Cornerstones of Managerial Accounting 6th edition Mowen Test Bank

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Chapter 2 - Basic Managerial Accounting Concepts

1. It is beneficial to assign indirect costs to cost objects.
   a. True
   b. False

   ANSWER: True

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

   ANSWER: False

3. Accumulating costs is the way that costs are measured and recorded.
   a. True
   b. False

   ANSWER: True

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

   ANSWER: True

5. Assigning costs tells the accountant who spent the money.
   a. True
   b. False

   ANSWER: False

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

   ANSWER: True

7. Costs are directly, *not i*ndirectly, associated with cost objects.
   a. True
   b. False

   ANSWER: False

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

   ANSWER: False
   RATIONALE: Direct costs are those costs that can be easily and accurately traced to a cost object.

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

   ANSWER: True

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

    ANSWER: True

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

    ANSWER: False
    RATIONALE: A variable cost is one that does increase in total as output increase and does not decrease in total as output decreases.

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

    ANSWER: True

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

    ANSWER: True

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

    ANSWER: True

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

    ANSWER: True

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16. The revenue per unit is called cost.
    a. True
    b. False

    ANSWER: False
    RATIONALE: The revenue per unit is called price.

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

    ANSWER: True

18. Costs are incurred to produce future benefits.
    a. True
    b. False

    ANSWER: True

19. Expired costs are called assets.
    a. True
    b. False

    ANSWER: False

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

    ANSWER: False

21. Costs can be assigned to cost objects in only one way.
    a. True
    b. False

    ANSWER: False
    RATIONALE: Costs can be assigned to cost objects in a number of ways.

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

    ANSWER: True

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

    ANSWER: False
    RATIONALE: Glue used in the manufacture of cabinets would be an example of a variable cost.

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

    ANSWER: False

25. Research and development costs would be classified as product cost.
    a. True
    b. False

    ANSWER: False
    RATIONALE: Research and development costs would be classified as period costs.

26. Product costs include direct materials, direct labor, and selling costs.
    a. True
    b. False

    ANSWER: False

27. All product costs other than direct materials and indirect labor are called overhead.
    a. True
    b. False

    ANSWER: False

28. Direct materials can be directly traced to the goods or services being produced.
    a. True
    b. False

    ANSWER: True

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

    ANSWER: False
    RATIONALE: Any costs associated with storing, selling, and delivering the product are classified as *period* costs.

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30. Prime cost is the sum of direct materials cost and direct labor cost.
    a. True
    b. False

    ANSWER: True

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

    ANSWER: False

32. Marketing costs would be classified as period costs.
    a. True
    b. False

    ANSWER: True

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

    ANSWER: True

34. Period costs are all costs that are *not* product costs, such as office supplies.
    a. True
    b. False

    ANSWER: True

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

    ANSWER: False
    RATIONALE: Employees who convert direct materials into a product or who provide a service to customers are classified as *direct* labor.

36. All manufacturing costs are classified as overhead.
    a. True
    b. False

    ANSWER: False
    RATIONALE: All manufacturing costs are classified as direct materials, direct labor, or overhead.

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37. For external reporting purposes, costs must be classified into only three categories.
    a. True
    b. False

    ANSWER: True

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

    ANSWER: False

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

    ANSWER: True

40. Sales revenue equals the product cost per unit times the number of units sold.
    a. True
    b. False

    ANSWER: False

41. Gross margin is the difference between sales revenue and cost of goods sold.
    a. True
    b. False

    ANSWER: True

42. Expired costs are called _____.

    ANSWER: expenses

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

    ANSWER: Cost

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

    ANSWER: Assigning costs

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

    ANSWER: cost object

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

    ANSWER: direct costs

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

ANSWER: allocation.

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

ANSWER: opportunity cost

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

ANSWER: fixed cost

50. Organizations that produce products are called _____.

ANSWER: manufacturing organizations

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

ANSWER: Product costs

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

ANSWER: direct materials.

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

ANSWER: service activities or services

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

ANSWER: Total product cost

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

ANSWER: manufacturing overhead.

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

ANSWER: Conversion cost

57. _____ and _____ costs are considered period costs.

ANSWER: Selling and administrative
selling, administrative
administrative, selling

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

ANSWER: direct labor.

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

ANSWER: Work in process

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

ANSWER: gross margin

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

ANSWER: cost of goods manufactured

62. Expired costs are called
    a. fixed.
    b. costs.
    c. expenses.
    d. profit.

ANSWER: c

63. Assigning costs to cost objects
    a. provides information for decision making.
    b. can be accomplished in a number of ways.
    c. can be a simple or complex process.
    d. do all of these.

ANSWER: d

64. An indirect cost
    a. can be easily and accurately traced to a cost object.
    b. is hard to trace.
    c. should never be assigned to a cost object.
    d. do none of these.

ANSWER: b

65. A variable cost in total
    a. increases as output increases and decreases as output decreases.
    b. increases as output increases and/or decreases.
    c. remains constant no matter the level of output.
    d. increases as output decreases and decreases as output increases.

ANSWER: a

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66. Cost is:
    a. the difference between sales revenue and cost of goods sold.
    b. the benefit given up or sacrificed when one alternative is chosen over another.
    c. the amount of cash or cash equivalent sacrificed for goods and/or services that are expected to bring a current or future benefit to the organization.
    d. the revenue per unit.

    ANSWER: c

67. Price is *not*:
    a. the revenue per unit.
    b. greater than cost in order for the firm to earn income.
    c. the same as cost.
    d. the same as cost per unit plus the income per unit.

    ANSWER: c

68. Assigning costs
    a. involves the way that a cost is linked to some cost object.
    b. occurs in both manufacturing and service businesses.
    c. to a cost object using a reasonable and convenient method is allocation.
    d. all of these.

    ANSWER: d

69. An opportunity cost is:
    a. the benefit given up or sacrificed when one alternative is chosen over another.
    b. the cost to market, distribute, and service a product or service.
    c. the total product cost of goods completed during the current period and transferred to finished goods inventory.
    d. the difference between sales revenue and cost of goods sold.

    ANSWER: a

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

    ANSWER: a

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

    ANSWER: b

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

    ANSWER: d

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

    ANSWER: c

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

    ANSWER: d

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

    ANSWER: b

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

    ANSWER: a

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

    ANSWER: d

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

    ANSWER: d

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

    ANSWER: a

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

    ANSWER: b

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

    ANSWER: a

82. Overhead includes
    a. indirect labor.
    b. indirect materials.
    c. factory supplies.
    d. all of these.

    ANSWER: d

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83. Which of the following would *not* be included in overhead?
    a. marketing costs
    b. property taxes on the factory
    c. factory utility costs
    d. deprecation on factory machinery

    ANSWER: a

84. Indirect labor would include
    a. salary of the vice-president of marketing.
    b. salary of CEO.
    c. salary of factory supervisor.
    d. none of these are correct.

    ANSWER: c

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

    ANSWER: a

86. Prime cost is
    a. indirect materials cost and direct labor cost.
    b. direct materials cost and direct labor cost.
    c. direct labor cost and indirect labor cost.
    d. direct materials cost and indirect labor cost.

    ANSWER: b

87. Conversion cost is the sum of
    a. product costs and period costs.
    b. selling cost and administrative costs.
    c. direct labor cost and direct materials costs.
    d. direct labor cost and overhead costs.

    ANSWER: d

88. Period costs
    a. are selling costs and administrative costs.
    b. are used to compute product cost.
    c. can be included in overhead costs.
    d. are carried in inventory until the goods are sold.

    ANSWER: a

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89. Which of the following is an example of a period cost?
    a. research and development
    b. selling and marketing
    c. general accounting
    d. all of these

    ANSWER: d

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

    ANSWER: b

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

    ANSWER: a

92. The cost of the partially completed goods at the end of the period would be
    a. ending work in process inventory.
    b. cost of goods sold.
    c. beginning finished goods inventory.
    d. beginning work in process inventory.

    ANSWER: a

93. Product costs are expensed
    a. when the product is finished.
    b. when the product unit cost is calculated.
    c. when the product is sold.
    d. all of these are correct.

    ANSWER: c

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94. Rancor Inc. had a per-unit conversion cost of $2.50 during April and incurred direct materials cost of $100,000, direct labor costs of $75,000, and overhead costs of $45,000 during the month. How many units did they manufacture during the month?

a. 70,000

b. 18,000

c. 48,000

d. 30,000

ANSWER: c

RATIONALE: SUPPORTING CALCULATIONS:
($75,000 + $45,000) / $2.50 = $48,000

95. Lakeland Inc. manufactured 5,000 units during the month of March. They incurred direct materials cost of $100,000 and overhead cost of $40,000. If their per-unit prime cost was $26.00 per unit how much direct labor cost did they incur during March?

a. $20,000

b. $35,000

c. $90,000

d. $30,000

ANSWER: d

RATIONALE: SUPPORTING CALCULATIONS:
5,000 × $26 = $130,000 in total prime cost
Prime cost less direct materials ($100,000) = $30,000
Prime cost consists of direct materials and direct labor, therefore if total prime cost is $130,000 and total direct materials cost is $100,000, then direct labor would be $30,000.

96. During the month of January, Enterprise Inc. had total manufacturing costs of $110,000. They incurred $40,000 of direct labor cost and $30,000 of overhead cost during the month. If the materials inventory on January 1 was $3,000 less that the materials inventory on January 31, what was the cost of materials purchased during the month?

a. $37,000

b. $43,000

c. $40,000

d. none of these

ANSWER: b

RATIONALE: SUPPORTING CALCULATIONS:

Direct materials used	$ 40,000
Direct labor	$ 40,000
Overhead	$ 30,000
Total manufacturing costs	$110,000
Direct materials purchased	$ 43,000
Difference in inventory balances	(3,000)
Direct materials used	$ 40,000

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97. Production costs that are *not* attached to units that are sold are reported as:
    a. selling expenses.
    b. cost of goods sold.
    c. administrative costs.
    d. inventory.

    ANSWER: d

98. Information from the records of Cain Corporation for December of the current year is as follows:

Sales	$1,230,000
Selling and administrative expenses	210,000
Direct materials used	264,000
Direct labor	300,000
Factory overhead	405,000

	Inventories	
	Dec. 1	Dec. 31
Direct materials	$36,000	$42,000
Work in process	75,000	84,000
Finished goods	69,000	57,000

The conversion costs are:
a. $960,000.
b. $1,179,000.
c. $705,000.
d. $564,000.

ANSWER: c
RATIONALE: SUPPORTING CALCULATIONS: $300,000 + $405,000 = $705,000

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99. Information from the records of Cain Corporation for December of the current year is as follows:

Sales	$1,230,000
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Factory overhead	405,000

	Inventories	
	Dec. 1	Dec. 31
Direct materials	$36,000	$42,000
Work in process	75,000	84,000
Finished goods	69,000	57,000

The prime costs are:

a. $960,000.

b. $564,000.

c. $705,000.

d. $969,000.

ANSWER: b

RATIONALE: SUPPORTING CALCULATIONS: $264,000 + $300,000 = $564,000

Figure 2-1.
Concam Inc. manufactures television sets. Last month direct materials (electronic components, etc.) costing $500,000 were put into production. Direct labor of $800,000 was incurred, overhead equaled $450,000, and selling and administrative costs totaled $360,000. The company manufactured 8,000 television sets during the month. Assume that there were no beginning or ending work in process balances.

100. Refer to Figure 2-1. The per-unit conversion cost was:

a. $218.75.

b. $156.25.

c. $162.50.

d. $100.00.

ANSWER: b

RATIONALE: SUPPORTING CALCULATIONS: ($800,000 + $450,000) / 8,000

101. Refer to Figure 2-1. The total product costs for last month were:

a. $1,750,000.

b. $2,110,000.

c. $1,300,000.

d. $1,250,000.

ANSWER: a

RATIONALE: SUPPORTING CALCULATIONS: $500,000 + $800,000 + $450,000

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102. Refer to Figure 2-1. The total per unit prime cost was:
    a. $263.75.
    b. $62.50.
    c. $162.50.
    d. $156.25.

    ANSWER: c
    RATIONALE: SUPPORTING CALCULATIONS: ($500,000 + $800,000) / 8,000

103. Refer to Figure 2-1. What was the amount of cost of goods manufactured last month?
    a. $1,750,000
    b. $1,250,000
    c. $1,300,000
    d. $2,110,000

    ANSWER: a
    RATIONALE: SUPPORTING CALCULATIONS: $500,000 + $800,000 + $450,000

Figure 2-5.
In July, Econo Company purchased materials costing $21,000 and incurred direct labor cost of $18,000. Overhead totaled $32,000 for the month. Information on inventories was as follows:

	July 1	July 31
Materials	$6,200	$7,100
Work in process	700	1,200
Finished goods	3,300	2,700

104. Refer to Figure 2-5. What was the cost of direct materials used in July?
    a. $21,000
    b. $20,100
    c. $21,900
    d. $20,500

    ANSWER: b
    RATIONALE: SUPPORTING CALCULATIONS:

Materials 7/1	$ 6,200
Purchases	21,000
Materials 7/31	(7,100)
Materials used	$20,100

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105. Refer to Figure 2-5. What were the total manufacturing costs in July?
a. $71,000
b. $50,000
c. $69,600
d. $70,100

ANSWER: d
RATIONALE: SUPPORTING CALCULATIONS:

Materials used	$20,100
Direct labor	18,000
Overhead	32,000
Total manufacturing costs	$70,100

106. Refer to Figure 2-5. What was the cost of goods manufactured for July?
a. $70,500
b. $70,700
c. $69,600
d. $69,100

ANSWER: c
RATIONALE: SUPPORTING CALCULATIONS:

Total manufacturing costs	$70,100
Work in process 7/1	700
Work in process 7/31	(1,200)
Cost of goods manufactured	$69,600

107. Refer to Figure 2-5. What was the cost of goods sold for July?
a. $70,200
b. $69,600
c. $71,300
d. $71,100

ANSWER: a
RATIONALE: SUPPORTING CALCULATIONS:

Cost of goods manufactured	$69,600
Finished goods 7/1	3,300
Finished goods 7/31	(2,700)
Cost of goods sold	$70,200

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108. Refer to Figure 2-5. If Econo Company sold 10,000 units during July and gross margin totaled $29,800, what was the sales price per unit?
    a. $9.94
    b. $10.00
    c. $10.09
    d. $10.11

    ANSWER: b

    RATIONALE: SUPPORTING CALCULATIONS:

Gross margin	$ 29,800
Cost of goods sold	70,200
Sales (10,000 × $?)	$100,000
Sales price per unit	$10

Figure 2-7.
Gateway Company produces a product with the following per-unit costs:

Direct materials	$11
Direct labor	8
Overhead	15

Last year, Gateway produced and sold 750 units at a sales price of $68 each. Total selling and administrative expense was $22,000.

109. Refer to Figure 2-7. Prime cost per-unit was?
    a. $19
    b. $23
    c. $34
    d. $11

    ANSWER: a

    RATIONALE: SUPPORTING CALCULATIONS: $11 + $8 = $19

110. Refer to Figure 2-7. Cost of goods sold last year was?
    a. $47,500
    b. $25,500
    c. $14,250
    d. $51,000

    ANSWER: b

    RATIONALE: SUPPORTING CALCULATIONS: 750 × $34 ($11 + $8 + $15)

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111. Refer to Figure 2-7. Total operating income last year was?
   a. $29,000
   b. $51,000
   c. $25,500
   d. $3,500

   ANSWER: d
   RATIONALE: SUPPORTING CALCULATIONS:

Sales	$ 51,000
Cost of goods sold	(25,500)
Sell. and admin.	(22,000)
Operating income	$ 3,500

Figure 2-8.
Last year Quest Company incurred the following costs:

Direct materials:	$40,000
Direct labor:	60,000
Overhead	90,000
Selling expenses	24,000
Administrative expenses	22,000

Quest produced and sold 2,000 units at a sales price of $125 each. Assume that beginning and ending inventories of materials, work in process, and finished goods were zero.

112. Refer to Figure 2-8. Total period expense was?
   a. $24,000
   b. $190,000
   c. $46,000
   d. $250,000

   ANSWER: c
   RATIONALE: SUPPORTING CALCULATIONS: $24,000 + $22,000 = $46,000

113. Refer to Figure 2-8. Gross margin per-unit was?
   a. $125
   b. $7
   c. $95
   d. $30

   ANSWER: d
   RATIONALE: SUPPORTING CALCULATIONS:

Sales (2000 × $125)	$250,000
Cost of goods sold	190,000
Gross margin	$ 60,000 / 2,000 units = $30

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114. Refer to Figure 2-8. Total product costs were?
    a. $190,000
    b. $100,000
    c. $150,000
    d. $236,000

    ANSWER: a
    RATIONALE: SUPPORTING CALCULATIONS: $40,000 + $60,000 + $90,000 = $190,000

115. Refer to Figure 2-8. Conversion cost per unit was?
    a. $50
    b. $75
    c. $95
    d. $125

    ANSWER: b
    RATIONALE: SUPPORTING CALCULATIONS: ($60,000 + $90,000) / 2,000 = $75

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

    ANSWER: d

117. Which of the following would *not* be found on the income statement of a manufacturer?
    a. cost of goods sold
    b. work in process
    c. sales revenue
    d. operating income

    ANSWER: b

118. Which of the following would be found on the balance sheet of a manufacturer?
    a. work in process
    b. raw materials
    c. finished goods
    d. All of the these are correct

    ANSWER: d

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119. Which of the following would be found on the balance sheet of a manufacturer?
    a. sales revenue
    b. selling expenses
    c. factory equipment
    d. all of these are correct

    ANSWER: c

120. Gross margin equals
    a. cost of goods sold − selling and administrative expenses.
    b. direct materials + direct labor + manufacturing overhead.
    c. sales revenue − cost of goods sold.
    d. cost of goods manufactured + selling and administrative expenses.

    ANSWER: c

121. Operating income equals
    a. sales revenue − cost of goods sold − selling and administrative expense
    b. gross margin − selling expenses
    c. sales revenue − cost of goods sold
    d. sales revenue − selling and administrative expenses

    ANSWER: a

122. Gross margin percent equals
    a. gross margin/cost of goods sold.
    b. operating income/sales revenue.
    c. gross margin/sales revenue.
    d. sales revenue/gross margin.

    ANSWER: c

123. Which of the following would *not* be found on an income statement of a service organization?
    a. selling expenses
    b. cost of goods sold
    c. operating income
    d. sales revenue

    ANSWER: b

124. Which of the following can be found on the income statements of both a manufacturing and service organization?
    a. revenues
    b. operating income
    c. administrative expenses
    d. all of these can be found on both.

    ANSWER: d

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125. A manufacturer normally has
    a. one inventory account.
    b. four inventory accounts.
    c. three inventory accounts.
    d. none of these are correct.

    ANSWER: c

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

    ANSWER: d

127. On a manufacturer's income statement expenses are separated into the following three categories:
    a. production, period, and indirect
    b. materials, work in process, and finished goods
    c. production, selling, and administrative
    d. variable, fixed, and direct

    ANSWER: c

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Figure 2-2.
Lonborg Co. had the following beginning and ending inventory balances for the current year ended December 31:

	January 1	December 31
Materials	$10,000	$ 8,000
Work in Process	18,000	17,000
Finished Goods	21,000	16,500

In addition, direct labor costs of $30,000 were incurred, overhead equaled $42,000, materials purchased were $27,000 and selling and administrative costs were $22,000. Lonborg Co. sold 25,000 units of product during the year at a sales price of $5.00 per unit.

128. Refer to Figure 2-2. What was the amount of cost of goods manufactured for the year?
a. $101,000
b. $124,000
c. $100,000
d. $102,000

ANSWER: d

RATIONALE: SUPPORTING CALCULATIONS:

Materials 1/1	$10,000	
Purchases	27,000	
	$37,000	
Materials 12/31	(8,000)	
Materials used		$ 29,000
Direct labor		30,000
Overhead		42,000
Total manufacturing costs		$101,000
Work in process 1/1		18,000
Work in process 12/31		(17,000)
Cost of goods manufactured		$102,000

129. Refer to Figure 2-2. What was the amount of cost of goods sold for the year?
a. $102,000
b. $97,500
c. $106,500
d. $128,500

ANSWER: c

RATIONALE: SUPPORTING CALCULATIONS:

Cost of goods manufactured	$102,000
Finished goods inventory 1/1	21,000
Finished goods inventory 12/31	(16,500)
Cost of goods sold	$106,500

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130. Refer to Figure 2-2. What were the total manufacturing costs for the year?
a. $101,000
b. $102,000
c. $123,000
d. $106,500

ANSWER: a
RATIONALE: SUPPORTING CALCULATIONS:

Materials used in production	$ 29,000
Direct labor	30,000
Overhead	42,000
Total manufacturing costs	$101,000

131. Refer to Figure 2-2. What was Lonborg's operating income (loss) for the year?
a. $18,500
b. $125,000
c. $(3,500)
d. $2,000

ANSWER: c
RATIONALE: SUPPORTING CALCULATIONS:

Sales	$125,000
Cost of goods sold	106,500
Gross margin	$ 18,500
Sell. & admin.	22,000
Operating income	$ (3,500)

132. During the month of June, Telecom Inc. had cost of goods manufactured of $112,000, direct materials cost of $52,000, direct labor cost of $37,000 and overhead cost of $26,000. The work in process balance at June 30 equaled $10,000. What was the work in process balance on June 1?
a. $7,000
b. $13,000
c. $10,000
d. $115,000

ANSWER: a
RATIONALE: SUPPORTING CALCULATIONS:

Direct materials	$ 52,000
Direct labor	37,000
Overhead	26,000
Total manufacturing costs	$115,000
Work in process 6/1	7,000
Work in process 6/30	(10,000)
Cost of goods manufactured	$112,000

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133. Talcum Inc. had materials inventory at July 1 of $12,000. The materials inventory at July 31 was $15,000 and the cost of direct materials used in production was $20,000. What was the cost of materials purchased during the month?

a. $23,000

b. $17,000

c. $35,000

d. $20,000

ANSWER: a

RATIONALE: SUPPORTING CALCULATIONS:

Materials inventory 7/1	$12,000
Purchases	23,000
Available	$35,000
Materials inventory 7/31	15,000
Materials used in production	$20,000

134. Kutlow Inc. had cost of goods sold of $112,000 for the current year ended December 31. The finished goods inventory on January 1 was $28,000 and the finished goods inventory on December 31 was $17,000. What was the amount of cost of goods manufactured for the year?

a. $129,000

b. $101,000

c. $67,000

d. $113,000

ANSWER: b

RATIONALE: SUPPORTING CALCULATIONS:

Finished goods 1/1	$ 28,000
Cost of goods manufactured	101,000
Goods available	$129,000
Finished goods 12/31	(17,000)
Cost of goods sold	$112,000

135. Andover Inc. had a gross margin for the month of February totaling $42,000. They sold 5,000 units during the month at a sales price of $20 per unit. What was the amount of cost of goods sold for the month?

a. $100,000

b. $42,000

c. $58,000

d. none of these are correct

ANSWER: c

RATIONALE: SUPPORTING CALCULATIONS:

Sales (5,000 × $20)	$100,000
Cost of goods sold	58,000
Gross margin	$ 42,000

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Figure 2-3.
Bartlow, Inc. had the following income statement for the month of May.

Sales revenue	$428,000
Cost of goods sold	205,440
Gross margin	$222,560
Less:	
Selling expenses	81,320
Administrative expenses	72,760
Operating income	$ 68,480

136. Refer to Figure 2-3. What was the sales revenue percent?
a. 100%
b. 48%
c. 52%
d. 16%

ANSWER: a
RATIONALE: SUPPORTING CALCULATIONS: $428,000 / $428,000 = 100%

137. Refer to Figure 2-3. What was the cost of goods sold percent?
a. 100%
b. 19%
c. 52%
d. 48%

ANSWER: d
RATIONALE: SUPPORTING CALCULATIONS: $205,440 / $428,000 = 48%

138. Refer to Figure 2-3. What was the gross margin percent?
a. 52%
b. 48%
c. 17%
d. 19%

ANSWER: a
RATIONALE: SUPPORTING CALCULATIONS: $222,560 / $428,000 = 52%

139. Refer to Figure 2-3. What was the selling expense percent?
a. 17%
b. 19%
c. 16%
d. no correct answer

ANSWER: b
RATIONALE: SUPPORTING CALCULATIONS: $81,320 / $428,000 = 19%

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140. Refer to Figure 2-3. What was the administrative expense percent?
    a. 17%
    b. 19%
    c. 16%
    d. 15%

    ANSWER: a
    RATIONALE: SUPPORTING CALCULATIONS: $72,760 / $428,000 = 17%

141. Refer to Figure 2-3. What was the operating income percent?
    a. 15%
    b. 19%
    c. 17%
    d. 16%

    ANSWER: d
    RATIONALE: SUPPORTING CALCULATIONS: $68,480 / $428,000 = 16%

Figure 2-4.
Junko Company makes financial calculators. During the year Junko manufactured 97,000 financial calculators. Finished goods inventory had the following units on hand:

January 1	1,260
December 31	1,040

142. Refer to Figure 2-4. How many financial calculators did Junko sell during the year?
    a. 96,780
    b. 97,220
    c. 97,000
    d. 98,260

    ANSWER: b
    RATIONALE: SUPPORTING CALCULATIONS:

Units manufactured	97,000
Decrease in inventory balances	220
Units sold	97,220

OR

Beginning inventory	1,260
Plus units manufactured	97,000
Less ending inventory	(1,040)
Units sold	97,220

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143. Refer to Figure 2-4. If each financial calculator had a per-unit product cost of $112, what was the cost of Finished goods inventory on December 31?
    a. $116,480
    b. $141,120
    c. $24,640
    d. none of these are correct

    ANSWER: a
    RATIONALE: SUPPORTING CALCULATIONS: 1,040 × $112 = $116,480

144. Refer to Figure 2-4. If each financial calculator has a per-unit product cost of $112, what was the cost of goods sold last year?
    a. $10,864,000
    b. $10,839,360
    c. $11,005,120
    d. $10,888,640

    ANSWER: d
    RATIONALE: SUPPORTING CALCULATIONS: 97,220 × $112 = $10,888,640

Figure 2-6.
Seaview Company took the following data from their income statement at the end of the current year.

Per-unit product cost	$30
Gross margin percentage	40%
Selling and administrative expenses	$30,000
Operating income	$10,000

145. Refer to Figure 2-6. What was gross margin for the year?
    a. $60,000
    b. $100,000
    c. $40,000
    d. none of these

    ANSWER: c
    RATIONALE: SUPPORTING CALCULATIONS:

Operating income	$10,000
Selling and admin.	30,000
Gross margin	$40,000

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146. Refer to Figure 2-6. What was cost of goods sold for the year?
    a. $60,000
    b. $40,000
    c. $100,000
    d. none of these

    ANSWER: a
    RATIONALE: SUPPORTING CALCULATIONS:

Sales ($40,000 / .40)	$100,000
Gross margin	(40,000)
Cost of goods sold	$ 60,000

    Also $40,000 / .40 × .60

147. Refer to Figure 2-6. How many units were sold during the year?
    a. 3,333
    b. 1,000
    c. 1,500
    d. 2,000

    ANSWER: d
    RATIONALE: SUPPORTING CALCULATIONS: Cost of goods sold $60,000 / $30 = 2,000 units

148. Refer to Figure 2-6. What was the sales price per unit?
    a. $50
    b. $30
    c. $20
    d. $10

    ANSWER: a
    RATIONALE: SUPPORTING CALCULATIONS: Sales $100,000 / 2,000 units = $50

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149. If beginning work-in-process inventory is $120,000, ending work-in-process inventory is $160,000, cost of goods manufactured is $400,000 and direct materials used are $100,000, what are the conversion costs?
    a. $140,000
    b. $280,000
    c. $300,000
    d. $340,000

    ANSWER: d

    RATIONALE: SUPPORTING CALCULATIONS:
    $400,000 + $160,000 − $120,000 − $100,000 = $340,000

    OR

Materials used	$100,000	(given)
Plus conversion costs	340,000	(calculate)
Total mfg costs	$440,000	(calculate)
Plus beg WIP	120,000	(given)
Less ending WIP	(160,000)	(given)
Cost of goods mfd	$400,000	(given)

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

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

Net income for the month of December is:

a. $644,000.

b. $36,000.

c. $636,000.

d. $180,000.

ANSWER: b

RATIONALE: SUPPORTING CALCULATIONS:
COGM = ($24,000 + $176,000 − $28,000) + $200,000 + $270,000 + $50,000 − $56,000 = $636,000
COGS = $636,000 + $46,000 − $38,000 = $644,000
NI = $820,000 − $140,000 − $644,000 = $36,000

Cost of goods manufactured:	
Direct materials used in production ($24,000 + $176,000 – $28,000)	$172,000
Direct labor	200,000
Manufacturing overhead	270,000
Total mfg costs for December	$642,000
Plus WIP, Dec. 1	50,000
Less WIP, Dec. 31	(56,000)
Cost of goods manufactured, December	$636,000

Cost of goods sold:	
Cost of goods manufactured	$636,000
Plus FG, Dec. 1	46,000
Less FG, Dec. 31	(38,000)
Cost of goods sold	$644,000

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

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

The cost of direct materials purchased is:

a. $397,500.

b. $403,500.

c. $367,500.

d. $405,000.

ANSWER: b

RATIONALE: SUPPORTING CALCULATIONS: $397,500 + $42,000 − $36,000 = $403,500

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

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

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

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

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

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

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

ANSWER:

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

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

Required:

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

ANSWER:

A. ($126,000 + $78,000 + $84,000) / 3,000 = $96

B. ($126,000 + $78,000) / 3,000 = $68

C. ($78,000 + $84,000) / 3,000 = $54

D. ($96 × 2,800) = $268,800

E. ($96 × 200) = $19,200

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

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

ANSWER:

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

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

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

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

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

ANSWER:

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

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

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

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

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

Required:

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

ANSWER:

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

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

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

D.

Sales (86,000 × $21)	$1,806,000
COGS (86,000 × $18.50)	1,591,000
Gross margin	$ 215,000

E.

Gross margin	$215,000
Less: Sell. and admin.	157,000
Operating income	$ 58,000

F. (80,000 × $18.50) = $1,480,000

G. (6,000 × $18.50) = $111,000

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

Required:

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

ANSWER:

A. Cost of goods sold $560,000 / $56 = 10,000 units

B. 10,000 × $34 − ($200,000 of direct labor cost) = $140,000

C. 10,000 × $42 − ($200,000 of direct labor cost) = $220,000

D.

Sales revenue (10,000 × $100)	$1,000,000
Cost of goods sold	560,000
Gross margin	$ 440,000

E.

Gross margin	$ 440,000
Less: Sell. and admin.	240,000
Operating income	$ 200,000

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

During the month of September the following purchases were made to produce the 900 frames:
Wood—4000 ft. at $1.20/ft.
Glass—400 pieces at $5.60/piece
Cardboard—500 pieces at $0.50/piece

Required:
1. Calculate the total product cost for the month. Assume that all employees worked four full weeks in September and that the company incurred $55,000 in overhead costs.

2. Calculate the per-unit cost.

3. Calculate the gross margin for the month of September assuming that the company sells each frame for $250.

ANSWER:

1. Direct materials:

Wood =	$4,800	(4,000 × $1.20)
Glass =	2,240	(400 × $5.65)
Cardboard =	250	(500 × $0.50)
	$7,290	

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

2. $122,130 / 900 = $135.70

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

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

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

Required: Prepare a Statement of Cost of Goods Manufactured.

ANSWER:

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

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

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

	June 1	June 30
Materials	$3,000	$2,700
Work in process	1,000	1,275
Finished goods	2,500	1,775

Required:

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

ANSWER:

A. Materials, 6/1	$ 3,000
Purchases	38,000
Materials, 6/30	(2,700)
Materials used	$38,300

B. ($38,300 + $42,000 + $27,000) = $107,300

C. Total manufacturing costs	$107,300
Work in process, 6/1	1,000
Work in process, 6/30	(1,275)
Cost of goods manufactured	$107,025

D. Cost of goods manufactured	$107,025
Finished goods, 6/1	2,500
Finished goods, 6/30	(1,775)
Cost of goods sold	$107,750

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

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

Required:

A. Prepare a Statement of Cost of Goods Manufactured

B. Prepare a Statement of Cost of Goods Sold

ANSWER:

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

Materials inventory, Nov. 1	$ 3,500	
Purchases of materials	10,000	
Materials inventory, Nov. 30	(5,100)	
Materials used		$ 8,400
Direct labor		22,000
Overhead		40,000
Total manufacturing costs		$70,400
Work-in-process inventory, Nov. 1		4,200
Work-in-process inventory, Nov. 30		(2,750)
Cost of goods manufactured		$71,850

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

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

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

Required:

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

ANSWER:

A. 75,000 × $575 = $43,125,000

B.

Sales revenue (69,000 × $575)	$43,125,000
Cost of goods sold (75,000 × $540)	40,500,000
Gross margin	$ 2,625,000

C.

Gross margin	$2,625,000
Selling and admin. expenses	2,000,000
Operating income	$ 625,000

D.

Sales revenue	$39,675,000
Cost of goods sold (69,000 × $540)	37,260,000
Gross margin	$ 2,415,000
Selling and admin. expenses	2,000,000
Operating income	$ 415,000

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

Sales commissions	$ 12,000
Sales revenue	120,000
Research and development	17,000
Finished goods inventory, Jan. 1	7,500
Work in process inventory, Jan 1	9,000
Finished goods inventory, Dec. 31	6,000
Work in process inventory, Dec. 31	11,000
Cost of goods manufactured	52,000

Required: Prepare an income statement for Baleen Company.

ANSWER:

Baleen Company
Income Statement
For the Year Ended December 31, 2011

Sales revenue	$120,000
Cost of goods sold*	53,500
Gross margin	$ 66,500
Less:	
Selling expense	12,000
Administrative expense	17,000
Operating income	$ 37,500

*Cost of goods manufactured	$ 52,000
Finished goods inventory, Jan. 1	7,500
Finished goods inventory, Dec. 31	$ (6,000)

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

	January 1	December 31
Materials	$21,000	$23,500
Work in process	17,500	8,500
Finished goods	26,000	27,000

Direct labor	$ 40,000
Selling expenses	31,000
Sales revenue	400,000
Administrative expenses	14,500
Purchases of raw materials	62,000
Factory supervision	50,000
Factory supplies used	25,000

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

ANSWER:

Macon Company
Income Statement
For the Year Ended December 31, 2011

Sales revenue	$400,000
Cost of goods sold*	182,500
Gross margin	217,500
Less:	
Selling expenses	$ 31,000
Administrative expenses	14,500
Operating income	$172,000
*Cost of goods manufactured**	$183,500
Finished goods inventory, Jan. 1	26,000
Finished goods inventory, Dec. 31	(27,000)
Cost of goods sold	$182,500
**Purchases of raw materials	$ 62,000
Materials inventory, 1/1	21,000
Materials inventory, 12/31	(23,500)
Materials used	$ 59,500
Direct labor	40,000
Overhead ($50,000 + $25,000)	75,000
Total manufacturing costs	$174,500
Work in process inventory, Jan. 1	17,500
Work in process inventory, Dec. 31	(8,500)
Cost of goods manufactured	$183,500

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

Direct labor cost	$11,500

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

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

ANSWER:

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

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

Bartlow Company
Income Statement
For the Month of May

Sales revenue	$150,000
Cost of goods sold*	47,100
Gross margin	$102,900
Less:	
Selling expense	$ 10,000
Administrative expense	25,000
Operating income	$ 67,900

*Cost of goods manufactured	$45,850
Finished goods inventory, 5/1	5,500
Finished goods inventory, 5/31	(4,250)
Cost of goods sold	$47,100

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168. See the following separate cases.

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

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

ANSWER:

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

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169. See the following separate cases.

	Case #1	Case #2
Purchase of materials	$ 5,000	C
Materials inventory (beginning balance)	A	$ 220
Materials inventory (ending balance)	1,000	350
Direct labor	7,000	4,250
Factory supervision	1,500	1,100
Factory supplies	1,250	900
Total manufacturing costs	14,500	D
Work in process inventory (beginning balance)	1,200	1,230
Work in process inventory (ending balance)	B	650
Cost of goods manufactured	14,600	10,200

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

ANSWER:

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

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

Rancor Company
Income Statement
For the Month of August

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

Required: (Round to the nearest whole percent)

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

ANSWER:

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

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

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

Required:

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

ANSWER:

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

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

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

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

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

ANSWER:

Rizzuto Company
Income Statement
For the Month of January

Sales revenue	$500,000
Cost of goods sold (500,000 × 62%)	310,000
Gross margin (500,000 × 38%)	$190,000
Less:	
Selling expense (500,000 × 6%)	30,000
Administrative expense (500,000 × 13%)	65,000
Operating income	$ 95.000

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

Operating income percent	10.5%
Gross margin percent	30%

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

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

ANSWER:

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

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

Direct materials	$17
Direct labor	11
Overhead	12

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

Required: Solve for the following:

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

ANSWER:

A. ($17 + $11 + $12) × 3,000 = $120,000

B. & C.

Sales revenue (3,000 × $80)	$240,000
Cost of goods sold	120,000
Gross margin	$120,000
Less:	
Selling and administrative expenses	25,000
Operating income	$ 95,000

D. $17 + $11 = $28

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

Direct materials	$40,000
Direct labor	35,000
Overhead	52,000
Selling expense	17,000
Administrative expense	12,000

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

Required: Solve for the following amounts.
A. Total product cost for last month
B. Unit product cost for last month
C. Total period costs
D. Gross margin for last month
E. Operating income for last month

ANSWER:

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

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

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

D & E.

Sales revenue (20,000 × $18)	$360,000
Cost of goods sold	127,000
Gross margin	$233,000
Less:	
Selling expense	17,000
Administrative expense	12,000
Operating income	$204,000

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

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

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Finished goods inventory, May 31	59,865
Work in process inventory, May 1	7,500
Work in process inventory, May 31	3,300
Materials inventory, May 1	2,100
Materials inventory, May 31	4,200

Required:

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

ANSWER: A.

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

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

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

C.

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

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

D. Number of units sold:

Finished goods inventory, May 1	$ 4000
Units finished during May	10,000
Finished goods inventory, May 31	(706)
Units sold during May	$ 9,728

E.

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Stabler Company Income Statement For the Month of May		
Sales revenue (7,500 × $35)		$262,500
Cost of goods sold		68,235
Gross margin		$194,265
Less:		
Selling expense		
Commissions	$32,000	
Advertising	2,500	34,500
Administrative expense		
Salary of CFO	$ 9,000	
Research and development	5,000	
Depreciation on corporate office	8,500	22,500
Operating income		$193,880

177. What is the difference between a period cost and a product cost?

ANSWER: A period cost is a cost that is not a product cost. It is expensed during the current period rather than inventoried. Examples of period costs are selling and administrative costs. A product cost is a manufacturing cost that is inventoried and expensed as Cost of Goods Sold only when the goods have been sold. Product costs are classified as direct materials, direct labor, or overhead.

178. List and describe the three categories of manufacturing costs.

ANSWER: Direct materials consist of the cost of materials requisitioned and used in production during the current period. Direct materials are materials that can be accurately and conveniently traced to the product. Direct labor consists of labor costs of workers directly involved in the manufacture of the product. Overhead consists of all the manufacturing costs that do not fall into the direct material or direct labor category. Examples of overhead costs include; insurance on the factory, machinery deprecation, indirect labor, indirect materials, factory supplies, etc.

179. Explain the difference between a cost that is included in valuing inventory and a cost that is not included in valuing inventory.

ANSWER: A cost that is included in valuing inventory is a cost of manufacturing the product. These costs are also referred to as product costs and manufacturing costs. They include direct materials, direct labor, and overhead. These costs are not expensed until the goods are sold. A cost that is not included in valuing inventory is a selling or administrative cost that is expensed immediately in the accounting period that it is incurred. These costs are also referred to as period costs or non-manufacturing costs.

180. Describe the purpose of the three inventory accounts used by a manufacturer.

ANSWER: The materials inventory is used to keep track of materials that have not yet been used in production. The work in process inventory is used to account for the costs of goods that were partially completed at the end of the accounting period and is used to accumulate current production costs. The finished goods inventory is used to account for the cost of goods that were finished at the end of the current period but have not yet been sold.

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181. What is the difference between total manufacturing costs and cost of goods manufactured?

ANSWER: Total manufacturing costs are costs that are added during the period and consist of the cost of materials used, the direct labor costs incurred and the overhead costs incurred during the current period. Cost of goods manufactured would be computed by adding the beginning balance of work in process to and subtracting the ending balance of work in process from the total manufacturing costs.

You Decide

182. You are the accounting manager at Falcon Inc. You just hired a new staff accountant to assist you in breaking out costs into their appropriate classifications. The staff accountant asks you why cost classification is important.

How would you respond?

ANSWER: Cost classification is important for a variety of reasons. Probably the two most important are decision making and proper presentation on the financial statements. For example, by determining if a cost is fixed or variable it can help a company determine if each cost has a direct relationship to the level of output. If the company feels that their costs are becoming too high, then this type of classification can give them important information. Maybe the cost of the direct materials has increased significantly and they may need to look for a new supplier. Or when reviewing their fixed costs, they determine that the rent for their factory is causing the rise in costs and they should consider moving locations. The break out of product cost and period cost in also vital to a company. A company wants to know how much they are spending to actually produce the product (direct materials, direct labor, overhead) so that they can make such decisions as to the appropriate price to charge a customer. The allocation of product and period costs is also essential to properly generate the income statement, which is also used by external users to make decisions.

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Select the appropriate classification for each of the following costs.

a. Period

b. Product

183. Advertising costs

ANSWER: a

184. Cost accountant's salary

ANSWER: a

185. Factory supervisor's salary

ANSWER: b

186. Research and development costs

ANSWER: a

187. Marketing costs

ANSWER: a

188. Cost of shipping products to customers

ANSWER: a

189. Supplies for factory washroom

ANSWER: b

190. Assembly line worker's wages

ANSWER: b

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

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

191. cost of tires

ANSWER: a

192. factory supplies

ANSWER: c

193. general accounting costs

ANSWER: e

194. factory security costs

ANSWER: c

195. factory janitorial costs

ANSWER: c

196. salary of chief executive officer

ANSWER: e

197. depreciation of vehicles used by sales personnel

ANSWER: d

198. cost of windshields used in the production process

ANSWER: a

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

a. Product cost

b. Period cost

199. Cost of nails used by a home builder

ANSWER: a

200. Fees paid to an advertising firm

ANSWER: b

201. Sugar used in soft drink production

ANSWER: a

202. Rental cost of executive Lear jet

ANSWER: b

203. Cost of conference for sales team

ANSWER: b

204. Factory supervisor's salary

ANSWER: a

205. Fees paid to outside auditing firm

ANSWER: b

206. Factory security costs

ANSWER: a

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

a. per-unit prime cost

b. per-unit conversion cost

c. per-unit cost of goods manufactured

207. (direct labor + overhead)/units produced

ANSWER: b

208. (total manufacturing costs + work in process beginning − work in process ending)/units produced

ANSWER: c

209. (direct materials + direct labor)/units produced

ANSWER: a

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

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

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

ANSWER: c

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

ANSWER: f

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

ANSWER: e

213. A manufacturing cost

ANSWER: g

214. A cost that is not inventoried

ANSWER: a

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

ANSWER: b

216. A cost that increases in total as output increases

ANSWER: d

Cornerstones of Managerial Accounting 6th edition Mowen Test Bank

Select the appropriate classification of the items listed below.

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

217. Chief of surgery's salary at a hospital

ANSWER: d

218. Wages of assembly line workers in an automobile plant

ANSWER: d

219. Cost of lubricating factory machinery

ANSWER: e

220. Cost of shipping goods to customers

ANSWER: a

221. Glue used in the manufacture of furniture

ANSWER: e

222. Cost of engines in the manufacture of airplanes

ANSWER: c

223. Salary of chief executive officer

ANSWER: b

224. A professor's salary at a university

ANSWER: d

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

a. Tangible

b. Intangible

225. CPA firm

ANSWER: b

226. Car manufacturer

ANSWER: a

227. Law firm

ANSWER: b

228. Medical clinic

ANSWER: b

229. Bowling alley

ANSWER: b

230. Fast food restaurant

ANSWER: a

231. Video rental

ANSWER: b

232. Professional sports franchise

ANSWER: b

Cornerstones of Managerial Accounting 6th edition Mowen Test Bank

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

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

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

ANSWER: b

234. Direct materials + direct labor + overhead

ANSWER: e

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

ANSWER: a

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

ANSWER: c

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

ANSWER: d

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

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

238. gross margin − selling and administrative expenses

ANSWER: e

239. marketing and distributing costs

ANSWER: b

240. price x units sold

ANSWER: c

241. sales revenue − cost of goods sold

ANSWER: a

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

ANSWER: d

Cornerstones of Managerial Accounting 6th edition Mowen Test Bank

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

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

243. Gross margin − selling and administrative expenses

ANSWER: e

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

ANSWER: d

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

ANSWER: b

246. Covers a particular period of time

ANSWER: a

247. Cost of partially completed goods

ANSWER: c

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