Managerial Accounting for Business Leaders 1st edition Warren Test Bank

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Name:_____ Class:_____ Date:_____

Chapter 1 Introduction to Managerial Accounting

True / False

1. Managerial accounting reports must be prepared according to generally accepted accounting principles.
   a. True
   b. False

ANSWER: False

2. Managerial accounting uses only past data in reports to aid management in the decision-making process.
   a. True
   b. False

ANSWER: False

3. Managerial accounting information includes both historical and estimated data.
   a. True
   b. False

ANSWER: True

4. Finance and accounting professionals often work within vertical business units and other horizontal departments, but they do not normally report directly to the heads of those business units or departments.
   a. True
   b. False

ANSWER: True

5. The philosophy of focusing on "unexpected" good or bad performance is called management by exception.
   a. True
   b. False

ANSWER: True

6. The functions reporting to the CFO sometimes are grouped together and referred to as *corporate finance*.
   a. True
   b. False

ANSWER: True

7. In smaller companies, the term *controller* may be used to refer to the chief financial officer.
   a. True
   b. False

ANSWER: True

8. The role of horizontals is to provide services, assistance, and advice to the various verticals and other horizontal departments.
   a. True
   b. False

ANSWER: True

9. Horizontals are departments within a company that are responsible for developing products.

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a. True
b. False

ANSWER: False

10. While no two company structures are identical, most large companies are organized in terms of verticals and diagonals.
a. True
b. False

ANSWER: False

11. Verticals prepare their own income statements.
a. True
b. False

ANSWER: True

12. Managerial accounting reports are designed to meet the specific needs of a company's management.
a. True
b. False

ANSWER: True

13. Strategic planning is the process of monitoring operating results and comparing actual results with the expected results.
a. True
b. False

ANSWER: False

14. Operational planning is the process of developing the company's short-term objectives and actions needed to achieve the company's long-term, strategic objectives.
a. True
b. False

ANSWER: True

15. Control is the process of choosing goals and deciding how to achieve them.
a. True
b. False

ANSWER: False

16. Evaluation is the process by which management monitors operations by comparing actual and expected results.
a. True
b. False

ANSWER: True

17. A major focus of managerial accounting is the development of costing information.
a. True
b. False

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ANSWER: True

18. Managerial accounting information is for external users as well as company managers.
    a. True
    b. False

ANSWER: False

19. A report analyzing how many products need to be sold to cover operating costs is not typically a managerial accounting report.
    a. True
    b. False

ANSWER: False

20. A report analyzing the dollar savings of purchasing new equipment to speed up the production process is a managerial accounting report.
    a. True
    b. False

ANSWER: True

21. A performance report that identifies the amount of employee downtime is a financial accounting report.
    a. True
    b. False

ANSWER: False

22. Managerial accounting provides useful information to managers on product costs.
    a. True
    b. False

ANSWER: True

23. In a service company, the cost of services is accumulated and reported as inventory.
    a. True
    b. False

ANSWER: False

24. A cost is a sacrifice made to obtain some benefit.
    a. True
    b. False

ANSWER: True

25. The cost of a manufactured product generally consists of direct materials cost, direct labor cost, and manufacturing overhead cost.
    a. True
    b. False

ANSWER: True

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26. The cost of materials entering directly into the manufacturing process is classified as manufacturing overhead cost.
    a. True
    b. False

ANSWER: False

27. The cost of wages paid to employees directly involved in converting materials to finished product is classified as direct labor cost.
    a. True
    b. False

ANSWER: True

28. If the cost of employee wages is not a significant portion of the total product cost, the wages are classified as direct materials cost.
    a. True
    b. False

ANSWER: False

29. For a construction contractor, the wages of carpenters utilized in constructing a building would be classified as overhead cost.
    a. True
    b. False

ANSWER: False

30. For an automotive repair shop, the wages of mechanics working on the vehicles would be classified as direct labor cost.
    a. True
    b. False

ANSWER: True

31. Costs other than direct materials cost and direct labor cost incurred in the manufacturing process are classified as manufacturing overhead cost.
    a. True
    b. False

ANSWER: True

32. Depreciation on factory plant and equipment is an example of manufacturing overhead cost.
    a. True
    b. False

ANSWER: True

33. The cost of oil used to lubricate factory machinery and equipment is an example of a direct materials cost.
    a. True
    b. False

ANSWER: False

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34. If the cost of materials is not a significant portion of the total product cost, the materials may be classified as part of manufacturing overhead cost.
    a. True
    b. False
ANSWER: True

35. Manufacturing overhead cost is sometimes referred to as factory burden.
    a. True
    b. False
ANSWER: True

36. Conversion cost is the combination of direct labor cost and manufacturing overhead cost.
    a. True
    b. False
ANSWER: True

37. Conversion cost is the combination of direct materials cost and manufacturing overhead cost.
    a. True
    b. False
ANSWER: False

38. Manufacturing overhead is an example of a product cost.
    a. True
    b. False
ANSWER: True

39. Direct labor costs are included in the conversion costs of a product.
    a. True
    b. False
ANSWER: True

40. The costs of materials and labor that cannot be traced directly to the finished product are classified as manufacturing overhead.
    a. True
    b. False
ANSWER: True

41. The costs of materials and labor that cannot be traced directly to the finished product are classified as cost of goods sold.
    a. True
    b. False
ANSWER: False

42. Indirect labor would be included in manufacturing overhead.
    a. True

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b. False

ANSWER: True

43. A cost object can be anything to which costs are assigned and will vary depending upon the decision-making needs of management.

a. True

b. False

ANSWER: True

44. Direct costs are identified with and can be traced to a cost object.

a. True

b. False

ANSWER: True

45. Indirect costs are identified with and can be traced to a cost object.

a. True

b. False

ANSWER: False

46. Period (nonmanufacturing) costs are classified into two categories: selling and administrative.

a. True

b. False

ANSWER: True

47. Prime costs are the combination of direct labor costs and manufacturing overhead costs.

a. True

b. False

ANSWER: False

48. Prime costs are the combination of direct materials and direct labor costs.

a. True

b. False

ANSWER: True

49. Conversion costs are the combination of direct labor, direct materials, and manufacturing overhead costs.

a. True

b. False

ANSWER: False

50. Manufacturers use machinery and labor to convert direct materials into finished products.

a. True

b. False

ANSWER: True

51. Period costs include direct materials and direct labor.

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a. True
b. False
ANSWER: False

52. Period costs can be found on both the balance sheet and the income statement.
a. True
b. False
ANSWER: False

53. Product costs are not expensed until the product is sold.
a. True
b. False
ANSWER: True

54. The plant manager's salary in a manufacturing business would be considered an indirect cost.
a. True
b. False
ANSWER: True

55. Operating expenses are product costs and are expensed when the product is sold.
a. True
b. False
ANSWER: False

56. Period costs are operating costs that are expensed in the period in which the goods are sold.
a. True
b. False
ANSWER: False

57. Manufacturing overhead includes all manufacturing costs other than direct materials and direct labor.
a. True
b. False
ANSWER: True

58. Labor costs that are directly traceable to the product are part of manufacturing overhead.
a. True
b. False
ANSWER: False

59. Product costs include direct labor and advertising expense.
a. True
b. False
ANSWER: False

60. Indirect labor and indirect materials would be part of manufacturing overhead.

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a. True
b. False

ANSWER: True

61. Prime costs consist of manufacturing overhead and direct labor.
a. True
b. False

ANSWER: False

62. Conversion costs consist of product costs and period costs.
a. True
b. False

ANSWER: False

63. Prime costs consist of direct materials, indirect materials, and direct labor.
a. True
b. False

ANSWER: False

64. Only the value of the inventory that is sold will appear on the income statement.
a. True
b. False

ANSWER: True

65. On the balance sheet for a manufacturing business, the costs of direct materials, direct labor, and manufacturing overhead are categorized as either materials inventory, work in process inventory, or finished goods inventory.
a. True
b. False

ANSWER: True

66. The statement of cost of goods manufactured provides additional information to support the income statement for a manufacturing company.
a. True
b. False

ANSWER: True

67. Goods that are partway through the manufacturing process, but not yet complete, are referred to as materials inventory.
a. True
b. False

ANSWER: False

68. With regard to service companies, lower utilization rates are considered favorable, while higher utilization rates are considered unfavorable.
a. True

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b. False

ANSWER: False

Multiple Choice

69. In order to be useful to managers, managerial accounting reports should possess which of the following characteristics?
a. provide objective measures of past operations and subjective estimates about future decisions
b. all of these choices
c. be provided at any time management needs information
d. be prepared to report information for any unit of the business to support decision-making

ANSWER: b

70. Which of the following is the primary criterion for the preparation of managerial accounting reports?
a. preparation of reports on a monthly basis
b. manager needs
c. timing of the reports
d. cost of the reports

ANSWER: b

71. Which of the following is most associated with managerial accounting?
a. must follow GAAP
b. may rely on estimates and forecasts
c. prepared for users outside the organization
d. always reports on the entire entity

ANSWER: b

72. Which of the following is most associated with the preparation of financial accounting reports?
a. can be prepared subjectively
b. can be prepared only as needed by managers in the organization
c. must be prepared in accordance with GAAP
d. can be prepared for the entity or segment

ANSWER: c

73. Which of the following statements is false?
a. There is no overlap between financial and managerial accounting.
b. Managerial accounting sometimes relies on past information.
c. Managerial accounting does not need to conform to GAAP.
d. Financial accounting must conform to GAAP.

ANSWER: a

74. Managerial accounting reports are
a. prepared according to GAAP.
b. prepared according to management needs.

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c. prepared periodically only.
d. related to the entire business entity only.

ANSWER: b

75. Which of the following individuals are charged with the responsibility of directing the day-to-day operations of a business?
a. investors
b. managers
c. shareholders
d. customers

ANSWER: b

76. Which of the following are basic functions of the management process?
a. supervising and directing
b. decision-making and supervising
c. organizing and directing
d. strategic planning and control

ANSWER: d

77. Which of the following terms is used to describe the process by which managers monitor operations and compare actual and expected results?
a. measurement
b. control
c. evaluation
d. strategic planning

ANSWER: c

78. Accounting designed to meet the needs of decision makers inside the business is
a. general accounting.
b. financial accounting.
c. managerial accounting.
d. external accounting.

ANSWER: c

79. Which of the following terms is used to describe the process of developing the organization's long-term objectives?
a. control
b. strategic planning
c. measurement
d. evaluation

ANSWER: b

80. The primary goal of managerial accounting is to provide information to
a. investors.
b. creditors.

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c. managers.
d. external auditors.

ANSWER: c

81. Which of the following is the primary guideline for preparing managerial accounting reports?
a. usefulness to management
b. cost of preparation
c. clarity
d. GAAP

ANSWER: a

82. Which of the following is a characteristic of useful managerial accounting reports?
a. accurate
b. all of these choices
c. historical and estimated data
d. prepared as needed

ANSWER: b

83. Managers use managerial accounting information for which of the following purposes?
a. all of these choices
b. to analyze the performance of a company's operations
c. to support strategic planning decisions
d. to determine the cost of manufacturing a product

ANSWER: a

84. Financial accountants would prepare which of the following reports?
a. performance report identifying amounts of scrap
b. control report comparing direct material usage over time
c. sales report targeting monthly sales and potential bonuses
d. annual report for external regulators such as the Securities and Exchange Commission

ANSWER: d

85. Which of the following would be least likely to be considered a managerial accounting report?
a. report to analyze potential efficiencies and savings for the purchase of new production equipment
b. schedule of total manufacturing costs incurred
c. statement of cost of goods manufactured
d. statement of stockholders' equity

ANSWER: d

86. Which of the following terms is used to describe the management process where managers develop and agree upon performance metrics that will help them determine how well the company is achieving its objectives?
a. control
b. strategic planning
c. measurement

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d. evaluation

ANSWER: c

87. Compute conversion costs given the following data: direct materials, $347,500; direct labor, $196,300; manufacturing overhead, $187,900; and selling expenses, $45,290.

a. $543,800
b. $187,900
c. $731,700
d. $384,200

ANSWER: d

88. Which of the following is false with regard to direct materials for a bakery?

a. Flour and sugar would probably be direct materials.
b. Eggs would probably be a direct material.
c. Oil to lubricate factory machines would be an indirect material.
d. Paper cupcake liners, that become part of the product, must be accounted for as direct materials.

ANSWER: d

89. The cost of a manufactured product generally consists of which of the following costs?

a. direct materials cost and manufacturing overhead cost only
b. direct labor cost and manufacturing overhead cost only
c. direct labor cost, direct materials cost, and manufacturing overhead cost
d. direct materials cost and direct labor cost only

ANSWER: c

90. Which of the following must be true in order for materials to be classified as direct materials?

a. They must be considered to be both prime costs and conversion costs.
b. They must be introduced into the process in both work in process inventories and finished goods inventories.
c. They must be an integral part of the finished product but can be an insignificant portion of the total product cost.
d. They must be an integral part of the finished product and a significant portion of the total product cost.

ANSWER: d

91. Which of the following is an example of direct materials cost for an automobile manufacturer?

a. cost of oil lubricants for factory machinery
b. cost of assembly worker wages
c. salary of production supervisor
d. cost of interior upholstery

ANSWER: d

92. A plant manager's salary is a(n)

a. direct cost and an indirect cost.
b. direct cost.
c. indirect cost.

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d. period cost.

ANSWER: c

93. If the cost of a direct material is a small portion of total production cost, it may be classified as part of
a. direct labor cost.
b. selling and administrative costs.
c. miscellaneous costs.
d. manufacturing overhead cost.

ANSWER: d

94. The cost of wages paid to employees directly involved in the manufacturing process in converting materials into finished products is classified as
a. manufacturing overhead cost.
b. direct labor cost.
c. miscellaneous costs.
d. direct materials cost.

ANSWER: b

95. Which of the following is an example of direct labor cost for a cell phone manufacturer?
a. cost of oil lubricants for factory machinery
b. cost of assembly worker wages
c. salary of plant supervisor
d. cost of phone components

ANSWER: b

96. Costs other than direct materials cost and direct labor cost incurred in the manufacturing process are classified as
a. manufacturing overhead costs.
b. miscellaneous expenses.
c. product costs.
d. period costs.

ANSWER: a

97. Which of the following is an example of a manufacturing overhead cost?
a. repair and maintenance cost on the administrative building
b. factory heating and lighting cost
c. insurance premiums on salespersons' automobiles
d. president's salary

ANSWER: b

98. Period costs include
a. current assets on the balance sheet.
b. current liabilities on the balance sheet.
c. operating costs that are shown on the income statement as cost of goods sold when products are sold.
d. operating costs that are shown on the income statement in the period in which they are incurred.

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ANSWER: d

99. Another term for manufacturing overhead is
    a. surplus.
    b. period cost.
    c. supervisory cost.
    d. factory burden.

ANSWER: d

100. Which of the following costs are conversion costs?
    a. direct labor cost and manufacturing overhead cost
    b. direct materials cost and direct labor cost
    c. manufacturing overhead cost
    d. direct materials cost and manufacturing overhead cost

ANSWER: a

101. Which of the following terms refers to the cost of changing direct materials into a finished manufactured product?
    a. manufacturing overhead cost
    b. period cost
    c. conversion cost
    d. direct labor cost

ANSWER: c

102. Which of the following items would be classified as part of manufacturing overhead?
    a. all of these choices
    b. amortization of manufacturing patents
    c. production supervisors' salaries
    d. factory supplies used

ANSWER: a

103. Which of the following is part of manufacturing overhead cost?
    a. sales commissions
    b. depreciation of factory equipment and machines
    c. depreciation of salesperson's vehicle
    d. direct materials used

ANSWER: b

104. Which of the following manufacturing costs is an indirect cost of producing a product?
    a. oil lubricants used for factory machinery
    b. commissions for sales personnel
    c. hourly wages of an assembly worker
    d. memory chips for a microcomputer manufacturer

ANSWER: a

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105. Which of the following would most likely be considered an indirect material by a furniture manufacturer?
a. steel for a couch frame
b. upholstery fabric for a couch or chair
c. glue for miscellaneous production needs
d. lumber for a chair frame

ANSWER: c

106. Prime costs are
a. direct materials and manufacturing overhead.
b. direct materials and direct labor.
c. direct labor and manufacturing overhead.
d. period costs and manufacturing overhead.

ANSWER: b

107. A product cost is
a. expensed in the period in which the product is manufactured.
b. shown with current liabilities on the balance sheet.
c. shown with operating expenses on the income statement.
d. expensed in the period the product is sold.

ANSWER: d

108. Conversion costs are
a. direct materials and direct labor.
b. direct materials and manufacturing overhead.
c. manufacturing overhead and direct labor.
d. direct materials and indirect labor.

ANSWER: c

109. Which of the following is an overhead cost?
a. plant janitor’s wages
b. direct labor wages
c. machine operator wages
d. salesperson's salary and commission

ANSWER: a

110. Darwin Company reports the following information:

Sales	$76,500
Direct materials used	7,300
Depreciation on factory equipment	4,700
Indirect labor	5,900
Direct labor	10,500
Factory rent	4,200
Factory utilities	1,200
Sales salaries expense	15,600

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Office salaries expense	8,900
Indirect materials	1,200

Product costs are
a. $24,500.
b. $30,300.
c. $29,200.
d. $35,000.
ANSWER: d

111. Product costs
a. appear only on the balance sheet.
b. appear only on the income statement.
c. are expensed as costs are incurred for direct labor, direct materials, and manufacturing overhead.
d. appear on both the income statement and balance sheet.
ANSWER: d

112. Which of the following is a period cost?
a. direct materials
b. sales salaries expense
c. direct labor
d. manufacturing overhead
ANSWER: b

113. Indirect labor and indirect materials are classified as
a. manufacturing overhead and product costs.
b. manufacturing overhead and period costs.
c. operating costs and period costs.
d. operating costs and product costs.
ANSWER: a

114. An example of a period cost is
a. advertising expense.
b. indirect materials.
c. depreciation on factory equipment.
d. property taxes on plant facilities.
ANSWER: a

115. Direct labor and direct materials are
a. product costs and expensed when the goods are sold.
b. product costs and expensed when incurred.
c. period costs and expensed when incurred.
d. period costs and expensed when the goods are sold.
ANSWER: a

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116. Indirect costs incurred in a manufacturing environment that cannot be traced directly to a product are treated as
a. period costs and expensed when incurred.
b. product costs and expensed when the goods are sold.
c. product costs and expensed when incurred.
d. period costs and expensed when the goods are sold.

ANSWER: b

117. Rent expense on a factory building would be treated as a
a. period cost.
b. product cost.
c. none of these choices.
d. direct materials cost.

ANSWER: b

118. Insurance expense incurred on a factory building would be treated as a
a. direct cost.
b. period cost.
c. product cost.
d. selling cost.

ANSWER: c

Jensen Company reports the following:

Direct materials used	$345,000
Direct labor incurred	250,000
Manufacturing overhead incurred	400,000
Operating expenses	175,000

119. Using the provided information, Jensen Company's period costs are
a. $345,000.
b. $250,000.
c. $400,000.
d. $175,000.

ANSWER: d

120. Using the provided information, Jensen Company's product costs are
a. $995,000.
b. $920,000.
c. $825,000.
d. $770,000.

ANSWER: a

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Chapter 1 Introduction to Managerial Accounting

121. Which of the following is a prime cost?
a. wood used in furniture production
b. insurance on factory equipment
c. salaries of production supervisors
d. property tax on factory building

ANSWER: a

122. Manufacturing overhead includes
a. factory rent and direct labor.
b. direct materials and direct labor.
c. indirect materials and direct materials.
d. indirect labor and indirect materials.

ANSWER: d

123. Darwin Company reports the following information:

Sales	$76,500
Direct materials used	7,300
Depreciation on factory equipment	4,700
Indirect labor	5,900
Direct labor	10,500
Factory rent	4,200
Factory utilities	1,200
Sales salaries expense	15,600
Office salaries expense	8,900
Indirect materials	1,200

Period costs are
a. $24,500.
b. $30,300.
c. $29,200.
d. $35,000.

ANSWER: a

124. Which of the following is an example of direct labor?
a. maintenance personnel
b. janitorial personnel
c. machine operators
d. plant managers

ANSWER: c

125. A lawn mower manufacturer would classify wheels as which type of cost?
a. direct materials
b. direct labor
c. manufacturing overhead

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d. nonmanufacturing cost

ANSWER: a

126. A lawn mower manufacturer would classify grease for wheel axles as which type of cost?
a. direct materials
b. direct labor
c. manufacturing overhead
d. nonmanufacturing cost

ANSWER: c

127. A cake factory would classify which of the following as both a prime cost and a conversion cost?
a. frosting
b. wages of the baker
c. sprinkles for the topping (considered an indirect material)
d. depreciation on oven

ANSWER: b

128. Which of the following is an indirect cost?
a. labor for maintenance of a machine used in the production process
b. administrative office equipment depreciation
c. salespersons' salaries
d. all of these choices

ANSWER: a

129. Which of the following is an indirect cost?
a. utilities on factory building
b. factory equipment depreciation
c. materials used in the production process that are not traceable to specific items
d. all of these choices

ANSWER: d

130. Which of the following is manufacturing overhead?
a. utilities on factory building
b. factory equipment depreciation
c. materials used in the production process that are not traceable to specific items
d. all of these choices

ANSWER: d

131. Which of the following is manufacturing overhead?
a. supplies used by the sales force
b. indirect materials used in the production process
c. wages of production assembly line personnel
d. cost of primary material used to make a product

ANSWER: b

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132. Which of the following is an administrative expense?
a. advertising expense
b. rent on office facilities for a company's accounting personnel
c. salespersons' salaries
d. sales supplies used
ANSWER: b

133. Which of the following would be a period cost for a cake factory?
a. flour
b. baker's wages
c. frosting
d. transportation out
ANSWER: d

134. Which of the following is a period versus a product cost?
a. direct materials used
b. factory utilities
c. salespersons' commissions
d. salary of plant manager
ANSWER: c

135. Which of the following is a product versus a period cost?
a. depreciation on a store's equipment for displaying merchandise for sale
b. indirect materials used
c. salespersons' commissions
d. advertising expense
ANSWER: b

136. Which of the following is both a prime cost and a conversion cost for Cupcake Company?
a. frosting
b. baker's wages
c. sprinkles for decoration (considered an indirect material)
d. factory rent
ANSWER: b

137. Which of the following is a direct cost for Bartel Corporation, a producer of bar stools for restaurants?
a. wages for the bar stool assemblers
b. factory supervisor's salary
c. lubricants used on the bar stool manufacturing equipment
d. glue used in the assembly of the bar stools
ANSWER: a

138. Which of the following is an indirect cost for Bartel Corporation, a producer of bar stools for restaurants?

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a. wages for the bar stool assemblers
b. factory supervisor's salary
c. wood and steel used in the bar stools
d. leather used for seat cushions

ANSWER: b

139. Which of the following is a period cost for Bartow Corporation, a bicycle manufacturer?
a. tires for the bicycles
b. factory supervisor's salary
c. electricity costs to run the factory
d. accountant salaries

ANSWER: d

140. Which of the following accounts is reported on the income statement?
a. inventory
b. work in Process
c. finished Goods
d. cost of Goods Sold

ANSWER: d

141. Given the following data:

Cost of materials used	$45,000
Direct labor costs	48,000
Manufacturing overhead	39,000
Work in process, beginning	28,000
Work in process, ending	18,000
Finished goods, beginning	28,000
Finished goods, ending	18,000

What is cost of goods sold?
a. $152,000
b. $142,000
c. $10,000
d. $128,000

ANSWER: a

142. Given the following data:

Beginning raw materials inventory	$30,000
Materials purchased	65,000
Ending raw materials inventory	40,000

What is the amount of raw materials used?
a. $5,000
b. $55,000

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c. $75,000
d. $30,000

ANSWER: b

143. A company manufactured 50,000 units of a product at a cost of $450,000. It sold 45,000 units at $15 each. The gross profit is
a. $750,000.
b. $240,000.
c. $600,000.
d. $270,000.

ANSWER: d

144. The following information is taken from the financial records of Gunner Manufacturing:

Cost of materials used	$45,000
Direct labor costs	48,000
Manufacturing overhead	39,000
Work in process, beginning	18,000
Work in process, ending	28,000

What is the cost of goods manufactured?
a. $178,000
b. $132,000
c. $122,000
d. $142,000

ANSWER: c

145. Goods that are partially completed by a manufacturer are
a. merchandise inventory.
b. work in process inventory.
c. finished goods inventory.
d. materials inventory.

ANSWER: b

146. The income statement for both a merchandiser and a manufacturer would include
a. operating expenses.
b. direct materials.
c. direct labor incurred.
d. cost of goods manufactured.

ANSWER: a

147. On the income statement of a manufacturing company, which of the following replaces net purchases when calculating cost of goods sold for a merchandising company?
a. finished goods

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b. cost of merchandise available
c. cost of goods manufactured
d. work in process

ANSWER: c

148. Cost of goods sold for a manufacturer equals cost of goods manufactured plus
a. beginning work in process inventory minus ending work in process inventory.
b. ending work in process inventory minus beginning work in process inventory.
c. beginning finished goods inventory minus ending finished goods inventory.
d. ending finished goods inventory minus beginning finished goods inventory.

ANSWER: c

149. Given the following data:

Work in process, beginning	$14,000
Work in process, ending	20,000
Direct labor costs	4,000
Cost of goods manufactured	8,000
Manufacturing overhead	8,000

Direct materials used is
a. $2,000.
b. $4,000.
c. $8,000.
d. $14,000.

ANSWER: a

150. Cost of goods manufactured is equal to
a. total manufacturing costs plus ending materials inventory minus beginning materials inventory.
b. cost of goods sold plus beginning work in process inventory minus ending work in process inventory.
c. total manufacturing costs plus ending work in process inventory minus beginning work in process inventory.
d. total manufacturing costs plus beginning work in process inventory minus ending work in process inventory.

ANSWER: d

151. Finished goods inventory is reported on the
a. income statement as a period cost.
b. balance sheet as a long-term asset.
c. balance sheet as a current asset.
d. income statement as revenue.

ANSWER: c

152. Beginning work in process is equal to
a. cost of goods manufactured plus ending work in process minus manufacturing costs incurred during the current period.
b. cost of goods manufactured minus ending work in process plus manufacturing costs incurred during the

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current period.

c. ending work in process plus manufacturing costs incurred during the current period.

d. manufacturing costs incurred during the current period minus ending work in process.

ANSWER: a

153. Which of the following does not belong in the "Current assets" section of the balance sheet?

a. manufacturing overhead

b. materials inventory

c. finished goods inventory

d. work in process inventory

ANSWER: a

154. Smith Company reports the following information:

Cost of goods manufactured	$68,250
Direct materials used	27,000
Direct labor incurred	25,000
Work in process inventory, January 1	11,000

Manufacturing overhead is 75% of the cost of direct labor. Work in process inventory on December 31 is

a. $16,250.

b. $8,500.

c. $18,750.

d. $13,500.

ANSWER: d

155. At the beginning of the current year, Grant Company's work in process inventory account had a balance of $30,000. During the year, $68,000 of direct materials were used in production, and $66,000 of direct labor costs were incurred. Manufacturing overhead for the year amounted to $90,000. Cost of goods manufactured is $230,000. The balance in work in process inventory on December 31 is

a. $24,000.

b. $44,000.

c. $66,000.

d. $36,000.

ANSWER: a

156. A company used $35,000 of direct materials, incurred $73,000 in direct labor cost, and had $114,000 in manufacturing overhead costs during the period. If beginning and ending work in process inventories were $28,000 and $32,000, respectively, the cost of goods manufactured was

a. $218,000.

b. $226,000.

c. $190,000.

d. $222,000.

ANSWER: a

157. Cost of goods manufactured during the year is $240,000, and work in process inventory on December 31 is $50,000.

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Work in process inventory during the year decreased by 60%. Total manufacturing costs incurred are

a. $190,000.
b. $165,000.
c. $290,000.
d. $315,000.

ANSWER: b

158. Work in process inventory on December 31 of the current year is $44,000. Work in process inventory increased by 60% during the year. Cost of goods manufactured amounts to $275,000. The total manufacturing costs incurred in the current year are

a. $291,500.
b. $302,000.
c. $275,750.
d. $233,750.

ANSWER: a

159. Work in process inventory on December 31 is $42,000. Work in process inventory decreased by 40% during the year. Total manufacturing costs incurred amount to $260,000. The cost of goods manufactured is

a. $232,000.
b. $302,000.
c. $288,000.
d. $190,000.

ANSWER: c

160. Work in process inventory increased by $20,000 during the current year. Cost of goods manufactured was $180,000. Total manufacturing costs incurred are

a. $198,000.
b. $160,000.
c. $189,000.
d. $200,000.

ANSWER: d

161. Which of the following is reported on the income statement of a manufacturing company?

a. cost of goods sold
b. materials
c. work in process
d. finished goods

ANSWER: a

162. A company sells goods for $150,000 that cost $54,000 to manufacture. Which of the following statements is true?

a. The company will recognize sales on the balance sheet of $150,000.
b. The company will recognize $96,000 in gross profit on the balance sheet.
c. The company will decrease finished goods by $54,000.
d. The company will increase finished goods by $54,000.

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ANSWER: c

163. The cost of goods sold for Michaels Manufacturing in the current year was $233,000. The January 1 finished goods inventory balance was $31,600, and the December 31 finished goods inventory balance was $24,200. Cost of goods manufactured during the period was

a. $233,000.
b. $225,600.
c. $288,800.
d. $240,400.

ANSWER: b

164. In the hotel industry, the occupancy rate is a measure of

a. risk.
b. solvency.
c. profitability.
d. utilization.

ANSWER: d

165. Nearly _____ of U.S. economic activity is represented by services.

a. 40%
b. 50%
c. 60%
d. 80%

ANSWER: d

166. SunnyRest Hotel has 300 rooms. During the month of March, it had 7,440 guests, each staying a single night. The occupancy rate for SunnyRest Hotel for the month of March was

a. 80%
b. 83%
c. 98%
d. 121%

ANSWER: a

167. ShadyPalms Hotel has 100 rooms. During the month of February, it had 500 guests, each staying 5 nights, and 10 guests, each staying 2 nights. The occupancy rate for ShadyPalms Hotel for the month of February (not a leap year) was

a. 28%
b. 84%
c. 90%
d. 111%

ANSWER: c

Subjective Short Answer

168. Differentiate between financial and managerial accounting, addressing such issues as users, nature of information, guidelines for preparation, timeliness of reporting, and focus of reporting.

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ANSWER:

	Managerial Accounting	Financial Accounting
Users	Management	External users and company management
Nature of information	Objective and subjective	Objective
Guidelines for preparation	Prepared according to management needs	Prepared according to GAAP
Timeliness of reporting	Prepared at fixed intervals and on an as-needed basis	Prepared at fixed intervals
Focus of reporting	Company as a whole or as a segment	Company as a whole

169. Differentiate between:
a. direct materials versus indirect materials
b. direct labor versus indirect labor

ANSWER: a. Direct materials must become a physical part of the finished product, and their costs must be separately and conveniently traceable through the manufacturing process to finished goods inventory. Examples include wood, leather, steel, etc.

Indirect materials become part of the finished product, but their minor costs cannot conveniently be traced directly to particular finished products. They are included as part of manufacturing overhead.

b. Direct labor cost is the compensation of employees who physically convert materials into the company's products and whose effort can be traced directly to finished goods inventory. Examples include machine operators and assemblers.

Indirect labor is factory labor that is difficult to trace to specific products. Instead, the cost is included in manufacturing overhead. Examples include forklift operators, janitors, and plant managers.

170. Putney Company reports the following information:

Sales	$76,500
Direct materials used	7,300
Depreciation on factory equipment	4,700
Indirect labor	5,900
Direct labor	10,500
Factory rent	4,200
Factory utilities	1,200
Sales salaries expense	15,600
Office salaries expense	8,900
Indirect materials	1,200

Compute:
a. Product costs
b. Period costs

ANSWER: a. Product Costs = $7,300 + $4,700 + $5,900 + $10,500 + $4,200 + $1,200 + $1,200 = $35,000

b. Period Costs = $15,600 + $8,900 = $24,500

171. The following information is available for Carter Corporation:
1. Materials inventory decreased $4,000.

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2. Materials inventory on December 31 was 50% of materials inventory on January 1.
3. Beginning work in process inventory was $145,000.
4. Ending finished goods inventory was $65,000.
5. Purchases of direct materials were $154,700.
6. Direct materials used were 2.5 times the cost of direct labor.
7. Total manufacturing costs incurred were $246,400, 80% of cost of goods manufactured and $156,000 less than cost of goods sold.

Compute:
a. Finished goods inventory on January 1
b. Work in process inventory on December 31
c. Direct labor incurred
d. Manufacturing overhead incurred
e. Materials inventory on January 1
f. Materials inventory on December 31
g. Direct materials used

ANSWER: a. Cost of Goods Sold = $246,400 + $156,000 = $402,400
Cost of Goods Manufactured = $246,400/0.80 = $308,000
Finished Goods Inventory on January 1 = $402,400 + $65,000 – $308,000 = $159,400

b. Work in Process Inventory on December 31
$246,400 + $145,000 – $308,000 = $83,400

c. Direct Labor Incurred = $158,700 ÷ 2.5 = $63,480

d. Manufacturing Overhead Incurred = $246,400 – $158,700 – $63,480 = $24,220

e. Materials Inventory on January 1:
X = January 1 Materials Inventory
$4,000 = 0.5X
X = $8,000

f. Materials Inventory on December 31 = $8,000 – $4,000 = $4,000

g. Direct Materials Used = $8,000 + $154,700 – $4,000 = $158,700

172. Zoe Corporation has the following information for the month of March. Determine the (a) cost of goods manufactured and (b) cost of goods sold.

Cost of materials placed in production	$69,000
Direct labor	27,000
Manufacturing overhead	34,000
Work in process, March 1	15,000
Work in process, March 31	19,500
Finished goods inventory, March 1	25,000
Finished goods inventory, March 31	23,000

ANSWER: a.

Beginning work in process inventory		$ 15,000
Direct materials	$69,000	
Direct labor	27,000	
Manufacturing overhead	34,000	

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Total manufacturing costs incurred		130,000
Total manufacturing costs		$145,000
Ending work in process inventory		(19,500)
Cost of goods manufactured		$125,500

b.

Finished goods inventory, March 1	$ 25,000
Cost of goods manufactured	125,500
Cost of finished goods available for sale	$150,500
Finished goods inventory, March 31	(23,000)
Cost of goods sold	$127,500

173. Sienna Company has the following information for January:

Cost of materials used in production	$20,000
Direct labor	15,000
Manufacturing overhead	24,000
Work in process inventory, January 1	2,900
Work in process inventory, January 31	3,500

Determine the cost of goods manufactured.

ANSWER:

Beginning work in process inventory		$ 2,900
Direct materials	$20,000	
Direct labor	15,000	
Manufacturing overhead	24,000	
Total manufacturing costs incurred		59,000
Total manufacturing costs		$61,900
Ending work in process inventory		(3,500)
Cost of goods manufactured		$58,400

174. Magnus Industries has the following data:

Beginning raw materials inventory	$75,000
Materials purchased	40,000
Ending raw materials inventory	60,000

Determine the cost of raw materials used.
ANSWER: Raw Materials Used = $75,000 + $40,000 – $60,000 = $55,000

175. Watson Company has the following data:

Work in process, beginning	$18,000
Work in process, ending	25,000
Direct labor costs incurred	5,000
Cost of goods manufactured	9,000

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Manufacturing overhead	7,000

Determine the amount of direct materials used.

ANSWER: Direct Materials Used = ($25,000 – $18,000 + $9,000) – ($7,000 + $5,000) = $4,000

176. Laramie Technologies had the following data:

Cost of materials used	$50,000
Direct labor costs	56,000
Manufacturing overhead	28,000
Work in process, beginning	45,000
Work in process, ending	32,000

Determine the cost of goods manufactured.

ANSWER: Cost of Goods Manufactured = $50,000 + $56,000 + $28,000 + ($45,000 – $32,000) = $147,000

177. Keeton Company had the following data:

Cost of materials used	$60,000
Direct labor costs	58,000
Manufacturing overhead	33,000
Work in process, beginning	29,000
Work in process, ending	18,000
Finished goods, beginning	32,000
Finished goods, ending	18,000

Determine the cost of goods sold.

ANSWER: Cost of Goods Sold = $60,000 + $58,000 + $33,000 + ($29,000 – $18,000) + ($32,000 – $18,000) = $176,000

178. Zoe Corporation has the following information for the month of March:

Purchases	$ 92,000
Materials inventory, March 1	6,000
Materials inventory, March 31	8,000
Direct labor	25,000
Manufacturing overhead	37,000
Work in process inventory, March 1	22,000
Work in process inventory, March 31	23,500
Finished goods inventory, March 1	21,000
Finished goods inventory, March 31	30,000
Sales	257,000
Selling and administrative expenses	79,000

Prepare (a) a statement of cost of goods manufactured, (b) an income statement for the month ended March 31, and (c) the "Inventory" section of the balance sheet.

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ANSWER: a.

Zoe Corporation			
Statement of Cost of Goods Manufactured			
For the Month Ended March 31			
Beginning work in process inventory, March 1			$ 22,000
Direct materials:			
Beginning materials inventory	$ 6,000		
Purchases	92,000		
Cost of materials available for use	$98,000		
Ending materials inventory	(8,000)		
Cost of direct materials used		$90,000	
Direct labor		25,000	
Manufacturing overhead		37,000	
Total manufacturing costs incurred			152,000
Total manufacturing costs			$174,000
Ending work in process inventory			(23,500)
Cost of goods manufactured			$150,500

b.

Zoe Corporation		
Income Statement		
For the Month Ended March 31		
Sales		$257,000
Cost of goods sold:		
Beginning finished goods inventory	$ 21,000	
Cost of goods manufactured	150,500	
Cost of finished goods available for sale	$171,500	
Ending finished goods inventory	(30,000)	
Cost of goods sold		(141,500)
Gross profit		$115,500
Operating expenses:		
Selling and administrative expenses		(79,000)
Net income		$ 36,500

c.

Inventory:	
Finished goods	$30,000
Work in process	23,500
Materials	8,000
Total inventory	$61,500

179. The following data (in thousands of dollars) have been taken from the accounting records of Rayburn Corporation for the current year.

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Sales	$1,980
Selling expenses	280
Manufacturing overhead	460
Direct labor	400
Administrative expenses	300
Purchases of direct materials	240
Finished goods inventory, beginning	240
Finished goods inventory, ending	320
Direct materials inventory, beginning	80
Direct materials inventory, ending	140
Work in process inventory, beginning	140
Work in process inventory, ending	100

a. What was the cost of the direct materials used in production during the year?
b. What was the cost of goods manufactured for the year?
c. What was the cost of goods sold for the year?
d. What was the net income for the year?
Present all calculations in thousands of dollars.

ANSWER:

a. The cost of the direct materials used in production during the year is determined as follows:

Direct materials inventory, beginning	$ 80
Purchases of direct materials	240
Direct materials inventory, ending	(140)
Direct materials used in production	$180

b. The cost of goods manufactured (finished) during the year is determined as follows:

Raw materials used in production	$ 180
Direct labor	400
Manufacturing overhead	460
Total manufacturing costs incurred	$1,040
Work in process inventory, beginning	140
Total manufacturing costs	$1,180
Work in process inventory, ending	(100)
Cost of goods manufactured	$1,080

c. The cost of goods sold for the year is determined as follows:

Finished goods inventory, beginning	$ 240
Cost of goods manufactured	1,080
Finished goods inventory, ending	(320)
Cost of goods sold	$1,000

d. Net income for the year is determined as follows:

Sales		$ 1,980
Cost of goods sold		(1,000)
Gross profit		$ 980
Operating expenses:		
Administrative expenses	$300	
Selling expenses	280	(580)
Net income		$ 400

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180. Allen Company used $71,000 of direct materials and incurred $37,000 of direct labor costs during the current year. Indirect labor amounted to $2,700, while indirect materials used totaled $1,600. Other operating costs pertaining to the factory included utilities of $3,100, maintenance of $4,500, supplies of $1,800, depreciation of $7,900, and property taxes of $2,600. There was no beginning or ending finished goods inventory, but work in process inventory began the year with a $5,500 balance and ended the year with a $7,500 balance.

Prepare a statement of cost of goods manufactured.
ANSWER:

Allen Company Statement of Cost of Goods Manufactured For the Year Ended December 31			
Beginning work in process inventory			$ 5,500
Direct materials		$71,000	
Direct labor		37,000	
Manufacturing overhead:			
Indirect labor	$2,700		
Indirect materials	1,600		
Utilities	3,100		
Maintenance	4,500		
Supplies	1,800		
Depreciation	7,900		
Property taxes	2,600	24,200	
Total manufacturing costs incurred			132,200
Total manufacturing costs			$137,700
Ending work in process inventory			(7,500)
Cost of goods manufactured			$130,200

181. Davis Manufacturing Company had the following data:

	January 1	December 31
Accounts receivable	$27,000	$33,000
Materials inventory	22,500	6,000
Work in process inventory	70,200	48,000
Finished goods inventory	3,000	15,000

Collections on account were $625,000.
Cost of goods sold was 68% of sales.
Direct materials purchased amounted to $90,000.
Manufacturing overhead was 300% of the cost of direct labor.

Compute:
a. Sales revenue (all sales were on account)
b. Cost of goods sold
c. Cost of goods manufactured

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d. Direct materials used
e. Direct labor incurred
f. Manufacturing overhead incurred

ANSWER: a. Sales Revenue = $33,000 + $625,000 – $27,000 = $631,000

b. Cost of Goods Sold = $631,000 × 0.68 = $429,080

c. Cost of Goods Manufactured = $15,000 + $429,080 – $3,000 = $441,080

d. Direct Materials Used = $22,500 + $90,000 – $6,000 = $106,500

e. Direct Labor Incurred = $441,080 + $48,000 – $70,200 = $418,880 Total Manufacturing Costs Added
$418,880 – $106,500 = $312,380
$312,380 = Manufacturing Overhead + Direct Labor
Let X = Direct Labor
3X + X = $312,380
4X = $312,380
Direct Labor = $78,095

f. Manufacturing Overhead Incurred = $78,095 × 3 = $234,285

182. Taylor Industries had a fire and some of its accounting records were destroyed. Available information is presented below for the year ended December 31.

Materials inventory, December 31	$ 15,000
Direct materials purchased	28,000
Direct materials used	22,900
Cost of goods manufactured	135,000

Additional information:
Manufacturing overhead is 150% of direct labor cost.
Finished goods inventory decreased by $18,000 during the year.
Work in process inventory increased by $12,000 during the year.

Determine:
a. Materials inventory, January 1
b. Direct labor cost
c. Manufacturing overhead incurred
d. Cost of goods sold

ANSWER: a. Materials Inventory, January 1 = $15,000 + $22,900 – $28,000 = $9,900

b. Direct Labor Cost = $135,000 + $12,000 = $147,000 Total Manufacturing Costs
$147,000 – $22,900 = $124,100 Direct Labor and Manufacturing Overhead
Let X = Direct Labor Cost
X + 1.5X = $124,100
2.5X = $124,100
Direct Labor = $49,640

c. Manufacturing Overhead Incurred = $49,640 × 1.5 = $74,460

d. Cost of Goods Sold = $135,000 + $18,000 = $153,000

Essay

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183. What is strategic planning? How does it overlap with operational planning?

ANSWER: Strategic planning is developing long-term objectives for the company. For example, a company might set an objective of increasing its market share by developing new products or expanding into new markets. Strategic planning normally involves a time horizon of five to ten years. To achieve its long-term, strategic objectives, management sets a variety of short-term objectives and actions. The process of developing these short-term objectives and actions is often referred to as operational planning. For example, to develop new products, a company might increase its annual spending on research and development.

184. Differentiate between verticals and horizontals.

ANSWER: Verticals are sometimes referred to as business units, because they are often structured as separate businesses within the parent company. These verticals normally develop products that are sold directly to customers. Verticals prepare their own income statements, also referred to as profit and loss (P&L) statements, which report their ongoing performance and profitability.

Horizontals are departments within a company that are not responsible for developing products. The role of horizontals is to provide services to the various verticals and other horizontals. As such, horizontals do not report profit and loss (P&L) statements. Marketing, Human Resources, Information Technology, Legal, Facilities, Accounting, and Finance are normally horizontal departments within a company.

185. Differentiate between period and product costs and include examples of each type of cost.

ANSWER: Period costs consist of selling and administrative expenses. Selling expenses are incurred in marketing the product and delivering the product to customers. Administrative expenses are incurred in managing the company and are not directly related to the manufacturing or selling functions. Selling expenses include advertising expenses, sales salaries expense, and commissions expense. Administrative expenses include office salaries expense, office supplies expense, and depreciation expense of the office building and equipment.
Product costs consist of manufacturing costs: direct materials, direct labor, and manufacturing overhead. Direct materials are the materials that go into the production of the product. The direct materials for a bakery include flour, sugar, eggs, and shortening. Direct labor costs are the wages or salaries of the employees that are actually assembling the product. Manufacturing overhead would include the salaries of production supervisors, depreciation, insurance, and taxes on the manufacturing building and equipment.

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