per period
Variable costs:	
Marketing and administrative	$ 50 per unit
Manufacturing overhead	$ 80 per unit
Direct labor	$ 100 per unit
Direct Materials	$ 200 per unit

What is the conversion cost per unit?

A) $100
B) $180
C) $280
D) $380

43) Grover Company has the following data for the production and sale of 2,100 units.

Sales price per unit	$ 850 per unit
Fixed costs:	
Marketing and administrative	$ 410,000 per period
Manufacturing overhead	$ 210,000 per period
Variable costs:	
Marketing and administrative	$ 55 per unit
Manufacturing overhead	$ 70 per unit
Direct labor	$ 100 per unit
Direct Materials	$ 210 per unit

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What is the prime cost per unit?

A) $100
B) $280
C) $310
D) $480

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44) Grover Company has the following data for the production and sale of 2,000 units.

Sales price per unit	$ 800 per unit
Fixed costs:	
Marketing and administrative	$ 400,000 per period
Manufacturing overhead	$ 200,000 per period
Variable costs:	
Marketing and administrative	$ 50 per unit
Manufacturing overhead	$ 80 per unit
Direct labor	$ 100 per unit
Direct Materials	$ 200 per unit

What is the prime cost per unit?

A) $100
B) $280
C) $300
D) $480

45) Which one of the following costs is classified as a period cost? (CIA adapted)

A) The wages of the workers on the shipping docks who load completed products onto outgoing trucks.
B) The wages of a worker paid for idle time resulting from a machine breakdown in the molding department.
C) The payments for employee (fringe) benefits paid on behalf of the workers in the manufacturing plant.
D) The wages paid to workers for reworking defective products that failed the quality inspection upon completion.

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46) The following cost data for the month of May were taken from the records of the Terrence Manufacturing Company: (CIA adapted)

Depreciation on factory equipment	$ 2,800
Depreciation on sales office	800
Advertising	8,800
Wages of production workers	33,500
Raw materials used	42,000
Sales salaries and commissions	11,800
Factory rent	3,800
Factory insurance	800
Materials handling	3,300
Administrative salaries	3,800

Based upon this information, the manufacturing cost incurred during the month was:

A) $82,900.
B) $86,200.
C) $87,000.
D) $87,100.

47) The following cost data for the month of May were taken from the records of the Terrence Manufacturing Company: (CIA adapted)

Depreciation on factory equipment	$ 1,000
Depreciation on sales office	500
Advertising	7,000
Wages of production workers	28,000
Raw materials used	47,000
Sales salaries and commissions	10,000
Factory rent	2,000
Factory insurance	500
Materials handling	1,500
Administrative salaries	2,000

Based upon this information, the manufacturing cost incurred during the month was:

A) $78,500.
B) $80,000.
C) $80,500.
D) $83,000.

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48) Which of the following is **not** a name for indirect resources?
A) Overhead costs
B) Burden
C) Direct costs
D) Common costs

49) Which of the following should be considered part of a manufacturing company's direct labor cost?
A) Factory supervisor's salary
B) Forklift operator's hourly wages
C) Employer-paid health insurance on factory assemblers' wages
D) Cost of idle time

50) Tulsa Company, (a merchandising company) has the following data pertaining to the year ended December 31, 2022: (CPA adapted)

Purchases	$ 630,000
Beginning inventory	206,000
Ending inventory	228,000
Freight-in	68,000
Freight-out	84,000

What is the cost of goods sold for the year?
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A) $592,000
B) $676,000
C) $692,000
D) $760,000

51) Tulsa Company, (a merchandising company) has the following data pertaining to the year ended December 31, 2022: (CPA adapted)

Purchases	$ 450,000
Beginning inventory	170,000
Ending inventory	210,000
Freight-in	50,000
Freight-out	75,000

What is the cost of goods sold for the year?
A) $385,000
B) $460,000
C) $485,000
D) $536,000

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52) The Shoal Company's manufacturing costs for the third quarter of 2022 were as follows: (CPA adapted)

Direct materials and direct labor	$ 790,000
Other variable manufacturing costs	145,000
Depreciation of factory building and manufacturing equipment	89,000
Other fixed manufacturing costs	27,000

What amount should be considered product costs for external reporting purposes?

A) $790,000
B) $935,000
C) $1,024,000
D) $1,051,000

53) The Shoal Company's manufacturing costs for the third quarter of 2022 were as follows: (CPA adapted)

Direct materials and direct labor	$ 700,000
Other variable manufacturing costs	100,000
Depreciation of factory building and manufacturing equipment	80,000
Other fixed manufacturing costs	18,000

What amount should be considered product costs for external reporting purposes?

A) $700,000
B) $800,000
C) $880,000
D) $898,000

54) The three basic elements of manufacturing cost are direct materials, direct labor, and:

A) cost of goods manufactured.
B) cost of goods sold.
C) work in process.
D) manufacturing overhead.

55) Prime cost consists of direct materials combined with:

A) direct labor.
B) manufacturing overhead.
C) indirect materials.
D) cost of goods manufactured.

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56) Classifying a cost as either direct or indirect depends upon:
A) whether an expenditure is unavoidable because it cannot be changed regardless of any action taken.
B) whether the cost is expensed in the period in which it is incurred.
C) the behavior of the cost in response to volume changes.
D) the cost object to which the cost is being related.

57) The process of assigning indirect costs to products, services, people, business units, etc., is:

A) cost object.
B) cost pool.
C) cost allocation.
D) opportunity cost.

58) A(n) _____ is any end to which a cost is assigned.
A) cost object
B) cost pool
C) cost allocation
D) opportunity cost

59) A cost allocation rule is the method or process used to assign the costs in the _____ to the _____.
A) cost allocation; cost pool
B) cost pool; opportunity cost
C) cost object; cost pool
D) cost pool; cost object

60) The beginning Work-in-Process Inventory plus the total of the manufacturing costs equals:
A) total finished goods during the period.
B) cost of goods sold for the period.
C) total work-in-process during the period.
D) cost of goods manufactured for the period.

61) A product cost is deducted from revenue when:
A) the finished goods are sold.
B) the expenditure is incurred.
C) the production process takes place.
D) the production process is completed.

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62) The amount of direct materials issued to production is found by:
A) subtracting ending work in process from total work in process during the period.
B) adding beginning direct materials inventory and the delivered cost of direct materials.
C) subtracting ending direct materials from direct materials available for production.
D) adding delivered cost of materials, labor, and manufacturing overhead.

63) The beginning Finished Goods Inventory plus the cost of goods manufactured equals:
A) ending finished goods inventory.
B) cost of goods sold for the period.
C) total work-in-process during the period.
D) cost of goods available for sale for the period.

64) Direct labor would be part of the cost of the ending inventory for which of these accounts?
A) Work-in-Process.
B) Finished Goods.
C) Direct Materials and Work-in-Process.
D) Work-in-Process and Finished Goods.

65) The Work-in-Process Inventory of the Model Fabricating Corporation was $3,000 higher on December 31, 2022, than it was on January 1, 2022. This implies that in 2022:
A) cost of goods manufactured was higher than cost of goods sold.
B) cost of goods manufactured was less than total manufacturing costs.
C) manufacturing costs were higher than cost of goods sold.
D) total manufacturing costs were less than cost of goods manufactured.

66) Which of the following is **not** a product cost under full-absorption costing?
A) Direct materials used in the current period.
B) Rent for the warehouse used to store direct materials.
C) Salaries paid to the top management in the company.
D) Vacation pay accrued for the production workers.

67) The term "gross margin" for a manufacturing firm refers to the excess of sales over:
A) cost of goods sold, excluding fixed indirect manufacturing costs.
B) all variable costs, including variable marketing and administrative costs.
C) cost of goods sold, including fixed indirect manufacturing costs.
D) variable costs, excluding variable marketing and administrative costs.

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68) Given the following information for a retail company, what is the total cost of goods purchased for the period?

Purchases discounts	$ 4,000
Transportation-in	7,000
Ending inventory	40,000
Gross merchandise cost	326,000
Purchases returns	9,000
Beginning inventory	32,500
Sales discounts	11,000

A) $320,000
B) $312,500
C) $303,000
D) $326,000

69) Given the following information for a retail company, what is the total cost of goods purchased for the period?

Purchases discounts	$ 3,500
Transportation-in	6,700
Ending inventory	35,000
Gross merchandise cost	304,000
Purchases returns	8,400
Beginning inventory	27,000
Sales discounts	10,300

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A) $298,800
B) $290,800
C) $282,100
D) $304,000

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70) A company had beginning inventories as follows: Direct Materials, $300; Work-in-Process, $500; Finished Goods, $700. It had ending inventories as follows: Direct Materials, $400; Work-in-Process, $600; Finished Goods, $800. Material Purchases, net were $2,050, Direct Labor $2,150, and Manufacturing Overhead $2,250. What is the Cost of Goods Sold for the period?

A) $6,050.
B) $6,150.
C) $6,250.
D) $6,350.

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71) A company had beginning inventories as follows: Direct Materials, $300; Work-in-Process, $500; Finished Goods, $700. It had ending inventories as follows: Direct Materials, $400; Work-in-Process, $600; Finished Goods, $800. Material Purchases net were $1,400, Direct Labor $1,500, and Manufacturing Overhead $1,600. What is the Cost of Goods Sold for the period?

A) $4,100.
B) $4,200.
C) $4,300.
D) $4,400.

72) Compute the Cost of Goods Sold for 2022 using the following information:

Direct Materials, January 1, 2022	$ 44,000
Work-in-Process, December 31, 2022	68,500
Direct Labor	52,500
Finished Goods, December 31, 2022	113,000
Finished Goods, January 1, 2022	140,000
Manufacturing Overhead	73,500
Direct Materials, December 31, 2022	51,000
Work-in Process, January 1, 2022	95,000
Purchases of Direct Material	83,000

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A) $257,500
B) $255,500
C) $228,500
D) $209,000

73) Compute the Cost of Goods Sold for 2022 using the following information:

Direct Materials, January 1, 2022	$ 40,000
Work-in-Process, December 31, 2022	69,000
Direct Labor	48,500
Finished Goods, December 31, 2022	105,000
Finished Goods, January 1, 2022	128,000
Manufacturing Overhead	72,500
Direct Materials, December 31, 2022	43,000
Work-in Process, January 1, 2022	87,000
Purchases of Direct Material	75,000

A) $244,000
B) $234,000
C) $211,000
D) $198,000

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74) Foxburg Company has the following information:

	Work-in-Process	Finished Goods	Materials
Beginning inventory	$ 950	$ 1,050	$ 1,150
Ending inventory	$ 2,000	$ 2,200	$ 2,800
Purchases of materials	$ 10,300		
Cost of Goods Sold	$ 18,200		
Manufacturing overhead	$ 5,550		

What was the direct labor for the period?

A) $6,200
B) $7,150
C) $7,600
D) $8,750

75) Foxburg Company has the following information:

	Work-in-Process	Finished Goods	Materials
Beginning inventory	$ 300	$ 400	$ 500
Ending inventory	$ 700	$ 900	$ 1,500
Purchases of materials	$ 7,700		
Cost of Goods Sold	$ 15,600		
Manufacturing overhead	$ 4,300		

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What was the direct labor for the period?

A) $5,500
B) $5,800
C) $6,300
D) $6,800

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76) Foxburg Company has the following information:

	Work-in-Process	Finished Goods	Materials
Beginning inventory	$ 450	$ 550	$ 650
Ending inventory	$ 1,000	$ 1,200	$ 1,800
Purchases of materials (net)	$ 8,300		
Cost of Goods Sold	$ 16,200		
Manufacturing overhead	$ 4,550		

What was the cost of goods available for sale for the period?

A) $17,850
B) $17,400
C) $16,850
D) $15,550

77) Foxburg Company has the following information:

	Work-in-Process	Finished Goods	Materials
Beginning inventory	$ 300	$ 400	$ 500
Ending inventory	$ 700	$ 900	$ 1,500
Purchases of materials (net)	$ 7,700		
Cost of Goods Sold	$ 15,600		
Manufacturing overhead	$ 4,300		

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What was the cost of goods available for sale for the period?

A) $16,800
B) $16,500
C) $16,100
D) $15,100

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78) During the year, a manufacturing company had the following operating results:

Beginning work-in-process inventory	$ 52,000
Beginning finished goods inventory	$ 204,000
Direct materials used in production	$ 336,000
Direct labor	$ 545,000
Manufacturing overhead incurred	$ 278,000
Ending work-in-process inventory	$ 81,000
Ending finished goods inventory	$ 96,000

What is the cost of goods manufactured for the year?

A) $1,130,000
B) $1,267,000
C) $1,159,000
D) $1,238,000

79) During the year, a manufacturing company had the following operating results:

Beginning work-in-process inventory	$ 45,000
Beginning finished goods inventory	$ 190,000
Direct materials used in production	$ 308,000
Direct labor	$ 475,000
Manufacturing overhead incurred	$ 250,000
Ending work-in-process inventory	$ 67,000
Ending finished goods inventory	$ 89,000

What is the cost of goods manufactured for the year?

A) $1,011,000
B) $1,134,000
C) $1,033,000
D) $1,112,000

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80) During April, the Meade Enterprises had the following operating results:

Sales revenue	$ 1,600,000
Gross margin	$ 650,000
Ending work-in-process inventory	$ 55,000
Beginning work-in-process inventory	$ 90,000
Ending finished goods inventory	$ 105,000
Beginning finished goods inventory	$ 135,000
Marketing costs	$ 260,000
Administrative costs	$ 160,000

What is the cost of goods manufactured for April?

A) $950,000
B) $920,000
C) $980,000
D) $955,000

81) During April, the Meade Enterprises had the following operating results:

Sales revenue	$ 1,500,000
Gross margin	$ 600,000
Ending work-in-process inventory	$ 50,000
Beginning work-in-process inventory	$ 80,000
Ending finished goods inventory	$ 100,000
Beginning finished goods inventory	$ 125,000
Marketing costs	$ 250,000
Administrative costs	$ 150,000

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What is the cost of goods manufactured for April?

A) $900,000
B) $875,000
C) $925,000
D) $905,000

82) How would property taxes paid on a factory building be classified in a manufacturing company?

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

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83) How would miscellaneous supplies used in assembling a product be classified for a manufacturing company?
A) Fixed, period cost.
B) Fixed, product cost.
C) Variable, period cost.
D) Variable, product cost.

84) How would a 5% sales commission paid to sales personnel be classified in a manufacturing company?
A) Fixed, period cost.
B) Fixed, product cost.
C) Variable, period cost.
D) Variable, product cost.

85) The student health center employs one doctor, three nurses, and several other employees. How would you classify (1) the nurses' salary and (2) film and other materials used in radiology to take X-rays? Assume the activity is the number of students visiting the health center.

	Nurse's Salaries	Film and Other Materials Used in Radiology
a.	Fixed cost	Fixed cost
b.	Fixed cost	Variable cost
c.	Variable cost	Fixed cost
d.	Variable cost	Variable cost

A) Option A
B) Option B
C) Option C
D) Option D

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86) Barton's Taco Tico has four taco makers and ten other employees who take orders from customers and perform other tasks. The four taco makers and the other employees are paid an hourly wage. How would you classify (1) the wages paid to the taco makers and other employees and (2) materials (e.g., cheeses, salsa, tomatoes, lettuce, taco shells, etc.) used to make the tacos? Assume the activity is the number of tacos made.

	Employees' Wages	Materials to Make the Tacos
A.	Fixed cost	Fixed cost
B.	Fixed cost	Variable cost
C.	Variable cost	Fixed cost
D.	Variable cost	Variable cost

A) Choice A
B) Choice B
C) Choice C
D) Choice D

87) The difference between variable costs and fixed costs is: (CMA adapted)

A) Unit variable costs fluctuate and unit fixed costs remain constant.
B) Unit variable costs are fixed over the relevant range and unit fixed costs are variable.
C) Total variable costs are constant over the relevant range, while fixed costs change in the long term.
D) Total variable costs are variable over the relevant range but fixed in the long term, while fixed costs never change.

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88) Which terms below correctly describe the cost of the black paint used to paint the dots on a pair of dice?

	Variable Cost	Administrative Cost
A)	Yes	Yes
B)	Yes	No
C)	No	Yes
D)	No	No

A) Choice A
B) Choice B
C) Choice C
D) Choice D

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89) Manufacturing overhead:
A) can be either a variable cost or a fixed cost.
B) includes the costs of shipping finished goods to customers.
C) includes all factory labor costs.
D) includes all fixed costs.

90) The term "full cost" refers to:
A) the fixed and variable costs of manufacturing and selling a unit of product.
B) only the fixed costs of manufacturing and selling a unit of product.
C) the fixed and variable costs of manufacturing a unit of product only.
D) only the variable costs of manufacturing and selling a unit of product.

91) The estimated unit costs for a company to produce and sell a product at a level of 12,600 units per month are as follows:

Cost Item	Estimated Unit Cost
Direct material	$ 35
Direct labor	34
Variable manufacturing overhead	29
Fixed manufacturing overhead	9
Variable selling expenses	4
Fixed selling expenses	5

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What are the estimated conversion costs per unit?
A) $38
B) $72
C) $43
D) $63

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92) The estimated unit costs for a company to produce and sell a product at a level of 12,000 units per month are as follows:

Cost Item	Estimated Unit Cost
Direct material	$ 38
Direct labor	28
Variable manufacturing overhead	23
Fixed manufacturing overhead	4
Variable selling expenses	2
Fixed selling expenses	3

What are the estimated conversion costs per unit?

A) $27
B) $55
C) $32
D) $51

93) The estimated unit costs for a company to produce and sell a product at a level of 12,700 units per month are as follows:

Cost Item	Estimated Unit Cost
Direct material	$ 36
Direct labor	27
Variable manufacturing overhead	22
Fixed manufacturing overhead	4
Variable selling expenses	2
Fixed selling expenses	3

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What are the estimated prime costs per unit?

A) $89
B) $36
C) $85
D) $63

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94) The estimated unit costs for a company to produce and sell a product at a level of 12,000 units per month are as follows:

Cost Item	Estimated Unit Cost
Direct material	$ 32
Direct labor	20
Variable manufacturing overhead	15
Fixed manufacturing overhead	6
Variable selling expenses	3
Fixed selling expenses	4

What are the estimated prime costs per unit?

A) $73
B) $32
C) $67
D) $52

95) The estimated unit costs for a company to produce and sell a product at a level of 13,200 units per month are as follows:

Cost Item	Estimated Unit Cost
Direct material	$ 31
Direct labor	21
Variable manufacturing overhead	16
Fixed manufacturing overhead	5
Variable selling expenses	2
Fixed selling expenses	3

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What are the estimated variable costs per unit?

A) $70
B) $39
C) $68
D) $52

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96) The estimated unit costs for a company to produce and sell a product at a level of 12,000 units per month are as follows:

Cost Item	Estimated Unit Cost
Direct material	$ 32
Direct labor	20
Variable manufacturing overhead	15
Fixed manufacturing overhead	6
Variable selling expenses	3
Fixed selling expenses	4

What are the estimated variable costs per unit?

A) $70
B) $38
C) $67
D) $52

97) Grover Company has the following data for the production and sale of 1,600 units.

Sales price per unit	$ 900 per unit
Fixed costs:	
Marketing and administrative	$ 304,000 per period
Manufacturing overhead	$ 288,000 per period
Variable costs:	
Marketing and administrative	$ 60 per unit
Manufacturing overhead	$ 90 per unit
Direct labor	$ 110 per unit
Direct Materials	$ 210 per unit

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What is the variable manufacturing cost per unit?

A) $410
B) $470
C) $590
D) $840

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98) Grover Company has the following data for the production and sale of 2,000 units.

Sales price per unit	$ 800 per unit
Fixed costs:	
Marketing and administrative	$ 400,000 per period
Manufacturing overhead	$ 200,000 per period
Variable costs:	
Marketing and administrative	$ 50 per unit
Manufacturing overhead	$ 80 per unit
Direct labor	$ 100 per unit
Direct Materials	$ 200 per unit

What is the variable manufacturing cost per unit?

A) $380
B) $430
C) $480
D) $730

99) Grover Company has the following data for the production and sale of 1,200 units.

Sales price per unit	$ 900 per unit
Fixed costs:	
Marketing and administrative	$ 180,000 per period
Manufacturing overhead	$ 192,000 per period
Variable costs:	
Marketing and administrative	$ 65 per unit
Manufacturing overhead	$ 95 per unit
Direct labor	$ 100 per unit
Direct Materials	$ 170 per unit

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What is the total manufacturing cost per unit?

A) $365
B) $430
C) $525
D) $740

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100) Grover Company has the following data for the production and sale of 2,000 units.

Sales price per unit	$ 800 per unit
Fixed costs:	
Marketing and administrative	$ 400,000 per period
Manufacturing overhead	$ 200,000 per period
Variable costs:	
Marketing and administrative	$ 50 per unit
Manufacturing overhead	$ 80 per unit
Direct labor	$ 100 per unit
Direct Materials	$ 200 per unit

What is the total manufacturing cost per unit?

A) $380
B) $430
C) $480
D) $730

101) Grover Company has the following data for the production and sale of 1,900 units.

Sales price per unit	$ 950 per unit
Fixed costs:	
Marketing and administrative	$ 418,000 per period
Manufacturing overhead	$ 370,500 per period
Variable costs:	
Marketing and administrative	$ 50 per unit
Manufacturing overhead	$ 80 per unit
Direct labor	$ 100 per unit
Direct Materials	$ 240 per unit

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What is the full cost per unit of making and selling the product?

A) $470
B) $615
C) $665
D) $885

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102) Grover Company has the following data for the production and sale of 2,000 units.

Sales price per unit	$ 800 per unit
Fixed costs:	
Marketing and administrative	$ 400,000 per period
Manufacturing overhead	$ 200,000 per period
Variable costs:	
Marketing and administrative	$ 50 per unit
Manufacturing overhead	$ 80 per unit
Direct labor	$ 100 per unit
Direct Materials	$ 200 per unit

What is the full cost per unit of making and selling the product?

A) $430
B) $480
C) $530
D) $730

103) Grover Company has the following data for the production and sale of 1,500 units.

Sales price per unit	$ 850 per unit
Fixed costs:	
Marketing and administrative	$ 270,000 per period
Manufacturing overhead	$ 262,500 per period
Variable costs:	
Marketing and administrative	$ 55 per unit
Manufacturing overhead	$ 85 per unit
Direct labor	$ 105 per unit
Direct Materials	$ 200 per unit

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What is the contribution margin per unit?

A) $50
B) $285
C) $405
D) $445

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104) Grover Company has the following data for the production and sale of 2,000 units.

Sales price per unit	$ 800 per unit
Fixed costs:	
Marketing and administrative	$ 400,000 per period
Manufacturing overhead	$ 200,000 per period
Variable costs:	
Marketing and administrative	$ 50 per unit
Manufacturing overhead	$ 80 per unit
Direct labor	$ 100 per unit
Direct Materials	$ 200 per unit

What is the contribution margin per unit?

A) $70
B) $320
C) $370
D) $430

105) The following information was collected from the accounting records of the Part SX9 for 3,000 units:

	Per Unit	Per Period
Sales price	$ 380	
Direct Materials	95	
Direct Labor	40	
Overhead	60	$ 60,000
Marketing	25	
Administrative		30,000

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What is Part SX9's total cost per unit?

A) $195
B) $220
C) $215
D) $250

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106) The following information was collected from the accounting records of the Part SX9 for 3,000 units:

	Per Unit	Per Period
Sales price	$ 350	
Direct Materials	80	
Direct Labor	40	
Overhead	60	$ 90,000
Marketing	20	
Administrative		60,000

What is Part SX9's total cost per unit?

A) $180
B) $200
C) $210
D) $250

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107) Mountainburg Industries has developed two new products but has only enough plant capacity to introduce one product during the current year. The following data will assist management in deciding which product should be selected.

	Product L	Product W
Direct materials	$ 44	$ 36
Machining labor ($12 per hour)	18	15
Assembly labor ($10 per hour)	30	10
Variable overhead ($8 per hour)	36	18
Fixed overhead ($4 per hour)	18	9
Total Manufacturing Cost	$ 146	$ 88
Estimated selling price per unit	$ 170	$ 100
Actual research and development costs	$ 240,000	$ 175,000
Estimated advertising costs	$ 500,000	$ 350,000

Mountainburg's fixed overhead includes rent and utilities, equipment depreciation, and supervisory salaries. Selling and administrative expenses are **not** allocated to individual products.

For Mountainburg's Product L, the costs for direct materials, machining labor, and assembly labor represent:

A) Conversion costs
B) Period costs
C) Prime costs
D) Common costs

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108) Mountainburg Industries has developed two new products but has only enough plant capacity to introduce one product during the current year. The following data will assist management in deciding which product should be selected.

	Product L	Product W
Direct materials	$ 44	$ 36
Machining labor ($12 per hour)	18	15
Assembly labor ($10 per hour)	30	10
Variable overhead ($8 per hour)	36	18
Fixed overhead ($4 per hour)	18	9
Total Manufacturing Cost	$ 146	$ 88
Estimated selling price per unit	$ 170	$ 100
Actual research and development costs	$ 240,000	$ 175,000
Estimated advertising costs	$ 500,000	$ 350,000

Mountainburg's fixed overhead includes rent and utilities, equipment depreciation, and supervisory salaries. Selling and administrative expenses are **not** allocated to individual products.

The difference between the $100 estimated selling price for Mountainburg's Product W and its total manufacturing cost of $88 represents:

A) Contribution margin per unit
B) Gross margin per unit
C) Variable cost per unit
D) Operating profit per unit

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109) Mountainburg Industries has developed two new products but has only enough plant capacity to introduce one product during the current year. The following data will assist management in deciding which product should be selected.

	Product L	Product W
Direct materials	$ 44	$ 36
Machining labor ($12 per hour)	18	15
Assembly labor ($10 per hour)	30	10
Variable overhead ($8 per hour)	36	18
Fixed overhead ($4 per hour)	18	9
Total Manufacturing Cost	$ 146	$ 88
Estimated selling price per unit	$ 170	$ 100
Actual research and development costs	$ 240,000	$ 175,000
Estimated advertising costs	$ 500,000	$ 350,000

Mountainburg's fixed overhead includes rent and utilities, equipment depreciation, and supervisory salaries. Selling and administrative expenses are **not** allocated to individual products.

The total overhead cost of $27 for Mountainburg's Product W is a(n):

A) Sunk cost
B) Opportunity cost
C) Variable cost
D) Mixed cost

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110) Mountainburg Industries has developed two new products but has only enough plant capacity to introduce one product during the current year. The following data will assist management in deciding which product should be selected.

	Product L	Product W
Direct materials	$ 44	$ 36
Machining labor ($12 per hour)	18	15
Assembly labor ($10 per hour)	30	10
Variable overhead ($8 per hour)	36	18
Fixed overhead ($4 per hour)	18	9
Total Manufacturing Cost	$ 146	$ 88
Estimated selling price per unit	$ 170	$ 100
Actual research and development costs	$ 240,000	$ 175,000
Estimated advertising costs	$ 500,000	$ 350,000

Mountainburg's fixed overhead includes rent and utilities, equipment depreciation, and supervisory salaries. Selling and administrative expenses are **not** allocated to individual products.

Direct material costs for Mountainburg's two new products are:

A) Prime costs
B) Conversion costs
C) Opportunity costs
D) Period costs

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111) Mountainburg Industries has developed two new products but has only enough plant capacity to introduce one product during the current year. The following data will assist management in deciding which product should be selected.

	Product L	Product W
Direct materials	$ 44	$ 36
Machining labor ($12 per hour)	18	15
Assembly labor ($10 per hour)	30	10
Variable overhead ($8 per hour)	36	18
Fixed overhead ($4 per hour)	18	9
Total Manufacturing Cost	$ 146	$ 88
Estimated selling price per unit	$ 170	$ 100
Actual research and development costs	$ 240,000	$ 175,000
Estimated advertising costs	$ 500,000	$ 350,000

Mountainburg's fixed overhead includes rent and utilities, equipment depreciation, and supervisory salaries. Selling and administrative expenses are **not** allocated to individual products.

The advertising costs for the product selected by Mountainburg will be:

A) Prime costs
B) Conversion costs
C) Period costs
D) Opportunity costs

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112) Under full absorption costing, which of the following are included in product costs?

A) Only direct materials and direct labor
B) Only variable manufacturing costs
C) Only conversion costs
D) All fixed and variable manufacturing costs

113) Ramos Company has the following unit costs:

Variable manufacturing overhead	$ 15
Direct materials	13
Direct labor	17
Fixed manufacturing overhead	12
Fixed marketing and administrative	11

What cost per unit would be used for product costs under full absorption costing?

A) $30
B) $45
C) $57
D) $68

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114) Ramos Company has the following unit costs:

Variable manufacturing overhead	$ 13
Direct materials	12
Direct labor	17
Fixed manufacturing overhead	10
Fixed marketing and administrative	8

What cost per unit would be used for product costs under full absorption costing?

A) $29
B) $42
C) $52
D) $60

115) Ramos Company has the following unit costs:

Variable manufacturing overhead	$ 11
Direct materials	10
Direct labor	15
Fixed manufacturing overhead	8
Fixed marketing and administrative	6

What cost per unit would be used for product costs under variable costing?

A) $25
B) $36
C) $44
D) $50

116) Ramos Company has the following unit costs:

Variable manufacturing overhead	$ 13
Direct materials	12
Direct labor	17
Fixed manufacturing overhead	10
Fixed marketing and administrative	8

What cost per unit would be used for product costs under variable costing?

A) $29
B) $42
C) $52
D) $60

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117) Vegas Company has the following unit costs:

Variable manufacturing overhead	$ 30
Direct materials	25
Direct labor	24
Fixed manufacturing overhead	17
Variable marketing and administrative	7

Vegas produced and sold 14,000 units. If the product sells for $110, what is the gross margin?

A) $98,000
B) $196,000
C) $336,000
D) $434,000

118) Vegas Company has the following unit costs:

Variable manufacturing overhead	$ 25
Direct materials	20
Direct labor	19
Fixed manufacturing overhead	12
Variable marketing and administrative	7

Vegas produced and sold 10,000 units. If the product sells for $100, what is the gross margin?

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A) $170,000
B) $240,000
C) $290,000
D) $360,000

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119) Vegas Company has the following unit costs:

Variable manufacturing overhead	$ 35
Direct materials	30
Direct labor	29
Fixed manufacturing overhead	22
Variable marketing and administrative	5

Vegas produced and sold 11,500 units. If the product sells for $130, what is the contribution margin?

A) $103,500
B) $161,000
C) $356,500
D) $414,000

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120) Vegas Company has the following unit costs:

Variable manufacturing overhead	$ 25
Direct materials	20
Direct labor	19
Fixed manufacturing overhead	12
Variable marketing and administrative	7

Vegas produced and sold 10,000 units. If the product sells for $100, what is the contribution margin?

A) $170,000
B) $240,000
C) $290,000
D) $360,000

121) Vegas Company has the following unit costs:

Variable manufacturing overhead	$ 33
Direct materials	28
Direct labor	27
Fixed manufacturing overhead	20
Variable marketing and administrative	15

Vegas produced and sold 11,600 units. If the product sells for $148, what is the operating profit under full absorption costing?TBEXAM.COM

A) $290,000
B) $464,000
C) $522,000
D) $696,000

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122) Vegas Company has the following unit costs:

Variable manufacturing overhead	$ 25
Direct materials	20
Direct labor	19
Fixed manufacturing overhead	12
Variable marketing and administrative	7

Vegas produced and sold 10,000 units. If the product sells for $100, what is the operating profit under full absorption costing?

A) $170,000
B) $240,000
C) $290,000
D) $360,000

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123) Vegas Company has the following unit costs:

Variable manufacturing overhead	$ 32
Direct materials	27
Direct labor	26
Fixed manufacturing overhead	19
Variable marketing and administrative	14

Vegas produced and sold 11,400 units. If the product sells for $142, what is the operating profit using a contribution margin income statement?

A) $273,600
B) $433,200
C) $490,200
D) $649,800

124) Vegas Company has the following unit costs:

Variable manufacturing overhead	$ 25
Direct materials	20
Direct labor	19
Fixed manufacturing overhead	12
Variable marketing and administrative	7

Vegas produced and sold 10,000 units. If the product sells for $100, what is the operating profit using a contribution margin income statement?

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A) $170,000
B) $240,000
C) $290,000
D) $360,000

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125) The following information is available for Barnes Company for the fiscal year ended December 31:

Beginning finished goods inventory in units	0
Units produced	5,400
Units sold	4,300
Sales	$ 559,000
Materials cost	$ 108,000
Variable conversion cost used	$ 54,000
Fixed manufacturing cost	$ 162,000
Indirect operating costs (fixed)	$ 86,000

Cost of goods sold using variable costing is:

A) $111,800
B) $129,000
C) $145,800
D) $41,800

126) The following information is available for Barnes Company for the fiscal year ended December 31:

Beginning finished goods inventory in units	0
Units produced	4,800
Units sold	4,000
Sales	$ 400,000
Materials cost	$ 96,000
Variable conversion cost used	$ 48,000
Fixed manufacturing cost	$ 72,000
Indirect operating costs (fixed)	$ 80,000

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Cost of goods sold using variable costing is:

A) $110,000
B) $120,000
C) $144,000
D) $40,000

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127) The following information is available for Barnes Company for the fiscal year ended December 31:

Beginning finished goods inventory in units	0
Units produced	6,200
Units sold	4,700
Sales	$ 611,000
Materials cost	$ 124,000
Variable conversion cost used	$ 62,000
Fixed manufacturing cost	$ 310,000
Indirect operating costs (fixed)	$ 94,000

Cost of goods sold using absorption costing is:

A) $442,667
B) $251,000
C) $376,000
D) $84,000

128) The following information is available for Barnes Company for the fiscal year ended December 31:

Beginning finished goods inventory in units	0
Units produced	4,800
Units sold	4,000
Sales	$ 400,000
Materials cost	$ 96,000
Variable conversion cost used	$ 48,000
Fixed manufacturing cost	$ 72,000
Indirect operating costs (fixed)	$ 80,000

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Cost of goods sold using absorption costing is:

A) $246,667
B) $120,000
C) $180,000
D) $40,000

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129) The following information is available for Barnes Company for the fiscal year ended December 31:

Beginning finished goods inventory in units	0
Units produced	6,200
Units sold	4,700
Sales	$ 1,128,000
Materials cost	$ 124,000
Variable conversion cost used	$ 62,000
Fixed manufacturing cost	$ 310,000
Indirect operating costs (fixed)	$ 83,500

The variable costing operating income is:

A) $585,500
B) $605,500
C) $569,500
D) $593,500

130) The following information is available for Barnes Company for the fiscal year ended December 31:

Beginning finished goods inventory in units	0
Units produced	4,800
Units sold	4,000
Sales	$ 400,000
Materials cost	$ 96,000
Variable conversion cost used	$ 48,000
Fixed manufacturing cost	$ 72,000
Indirect operating costs (fixed)	$ 80,000

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The variable costing operating income is:

A) $120,000
B) $140,000
C) $104,000
D) $128,000

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131) The following information is available for Barnes Company for the fiscal year ended December 31:

Beginning finished goods inventory in units	0
Units produced	8,000
Units sold	5,600
Sales	$ 1,120,000
Materials cost	$ 160,000
Variable conversion cost used	$ 80,000
Fixed manufacturing cost	$ 760,000
Indirect operating costs (fixed)	$ 112,000

The absorption costing operating income is:

A) $288,000
B) $308,000
C) $296,000
D) $280,000

132) The following information is available for Barnes Company for the fiscal year ended December 31:

Beginning finished goods inventory in units	0
Units produced	4,800
Units sold	4,000
Sales	$ 400,000
Materials cost	$ 96,000
Variable conversion cost used	$ 48,000
Fixed manufacturing cost	$ 72,000
Indirect operating costs (fixed)	$ 80,000

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The absorption costing operating income is:

A) $120,000
B) $140,000
C) $128,000
D) $112,000

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133) The following information is available for Barnes Company for the fiscal year ended December 31:

Beginning finished goods inventory in units	0
Units produced	7,800
Units sold	5,500
Sales	$ 715,000
Materials cost	$ 156,000
Variable conversion cost used	$ 78,000
Fixed manufacturing cost	$ 702,000
Indirect operating costs (fixed)	$ 110,000

The variable costing ending finished goods inventory is:

A) $81,000
B) $53,000
C) $85,000
D) $69,000

134) The following information is available for Barnes Company for the fiscal year ended December 31:

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Beginning finished goods inventory in units	0
Units produced	4,800
Units sold	4,000
Sales	$ 400,000
Materials cost	$ 96,000
Variable conversion cost used	$ 48,000
Fixed manufacturing cost	$ 72,000
Indirect operating costs (fixed)	$ 80,000

The variable costing ending finished goods inventory is:

A) $36,000
B) $8,000
C) $40,000
D) $24,000

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135) The following information is available for Barnes Company for the fiscal year ended December 31:

Beginning finished goods inventory in units	0
Units produced	7,400
Units sold	5,300
Sales	$ 689,000
Materials cost	$ 148,000
Variable conversion cost used	$ 74,000
Fixed manufacturing cost	$ 592,000
Indirect operating costs (fixed)	$ 106,000

The absorption costing ending inventory is:

A) $219,000
B) $235,000
C) $231,000
D) $203,000

136) The following information is available for Barnes Company for the fiscal year ended December 31:

Beginning finished goods inventory in units	0
Units produced	4,800
Units sold	4,000
Sales	$ 400,000
Materials cost	$ 96,000
Variable conversion cost used	$ 48,000
Fixed manufacturing cost	$ 72,000
Indirect operating costs (fixed)	$ 80,000

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The absorption costing ending inventory is:

A) $40,000
B) $24,000
C) $36,000
D) $8,000

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137) The following information is available for Barnes Company for the fiscal year ended December 31:

Beginning finished goods inventory in units	0
Units produced	8,000
Units sold	5,600
Sales	$ 728,000
Materials cost	$ 160,000
Variable conversion cost used	$ 80,000
Fixed manufacturing cost	$ 760,000
Indirect operating costs (fixed)	$ 112,000

The difference between the variable costing ending inventory and the absorption costing ending inventory is:

A) 2,400 units times $95 per unit fixed manufacturing cost
B) 2,400 units times $90 per unit materials cost
C) 2,400 units times $100 per unit variable conversion cost plus $95 per unit fixed manufacturing cost
D) 2,400 units times $100 per unit variable conversion cost plus $95 per unit fixed manufacturing cost plus $96.67 per unit indirect operating costs

138) The following information is available for Barnes Company for the fiscal year ended December 31:

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Beginning finished goods inventory in units	0
Units produced	4,800
Units sold	4,000
Sales	$ 400,000
Materials cost	$ 96,000
Variable conversion cost used	$ 48,000
Fixed manufacturing cost	$ 72,000
Indirect operating costs (fixed)	$ 80,000

The difference between the variable costing ending inventory and the absorption costing ending inventory is:

A) 800 units times $15 per unit fixed manufacturing cost
B) 800 units times $10 per unit materials cost
C) 800 units times $20 per unit variable conversion cost plus $15 per unit fixed manufacturing cost
D) 800 units times $20 per unit variable conversion cost plus $15 per unit fixed manufacturing cost plus $16.67 per unit indirect operating costs

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139) Absorption costing measures gross profit as:
A) Sales less unit level costs spent on goods sold.
B) Sales less variable cost of goods sold.
C) Sales less absorption cost of goods sold.
D) Sales less all costs including operating expenses.

140) Inventoriable costs:
A) include only the prime costs of manufacturing a product.
B) include only the conversion costs of providing a service.
C) exclude fixed manufacturing costs.
D) are treated as assets until the units are sold.

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

141) The following information is available for the Weston Consulting Company for the fiscal year ended December 31.

Gross margin	$ 170,000
Operating profit	$ 65,500
Revenues	$ 809,000
Income tax rate	34%

Required:(a) Compute the cost of services sold.
(b) Compute the total marketing and administrative costs.
(c) Compute net income.

142) The following information is available for the Cherryville Enterprises, Incorporated for the fiscal year ended December 31.

Revenues	$ 900,000
Gross margin	$ 315,000
Operating profit	85,000
Income tax rate	32%

Required:(a) Compute the cost of goods sold.
(b) Compute the total marketing and administrative costs.
(c) Compute net income.

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143) The following information is available for the Tenor Music Store for the fiscal year ended December 31.

Ending inventory	$ 100,100
Transportation-in costs	$ 8,900
Purchase discounts	$ 15,000
Beginning inventory	$ 79,000
Merchandise cost	$ 450,000
Purchase returns and allowances	$ 6,200
Sales revenue	$ 800,000
Sales discounts	$ 12,500

Required:(a) Prepare a cost of goods sold statement for Tenor Music Store.
(b) Compute the gross margin for the fiscal year ended December 31.

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144) **Required:** Using the following table as a reference, describe whether the following costs incurred in a manufacturing company are (a) fixed or variable and (b) product or period. The first cost item is presented in the table as an example.

Cost Item	Fixed	Variable	Product	Period
E. Annual audit and tax return fees	X			X
1. Costs (other than food) of running the cafeteria for factory personnel				
2. Direct materials used				
3. Clerical staff in administrative offices				
4. Depreciation of factory machinery*				
5. Property taxes on the factory				
6. Insurance premiums on delivery vans				
7. Factory custodian pay				
8. Sales commissions				
9. Rent paid for corporate jet				
10. Transportation-in costs for indirect material				

*Straight-line depreciation method used.

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145) The Torchdown Company began operations several years ago. The company purchased a building, and since only half of the space was needed for operations, the remaining space was rented to another firm for rental revenue of $20,000 per year. The success of Torchdown Company's product has resulted in the company needing more space. The renter's lease will expire next month and Torchdown will **not** renew the lease in order to use the space to expand operations and meet demand.

The company's product requires direct materials that cost $25 per unit. The company employs a production supervisor whose salary is $2,000 per month. Production line workers are paid $15 per hour to manufacture and assemble the product. The company rents the equipment needed to produce the product at a rental cost of $1,500 per month. Additional equipment will be needed as production is expanded and the monthly rental charge for this equipment will be $900 per month. The building is depreciated on a straight-line basis at $9,000 per year.

The company spends $40,000 per year to market the product. Shipping costs for each unit are $20 per unit. The cost of electricity and other utilities used for product is $2 per unit. The company plans to liquidate several investments in order to expand production. These investments currently earn a return of $8,000 per year.

Required: Using the following table as a reference, describe which cost headings best identify the costs listed in the first column. As more than one type of cost can be applicable, ensure to list all possibilities when entering your answers (e.g., a cost might be a variable cost, and an overhead cost).

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Name of cost	Variable cost	Fixed cost	Direct materials	Direct labor	Manufacturing overhead	Period cost	Opportunity cost
1. Amount that can be earned renting building							
2. Cost of direct materials							
3. Salary of production supervisor							
4. Cost of direct labor							
5. Equipment rental cost							

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6. Depreciation on building
7. Marketing costs
8. Shipping costs
9. Electrical costs
10. Foregone investment income

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146) The following cost and inventory data were taken from the records of the Flagstaff Company for the year:

Costs incurred:

Depreciation, factory equipment	$ 30,000
Depreciation, office equipment	7,000
Supplies, factory	1,500
Maintenance, factory equipment	20,000
Utilities, factory	8,000
Sales commissions	30,000
Indirect labor	54,500
Rent, factory building	70,000
Purchases of direct materials (net)	124,000
Direct labor	80,000
Advertising expense	90,000

Inventories:

	January 1	**December 31**
Direct materials	$ 9,000	$ 11,000
Work in process	6,000	21,000
Finished goods	69,000	24,000

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Required:(a) Compute the cost of goods manufactured.

(b) Compute the cost of goods sold.

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147) The Foxboro Manufacturing Company provided you with the following information for the fiscal year ended December 31.

Work-in-process inventory, 12/31	$ 57,900
Finished goods inventory, 1/1	307,400
Direct labor costs incurred	1,004,300
Manufacturing overhead costs	2,693,400
Direct materials inventory, 1/1	250,800
Finished goods inventory, 12/31	511,000
Direct materials purchased	1,750,200
Work-in-process inventory, 1/1	101,000
Direct materials inventory, 12/31	169,400

Required:(a) Compute the total manufacturing costs incurred during the year.
(b) Compute the total work-in-process during the year.
(c) Compute the cost of goods manufactured during the year.
(d) Compute the cost of goods sold during the year.
(e) Compute the total prime costs for the year.
(f) Compute the total conversion costs for the year.

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148) The cost accountant for the Corner Manufacturing Company has provided you with the following information for the month of July:

	Variable costs Per unit	Total Fixed Costs
Direct labor	$ 27.50	
Direct materials	84.75	
Manufacturing overhead	14.25	$ 120,000
Marketing costs	5.30	50,000
Administrative costs	2.90	75,000

Required: Compute the following *per unit* items, assuming the company produced and sold 5,000 units at a price of $210.00 per unit.
(a) Total variable cost.
(b) Variable inventoriable cost.
(c) Full absorption cost.
(d) Full cost.
(e) Contribution margin.
(f) Gross margin.
(g) Profit margin.

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149) The cost accountant for the Friendly Manufacturing Company has provided you with the following information for the month of July:

	Variable costs Per unit	Total Fixed Costs
Direct labor	$ 27.50	
Direct materials	84.75	
Manufacturing overhead	14.25	$ 120,000
Marketing costs	5.30	50,000
Administrative costs	2.90	75,000
Selling price	210.00	

Required: Assuming the company produced and sold 5,000 units, and there were no units in inventory on July 1, prepare the following income statements for the month of July:
(a) Contribution margin income statement.
(b) Gross margin income statement.

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150) Shuster Industries manufactures baseballs and identified the following costs associated with their manufacturing activity (V = Variable; F = Fixed). The following information is available for the month of June when 25,000 baseballs were produced, but only 23,500 baseballs were sold.

Power to run plant equipment (V)	$ 25,000
Other selling costs (V)	149,150
Indirect labor (F)	50,000
Property taxes on factory building (F)	12,500
Marketing costs (V)	30,000
Factory Supervisor salaries (F)	125,000
Direct materials used (V)	500,000
Depreciation on plant equipment (F)	68,000
Shipping costs to customer (V)	48,800
Indirect material and supplies (V)	37,500
Direct labor (V)	250,000
Administrative salaries (F)	300,000
Insurance on factory building (F)	62,500
Utilities, factory (V)	50,000
General office costs (F)	48,000

Required: Compute the following amounts for July, assuming 30,000 baseballs were produced and sold: (Assume normal production ranges from 15,000 to 40,000 baseballs)

(a) Total manufacturing costs.

(b) Total conversion costs.

(c) Period costs per unit.

(d) Full costs per unit.

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151) Each column below is independent and for a different company. Use the data given, which refers to one year for each example, to find the unknown account balances.

		Company	
	Southeast	Central	Northwest
Direct materials inventory, January 1	(a)	$ 3,920	$ 16,640
Direct materials inventory, December 31	$ 4,850	3,248	14,664
Work-in-process inventory, January 1	2,700	7,526	85,696
Work-in-process inventory, December 31	3,800	3,472	79,800
Finished goods inventory, January 1	1,900	(d)	17,888
Finished goods inventory, December 31	300	4,928	29,536
Purchases of direct materials	16,100	13,440	66,768
Cost of goods manufactured during this year	(b)	30,486	326,320
Total manufacturing costs	55,550	26,432	320,424
Cost of goods sold	56,050	30,464	314,673
Gross margin	(c)	18,368	666,931
Direct labor	26,450	4,256	129,688
Direct materials used	15,300	(e)	68,744
Manufacturing overhead	13,800	8,064	(g)
Sales revenue	103,300	(f)	981,604

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152) The following data appeared in Moline Company's records on December 31:

Direct Materials Inventory, December 31	$ 535,500
Direct Materials purchased during the year	2,268,000
Finished Goods Inventory, December 31	567,000
Indirect labor	201,600
Direct labor	2,520,000
Factory heat, light, and power	234,360
Factory depreciation	396,900
Administrative salaries	323,820
Miscellaneous factory cost	200,970
Marketing costs	233,100
Other administrative costs	113,400
Maintenance on factory equipment	76,230
Insurance on factory equipment	119,700
Distribution costs	10,080
Taxes on manufacturing property	82,530
Legal fees on customer complaint	51,660
Direct materials put into production	2,407,230
Work-in-Process Inventory, December 31	154,980

On January 1, the Finished Goods Inventory account had a balance of $280,000, and the Work-in-Process Inventory account had a balance of $90,650. Sales revenue for the year was $6,687,500.

Required:(a) Prepare a cost of goods manufactured statement.

(b) Prepare a cost of goods sold statement.

(c) Prepare a gross margin income statement.

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153) The following information has been taken from the cost records of Gator Corporation for the past year:

Raw materials used in production	$ 326	
Total manufacturing costs charged to production during the year (includes $135 of factory overhead)	686	
Cost of goods available for sale	826	
Selling & administrative expenses	25	
Inventories:	**Beginning**	**Ending**
Direct materials	75	85
Work in process	80	30
Finished goods	90	110

Required:(a) Calculate the cost of direct materials purchased during the year.
(b) Calculate the direct labor costs charged to production during the year.
(c) Calculate the cost of goods manufactured during the year.
(d) Calculate the cost of goods sold for the year.

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154) Information from the records of the Shawnee Production Company for the month of January is as follows:

Purchases of direct materials	$ 18,000	
Indirect labor	5,000	
Direct labor	10,400	
Depreciation on factory machinery	3,000	
Sales	55,300	
Selling and administrative expenses	6,300	
Rent on factory building	7,000	
Inventories:	**January 1**	**January 31**
Direct materials	$ 8,000	$ 8,700
Work-in-process	2,100	3,200
Finished goods	5,000	5,700

Required:(a) Prepare a statement of cost of goods manufactured and sold for the month of January.

(b) Prepare a gross margin income statement for the month of January.

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155) The following information has been taken from the cost records of Toro Corporation for the past year:

Raw materials used in production	$ 572	
Total manufacturing costs charged to production during the year (includes $255 of factory overhead)	1,095	
Cost of goods available for sale	1,415	
Selling and administrative expenses	255	
Inventories:	**Beginning**	**Ending**
Direct materials	175	155
Work in process	220	190
Finished goods	290	310

Required:(a) Calculate the cost of direct materials purchased during the year.
(b) Calculate the direct labor costs charged to production during the year.
(c) Calculate the cost of goods manufactured during the year.
(d) Calculate the cost of goods sold for the year.

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156) Information from the records of the Navaho Industries for the month of July is as follows:

Purchases of direct materials	$ 24,000	
Indirect labor	6,500	
Direct labor	13,200	
Depreciation on factory machinery	3,600	
Sales	75,300	
Selling and administrative expenses	8,900	
Rent on factory building	8,400	
Inventories:	**July 1**	**July 31**
Direct materials	$ 8,000	$ 6,700
Work-in-process	1,100	1,600
Finished goods	9,000	6,800

Required:(a) Prepare a statement of cost of goods manufactured and sold for the month of July.
(b) Prepare a gross margin income statement for the month of July.

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157) The Yellville Company provided you with the following information for the fiscal year ended December 31.

Work-in-process inventory, 12/31	$ 115,800
Finished goods inventory, 1/1	614,800
Direct labor costs incurred	2,008,600
Manufacturing overhead costs	5,368,800
Direct materials inventory, 1/1	501,600
Finished goods inventory, 12/31	1,022,000
Direct materials purchased	3,500,400
Work-in-process inventory, 1/1	202,000
Direct materials inventory, 12/31	338,800

Required:(a) Compute the total manufacturing costs incurred during the year.
(b) Compute the total work-in-process during the year.
(c) Compute the cost of goods manufactured during the year.
(d) Compute the cost of goods sold during the year.
(e) Compute the total prime costs for the year.
(f) Compute the total conversion costs for the year.

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158) The Younce Equipment Company provided you with the following information for the fiscal year ended December 31.

Work-in-process inventory,12/31	$ 28,950
Finished goods inventory, 1/1	153,700
Direct labor costs incurred	502,150
Manufacturing overhead costs	1,364,700
Direct materials inventory, 1/1	125,400
Finished goods inventory, 12/31	255,500
Direct materials purchased	875,100
Work-in-process inventory, 1/1	50,500
Direct materials inventory, 12/31	84,700

Required:(a) Compute the total manufacturing costs incurred during the year.
(b) Compute the total work-in-process during the year.
(c) Compute the cost of goods manufactured during the year.
(d) Compute the cost of goods sold during the year.

159) Mobile Device Retail has collected the following information for May:

Sales revenue	$ 1,650,000
Store rent	84,000
Utilities	57,200
Sales commissions	247,500
Merchandise inventory, May 1	118,200
Merchandise inventory, May 31	124,600
Freight-in	54,600
Administrative costs	115,100
Merchandise purchases	1,091,000

Required: Prepare a gross margin income statement for the month of May.

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160) Fowler Retail has collected the following information for August:

Sales revenue	$ 1,155,000
Store rent	58,800
Utilities	40,400
Sales commissions	173,300
Merchandise inventory, 8/1	87,220
Merchandise inventory, 8/31	82,740
Freight-in	30,300
Administrative costs	80,600
Merchandise purchases	763,700

Required: Prepare a gross margin income statement for the month of August.

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161) Zach Hartman has developed a new electronic device that he has decided to produce and market. The production facility will be in a nearby industrial park which Zach will rent for $4,000 per month. Utilities will cost $500 per month. He will use his personal computer, which he purchased for $2,000 last year, to monitor the production process. The computer will become obsolete before it wears out from use. The computer will be depreciated at the rate of $1,000 per year. He will rent production equipment at a monthly cost of $8,000. Zach estimates the materials cost per finished unit of product to be $50, and the labor cost to be $10. He will hire hourly paid workers and spend his time promoting the product. To do this, he will quit his job which pays $4,500 per month. Advertising will cost $2,000 per month. Zach will **not** draw a salary from the new company until it gets well established.
Required: Complete the chart below by placing an "X" under each heading that helps to identify the cost involved. There can be "Xs" placed under more than one heading for a single cost; e.g., a cost might be an overhead cost and a product cost. There would be an "X" placed under each of these headings opposite the cost.

	Opportunity Cost	Variable Cost	Fixed Cost	Product Cost			
				Direct Materials	Direct Labor	Manufacturing Overhead	Selling Cost
Facility rent							
Utilities							
Personal computer depreciation							
Equipment rent							
Materials cost							
Labor cost							
Present salary							
Advertising							

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162) A manufacturing company has provided the following data for the month of March:
Inventories:

	Beginning	Ending
Raw materials	$ 36,000	$ 24,000
Finished goods	$ 57,000	$ 28,000

Raw materials purchased during March totaled $69,000 and the cost of goods manufactured totaled $146,000.
Required:(a) What was the cost of raw materials used in production during March? Show your work.
(b) What was the cost of goods sold for March? Show your work.

163) During the month of June, Bolder Corporation, a manufacturing company, purchased raw materials costing $76,000. The cost of goods manufactured for the month was $129,000. The beginning balance in the raw materials inventory account was $26,000 and the ending balance was $21,000. The beginning balance in the finished goods inventory account was $52,000 and the ending balance was $35,000.
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Required:(a) What was the cost of raw materials used in production during June? Show your work.
(b) What was the cost of goods sold for June? Show your work.

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164) A partial listing of costs incurred at Marshall Corporation during August appears below:

Direct materials	$ 135,000
Utilities, factory	$ 11,000
Sales commissions	$ 69,000
Administrative salaries	$ 101,000
Indirect labor	$ 29,000
Advertising	$ 94,000
Depreciation of production equipment	$ 31,000
Direct labor	$ 73,000
Depreciation of administrative equipment	$ 40,000

Required:(a) What is the total amount of product costs listed above? Show your work.
(b) What is the total amount of period costs listed above? Show your work.

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165) Grankowski Corporation has provided the following partial listing of costs incurred during November:

Marketing salaries	$ 47,000
Property taxes, factory	$ 6,000
Administrative travel	$ 113,000
Sales commissions	$ 56,000
Indirect labor	$ 36,000
Direct materials	$ 119,000
Advertising	$ 63,000
Depreciation of production equipment	$ 56,000
Direct labor	$ 117,000

Required:(a) What is the total amount of product costs listed above? Show your work.
(b) What is the total amount of period costs listed above? Show your work.

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166) In October, Youngstown Corporation had sales of $273,000, selling expenses of $26,000, and administrative expenses of $47,000. The cost of goods manufactured was $183,000. The beginning balance in the finished goods inventory account was $45,000 and the ending balance was $34,000.
Required: Prepare an Income Statement in good form for October.

167) In July, Mountain Life, Incorporated, a merchandising company, had sales of $295,000, selling expenses of $24,000, and administrative expenses of $29,000. The cost of merchandise purchased during the month was $215,000. The beginning balance in the merchandise inventory account was $25,000 and the ending balance was $30,000.
Required: Prepare an Income Statement in good form for July.

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168) A number of costs and measures of activity are listed below:

Cost Description	Possible Measure of Activity
1. Cost of heating a hardware store	Dollar sales
2. Windshield wiper blades installed on autos at an auto assembly plant	Number of autos assembled
3. Cost of tomato sauce used at a pizza shop	Pizzas cooked
4. Cost of shipping bags of fertilizer to a customer at a chemical plant	Bags shipped
5. Cost of electricity for production equipment at a snowboard manufacturer	Snowboards produced
6. Cost of renting production equipment on a monthly basis at a snowboard manufacturer	Snowboards produced
7. Cost of vaccine used at a clinic	Vaccines administered
8. Cost of sales at a hardware store	Dollar sales
9. Receptionist's wages at dentist's office	Number of patients
10. Salary of production manager at a snowboard manufacturer	Snowboards produced

Required: For each item above, indicate whether the cost is MAINLY fixed or variable with respect to the possible measure of activity listed next to it.

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169) A number of costs and measures of activity are listed below:

Cost Description	Possible Measure of Activity
1. Cost of renting production equipment on a monthly basis at a surfboard manufacturer	Surfboards produced
2. Pilot's salary on a regularly scheduled commuter airline	Number of passengers
3. Cost of dough used at a pizza shop	Pizzas cooked
4. Janitorial wages at a surfboard manufacturer	Surfboards produced
5. Cost of shipping bags of garden mulch to a retail garden store	Bags shipped
6. Salary of production manager at a surfboard manufacturer	Surfboards produced
7. Property tax on corporate headquarters building	Dollar sales
8. Cost of heating an electronics store	Dollar sales
9. Shift manager's wages at a coffee shop	Dollar sales
10. Cost of bags used in packaging chickens for shipment to grocery stores	Crates of chicken shipped

Required: For each item above, indicate whether the cost is MAINLY fixed or variable with respect to the possible measure of activity listed next to it.

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170) A number of costs are listed below:

Cost Description	Cost Object
1. Supervisor's wages in a computer manufacturing facility	A particular personal computer
2. Salary of the president of a home construction company	A particular home
3. Cost of tongue depressors used in an outpatient clinic at a hospital	The outpatient clinic
4. Cost of lubrication oil used at the auto repair shop of an automobile dealer	The auto repair shop
5. Manger's salary at a hotel run by a chain of hotels	The particular hotel
6. Cost of screws used to secure wood trim in a yacht at a yacht manufacturer	A particular yacht
7. Accounting professor's salary	The Accounting Department
8. Cost of a measles vaccine administered at an outpatient clinic at a hospital	A particular patient
9. Cost of electronic navigation system installed in a yacht at a yacht manufacturer	A particular yacht
10. Wood used to build a home	A particular home

Required: For each item above, indicate whether the cost is direct or indirect with respect to the cost object listed next to it.

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171) The following data relates to the Sunshine Company:

Direct Materials Inventory, Beginning	$ 40
Direct Materials Inventory, Ending	50
Direct Materials Purchases	210
Direct Labor	350
Finished Goods Inventory, Beginning	100
Finished Goods Inventory, Ending	95
Factory overhead	153
Work-in-Process Inventory, Beginning	65
Work-in-Process Inventory, Ending	80

Required:(a) Compute the direct materials used during the year.
(b) Compute the cost of goods manufactured during the year.
(c) Compute the cost of goods sold during the year.

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172) A computer virus destroyed some of the accounting records for Dorchester Antique Remodeling Company for the years 2022–2024. The following information was salvaged from the computer system.

Required: Determine the correct amounts for A through P.

	12/31/22	12/31/23	12/31/24
Beginning direct materials	$ 50,250	**F**	$ 45,210
Purchases of direct materials	**A**	65,250	70,125
Ending direct materials	34,165	45,210	**L**
Direct materials used	91,385	54,205	**M**
Direct labor	**B**	155,050	162,000
Manufacturing overhead	115,325	**G**	127,145
Total manufacturing costs	**C**	319,705	364,130
Beginning work-in-process inventory	36,450	**H**	29,635
Ending work-in-process inventory	21,985	29,635	**N**
Costs of goods manufactured	386,700	**I**	362,920
Beginning finished goods inventory	37,000	**J**	42,500
Ending finished goods inventory	**D**	42,500	39,550
Cost of goods sold	377,500	315,755	**O**
Net sales	550,000	495,000	**P**
Selling and Administrative Expenses	135,950	**K**	130,130
Net income	**E**	46,250	39,000

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173) Ryan's Lazer Lighting Incorporated produces lamps. During 2022, the company incurred the following costs:

Factory rent	$ 80,000
Direct labor used	425,000
Factory utilities	50,000
Direct materials purchases	600,000
Indirect materials	150,000
Indirect labor	90,000

Inventories for the year were:

	January 1	December 31
Direct materials	$ 100,000	$ 75,000
Work in process	20,000	10,000
Finished goods	250,000	215,000

Required: Prepare a cost of goods manufactured and sold statement.

174) Explain the difference between an outlay cost, an expense, and an opportunity cost.

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175) Explain the difference between a cost, a cost object, and a cost pool.

176) Explain the difference between direct materials inventory, work in process inventory, finished goods inventory, and cost of goods sold.

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177) Explain the difference between cost of goods manufactured and cost of goods sold.

178) Explain the difference between a direct cost and an indirect cost.

179) The following information applies to the Jamison Tools Company for the year ended December 31, 2022:

Factory Rent	$ 330,000
Direct Materials Inventory, Beginning	96,000
Direct Materials Inventory, Ending	87,000
Direct Materials Purchases	654,000
Direct Labor-Wages	425,000
Indirect Labor-Wages	28,000
Finished Goods Inventory, Beginning	25,000
Finished Goods Inventory, Ending	44,000
Indirect Materials	66,000
Plant Utilities	40,000
General and Administrative	101,350
Work-in-Process Inventory, Beginning	27,000
Work-in-Process Inventory, Ending	33,000
Marketing Expenses	225,000
Sales Revenue	2,550,000

Required: Prepare a statement of cost of goods manufactured and an income statement for the year ended December 31, 2022.

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180) The following information applies to the Garden Master Company for the year ended December 31, 2022:

Factory Rent	$ 80,000
Direct Materials Inventory, Beginning	50,000
Direct Materials Inventory, Ending	45,000
Direct Materials Purchases	325,000
Direct Labor-Wages	550,000
Indirect Labor-Wages	25,000
Finished Goods Inventory, Beginning	50,000
Finished Goods Inventory, Ending	75,000
Indirect Materials	50,000
Plant Utilities	25,000
General and Administrative	130,000
Work-in-Process Inventory, Beginning	50,000
Work-in-Process Inventory, Ending	55,000
Marketing Expenses	180,000
Sales Revenue	1,825,000

Required: Prepare a statement of cost of goods manufactured and an income statement for the year ended December 31, 2022.

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181) Michael Corporation has provided the following data for the month of July:

Sales	$ 280,000
Raw materials purchases	76,000
Direct labor cost	42,000
Manufacturing overhead	77,000
Selling expenses	20,000
Administrative expense	35,000

Inventories:

	Beginning	Ending
Raw materials	$ 22,000	$ 33,000
Work-in-process	15,000	23,000
Finished good	52,000	43,000

Required:

a. Prepare a Statement of Cost of Goods Manufactured in good form for July.

b. Prepare an Income Statement in good form for July.

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182) The following information is available for the Crossover Company:

Sales: 25,000 units per year at $45 per unit

Production: 30,000 units in 2022 and 20,000 units in 2023

At the beginning of 2022 there was no inventory

Variable manufacturing costs are $30.00 per unit

Fixed manufacturing costs are $150,000 per year

Marketing costs are all fixed at $75,000 per year

Required:(a) Prepare a gross margin income statement under absorption costing for 2022 and 2023. Include a column for each year and a total column.

(b) Prepare a contribution margin income statement under variable costing for 2022 and 2023. Include a column for each year and a total column.

(c) Comment on the results and reconcile any differences in income.

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183) Razor Corporation produces and sells a single product at $40 per unit. During 2022, the company produced 200,000 units, 160,000 of which were sold during the year. All ending inventory was in finished goods inventory; there was no inventory on hand at the beginning of the year. The following data relate to the company's production process:

Direct materials	$ 550,000
Direct labor	400,000
Variable Manufacturing overhead	100,000
Fixed manufacturing overhead	300,000
Variable marketing and administrative	160,000
Fixed marketing and administrative	110,000

Required: Calculate the following:

(a) The unit cost of ending inventory on the balance sheet prepared for stockholders.

(b) The unit cost of ending inventory on a variable costing balance sheet.

(c) The operating income using absorption costing.

(d) The operating income using variable costing.

(e) The ending inventory using absorption costing.

(f) The ending inventory using variable costing.

(g) A reconciliation of the difference in operating income between absorption costing and variable costing using the shortcut method.

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184) Consider the following cost and production information for Barnard Steel Building Company, Incorporated.

	Part C-2472 144		Part D-1340 120		All other parts 1140	
Quantity	Subtotal	Average per unit	Subtotal	Average per unit	Subtotal	Average per unit
Variable costs:						
Materials cost	$ 180,000	$ 1,250	$ 405,000	$ 3,375	$ 2,446,440	$ 2,146
Conversion cost	72,000	500	129,000	1,075	974,700	855
Total variable costs	$ 252,000	$ 1,750	$ 534,000	$ 4,450	$ 3,421,140	$ 3,001
Fixed costs:						
Fixed production cost	885,600	6,150	738,000	6,150	7,011,000	6,150
Fixed operating cost	723,600	5,025	603,000	5,025	5,728,480	5,025
Total fixed costs	$ 1,609,200	$ 11,175	$ 1,341,000	$ 11,175	$ 12,739,480	$ 11,175
Total costs	$ 1,861,200	$ 12,925	$ 1,875,000	$ 15,625	$ 16,160,620	$ 14,176

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Additional information:

- Sales revenue: $20,000,000.
- Beginning inventory: $1,150,000.
- Sales of part D-1340: 80 units.
- Sales of all other parts are the same as the number of units produced.
- Sales price of part D-1340: $35,500 per unit
- The only spending increase was for materials cost due to increased production. All other spending as shown above was unchanged.

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Barnard Steel Building Company uses the variable costing method.
Required:(a) Compute the (1) contribution margin, (2) operating income, and (3) ending inventory for Barnard Steel Building Company.
(b) Assume that sales of part D-1340 increase by 30 units to 110 units during the given period (production remains constant). Re-compute the above amounts.
(c) Jaime Porter, the controller of Barnard Steel Building Company, is considering the use of absorption costing instead of variable costing to be in line with financial reporting requirements. She knows that the use of a different costing method will give rise to different incentives. Explain to her how alternative methods of calculating product costs create different incentives.

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185) Consider the following cost and production information for Darrell Building Components, Incorporated.

Quantity	Part C-1849 72		Part D-1251 60		All other parts 570	
	Subtotal	Average Per unit	Subtotal	Average Per unit	Subtotal	Average Per unit
Variable costs:						
Materials cost	$ 45,000	$ 625	$ 101,400	$ 1,690	$ 611,610	$ 1,073
Conversion cost	18,000	250	32,400	540	243,960	428
Total variable costs	$ 63,000	$ 875	$ 133,800	$ 2,230	855,570	$ 1,501
Fixed costs:						
Fixed production costs	221,400	3,075	184,500	3,075	1,752,750	3,075
Fixed operating costs	181,080	2,515	150,900	2,515	1,433,550	2,515
Total fixed costs	$ 402,480	$ 5,590	$ 335,400	$ 5,590	$ 3,186,300	$ 5,590
Total costs	$ 465,480	$ 6,465	$ 469,200	$ 7,820	$ 4,041,870	$ 7,091

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Additional information:

- Sales revenue: $5,200,000.
- Beginning inventory: $275,000.
- The only spending increase was for materials cost due to increased production. All other spending as shown above was unchanged.
- Sales of all parts are the same as the number of units produced.

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Darrell Building Components, Incorporated uses the absorption costing method.
Required:(a) Compute the (1) gross margin, (2) operating income, and (3) ending inventory for Darrell Building Components, Incorporated.
(b) Assume that production of part D-1251 increases by 25 units during the given period (sales remain constant). Re-compute the above amounts.
(c) Thane Smith, the cost manager of Darrell Building Components, argues with the controller that variable costing is a better method for product costing. Using the information in part (b) above, re-compute the operating income for Darrell Building Components using variable costing. Explain any differences in the operating incomes obtained under the two different methods.

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186) Hurwitz Corporation had the following activities during 2022:

Raw Materials:	
Inventory, January 1, 2022	$ 200,000
Purchases of Raw Materials	318,000
Inventory, December 31, 2022	210,000
Direct Manufacturing Labor	180,000
Plant Utilities	50,000
Plant and Equipment Depreciation	40,000
Indirect Materials	30,000
Indirect Labor	150,000
Other Manufacturing Overhead	60,000
Sales Revenues	1,250,000
Selling and Administrative Expenses	150,000
Income Tax Rate	30%
Work-in-process Inventory, December 31, 2022	120,000
Work-in-process Inventory, January 1, 2022	64,000
Finished Goods Inventory, January 1, 2022	80,000
Finished Goods Inventory, December 31, 2022	150,000

Required:(a) Prepare a schedule of cost of goods manufactured for 2022.
(b) Prepare a schedule of cost of goods sold for 2022.
(c) Prepare an income statement for 2022.

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187) Styling Toys, Incorporated (STI) manufactures a variety of electronic toys for children aged 3 to 14 years. The company started as a Ma & Pa basement operation, and grew steadily over the last nine years. It now employs over 100 people and has sales revenue of over $250 million. Samantha Marks, the CEO of STI also recognizes that competition has increased during this period; therefore future growth will **not** be easy.

Marks recognizes that one of the areas of weakness is the accounting and costing system. Marks' maternal uncle, Zack, had maintained the accounts for the company. He meticulously kept track of all the invoices that were received, payments made, and painstakingly prepared crude annual reports. With Zack passing away at the age of 85, Marks decided to hire a professional cost management expert to keep track of the company's costs. She hired Dona Falcon, who had just completed her CMA.

After acquainting Falcon with the company and its people, Marks decided to get down to business. She called Falcon to her office to have a serious conversation about accounting and costing, in particular.

Marks: Dona, I would like you to pay particular attention to developing an official costing system. Currently, we don't have one. I believe this should be your first priority because competition is rising and if we do **not** understand our costs, we might start losing sales to our rivals.

Falcon: I understand your point very well, Ms. Marks.

Marks: Call me Sam.

Falcon: Very well, Sam. I have a few ideas that I picked up from my CMA courses that I think are worth implementing. However, it looks like we need to start with the basics.

Required: Assume the role of Dona Falcon. Write a brief report outlining the basics of a cost management information system. Include in your report the following:

- Resources and costs
- Supply of resources vs. the use of resources
- Classification of costs (three dimensions of resources)
- Alternative costing systems

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Answer Key

Test name: Chapter 02

1) TRUE
2) TRUE
This statement is the definition of an expense.

3) TRUE
4) FALSE
Opportunity costs are not reflected in the accounting system.

5) FALSE
Total cost of goods purchases **plus** beginning merchandise inventory **minus** ending merchandise inventory equals cost of goods sold.

6) FALSE
Cost of goods sold includes only the actual costs of the goods that were sold and does not include the costs required to sell them to the customer, such as the salaries of salespeople.

7) TRUE
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8) FALSE
Product costs include both direct and indirect manufacturing costs.

9) TRUE
10) FALSE
The first step in determining whether a cost is direct or indirect is defining the cost object.

11) TRUE
12) TRUE
13) TRUE
14) FALSE
Total variable costs change in direct proportion to the change in volume of activity.

15) TRUE
16) TRUE
17) TRUE
18) FALSE
The two costs are included in full cost, but not in determining full absorption costs.

19) FALSE

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Revenue minus variable costs equals contribution margin.

20) FALSE
The goal of the cost accounting system is to provide managers with information useful for decision making.

21) B
Opportunity cost is the forgone benefit that could have been realized from the best forgone alternative use of a resource. Opportunity cost is not attached to products.

22) A
An outlay cost is a past, present, or future cash outflow.

23) A
Expense is for external financial statements.

24) D
Opportunity cost is the forgone benefit that could have been realized from the best forgone alternative use of a resource, whereas outlay cost is a past, present, or future cash outflow.

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25) D
Freight out is a selling cost while all the others are production costs.

26) B
Telephone costs associated with taking sales orders from customers are a selling cost rather than a production cost.

27) A
Wages of salespeople would be a selling cost which is a period cost.

28) A
Prime costs are direct materials and direct labor.

29) A
Fire insurance for the manufacturing plant is part of product costs.

30) D
Rent on the headquarters building is a period cost, whereas the other answer choices are product costs.

31) C

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Transportation costs incurred to ship a company's product are a period cost.

32) D
The cost of the toll-free line is a period cost as it belongs in the selling department.

33) B
Direct labor is the only cost that fits both terms.

34) D
Legal and accounting are administrative rather than marketing.

35) C
Property taxes on the manufacturing facility is a product cost since it is a part of manufacturing, but taxes are also indirect, so they are a conversion cost.

36) D
Direct labor is expensed when the products are sold. This supports the matching principle.

37) C
$1,600 + $1,100 + $2,100 = $4,800

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38) C
$1,500 + $1,000 + $2,000 = $4,500

39) C
The corporate controller's salary is an administrative cost.

40) D
Direct materials are a manufacturing cost and a prime cost; they are not a conversion cost.

41) C
$110 + $90 + ($288,000/1,600) = $380

42) C
$100 + $80 + ($200,000/2,000) = $280

43) C
$210 + $100 = $310

44) C

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$200 + $100 = $300

45) A
Shipping to customers is a selling (period) cost.

46) B
$2,800 + $33,500 + $42,000 + $3,800 + $800 + $3,300 = $86,200

47) B
$1,000 + $28,000 + $47,000 + $2,000 + $500 + $1,500 = $80,000

48) C
All answer options are names for indirect resources except direct costs.

49) C
Only wages and benefits of the workers that transform the materials into a finished product should be included in direct labor cost.

50) B
$206,000 + $630,000 + $68,000 − $228,000 = $676,000

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51) B
$170,000 + $450,000 + $50,000 − $210,000 = $460,000

52) D
$790,000 + $145,000 + $89,000 + $27,000 = $1,051,000

53) D
$700,000 + $100,000 + $80,000 + $18,000 = $898,000

54) D
The three elements of manufacturing cost are direct materials, direct labor and manufacturing overhead.

55) A
Direct materials and direct labor = Prime costs

56) D
The first step in classifying a cost as either direct or indirect is defining the cost object to which the cost is being related.

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57) C
This statement is a definition of cost allocation.

58) A
This statement is a definition of a cost object.

59) D
60) C
Beginning WIP Inventory + Total Manufacturing Costs = Total WIP during the period

61) A
Product costs are expensed when the goods are sold. This supports the matching principle.

62) C
DM available for production − Ending DM Inventory = DM issued to production

63) D
Beginning FG Inventory + Cost of Goods Manufactured = Cost of Goods Available

64) D
Direct labor would be part of the cost of WIP Inventory for the goods not completed, and also part of the cost of FG Inventory for the goods completed but not yet sold.

65) B
If WIP Inventory was higher at the end of the year than at the beginning of the year, then the cost of goods manufactured must have been less than the total manufacturing costs for the year.

66) C
Management salaries are a period cost.

67) C
Gross margin = Sales − Cost of Goods Sold. Cost of Goods Sold includes all manufacturing costs (both fixed and variable). It does not include selling costs

68) A
All costs associated with the acquisition of the goods constitutes the cost of goods purchased ($326,000 + $7,000 − $4,000 − $9,000) = $320,000

69) A

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All costs associated with the acquisition of the goods constitute the cost of goods purchased
($304,000 + $6,700 − $3,500 − $8,400) = $298,800

70) B
$300 + $2,050 − $400 = $1,950 (Direct materials used in production)
$500 + $1,950 + $2,150 + $2,250 − $600 = $6,250 (COGM)
$700 + $6,250 − $800 = $6,150 (COGS)

71) B
$300 + $1,400 − $400 = $1,300 (Direct materials used in production)
$500 + $1,300 + $1,500 + $1,600 − $600 = $4,300 (COGM)
$700 + $4,300 − $800 = $4,200 (COGS)

72) B
$44,000 + $83,000 − $51,000 = $76,000 (Direct materials used in production)
$95,000 + $76,000 + $52,500 + $73,500 − $68,500 = $228,500 (COGM)
$140,000 + $228,500 − $113,000 = $255,500 (COGS)

73) B
$40,000 + $75,000 − $43,000 = $72,000 (Direct materials used in production)
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$87,000 + $72,000 + $48,500 + $72,500 − $69,000 = $211,000 (COGM)
$128,000 + $211,000 − $105,000 = $234,000 (COGS)

74) A
$1,150 + $10,300 − $2,800 = $8,650 (Direct materials used in production)
$1,050 + COGM − $2,200 = $18,200; COGM = $19,350
$950 + $8,650 + Direct Labor + $5,550 − $2,000 = $19,350; Direct Labor = $6,200

75) A
$500 + $7,700 − $1,500 = $6,700 (Direct materials used in production)
$400 + COGM − $900 = $15,600; COGM = $16,100
$300 + $6,700 + Direct Labor + $4,300 − $700 = $16,100; Direct Labor = $5,500

76) B
$550 + COGM − $1,200 = $16,200; COGM = $16,850
$550 + $16,850 = $17,400 (COGAFS)

77) B

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$400 + COGM − $900 = $15,600; COGM = $16,100
$400 + $16,100 = $16,500 (COGAFS)

78) A
$52,000 + $336,000 + $545,000 + $278,000 − $81,000 = $1,130,000

79) A
$45,000 + $308,000 + $475,000 + $250,000 − $67,000 = $1,011,000

80) B
$1,600,000 − $650,000 = $950,000 (COGS); $135,000 + COGM − $105,000 = $950,000; COGM = $920,000

81) B
$1,500,000 − $600,000 = $900,000 (COGS): $125,000 + COGM − $100,000 = $900,000; COGM = $875,000

82) B
Taxes are fixed in behavior, and since they are on the factory building, they are a product cost.

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83) D
Supplies are variable in behavior, and since they are used to assembly products, they are a product cost.

84) C
The use of a percentage implies a variable cost and being paid to sales personnel, it is a period cost.

85) B
The nurse's salary is a fixed cost, while the film and other radiology materials are variable costs.

86) D
Employees' wages would be a variable cost (maybe semi variable), while the materials to make tacos are variable.

87) B
Within the relevant range, unit variable costs are constant, total variable costs fluctuate; unit fixed costs fluctuate, total fixed costs are constant.

88) B

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The paint is a variable manufacturing cost, not an administrative cost.

89) A
Manufacturing overhead can be either a fixed or a variable cost.

90) A
Full cost is the sum of all costs of manufacturing and selling a unit or product (includes both fixed and variable costs).

91) B
Labor + Overhead = $34 + $29 + $9 = $72

92) B
Labor + Overhead = $28 + $23 + $4 = $55

93) D
Material + Labor = $36 + $27 = $63

94) D
Material + Labor = $32 + $20 = $52

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95) A
$31 + $21 + $16 + $2 = $70

96) A
$32 + $20 + $15 + $3 = $70

97) A
$210 + $110 + $90 = $410

98) A
$200 + $100 + $80 = $380

99) C
$170 + $100 + $95 + ($192,000/1,200) = $525

100) C
$200 + $100 + $80 + ($200,000/2,000) = $480

101) D

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$240 + $100 + $80 + ($370,500/1,900) + $50 + ($418,000/1,900) = $885

102) D
$200 + $100 + $80 + ($200,000/2,000) + $50 + ($400,000/2,000) = $730

103) C
$850 − $200 − $105 − $85 − $55 = $405

104) C
$800 − $200 − $100 − $80 − $50 = $370

105) D
$95 + $40 + $60 + ($60,000/3,000) + $25 + ($30,000/3,000) = $250

106) D
$80 + $40 + $60 + ($90,000/3,000) + $20 + ($60,000/3,000) = $250

107) C
Materials + Labor = Prime Costs

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108) B
Selling price − COGS = Gross Margin

109) D
The total overhead cost is a mixed cost as it includes both fixed and variable costs.

110) A
Prime costs are the direct costs, namely, direct materials and direct labor.

111) C
Advertising is a selling cost and considered a period cost since its influence cannot be tied to changes in volume.

112) D
Full absorption includes all fixed and variable manufacturing costs.

113) C
$15 + $13 + $17 + $12 = $57

114) C

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$13 + $12 + $17 + $10 = $52

115) B
$11 + $10 + $15 = $36

116) B
$13 + $12 + $17 = $42

117) B
$110 − ($30 + $25 + $24 + $17) = $14; $14 × 14,000 = $196,000

118) B
$100 − ($25 + $20 + $19 + $12) = $24; $24 × 10,000 = $240,000

119) C
$130 − ($35 + $30 + $29 + $5) = $31; $31 × 11,500 = $356,500

120) C
$100 − ($25 + $20 + $19 + $7) = $29; $29 × 10,000 = $290,000

121) A
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$148 − ($33 + $28 + $27 + $20 + $15) = $25; $25 × 11,600 = $290,000

122) A
$100 − ($25 + $20 + $19 + $12 + $7) = $17; $17 × 10,000 = $170,000

123) A
$142 − ($32 + $27 + $26 + $19 + $14) = $24; $24 × 11,400 = $273,600

124) A
$100 − ($25 + $20 + $19 + $12 + $7) = $17; $17 × 10,000 = $170,000

125) B
($108,000 + $54,000)/5,400 = $30 per unit × 4,300 = $129,000

126) B
($96,000 + $48,000)/4,800 = $30 per unit × 4,000 = $120,000

127) C

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($124,000 + $62,000 + $310,000)/6,200 = $80 per unit × 4,700 = $376,000

128) C
($96,000 + $48,000 + $72,000)/4,800 = $45 per unit × 4,000 = $180,000

129) D
$1,128,000 − [($124,000 + $62,000) / 6,200 × 4,700] − $310,000 − $83,500 = $593,500

130) D
$400,000 − [($96,000 + $48,000) / 4,800 × 4,000] − $72,000 − $80,000 = $128,000

131) B
$1,120,000 − [($160,000 + $80,000 + $760,000) / 8,000 × 5,600] − $112,000 = $308,000

132) B
$400,000 − [($96,000 + $48,000 + $72,000) / 4,800 × 4,000] − $80,000 = $140,000

133) D
($156,000 + $78,000)/7,800 = $30 per unit; $30 per unit × (7,800 units − 5,500 units) = $69,000

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134) D
($96,000 + $48,000)/4,800 = $30 per unit; $30 per unit × (4,800 units − 4,000 units) = $24,000

135) C
($148,000 + $74,000 + $592,000)/7,400 = $110 per unit; $110 per unit × (7,400 units − 5,300 units) = $231,000

136) C
($96,000 + $48,000 + $72,000)/4,800 = $45 per unit; $45 per unit × (4,800 units − 4,000 units) = $36,000

137) A
Variable costing ending inventory: ($160,000 + $80,000)/8,000 = $30 per unit; Absorption costing ending inventory: ($160,000 + $80,000 + $760,000)/8,000 = $125 per unit; $125 − $30 = $95; $95 per unit fixed manufacturing costs × 2,400 units in ending inventory

138) A

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Variable costing ending inventory: ($96,000 + $48,000)/4,800 = $30 per unit; Absorption costing ending inventory: ($96,000 + $48,000 + $72,000)/4,800 = $45 per unit; $45 − $30 = $15; $15 per unit fixed manufacturing costs × 800 units in ending inventory

139) C
Sales − absorption cost of goods sold = gross profit

140) D
Inventoriable costs are treated as assets until units are sold.

141) Essay
(a) $809,000 − x = $170,000; x = $639,000.
(b) $170,000 − x = $65,500; x = $104,500.
(c) $65,500 − (0.34 × $65,500) = x; x = $43,230.

142) Essay
(a) $900,000 − x = $315,000; x = $585,000.
(b) $315,000 − x = $85,000; x = $230,000.
(c) $85,000 − (0.32 × $85,000) = $57,800.

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143) Essay

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(a)

Tenor Music Store
Cost of Goods Sold Statement
For Year Ended December 31

Beginning inventory		$ 79,000
Cost of goods purchased:		
Merchandise cost	$ 450,000	
Purchase returns and allowances	(6,200)	
Purchase discounts	(15,000)	
Transportation-in costs	8,900	
Total cost of goods purchased		437,700
Cost of goods available for sale		516,700
Ending inventory		(100,100)
Cost of goods sold		$ 416,600

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(b)

Sales revenue (gross)	$ 800,000	
Less sales discounts	(12,500)	
Sales revenue (net)		$ 787,500
Cost of goods sold		416,600
Gross margin		$ 370,900

144) Essay

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Cost Item	Fixed	Variable	Product	Period
1. Costs (other than food) of running the cafeteria for factory personnel	X		X	
2. Direct materials used		X	X	
3. Clerical staff in administrative offices	X			X
4. Depreciation of factory machinery*	X		X	
5. Property taxes on the factory	X		X	
6. Insurance premiums on delivery vans	X			X
7. Factory custodian pay	X		X	
8. Sales commissions		X		X
9. Rent paid for corporate jet	X			X
10. Transportation-in costs for indirect material		X	X	

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145) Essay

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Name of cost	Variable cost	Fixed cost	Direct materials	Direct labor	Manufacturing overhead	Period cost	Opportunity cost
1. Amount that can be earned renting building							X
2. Cost of direct materials	X		X				
3. Salary of production supervisor		X			X		
4. Cost of direct labor	X			X			
5. Equipment rental cost		X			X		
6. Depreciation on building		X			X		
7. Marketing costs		X				X	
8. Shipping costs	X					X	
9. Electrical costs	X				X		
10. Foregone investment income							X

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146) Essay

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(a)

Beginning work-in-process inventory			$ 6,000
Manufacturing costs during the year:			
Direct materials			
Beginning inventory	$ 9,000		
Purchases (net)	124,000		
Direct materials available	133,000		
Ending inventory	(11,000)		
Direct materials put into production		$ 122,000	
Direct labor		80,000	
Manufacturing overhead			
Depreciation, factory equipment	$ 30,000		
Supplies, factory	1,500		
Maintenance, factory equipment	20,000		
Utilities, factory	8,000		
Indirect labor	54,500		
Rent, factory building	70,000		
Total manufacturing overhead		184,000	
Total manufacturing costs Incurred			386,000
Ending work-in-process Inventory			(21,000)
Cost of goods manufactured			$ 371,000

(b)

Beginning finished goods inventory	$ 69,000
Cost of goods manufactured	371,000
Cost of goods available for sale	440,000

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Ending finished goods inventory	(24,000)
Costs of goods sold	$ 416,000

147) Essay
(a) ($250,800 + 1,750,200 − 169,400) + 1,004,300 + 2,693,400 = x; x = $5,529,300
(b) $101,000 + 5,529,300 = x; x = $5,630,300
(c) $5,630,300 − 57,900 = x; x = $5,572,400
(d) $307,400 + 5,572,400 − 511,000 = x; x = $5,368,800
(e) ($250,800 + 1,750,200 − 169,400) + 1,004,300 = x; x = $2,835,900
(f) $1,004,300 + 2,693,400 = x; x = $3,697,700

148) Essay
(a) $84.75 + 27.50 + 14.25 + 5.30 + 2.90 = x; x = $134.70
(b) $84.75 + 27.50 + 14.25 = x; x = $126.50
(c) $84.75 + 27.50 + 14.25 + ($120,000/5,000) = x; x = $150.50
(d) $84.75 + 27.50 + 14.25 + 5.30 + 2.90 + [(120,000 + 50,000 + 75,000)/5,000] = x; x = $183.70
(e) $210.00 − (84.75 + 27.50 + 14.25 + 5.30 + 2.90) = x; x = $75.30
(f) $210.00 − [84.75 + 27.50 + 14.25 + (120,000/5,000)] x; x = $59.50
(g) $210.00 − [$84.75 + 27.50 + 14.25 + 5.30 + 2.90 + [(120,000 + 50,000 + 75,000)/5,000]] = x; x = $26.30

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149) Essay

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(a)

Friendly Manufacturing Company
Contribution Margin Income Statement
For the Month Ended July 31

Revenues		$ 1,050,000
Variable costs:		
Direct materials	$ 423,750	
Direct labor	137,500	
Manufacturing overhead	71,250	
Marketing costs	26,500	
Administrative costs	14,500	
Total variable costs		673,500
Contribution margin		376,500
Fixed costs:		
Manufacturing overhead	120,000	
Marketing costs	50,000	
Administrative costs	75,000	
Total fixed costs		245,000
Operating profits		$ 131,500

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(b)

Friendly Manufacturing Company
Gross Margin Income Statement
For the Month Ended July 31

Revenues		$ 1,050,000
Cost of goods sold:		
Direct materials	$ 423,750	
Direct labor	137,500	

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Manufacturing overhead	191,250	
Cost of goods sold:		752,500
Gross margin		297,500
Expenses:		
Marketing costs	76,500	
Administrative costs	89,500	
Total expenses		166,000
Operating profits		$ 131,500

150) Essay

(a)

[($500,000 + 250,000 + 25,000 + 37,500 + 50,000)/25,000] = Variable manufacturing costs per unit

Variable manufacturing cost per unit = $34.50.

($34.50 × 30,000) + (50,000 + 12,500 + 125,000 + 68,000 + 62,500) = Total manufacturing costs

Total manufacturing costs = $1,035,000 + $318,000 = $1,353,000.

(b)

[($250,000 + 25,000 + 37,500 + 50,000)/25,000] = Conversion costs per unit

Conversion costs per unit = $14.50.

($14.50 × 30,000) + (50,000 + 12,500 + 125,000 + 68,000 + 62,500) = Total conversion costs

Total conversion costs = $435,000 + $318,000 = $753,000.

(c)

($149,150 + 30,000 + 48,800)/23,500 = Period costs per unit

Period costs per unit = $9.70.

($9.70 × 30,000) + (300,000 + 48,000) = Total period costs

Total period costs = $639,000.

$639,000/30,000 = Period costs per unit

Period costs per unit = $21.30.

(d)

($1,353,000/30,000) + $21.30 = Full costs per unit

Full costs per unit = $66.40.

151) Essay

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(a) $x + 16,100 − 4,850 = $15,300; x = $4,050
(b) $2,700 + 55,550 − 3,800 = x; x = $54,450
(c) $103,300 − 56,050 = x; x = $47,250
(d) $x + 30,486 − 4,928 = 30,464; x = $4,906
(e) $3,920 + 13,440 − 3,248 = x; x = $14,112
(f) $x − 30,464 = 18,368; x = $48,832
(g) $68,744 + 129,688 + x = 320,424; x = $121,992

152) Essay

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(a):

Moline Company
Cost of Goods Manufactured Statement
For the Year Ended December 31

Beginning Work-in-process inventory			$ 90,650
Manufacturing costs during the year:			
Direct materials:			
Beginning inventory (not given)	$ 674,730		
Purchases (net)	2,268,000		
Direct materials available	2,942,730		
Ending inventory	(535,500)		
Direct materials put into production		2,407,230	
Direct labor		2,520,000	
Manufacturing overhead:			
Depreciation	$ 396,900		
Insurance	119,700		
Maintenance	76,230		
Plant heat, Light, and power	234,360		
Indirect labor	201,600		
Property taxes	82,530		
Miscellaneous	200,970		
Total manufacturing overhead		1,312,290	
Total manufacturing costs incurred			6,239,520
Total work in process during the year			6,330,170

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Ending Work-in-process inventory	(154,980)
Cost of goods manufactured	$ 6,175,190

(b):

Moline Company
Cost of Goods Sold Statement
For the Year Ended December 31

Beginning Finished goods inventory	$ 280,000
Cost of goods manufactured	6,175,190
Cost of goods available for sale	6,455,190
Ending Finished goods inventory	(567,000)
Cost of goods sold	$ 5,888,190

(c):

Moline Company
Gross Margin Income Statement
For the Year Ended December 31

Revenues		$ 6,687,500
Cost of goods sold		5,888,190
Gross margin		799,310
Marketing costs [$233,100 + 10,080]	243,180	
Administrative costs [$323,820 + 113,400 + 51,660]	488,880	
Total expenses		732,060
Operating profit		$ 67,250

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153) Essay
(a) $75 + x − 85 = 326; x = $336
(b) $326 + x + 135 = $686; x = $225
(c) $80 + 686 − 30 = $736
(d) $826 − 110 = $716

154) Essay

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(a)

Shawnee Production Company
Cost of Goods Manufactured and Sold Statement
For the Month Ended January 31

Beginning Work-in-Process inventory		$ 2,100
Direct Materials:		
Beginning inventory	$ 8,000	
Purchases	18,000	
Ending inventory	(8,700)	
Direct materials put into production		17,300
Direct labor		10,400
Manufacturing overhead:		
Indirect labor	5,000	
Depreciation on machinery	3,000	
Rent on building	7,000	
Total manufacturing overhead		15,000
Total work-in-process during the month		44,800
Ending work-in-process Inventory		(3,200)
Cost of goods manufactured		$ 41,600
Beginning finished goods inventory		5,000
Finished goods available for sale		46,600
Ending finished goods inventory		(5,700)
Cost of goods sold		$ 40,900

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(b)

Shawnee Production Company
Gross Margin Income Statement
For the Month Ended January 31

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Sales	$ 55,300
Cost of goods sold	40,900
Gross margin	14,400
Selling and administrative expenses	6,300
Operating profit	8,100

155) Essay

(a) $175 + x − 155 = 572; x = $552

(b) $572 + x + 255 = $1,095; x = $268

(c) $220 + 1,095 − 190 = $1,125

(d) $1,415 − 310 = $1,105

156) Essay

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(a)

Navaho Industries
Cost of Goods Manufactured and Sold Statement
For the Month Ended July 31

Beginning Work-in-Process Inventory		$ 1,100
Direct Materials:		
Beginning inventory	$ 8,000	
Purchases	24,000	
Ending direct materials	(6,700)	
Direct materials put into production		25,300
Direct labor		13,200
Manufacturing overhead:		
Indirect labor	6,500	
Depreciation on machinery	3,600	
Rent on building	8,400	
Total manufacturing overhead		18,500
Total work-in-process during the month		58,100
Ending work-in-process inventory		(1,600)
Cost of goods manufactured		$ 56,500
Beginning finished goods inventory		9,000
Finished goods available for sale		65,500
Ending finished goods inventory		(6,800)
Cost of goods sold		$ 58,700

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(b)

Sales	$ 75,300
Cost of goods sold	58,700

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Gross margin	16,600
Selling & administrative expenses	8,900
Operating profit	$ 7,700

157) Essay

(a) [$501,600 + 3,500,400 − 338,800] + 2,008,600 + 5,368,800 = x; x = $11,040,600

(b) $202,000 + 11,040,600 = x; x = $11,242,600

(c) $11,242,600 − 115,800 = x; x = $11,126,800

(d) $614,800 + 11,126,800 − 1,022,000 = x; x = $10,719,600

(e) [$501,600 + 3,500,400 − 338,800] + 2,008,600 = x; x = $5,671,800

(f) $2,008,600 + 5,368,800 = x; x = $7,377,400

158) Essay

(a) [($125,400 + 875,100 − 84,700) + 502,150 + 1,364,700] = x; x = $2,782,650

(b) $50,500 + 2,782,650 = x; x = $2,833,150

(c) $2,833,150 − 28,950 = x; x = $2,804,200

(d) $153,700 + 2,804,200 − 255,500 = x; x = $2,702,400

159) Essay

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Mobile Device Retail
Gross Margin Income Statement
For the Month Ended May 31

Sales revenue		$ 1,650,000
Merchandise inventory (5/1)	$ 118,200	
Purchases	1,091,000	
Freight-in	54,600	
Goods available for sale	1,263,800	
Less merchandise inventory (5/31)	(124,600)	
Cost of goods sold		1,139,200
Gross margin		510,800
Selling and administrative expenses:		
Sales commissions	247,500	
Store rent	84,000	
Utilities	57,200	
Administrative	115,100	
Total selling and administrative expenses		503,800
Operating profit		7,000

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160) Essay

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Fowler Retail
Gross Margin Income Statement
For the Month Ended August 31

Sales revenue		$ 1,155,000
Merchandise inventory (8/1)	$ 87,220	
Purchases	763,700	
Freight-in	30,300	
Goods available for sale	881,220	
Less merchandise inventory (5/31)	(82,740)	
Cost of goods sold		798,480
Gross margin		356,520
Selling and administrative expenses:		
Sales commissions	173,300	
Store rent	58,800	
Utilities	40,400	
Administrative	80,600	
Total selling and administrative expenses		353,100
Operating profit		$ 3,420

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161) Essay

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	Opportunity Cost	Variable Cost	Fixed Cost	Direct Materials	Direct Labor	Product Cost Manufacturing Overhead	Selling Cost
Facility rent			X			X	
Utilities			X			X	
Personal computer depreciation			X			X	
Equipment rent			X			X	
Materials cost		X		X			
Labor cost		X			X		
Present salary	X						
Advertising			X				X

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162) Essay

(a)

Beginning materials inventory	$ 36,000
Add: Purchases of raw materials	69,000
Raw materials available for use	105,000
Deduct: Ending raw materials inventory	24,000
Raw materials used in production	$ 81,000

(b)

Cost of goods manufactured	$ 146,000
Add: Beginning finished goods inventory	57,000
Goods available for sale	203,000
Deduct: Ending finished goods inventory	28,000
Cost of goods sold	$ 175,000

163) Essay

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(a)

Beginning raw materials inventory	$ 26,000
Add: Purchases of raw materials	76,000
Raw materials available for use	102,000
Deduct: Ending raw materials inventory	21,000
Raw materials used in production	$ 81,000

(b)

Cost of goods manufactured	$ 129,000
Add: Beginning finished goods inventory	52,000
Goods available for sale	181,000
Deduct: Ending finished goods inventory	35,000
Cost of goods sold	$ 146,000

164) Essay

(a) Product costs consist of direct materials, direct labor, and manufacturing overhead:

Direct materials		$ 135,000
Direct labor		73,000
Manufacturing overhead:		
Utilities, factory	$ 11,000	
Indirect labor	29,000	
Depreciation of production equipment	31,000	71,000
Total product costs		$ 279,000

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(b) Period costs consist of all costs other than product costs:

Administrative salaries	$ 101,000
Sales commissions	69,000
Depreciation of administrative equipment	40,000
Advertising	94,000
Total period costs	$ 304,000

165) Essay

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Product costs consist of direct materials, direct labor, and manufacturing overhead:

Direct materials		$ 119,000
Direct labor		117,000
Manufacturing overhead		
Property taxes, factory	$ 6,000	
Indirect labor	36,000	
Depreciation of production equipment	56,000	98,000
Total product costs		$ 334,000

Administrative travel	$ 113,000
Sales commissions	56,000
Marketing salaries	47,000
Advertising	63,000
Total period costs	$ 279,000

166) Essay

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Youngstown Corporation
Income Statement
For Month Ended October 31

Sales		$ 273,000
Cost of Goods Sold:		
Beginning Finished Goods Inventory	$ 45,000	
Add: Cost of goods manufactured	183,000	
Goods available for sale	228,000	
Deduct: Ending Finished Goods Inventory	34,000	194,000
Gross margin		79,000
Selling and administrative expenses:		
Selling expenses	26,000	
Administrative expenses	47,000	73,000
Net operating income		$ 6,000

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167) Essay

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Mountain Life, Incorporated
Income Statement
For Month Ended July 31

Sales		$ 295,000
Cost of Goods Sold:		
Beginning Merchandise Inventory	$ 25,000	
Add: Purchases	215,000	
Goods available for sale	240,000	
Deduct: Ending Merchandise Inventory	30,000	210,000
Gross margin		85,000
Selling and administrative expenses:		
Selling expenses	24,000	
Administrative expenses	29,000	53,000
Net operating income		$ 32,000

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168) Essay

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Cost Description	Possible Measure of Activity	
1. Cost of heating a hardware store	Dollar sales	Fixed
2. Windshield wiper blades installed on autos at an auto assembly plant	Number of autos assembled	Variable
3. Cost of tomato sauce used at a pizza shop	Pizzas cooked	Variable
4. Cost of shipping bags of fertilizer to a customer at a chemical plant	Bags shipped	Variable
5. Cost of electricity for production equipment at a snowboard manufacturer	Snowboards produced	Variable
6. Cost of renting production equipment on a monthly basic at a snowboard manufacturer	Snowboards produced	Fixed
7. Cost of vaccine used at a clinic	Vaccines administered	Variable
8. Cost of sales at a hardware store	Dollar sales	Variable
9. Receptionist's wages at dentist's office	Number of patients	Fixed
10. Salary of production manager at a snowboard manufacturer	Snowboard produced	Fixed

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169) Essay

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Cost Description	Possible Measure of Activity	
1. Cost of renting production equipment on a monthly basis at a surfboard manufacturer	Surfboards produced	Fixed
2. Pilot's salary on a regularly scheduled commuter airline	Number of passengers	Fixed
3. Cost of dough used at a pizza shop	Pizzas cooked	Variable
4. Janitorial wages at a surfboard manufacturer	Surfboards produced	Fixed
5. Cost of shipping bags of garden mulch to a retail garden store	Bags shipped	Variable
6. Salary of production manager at a surfboard manufacturer	Surfboards produced	Fixed
7. Property tax on corporate headquarters building	Dollar sales	Fixed
8. Cost of heating an electronics store	Dollar sales	Fixed
9. Shift manager's wages at a coffee shop	Dollar sales	Fixed
10. Cost of bags used in packaging chickens for shipment to grocery stores	Crates of chicken shipped	Variable

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170) Essay

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Cost description	Cost Object	
1. Supervisor's wages in a computer manufacturing facility	A particular personal computer	Indirect
2. Salary of the president of a home construction company	A particular home	Indirect
3. Cost of tongue depressors used in an outpatient clinic at a hospital	The outpatient clinic	Direct
4. Cost of lubrication oil used at the auto repair shop of an automobile dealer	The auto repair shop	Direct
5. Manger's salary at a hotel run by a chain of hotels	The particular hotel	Direct
6. Cost of screws used to secure wood trim in a yacht at a yacht manufacturer	A particular yacht	Indirect
7. Accounting professor's salary	The Accounting Department	Direct
8. Cost of a measles vaccine administered at an outpatient clinic at a hospital	A particular patient	Direct
9. Cost of electronic navigation system installed in a yacht at a yacht manufacturer	A particular patient	Direct
10. Wood used to build a home	A particular home	Direct

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171) Essay

(a) $40 + 210 − 50 = x; x = $200

(b) $65 + ($200 + 350 + 153) − 80 = x; x = $688

(c) $100 + 688 − 95 = x; x = $693

172) Essay

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	12/31/22	12/31/23	12/31/24
Beginning direct materials	$ 50,250	$ **34,165 F**	$ 45,210
Purchases of direct materials	**75,300 A**	65,250	70,125
Ending direct materials	34,165	45,210	**40,350 L**
Direct materials used	91,385	54,205	**74,985 M**
Direct labor	**165,525 B**	155,500	162,000
Manufacturing overhead	115,325	**110,450 G**	127,145
Total manufacturing costs	**372,235 C**	319,705	364,130
Beginning work-in-process inventory	36,450	**21,985 H**	29,635
Ending work-in-process inventory	21,985	29,635	**30,845 N**
Costs of goods manufactured	386,700	**312,055 I**	362,920
Beginning finished goods inventory	37,000	**46,200 J**	42,500
Ending finished goods inventory	**46,200 D**	42,500	39,550
Cost of goods sold	377,500	315,755	**365,870 O**
Net sales	550,000	495,000	**535,000 P**
Selling and Administrative Expenses	135,950	**132,995 K**	130,130
Net income	**36,550 E**	46,250	39,000

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173) Essay

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Ryan's Lazer Lighting, Incorporated
Cost of Goods Manufactured and Sold Statement
For the Year Ended December 31, 2022

Beginning Work-In-Process Inventory, January 1			$ 20,000
Manufacturing costs during the year:			
Direct Materials:			
Beginning Inventory, January 1	$ 100,000		
Add Purchases	600,000		
Total Direct Materials Available	$ 700,000		
Less Ending Inventory, December 31	75,000		
Direct Materials Put Into Production		$ 625,000	
Direct Labor		425,000	
Manufacturing Overhead			
Indirect Materials	$ 150,000		
Factory Utilities	50,000		
Indirect Labor	90,000		
Factory Rent	80,000		
Total Manufacturing Overhead		370,000	
Total Manufacturing Costs incurred during the year			$ 1,420,000
Total Work-In-Process during the year			$ 1,440,000
Less Ending Work-in-Process Inventory, December 31			10,000
Cost of Goods Manufactured			$ 1,430,000
Beginning Finished Goods Inventory, January 1			250,000
Total Goods Available for Sale			1,680,000

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Less Ending Finished Goods Inventory, December 31	215,000
Cost of Goods Sold	$ 1,465,000

174) Essay
An outlay cost is any cash outflow, either past, present, or future. An expense is a cost that is charged against revenue in an accounting period. **Not** all outlay costs are expenses—they may have future benefit, in which case they are assets. An opportunity cost is **not** an outlay—it is the benefit that is forgone or **not** being received by choosing one alternative over another.

175) Essay
A cost is a sacrifice of resources. It may be either an outlay cost or an opportunity cost. A cost object is any end for which we want to know the cost. A cost pool is a collection of costs to be assigned to the cost objects.

176) Essay
Direct materials inventory contains the raw materials (or the costs of the materials) that will be used in production. Work in process contains the products (or the accumulated costs) that have been started into production but are **not** yet completed. Finished goods contains the completed products (or the cost of it) that are **not** yet sold. Cost of goods sold contains the costs associated with the products that have been sold.

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177) Essay
Cost of goods manufactured consists of all the costs attached to the products completed during the period. Cost of goods manufactured is removed from the work in process inventory account and added to the finished goods inventory account. Cost of goods sold consists of the costs of the goods that are sold during the period. Cost of goods sold is removed from the finished goods inventory account and expensed on the income statement.

178) Essay
A direct cost is any cost that can be directly and unambiguously related to a cost object in an economic fashion. An indirect cost is any cost that **cannot** be directly related to a cost object.

179) Essay

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Jamison Tools Company
Cost of Goods Manufactured Statement
For the Year Ended December 31, 2022

Beginning Work-In-Process Inventory, January 1			$ 27,000
Manufacturing costs during the year:			
Direct Materials:			
Beginning Inventory, January 1	$ 96,000		
Add Purchases	654,000		
Total Direct Materials Available	$ 750,000		
Less Ending Inventory, December 31	87,000		
Direct Materials Put Into Production		$ 663,000	
Direct Labor		425,000	
Manufacturing Overhead			
Factory Rent	$ 330,000		
Plant Utilities	40,000		
Indirect Labor	28,000		
Indirect Materials	66,000		
Total Manufacturing Overhead		464,000	
Total Manufacturing Costs incurred during the year			$ 1,552,000
Total Work-In-Process during the year			$ 1,579,000
Less Ending Work-in-Process Inventory, December 31			33,000
Cost of Goods Manufactured			$ 1,546,000

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Jamison Tools Company
Income Statement
For Year Ended December 31, 2022

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Sales Revenue		$ 2,550,000
Cost of Goods Sold:		
Beginning Finished Goods Inventory (January 1)	$ 25,000	
Cost of Goods Manufactured	1,546,000	
Ending Finished Goods Inventory (December 31)	(44,000)	
Cost of Goods Sold		1,527,000
Gross Margin		$ 1,023,000
Selling and Administrative Expenses:		
Marketing Expenses	$ 225,000	
Administrative expenses	101,350	
Total expenses		326,350
Operating profits		$ 696,650

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180) Essay

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Garden Master Company
Cost of Goods Manufactured Statement
For the Year Ended December 31, 2022

Beginning Work-In-Process Inventory, January 1			$ 50,000
Manufacturing costs during the year:			
Direct Materials:			
Beginning Inventory, January 1	$ 50,000		
Add Purchases	325,000		
Total Direct Materials Available	$ 375,000		
Less Ending Inventory, December 31	45,000		
Direct Materials Put Into Production		$ 330,000	
Direct Labor		550,000	
Manufacturing Overhead			
Factory Rent	$ 80,000		
Plant Utilities	25,000		
Indirect Labor	25,000		
Indirect Materials	50,000		
Total Manufacturing Overhead		180,000	
Total Manufacturing Costs incurred during the year			$ 1,060,000
Total Work-In-Process during the year			$ 1,110,000
Less Ending Work-in-Process Inventory, December 31			55,000
Cost of Goods Manufactured			$ 1,055,000

Garden Master Company
Income Statement
For Year Ended December 31, 2022

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Sales Revenue		$ 1,825,000
Cost of Goods Sold:		
Beginning Finished Goods Inventory (January 1)	$ 50,000	
Cost of Goods Manufactured	1,055,000	
Ending Finished Goods Inventory (December 31)	(75,000)	
Cost of Goods Sold		1,030,000
Gross Margin		795,000
Selling and Administrative Expenses:		
Marketing Expenses	$ 180,000	
General and Administrative	130,000	
Total expenses		310,000
Operating profits		$ 485,000

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181) Essay

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Statement of Cost of Goods Manufactured for July

Michael Corporation
Cost of Goods Manufactured Statement
For the Month Ended July 31

Beginning Work-In-Process Inventory, July 1			$ 15,000
Manufacturing costs during the year:			
Direct Materials:			
Beginning Inventory, July 1	$ 22,000		
Add Purchases	76,000		
Total Direct Materials Available	98,000		
Less Ending Inventory, July 31	33,000		
Direct Materials Put Into Production		$ 65,000	
Direct labor		42,000	
Manufacturing overhead		77,000	
Total Manufacturing Costs incurred during the year			$ 184,000
Total Work-In-Process during the year			199,000
Less Ending Work-in-Process Inventory, July 31			23,000
Cost of goods manufactured			$ 176,000

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Michael Corporation
Income Statement
For the Month Ended July 31

Sales Revenue		$ 280,000
Cost of goods sold:		
Beginning Finished Goods Inventory (July 1)	$ 52,000	
Cost of Goods Manufactured	176,000	

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Ending Finished Goods Inventory (July 31)	(43,000)	
Cost of Goods Sold		185,000
Gross margin		95,000
Selling and Administrative Expenses:		
Selling expenses	20,000	
Administrative expenses	35,000	
Total expenses		55,000
Operating profits		$ 40,000

182) Essay

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(a)

Crossover Company
Gross Margin Income Statement
(Absorption Costing)

	2022	2023	Total
Sales (25,000 × $45)	$ 1,125,000	$ 1,125,000	$ 2,250,000
Cost of Goods Sold:			
Beginning Inventory	$ 0	$ 175,000	$ 0
Current Production 2022: ($30 variable + $5 fixed) × 30,000); 2023: ($30 variable + $7.50 fixed) × 20,000)	1,050,000	750,000	
Ending Inventory (30,000 − 25,000) × $35)	(175,000)	0	0
Cost of Goods Sold	875,000	925,000	1,800,000
Gross Margin	250,000	200,000	450,000
Marketing Costs	75,000	75,000	150,000
Operating Income	$ 175,000	$ 125,000	$ 300,000

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(b)

Crossover Company
Contribution Margin Income Statement
(Variable Costing)

	2022	2023	Total
Sales (25,000 × $45)	$ 1,125,000	$ 1,125,000	$ 2,250,000
Variable Costs (25,000 × $30)	750,000	750,000	1,500,000
Contribution Margin	375,000	375,000	750,000
Fixed Manufacturing Costs	150,000	150,000	300,000
Fixed Marketing Costs	75,000	75,000	150,000
Operating Income	$ 150,000	$ 150,000	$ 300,000

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(c) In 2022, production exceeded sales by 5,000 units. $25,000 of fixed manufacturing costs ($150,000/30,000 = $5 per unit × 5,000 units) are inventoried under absorption costing but expensed under variable costing. This gives the appearance of a higher profit in 2022 for absorption costing. In 2023, the sales exceeded production. The inventoried costs from 2022 flow through to cost of goods sold in 2023 under absorption costing. These same costs had already been expensed in 2022 under variable costing. This gives variable costing the higher income. The total for both methods is the same for both years since all revenues and costs are the same and no inventory remains at the end of 2023.

183) Essay

(a) $6.75 [($550,000 + $400,000 + $100,000 + $300,000 = $1,350,000/200,000 = $6.75)]

(b) $5.25 [($550,000 + $400,000 + $100,000 = $1,050,000/200,000 = $5.25)]

(c) $5,050,000 [(Sales ($6,400,000) − COGS ($1,080,000) − Marketing ($270,000))]

(d) $4,990,000 [(Sales ($6,400,000) − Variable cost of goods sold ($840,000) − Fixed overhead ($300,000) − Marketing (270,000))]

(e) $270,000 [(40,000 units × $6.75)]

(f) $210,000 [(40,000 units × $5.25)]

(g)

Operating income, absorption costing	$ 5,050,000
Operating income, variable costing	4,990,000
Excess of absorption operating income over variable operating income	$ 60,000

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Fixed manufacturing overhead / Units produced = $300,000 / 200,000 = $1.50 per unit

Change in inventory	Fixed Overhead Rate	Difference in Fixed Overhead Expensed (variable costing)
40,000 units	× $1.50	= $60,000

184) Essay

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(a)

Sales revenue		$ 20,000,000
Variable cost of goods sold:		
Materials cost	$ 2,896,440	
Conversion cost	1,132,700	$ 4,029,140
Contribution margin(1):		$ 15,970,860
Fixed expenses:		
Fixed production costs:	8,634,600	
Fixed operating costs:	7,055,080	$ 15,689,680
Operating income(2):		$ 281,180
Inventory:		
Beginning inventory:	$ 1,150,000	
+ Variable cost of goods manufactured:	4,207,140	
– Variable Cost of goods sold:	4,029,140	
Ending inventory(3)	$ 1,328,000	

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Note: Variable cost of goods sold is based on 144 units of part C-2472, 80 units of part D-1340 and 1,140 units of all other parts. The increase in inventory from $1,150,000 to $1,328,000 ($178,000) equals 40 units of part D-1340 × variable cost per unit of $4,450.

(b)

Sales revenue		$ 21,065,000
Variable cost of goods sold:		
Materials cost	$ 2,997,690	
Conversion cost	1,164,950	$ 4,162,640
Contribution margin(1):		$ 16,902,360
Fixed expense:		
Fixed production costs:	8,634,600	
Fixed operating costs:	7,055,080	$ 15,689,680

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Operating income(2):		$ 1,212,680
Inventory:		
Beginning inventory:	$ 1,150,000	
+ Variable Cost of goods manufactured:	4,207,140	
- Variable Cost of goods sold:	4,162,140	
Ending inventory(3)	$ 1,194,500	

Note: Variable cost of goods sold is based on 144 units of part C-2472, 110 units of part D-1340 and 1,140 units of all other parts. Notice also that revenues have increased by $1,065,000 for 30 additional units of part D-1340 at $35,500 per unit. Variable expenses have increased by $133,500 for the additional 30 units of part D-1340 at $4,450 per unit. Overall, the contribution margin and operating income are $931,500 higher than in requirement (a) ($1,065,000 – $133,500 = $931,500).

(c) Alternative costing methods typically result in different income numbers. Why?

- The determination of product and period costs varies depending on the costing approach used. Absorption costing incudes all fixed and variable manufacturing costs as product costs, whereas, variable costing only includes variable manufacturing costs as product costs. Fixed manufacturing overhead costs are expensed in the period they are incurred.
- Timing is a major reason for different income amounts. A cost may be accounted for as an asset or an expense. If the cost is record as an asset, it doesn't become an expense on the income statement until the asset has been consumed.
- Producing more units in a period than sold can also result in different income amounts. Under absorption costing the fixed manufacturing overhead costs for unsold units are included in inventory on the balance sheet and moved to cost of goods sold on the income statement when the units are sold. Under variable costing; however, fixed manufacturing overhead costs are expensed as incurred.
- Because managers are typically rewarded on the basis of income.
- Managers want to maximize income.
- Sometimes the actions managers may take to maximize income may not be in the long-term best interest of the company.
- Absorption costing and, also variable costing to some extent, will motivate managers to produce more in order to reduce the average costs.

185) Essay

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(a)

Sales revenue		$ 5,200,000
Absorption cost goods sold:		
Materials cost	$ 758,010	
Variable conversion cost	294,360	
Fixed manufacturing cost	2,158,650	$ 3,211,020
Gross margin (1)		$ 1,988,980
Operating expense:		
Fixed operating costs	1,765,530	$ 1,765,530
Operating income(2)		$ 223,450
Inventory:		
Beginning inventory	$ 275,000	
+ Cost of goods manufactured	3,211,020	
- Cost of goods sold	3,211,020	
Ending inventory (3)	$ 275,000	

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Note: Absorption cost of goods sold is based on 72 units of part C-1849, 60 units of part D-1251 and 570 units of all other parts.

(b)

Sales revenue		$ 5,200,000
Absorption cost goods sold:		
Materials:	$ 758,010	
Variable conversion:	294,360	
Fixed manufacturing:	2,071,384	$ 3,123,754
Gross margin:		$ 1,988,980
Operating expense:		
Fixed operating costs:	1,765,530	$ 1,765,530

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Operating income:			$ 310,716
Inventory:			
Beginning inventory:	$ 275,000		
+ Cost of goods manufactured:	3,253,270	(increase by $42,250 for the materials costs incurred for the 25 additional units of part D-1251 produced, at $1,690 per unit)	
– Cost of goods sold:	3,123,754		
Ending inventory	$ 404,516		

Note: Absorption cost of goods sold is based on 72 units of part C-1849, 60 units of part D-1251 and 570 units of all other parts. Fixed manufacturing cost has changed from $2,158,650 to $2,071,384 as follows:
$2,158,650 – $13,500 = $2,145,150; $2,145,150 /727 units = $2,950.69 per unit; = $2,950.69 × 702 units = $2,071,384.
The amount of $13,500 is the variable conversion cost assigned to the 25 additional units of part D-1251 that are produced ($540 × 25 units = $13,500); this amount is deducted from fixed manufacturing costs.

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(c)

Sales revenue		$ 5,200,000
Variable cost of goods sold:		
Materials cost	$ 758,010	
Conversion cost	294,360	$ 1,052,370
Contribution margin		$ 4,147,630
Fixed expense:		
Fixed manufacturing costs:	2,145,150	
Fixed operating costs:	1,765,530	$ 3,910,680
Operating income		$ 236,950
Inventory:		

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Beginning inventory:	275,000	
+ Cost of goods manufactured:	1,108,120	(includes an additional $42,250 for the materials costs and $13,500 for the variable conversion costs incurred for the 25 additional units of part D-1251)
– Cost of goods sold:	1,052,370	
Ending inventory	330,750	

Note: Variable cost of goods sold is based on 72 units of part C-1849, 60 units of part D-1251 and 570 units of all other parts. Fixed manufacturing costs has changed from $2,158,650 to $2,145,150 as follows:
$2,158,650 – $13,500 = $2,145,150. The amount of $13,500 is the variable conversion cost assigned to the 25 additional units of part D-1251 that are produced ($540 × 25 units = $13,500); this amount is deducted from fixed manufacturing costs.
The difference in operating income from the use of variable versus absorption costing is $73,766, which comes entirely from the amount of fixed production costs considered in the two methods ($2,145,150 – $2,071,384). Under absorption costing, this amount is carried to inventory as the fixed manufacturing costs for the 25 additional units produced ($2,145,150 /727 units = $2,950.69; $2,950.69 × 25 units × $73,767).

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(a)

Hurwitz Corporation
Cost of Goods Manufactured Statement
For the Year Ended December 31, 2022

Beginning Work-in-Process Inventory, January 1		$ 64,000
Manufacturing costs during the year:		
Direct Materials:		
Beginning Inventory, January 1	$ 200,000	
Add Purchases	318,000	
Total Direct Materials Available	$ 518,000	
Less Ending Inventory, December 31	210,000	
Direct Materials Put Into Production		$ 308,000
Direct Labor		180,000
Manufacturing Overhead:		
Plant Utilities	$ 50,000	
Plant and Equipment Depreciation	40,000	
Indirect Materials	30,000	
Indirect Labor	150,000	
Other Manufacturing Overhead	60,000	
Total Manufacturing Overhead Costs	330,000	
Total Manufacturing Costs Incurred During the Year		$ 818,000
Total Work-in-Process During the Year		$ 882,000
Less Ending Work-in-Process Inventory, December 31		120,000
Cost of Goods Manufactured		$ 762,000

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(b)

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Hurwitz Corporation
Statement of Cost of Goods Sold
For the Year Ended December 31, 2022

Beginning Finished Goods Inventory, January 1	$ 80,000
Cost of Goods Manufactured	762,000
Total Goods Available for Sale	$ 842,000
Ending Finished Goods Inventory, December 31	(150,000)
Cost of Goods Sold	$ 692,000

(c)

Hurwitz Corporation
Income Statement
For Year Ended December 31, 2022

Sales Revenue	$ 1,250,000
Cost of Goods Sold	692,000
Gross Margin	558,000
Selling and Administrative Expenses	150,000
Income Before Income Taxes	408,000
Income Tax Expense	122,400
Net Income	$ 285,600

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187) Essay

A cost manager implementing a costing system must make other individuals aware of the following basics of cost management systems.

Resources and costs

- Resources are consumed by organizations to transform inputs into outputs
- Resources are not free
- A distinction must be made between resources acquired and resources used
- Some resources are acquired in advance, whereas others are acquired as needed
- The resources acquired may not all be used, thereby creating excess capacity
- Additional demand may require acquiring additional resources
- Resources are identified by three dimensions:
- type of resource acquired (material, conversion, operating)
- how the resource is used (production, non-production)
- how traceable a resource is to a particular decision (direct, indirect)
- The nature of supply and use of resources gives rise to different costing systems
- Three alternative costing systems exist.
- Variable costing
- Absorption costing

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