

***Managerial Accounting (Canadian) 3rd edition  
Braun Test Bank***

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***Managerial Accounting, Cdn. 3e (Braun)***

**Chapter 2 Building Blocks of Managerial Accounting**

**2.1 Distinguish among service, merchandising, and manufacturing companies.**

1) All companies are either classified as service, merchandising, or manufacturing companies.

Answer: FALSE

Diff: 2 Type: TF

LO: 2-1

Bloom's Taxonomy: Remember

2) The balance sheet of a service company has

- A) little or no inventory.
- B) raw materials inventory.
- C) three categories of inventory.
- D) two categories of inventory.

Answer: A

Diff: 1 Type: MC

LO: 2-1

Bloom's Taxonomy: Remember

3) H & R Block, an income tax preparation service, is what type of company?

- A) Manufacturer
- B) Service company
- C) Retailer
- D) Wholesaler

Answer: B

Diff: 1 Type: MC

LO: 2-1

Bloom's Taxonomy: Remember

4) Among other things, General Mills makes breakfast cereal. Which type of company is General Mills?

- A) Manufacturer
- B) Service company
- C) Retailer
- D) Wholesaler

Answer: A

Diff: 1 Type: MC

LO: 2-1

Bloom's Taxonomy: Understand

5) Which type of company typically produces its own inventory?

- A) Manufacturer
- B) Service company
- C) Retailer
- D) Wholesaler

Answer: A

Diff: 1 Type: MC

LO: 2-1

Bloom's Taxonomy: Remember

6) Before these materials are used to manufacture its cars, Honda classifies steel, glass, and plastic as

- A) finished goods inventory.
- B) raw materials inventory.
- C) work in process inventory.
- D) merchandise inventory.

Answer: B

Diff: 1 Type: MC

LO: 2-1

Bloom's Taxonomy: Understand

7) Walmart classifies its clothing held for sale as

- A) finished goods inventory.
- B) raw materials inventory.
- C) work in process inventory.
- D) merchandise inventory.

Answer: D

Diff: 1 Type: MC

LO: 2-1

Bloom's Taxonomy: Understand

8) How would Honda classify its partially completed vehicles?

- A) Finished goods
- B) Raw materials
- C) Supplies
- D) Work in process

Answer: D

Diff: 1 Type: MC

LO: 2-1

Bloom's Taxonomy: Remember

9) Which of the following is characteristic of a service company?

- A) Service companies generally have no tangible products to sell.
- B) Service companies have a single category of inventory.
- C) Service companies make a product.
- D) Service companies transform raw materials into finished goods.

Answer: A

Diff: 1 Type: MC

LO: 2-1

Bloom's Taxonomy: Remember

10) A lawn mowing business would be classified as a

- A) manufacturing company.
- B) merchandising company.
- C) service company.
- D) wholesale company.

Answer: C

Diff: 1 Type: MC

LO: 2-1

Bloom's Taxonomy: Understand

11) A law firm would be classified as a

- A) manufacturing company.
- B) merchandising company.
- C) service company.
- D) wholesale company.

Answer: C

Diff: 1 Type: MC

LO: 2-1

Bloom's Taxonomy: Understand

12) Intel Corporation makes computer chips. Intel Corporation would be classified as a

- A) manufacturing company.
- B) merchandising company.
- C) service company.
- D) wholesale company.

Answer: A

Diff: 1 Type: MC

LO: 2-1

Bloom's Taxonomy: Remember

13) \_\_\_\_\_ has three types of inventory.

- A) A service company
- B) A merchandising company
- C) A manufacturing company
- D) A wholesale company

Answer: C

Diff: 1 Type: MC

LO: 2-1

Bloom's Taxonomy: Remember

14) Which type of company has the highest percentage of labour costs?

- A) Service company
- B) Merchandising company
- C) Manufacturing company
- D) Wholesale company

Answer: A

Diff: 2 Type: MC

LO: 2-1

Bloom's Taxonomy: Understand

15) Which type(s) of companies prepare income statements and balance sheets?

- A) Service company
- B) Merchandising company
- C) Manufacturing company
- D) All types of companies

Answer: D

Diff: 1 Type: MC

LO: 2-1

Bloom's Taxonomy: Remember

16) Which of the following costs could be found in work in process inventory for an ice cream manufacturer?

- A) Utilities for administrative offices
- B) Assembly worker wages
- C) Depreciation on sales office
- D) Customer order forms

Answer: B

Diff: 2 Type: MC

LO: 2-1

Bloom's Taxonomy: Understand

17) A company which is in the business of providing intangible services is what type of company?

- A) Manufacturing
- B) Service company
- C) Retailer
- D) Wholesaler

Answer: B

Diff: 2 Type: MC

LO: 2-1

Bloom's Taxonomy: Remember

18) A company which is in the business of reselling tangible products purchased from suppliers to final users is what type of company?

- A) Manufacturing
- B) Service company
- C) Retailer
- D) Wholesaler

Answer: C

Diff: 2 Type: MC

LO: 2-1

Bloom's Taxonomy: Remember

19) A company which is in the business of reselling tangible products purchased from supplier to businesses which resell the product is what type of company?

- A) Manufacturing
- B) Service company
- C) Retailer
- D) Wholesaler

Answer: D

Diff: 2 Type: MC

LO: 2-1

Bloom's Taxonomy: Remember

20) The flow of inventory costs in a manufacturing company is

- A) work in process, raw materials, finished goods.
- B) finished goods, work in process, raw materials.
- C) work in process, finished goods, raw materials.
- D) raw materials, work in process, finished goods.

Answer: D

Diff: 1 Type: MC

LO: 2-1

Bloom's Taxonomy: Remember

21) Describe service, merchandising, and manufacturing companies.

Answer: Service companies sell intangible services such as insurance, consulting and health care. Salaries and wages often are the largest part of their costs. They usually do not have inventory or cost of goods sold accounts, although some service companies will have a small amount of supplies inventory which is used for their own use and not for sale to customers. Merchandising companies resell tangible products they buy from suppliers. Retailers and wholesalers are both types of merchandising companies. Retailers sell to end user consumers, while wholesalers sell to other resellers. Merchandisers have inventory. Manufacturing companies use labour, plant and equipment to convert raw materials into finished products which they sell to other companies. They have three types of inventory-raw materials, work in process, and finished goods.

Diff: 2 Type: ES

LO: 2-1

Bloom's Taxonomy: Understand

22) Explain the difference between raw materials inventory, work in process inventory, and finished goods inventory.

Answer: Raw materials inventory includes all materials used to make a product including materials that become a part of the product as well as other physical materials used in a plant such as machine lubricants and janitorial supplies. Work in process inventory includes goods that are partway through the manufacturing process but not yet complete. Finished goods inventory includes completed goods that have not yet been sold.

Diff: 1 Type: ES

LO: 2-1

Bloom's Taxonomy: Understand

23) Describe a company that has some elements of all three types of companies. It is part service company, part manufacturer, and part merchandiser.

Answer: Many restaurants fall into this category. They are a service company since they serve hungry customers. They are a manufacturer since they convert raw ingredients into finished meals and they are a merchandiser since they sell ready-to-serve bottles of beer and wine.

Diff: 2 Type: ES

LO: 2-1

Bloom's Taxonomy: Understand

24) Why do most service firms not have inventory costs pertaining to items to be sold? What type of costs do they generally have?

Answer: Service firms do not have inventory costs because services cannot be produced today and stored up to sell later. They usually do not have inventory. They generally have period costs that are expensed.

Diff: 2 Type: ES

LO: 2-1

Bloom's Taxonomy: Understand

**Match the following:**

A) Service company

B) Manufacturing company

C) Merchandising company

25) Generally has no inventory

Diff: 1 Type: MA

LO: 2-1

Bloom's Taxonomy: Remember

26) Has three types of inventory

Diff: 1 Type: MA

LO: 2-1

Bloom's Taxonomy: Remember

27) Inventory consists of freight-in and the purchase cost of the finished product

Diff: 1 Type: MA

LO: 2-1

Bloom's Taxonomy: Remember

28) Has the highest percentage of labour costs

Diff: 1 Type: MA

LO: 2-1

Bloom's Taxonomy: Understand

29) Walmart is this type of company

Diff: 1 Type: MA

LO: 2-1

Bloom's Taxonomy: Understand

Answers: 25) A 26) B 27) C 28) A 29) C

**Match the following:**

- A) Materials inventory
- B) Manufacturing companies
- C) Service companies
- D) Merchandising companies
- E) Finished goods inventory
- F) Merchandise inventory
- G) Work in process inventory

30) Typically have a single category of inventory

Diff: 1 Type: MA

LO: 2-1

Bloom's Taxonomy: Remember

31) Resell products they previously purchased ready-made from suppliers

Diff: 1 Type: MA

LO: 2-1

Bloom's Taxonomy: Remember

32) Do not have inventory for resale

Diff: 1 Type: MA

LO: 2-1

Bloom's Taxonomy: Remember

33) Produce its own inventory

Diff: 1 Type: MA

LO: 2-1

Bloom's Taxonomy: Remember

34) Transform raw materials into finished products

Diff: 1 Type: MA

LO: 2-1

Bloom's Taxonomy: Remember

35) Ready to sell inventory of manufacturers

Diff: 1 Type: MA

LO: 2-1

Bloom's Taxonomy: Remember

36) Partially completed items of manufacturers

Diff: 1 Type: MA

LO: 2-1

Bloom's Taxonomy: Remember

Answers: 30) D 31) D 32) C 33) B 34) B 35) E 36) G

## 2.2 Describe the value chain and its elements.

1) All of the components of manufacturing from research and development through customer service after the sale are part of a firm's value chain.

Answer: TRUE

Diff: 1 Type: TF

LO: 2-2

Bloom's Taxonomy: Remember

2) The activities in the value chain must take place in a specific order.

Answer: FALSE

Diff: 1 Type: TF

LO: 2-2

Bloom's Taxonomy: Remember

3) The value chain helps companies control costs of products only.

Answer: FALSE

Diff: 1 Type: TF

LO: 2-2

Bloom's Taxonomy: Remember

4) Research and development is needed to improve products and to design new products.

Answer: TRUE

Diff: 1 Type: TF

LO: 2-2

Bloom's Taxonomy: Remember

5) Receipt of materials is part of the firm's value chain.

Answer: TRUE

Diff: 1 Type: TF

LO: 2-2

Bloom's Taxonomy: Remember

6) A company's distribution system is an important part of the value chain.

Answer: TRUE

Diff: 1 Type: TF

LO: 2-2

Bloom's Taxonomy: Remember

7) Progressive companies incorporate environmental sustainability throughout every function of the value chain.

Answer: TRUE

Diff: 1 Type: TF

LO: 2-2

Bloom's Taxonomy: Remember

8) Providing customer service past the warrantee date can be part of incorporating environmental sustainability practices.

Answer: TRUE

Diff: 1 Type: TF

LO: 2-2

Bloom's Taxonomy: Remember

9) The value chain is used by

A) only manufacturing and merchandising businesses.

B) only service and manufacturing businesses.

C) only service and merchandising businesses.

D) service, manufacturing and merchandising businesses.

Answer: D

Diff: 1 Type: MC

LO: 2-2

Bloom's Taxonomy: Remember

10) Collectively, all costs such as design, customer service, etc. are part of

A) downstream activities.

B) fixed costs.

C) manufacturing costs.

D) the value chain.

Answer: D

Diff: 1 Type: MC

LO: 2-2

Bloom's Taxonomy: Remember

11) The promotion of products and services is known as

A) customer service.

B) design.

C) distribution.

D) marketing.

Answer: D

Diff: 1 Type: MC

LO: 2-2

Bloom's Taxonomy: Remember

12) Depreciation on a factory would be classified as a cost in which part of the value chain?

A) Design

B) Distribution

C) Production

D) Research and development

Answer: C

Diff: 1 Type: MC

LO: 2-2

Bloom's Taxonomy: Understand

13) A technical support hotline for customers would be considered which part of the value chain?

- A) Customer service
- B) Design
- C) Distribution
- D) Marketing

Answer: A

Diff: 21 Type: MC

LO: 2-2

Bloom's Taxonomy: Understand

14) Advertising expenses would be considered which part of the value chain?

- A) Customer service
- B) Marketing
- C) Production
- D) Research and development

Answer: B

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Understand

15) The costs associated with re-engineering machinery and its location within the factory to increase efficiency would be considered which part of the value chain?

- A) Customer service
- B) Marketing
- C) Design
- D) Research and development

Answer: C

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Understand

16) A company decision as to where to locate a new store would be considered

- A) customer service.
- B) marketing.
- C) production.
- D) research and development.

Answer: B

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Understand

Use the information below to answer the following question(s).

Farm Fresh Dairy provided the following expense information for May:

|                                   |          |
|-----------------------------------|----------|
| Assembly-line workers' wages      | \$72,000 |
| Caps for milk bottles             | 2,000    |
| Reconfiguring the assembly line   | 155,000  |
| Customer support hotline          | 8,000    |
| Delivery expenses                 | 17,000   |
| Depreciation on factory equipment | 81,000   |
| Plastic milk bottles              | 52,000   |
| Salaries of salespeople           | 63,000   |
| Salaries of research scientists   | 84,000   |
| Customer toll-free order line     | 4,000    |

17) What is the total cost of research and development at Farm Fresh Dairy?

- A) \$84,000
- B) \$155,000
- C) \$88,000
- D) \$239,000

Answer: A

Explanation: A) Salaries of research scientists

Diff: 21 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

18) What is the total cost for the production category of the value chain at Farm Fresh Dairy?

- A) \$200,000
- B) \$205,000
- C) \$207,000
- D) \$126,000

Answer: C

Explanation: C)  $\$72,000 + 2,000 + 81,000 + 52,000 = \$207,000$

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

19) What is the total cost for the design category of the value chain at Farm Fresh Dairy?

- A) \$88,000
- B) \$84,000
- C) \$155,000
- D) \$239,000

Answer: C

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

20) What is the total cost for the distribution category of the value chain at Farm Fresh Dairy?

A) \$19,000

B) \$17,000

C) \$21,000

D) \$29,000

Answer: B

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

21) What is the total cost for the marketing category of the value chain at Farm Fresh Dairy?

A) \$71,000

B) \$92,000

C) \$67,000

D) \$63,000

Answer: C

Explanation: C)  $\$63,000 + 4,000 = \$67,000$

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

22) What is the total cost for the customer service category of the value chain at Farm Fresh Dairy?

A) \$80,000

B) \$8,000

C) \$71,000

D) \$12,000

Answer: B

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Sunnybrook Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

|                                                      |           |
|------------------------------------------------------|-----------|
| Depreciation expense on bottling machines            | \$63,000  |
| Glass juice bottles                                  | \$54,000  |
| Commissions for salespeople                          | \$27,000  |
| Salaries of nutrition researchers                    | \$89,000  |
| Cost of maintaining website used for customer orders | \$4,000   |
| Wages of factory workers                             | \$75,000  |
| Freshness seals/caps for juice bottles               | \$3,000   |
| Reconfigure the factory layout                       | \$102,000 |
| Customer help line                                   | \$2,000   |
| Cost of refrigerated trucks used to deliver juice    | \$17,000  |

23) What is the total cost for the research and development category of the value chain at Sunnybrook Orange Groves?

- A) \$93,000
- B) \$102,000
- C) \$89,000
- D) \$191,000

Answer: C

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

24) What is the total cost for the production category of the value chain at Sunnybrook Orange Groves?

- A) \$436,000
- B) \$54,000
- C) \$195,000
- D) \$293,000

Answer: C

Explanation: C)  $\$75,000 + \$3,000 + \$63,000 + \$54,000 = \$195,000$

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

25) What is the total cost for the design category of the value chain at Sunnybrook Orange Groves?

- A) \$177,000
- B) \$89,000
- C) \$102,000
- D) \$191,000

Answer: C

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

26) What is the total cost for the distribution category of the value chain at Sunnybrook Orange Groves?

A) \$20,000

B) \$21,000

C) \$17,000

D) \$19,000

Answer: C

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

27) What is the total cost for the marketing category of the value chain at Sunnybrook Orange Groves?

A) \$29,000

B) \$33,000

C) \$31,000

D) \$27,000

Answer: C

Explanation: C)  $\$27,000 + 4000 = \$31,000$

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

28) What is the total cost for the customer service category of the value chain at Sunnybrook Orange Groves?

A) \$29,000

B) \$6,000

C) \$2,000

D) \$31,000

Answer: C

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Lucas Family Orange Groves processes a variety of fresh juices. The company has the following expenses for July:

|                                                       |           |
|-------------------------------------------------------|-----------|
| Wages of factory workers                              | \$86,000  |
| Freshness seals/caps for juice bottles                | \$5,000   |
| Reconfiguring the factory layout                      | \$102,000 |
| Customer help line                                    | \$14,000  |
| Costs of refrigerated trucks used to deliver juice    | \$17,000  |
| Depreciation expense on bottling machines             | \$29,000  |
| Glass juice bottles                                   | \$17,000  |
| Commissions for salespeople                           | \$36,000  |
| Salaries of nutrition researchers                     | \$114,000 |
| Costs of maintaining website used for customer orders | \$4,000   |

29) What is the total cost for the customer service category of the value chain at Lucas Family Orange Groves?

- A) \$14,000
- B) \$18,000
- C) \$45,000
- D) \$4,000

Answer: A

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

30) What is the total cost for the production category of the value chain at Lucas Family Orange Groves?

- A) \$132,000
- B) \$137,000
- C) \$108,000
- D) \$141,000

Answer: B

Explanation: B)  $\$86,000 + \$5,000 + \$29,000 + \$17,000 = \$137,000$

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

31) What is the total cost for the research and development category of the value chain at Lucas Family Orange Groves?

- A) 102,000
- B) 216,000
- C) \$114,000
- D) 118,000

Answer: C

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

32) What is the total cost for the design category of the value chain at Lucas Family Groves?

- A) \$4,000
- B) \$106,000
- C) \$216,000
- D) \$102,000

Answer: D

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

33) What is the total cost for the marketing category of the value chain at Lucas Family Orange Groves?

- A) \$40,000
- B) \$36,000
- C) \$57,000
- D) \$53,000

Answer: A

Explanation: A)  $\$36,000 + \$4,000$

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

34) What is the total cost for the distribution category of the value chain at Lucas Family Orange Groves?

- A) \$4,000
- B) \$47,000
- C) \$21,000
- D) \$17,000

Answer: D

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Apply

35) Delivery expenses are charged to which of the following areas?

- A) Customer service
- B) Distribution
- C) Production or purchases
- D) Marketing

Answer: B

Diff: 1 Type: MC

LO: 2-2

Bloom's Taxonomy: Remember

36) A product support hot line would be considered

- A) customer service.
- B) distribution.
- C) production or purchases.
- D) marketing.

Answer: A

Diff: 1 Type: MC

LO: 2-2

Bloom's Taxonomy: Understand

37) Place the six business functions in the order they appear along the value chain:

A = Customer service

B = Design

C = Distribution

D = Production or purchases

E = Research and Development

F = Marketing

A) A, E, B, D, C, F

B) A, C, D, B, F, E

C) E, B, D, F, C, A

D) E, B, A, D, F, C

Answer: C

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Remember

38) Which function of the value chain incorporates the most opportunity to create sustainability for manufacturing companies?

- A) Research & development
- B) Design
- C) Distribution
- D) Marketing

Answer: B

Diff: 2 Type: MC

LO: 2-2

Bloom's Taxonomy: Remember

39) Place the value chain elements in the normal order by numbering them from 1 to 6.

- \_\_\_\_\_ Design
- \_\_\_\_\_ Customer Service
- \_\_\_\_\_ Marketing
- \_\_\_\_\_ Research and Development
- \_\_\_\_\_ Distribution
- \_\_\_\_\_ Production or Purchases

Answer:

- 2   Design
- 6   Customer Service
- 4   Marketing
- 1   Research and Development
- 5   Distribution
- 3   Production or Purchases

Diff: 2    Type: SA

LO: 2-2

Bloom's Taxonomy: Remember

40) Name and briefly describe the activities that make up the value chain.

Answer: The value chain consists of research and development, design, production or purchase, marketing, distribution, and customer service. Research and development refers to researching and developing new or improved products or services and the processes for producing them. Design involves the detailed engineering of products and services and the processes for producing them. Production or purchases refers to the resources used to produce a product or service or to purchase finished merchandise intended for resale. Marketing is the promotion and advertising of products or services. Distribution is the delivery of products or services to customers and customer service provides support for customers after the sale.

Diff: 3    Type: ES

LO: 2-2

Bloom's Taxonomy: Understand

41) Provide a description of an activity or process that a company could undertake to integrate sustainability into the value chain.

Answer: Examples from the text include:

Researching & Developing environmentally safe packaging.

Designing the product using life cycle assessment and biomimicry practices.

Adopting sustainable purchasing practices.

Marketing with integrity.

Distributing using fossil-fuel alternatives and carbon offsets.

Providing customer service past the warranty date.

Diff: 2    Type: ES

LO: 2-2

Bloom's Taxonomy: Remember

**Match the following:**

- A) Research and Development
- B) Customer Service
- C) Marketing
- D) Design
- E) Production
- F) Distribution

42) Cost of a commercial during a TV program

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

43) Cost of shipping goods to customers

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

44) Costs associated with repairing costs under warrantee

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

45) Costs of developing a new produce

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

46) Cost of making a prototype of a new product

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

47) Cost of labour for machine operator in factory

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

Answers: 42) C 43) F 44) B 45) A 46) D 47) E

**Match the following:**

- A) Distribution
- B) Marketing
- C) Design
- D) Production or purchases
- E) Customer Service
- F) Research and Development

48) Depreciation expense on store fixtures

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

49) Cost of repairing a product under warrantee

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

50) Cost of testing a new material for use in an existing product

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

51) Architect's fee for designing a new factory building

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

52) Cost of new robot to be used in the assembly plant

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

53) Delivery of products and services

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Remember

54) Detailed engineering plans for products

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Remember

55) Payment to sponsor a racing team

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

56) Investigating a potential new process for producing a product

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

57) Repairing a customer's purchase at no charge

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

58) Research on whether the store should expand their product line

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

59) Purchases of merchandise

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Remember

60) Rearranging the store layout

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

61) Advertising on the local TV channel

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

62) Cost of having merchandise delivered to the store

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

63) Salaries of sales persons

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

64) Depreciation on manufacturing equipment

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

65) Parts for monitors being manufactured

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

66) Delivery expense to customers

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Remember

67) Rearrange the production process to accommodate new equipment

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

68) Customer support hot line

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

69) Salaries for the engineers who developed a new process

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

70) Toll free line for customer orders

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

71) Assembly line workers' wages

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

72) Cost of having raw materials delivered to the factory

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Remember

73) Customer complaint department

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

74) Factory machine controller software

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

75) Consultant fees for redesign of the company's billing system

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

76) Sponsorship of a local youth ball team

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

77) Purolator charges for returning completed files to clients

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

78) Purchase of printer supplies

Diff: 2 Type: MA

LO: 2-2

Bloom's Taxonomy: Understand

Answers: 48) B 49) E 50) F 51) C 52) D 53) A 54) C 55) B 56) F 57) E 58) F 59) D 60) C 61) B 62) D  
63) B 64) D 65) D 66) A 67) C 68) E 69) F 70) A 71) D 72) D 73) E 74) D 75) C 76) B 77) A 78) D

## 2.3 Distinguish between direct and indirect costs.

1) If a company wants to determine a product's cost, they must assign only direct costs.

Answer: FALSE

Diff: 1 Type: TF

LO: 2-3

Bloom's Taxonomy: Remember

2) Costs can be either direct or indirect, depending upon the cost object.

Answer: TRUE

Diff: 1 Type: TF

LO: 2-3

Bloom's Taxonomy: Remember

3) Indirect costs can be traced to specific units.

Answer: FALSE

Diff: 1 Type: TF

LO: 2-3

Bloom's Taxonomy: Remember

4) Indirect costs cannot be traced to the cost objects, so they are allocated.

Answer: TRUE

Diff: 1 Type: TF

LO: 2-3

Bloom's Taxonomy: Remember

5) Direct costs are allocated to cost objects.

Answer: FALSE

Diff: 1 Type: TF

LO: 2-3

Bloom's Taxonomy: Remember

- 6) When determining the cost of a manufactured product, a factory janitor's wages would be classified as
- A) a direct cost.
  - B) an indirect cost.
  - C) a period cost.
  - D) a conversion cost.

Answer: B

Diff: 1 Type: MC

LO: 2-3

Bloom's Taxonomy: Understand

- 7) When determining the cost of a manufactured product, a salesperson's salary would be classified as
- A) a direct cost.
  - B) an indirect cost.
  - C) a period cost.
  - D) a conversion cost.

Answer: C

Diff: 1 Type: MC

LO: 2-3

Bloom's Taxonomy: Understand

- 8) When determining the cost of a manufactured product, the cost of lighting the factory would be classified as
- A) a direct cost.
  - B) an indirect cost.
  - C) a period cost.
  - D) a conversion cost.

Answer: B

Diff: 1 Type: MC

LO: 2-3

Bloom's Taxonomy: Understand

- 9) The determination of a cost as being either direct or indirect depends upon
- A) the accounting system.
  - B) the allocation system.
  - C) the cost tracing system.
  - D) the cost object chosen to determine its individual costs.

Answer: D

Diff: 2 Type: MC

LO: 2-3

Bloom's Taxonomy: Remember

- 10) Cost tracing is
- A) the assignment of direct costs to the chosen cost object.
  - B) a function of cost allocation.
  - C) the process of determining the actual cost of the cost object.
  - D) the assignment of both direct and indirect costs associated with a cost object.

Answer: A

Diff: 2 Type: MC

LO: 2-3

Bloom's Taxonomy: Remember

11) What is the meaning of the term "cost object"? Give an example of a cost object that would be used in a manufacturing company, a merchandising company, and a service sector company.

Answer: A cost object is anything for which a measurement of costs is desired. An example of a cost object for a manufacturing company might be the cost of manufacturing a particular product. An example of a cost object for a merchandising company might be a particular department of a retail store. An example of a cost object for a service sector company might be the cost to serve or supply a particular customer.

Diff: 2 Type: ES

LO: 2-3

Bloom's Taxonomy: Understand

12) What are the differences between direct costs and indirect costs? Give an example of each.

Answer: *Direct* costs are costs that can be traced easily and economically to the product manufactured or the service rendered. Examples of direct costs include direct materials and direct manufacturing labour used in a product. *Indirect* costs cannot be easily identified in a cost efficient manner (economically) with individual products or services rendered, and are usually assigned using allocation formulas. In a plant that manufactures multiple products, examples of indirect costs include the plant supervisor's salary and the cost of machines used to produce more than one type of product.

Diff: 2 Type: ES

LO: 2-3

Bloom's Taxonomy: Understand

**Match the following:**

A) Direct cost

B) Indirect cost

13) Butcher's salary

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

14) Cost of meat

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

15) Store utilities

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

16) Paper, trays and plastic wrap for packaging meat

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

Answers: 13) A 14) A 15) B 16) B

**Match the following:**

- A) Direct cost
- B) Indirect cost

17) Seats

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

18) Assembly workers wages

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

19) Plant utilities

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

20) Production supervisors salaries

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

21) Engine blocks and transaxles

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

22) Depreciation on forklifts

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

23) Property tax on production facility

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

24) Machine operators' health insurance

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

Answers: 17) A 18) A 19) B 20) B 21) A 22) B 23) B 24) A

Samson Manufacturing has four manufacturing cost pools and many types of costs, some of which are e listed below. Match the type of cost with the most appropriate cost pool or as a period cost.

- A) Cost pool - indirect factory labour
- B) Cost pool - direct factory labour
- C) Cost pool - indirect factory operating costs
- D) Period cost

25) Amortization on buildings and equipment

Diff: 1 Type: MA

LO: 2 -3

Bloom's Taxonomy: Understand

26) Fringe benefits for factory workers

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

27) Idle time wages

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

28) Lubricants for machines

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

29) Night security

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

30) Factory worker overtime premiums

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

31) Factory worker overtime premiums

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

32) Property insurance on the factory

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

33) Property taxes on the administration office

Diff: 1 Type: MA

LO: 2-3

Bloom's Taxonomy: Understand

34) Safety hats and shoes  
Diff: 1 Type: MA  
LO: 2-3  
Bloom's Taxonomy: Understand

35) Factory supervisors' salaries  
Diff: 1 Type: MA  
LO: 2-3  
Bloom's Taxonomy: Understand

36) Utilities on the administrative building  
Diff: 1 Type: MA  
LO: 2-3  
Bloom's Taxonomy: Understand

37) Utilities on the factory  
Diff: 1 Type: MA  
LO: 2-3  
Bloom's Taxonomy: Understand

Answers: 25) C 26) A 27) A 28) C 29) C 30) C 31) A 32) C 33) D 34) C 35) A 36) D 37) C

## 2.4 Identify the inventoriable product costs and period costs of merchandising and manufacturing firms.

1) An inventoriable cost could be the cost of the marketing and distribution of a product.  
Answer: FALSE  
Diff: 1 Type: TF  
LO: 2-4  
Bloom's Taxonomy: Remember

2) Inventoriable product costs consist of manufacturing overhead, direct labour and direct materials.  
Answer: TRUE  
Diff: 1 Type: TF  
LO: 2-4  
Bloom's Taxonomy: Remember

3) A prime cost consists of direct labour and factory overhead.  
Answer: FALSE  
Diff: 1 Type: TF  
LO: 2-4  
Bloom's Taxonomy: Remember

4) Which of the following is a period cost for a manufacturer?

- A) Direct labour
- B) Direct materials
- C) Freight out
- D) Manufacturing overhead

Answer: C

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Understand

5) Period costs are

- A) always considered part of the inventory.
- B) always recorded as an expense.
- C) expensed only when the inventory is sold.
- D) the same as indirect costs.

Answer: B

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

6) Which of the following is an inventoriable cost?

- A) Direct labour expenses
- B) Distribution expenses
- C) Marketing expenses
- D) Research and development expenses

Answer: A

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Understand

7) Which of the following describes full costs for a product for profitability analysis?

- A) Full product costs are narrower in scope than inventoriable product costs.
- B) Full product costs consist of direct materials, direct labour and manufacturing overhead.
- C) Full product costs include all costs of the value chain.
- D) Full product costs do not include non-manufacturing costs.

Answer: C

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

8) Inventoriable product costs for a manufactured product include

- A) marketing and research and development costs.
- B) the costs of direct materials, direct labour and manufacturing overhead.
- C) the costs of direct materials and direct labour only.
- D) sales commissions on selling the product.

Answer: B

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

9) Which of the following statements describes inventoriable product costs?

- A) They are expensed on the income statement when incurred.
- B) They are used for external reporting purposes.
- C) They include marketing and distribution costs.
- D) They do not include prime costs.

Answer: B

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

10) Where would period costs be found on the financial statements?

- A) Under current assets on the balance sheet
- B) Under current liabilities on the balance sheet
- C) As operating expenses on the income statement for a previous period
- D) As operating expenses on the income statement in the period incurred

Answer: D

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

11) Which of the following statements is correct concerning product costs?

- A) Product costs are expensed in the period incurred.
- B) Product costs are expensed in the period the related product is sold.
- C) Product costs are shown with operating expenses on the income statement.
- D) Product costs are shown with current liabilities on the balance sheet.

Answer: B

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

12) \_\_\_\_\_ costs include all costs associated with the production of a product.

- A) Direct
- B) Inventoriable
- C) Mixed
- D) Overhead

Answer: B

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

13) Manufacturing overhead costs for a product include

- A) direct material.
- B) operating expenses.
- C) prime costs.
- D) indirect manufacturing costs.

Answer: D

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

14) When do inventoriable costs become expenses?

- A) When direct materials are purchased
- B) When the manufacturing process begins
- C) When the manufacturing process is completed
- D) When the product is sold

Answer: D

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

15) For a manufactured product, indirect materials and indirect labour are

- A) overhead and period costs.
- B) overhead and product costs.
- C) operating and period costs.
- D) operating and product costs.

Answer: B

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

16) Manufacturers consider selling and administrative costs to be

- A) prime costs.
- B) conversion costs.
- C) inventoriable costs.
- D) period costs.

Answer: D

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

17) When manufacturing products, which of the following is an example of a period cost?

- A) Advertising expense
- B) Depreciation expense on factory equipment
- C) Indirect materials used in the factory
- D) Property taxes on the plant

Answer: A

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Understand

18) When manufacturing products, which of the following is an example of an inventoriable cost?

- A) Depreciation on office equipment
- B) Depreciation on store building
- C) Depreciation on factory equipment
- D) Sales salaries expenses

Answer: C

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

19) When manufacturing products, direct labour and direct materials are classified as

- A) period costs and expensed when incurred.
- B) period costs and expensed when the goods are sold.
- C) product costs and expensed when incurred.
- D) product costs and expensed when the goods are sold.

Answer: D

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

20) Certain materials used in a manufacturing plant cannot be traced to a specific unit. These materials are called \_\_\_\_\_ materials.

- A) general
- B) direct
- C) finished
- D) indirect

Answer: D

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

21) Rent on a factory building would be considered to be

- A) a direct cost.
- B) a period cost.
- C) a product cost.
- D) administrative overhead.

Answer: C

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Understand

22) Which element in the value chain would contain inventoriable costs for a manufacturer?

- A) Research and development
- B) Design
- C) Production
- D) Distribution

Answer: C

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Understand

23) Prime costs consist of

- A) direct labour and manufacturing overhead.
- B) direct materials and direct labour.
- C) direct materials and manufacturing overhead.
- D) direct materials, direct labour and manufacturing overhead.

Answer: B

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

24) Conversion costs consist of

- A) direct labour and manufacturing overhead.
- B) direct materials and direct labour.
- C) direct materials and manufacturing overhead.
- D) direct materials, direct labour and manufacturing overhead.

Answer: A

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

25) Which of the following is an example of direct labour?

- A) Salary of a production manager
- B) Salary of the vice-president of operations
- C) Wages of assembly line personnel
- D) Wages of factory security

Answer: C

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Understand

26) Which statement describes direct materials in a manufacturing setting?

- A) Direct materials are used to determine total inventoriable product costs.
- B) Direct materials are used to determine total manufacturing overhead.
- C) Direct materials cannot be separately and conveniently traced.
- D) Direct materials do not become part of the finished product.

Answer: A

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Understand

27) In a manufacturing plant, which type of employee wage is an example of indirect labour?

- A) Chief operating officer's salary
- B) Machine operator's wages
- C) Plant manager's salary
- D) Salesperson's commissions

Answer: C

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Understand

28) Which of the following are classified as manufacturing overhead?

- A) Direct materials and direct labour
- B) Indirect labour and indirect materials
- C) All materials
- D) Factory rent and direct labour

Answer: B

Diff: 1 Type: MC

LO: 2-4

Bloom's Taxonomy: Remember

29) Which of the following is an example of overhead in a factory?

- A) Wages of machine operators
- B) Wages of factory maintenance personnel
- C) Wages of administrators in the corporate office
- D) Salaries of salespersons

Answer: B

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Understand

*Use the information below to answer the following question(s).*

Uniquely Me Shoppe, a clothing retailer, had the following total costs as grouped by value chain element:

|                          |          |
|--------------------------|----------|
| Research and development | \$53,000 |
| Design                   | \$17,000 |
| Purchases                | \$99,000 |
| Marketing                | \$42,000 |
| Distribution             | \$68,000 |
| Customer service         | \$27,000 |

30) What were the inventoriable costs at the Uniquely Me Shoppe?

- A) \$99,000
- B) \$116,000
- C) \$17,000
- D) \$169,000

Answer: A

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

31) What were the period costs at the Uniquely Me Shoppe?

- A) \$306,000
- B) \$137,000
- C) \$110,000
- D) \$207,000

Answer: D

Explanation: D)  $\$53,000 + \$17,000 + \$42,000 + \$68,000 + \$27,000 = \$207,000$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Comfy Furniture Company manufactures furniture at its Windsor, Ontario, factory. Some of its costs from the past year include:

|                                      |           |
|--------------------------------------|-----------|
| Depreciation on sales office         | \$11,000  |
| Depreciation on factory equipment    | \$16,000  |
| Factory supervisor salary            | \$52,500  |
| Sales commissions                    | \$23,000  |
| Lubricants used in factory equipment | \$3,000   |
| Insurance costs for factory          | \$21,000  |
| Wages paid to maintenance workers    | \$115,000 |
| Fabric used to upholster furniture   | \$7,000   |
| Freight-in (on raw materials)        | \$2,500   |
| Costs of delivery to customers       | \$9,000   |
| Wages paid to assembly-line workers  | \$132,500 |
| Lumber used to build product         | \$72,000  |
| Utilities in factory                 | \$44,500  |
| Utilities in sales office            | \$26,500  |

32) Product costs for Comfy Furniture Company totaled

- A) \$351,000.
- B) \$442,500.
- C) \$466,000.
- D) \$482,000.

Answer: C

Explanation: C)  $\$16,000 + \$52,500 + \$3,000 + \$21,000 + \$115,000 + \$7,000 + \$2,500 + \$132,500 + \$72,000 + \$44,500 = \$466,000$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

33) Period costs for Comfy Furniture Company totaled

- A) \$43,000.
- B) \$46,500.
- C) \$69,500.
- D) \$121,000.

Answer: C

Explanation: C)  $\$11,000 + \$23,000 + \$9,000 + \$26,500 = \$69,500$

Diff: 3 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

34) Prime costs for Comfy Furniture Company totaled

- A) \$79,000.
- B) \$214,000.
- C) \$211,500.
- D) \$332,000.

Answer: B

Explanation: B)  $\$7,000 + 2,500 + 132,500 + 72,000 = \$214,000$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

35) Conversion costs for Comfy Furniture Company totaled

- A) \$319,500.
- B) \$460,500.
- C) \$214,000.
- D) \$384,500.

Answer: D

Explanation: D)  $\$16,000 + 52,500 + 3,000 + 21,000 + 115,000 + 132,500 + 44,500 = \$384,500$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

36) Direct material costs for Comfy Furniture Company totaled

- A) \$81,500.
- B) \$79,000.
- C) \$7,000.
- D) \$72,000.

Answer: A

Explanation: A)  $\$7,000 + 2,500 + 72,000 = \$81,500$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

37) Direct labour costs for Comfy Furniture Company totaled

- A) \$300,000.
- B) \$132,500.
- C) \$115,000.
- D) \$323,000.

Answer: B

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

38) Manufacturing overhead costs for Comfy Furniture Company totaled

- A) \$324,000.
- B) \$122,000.
- C) \$228,000.
- D) \$252,000.

Answer: D

Explanation: D)  $\$16,000 + \$52,500 + \$3,000 + \$21,000 + \$115,000 + \$44,500 = \$252,000$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

*Use the information below to answer the following question(s).*

Country Furniture Company manufactures furniture at its Halifax, Nova Scotia, factory. Some of its costs from the past year include:

|                                      |           |
|--------------------------------------|-----------|
| Depreciation on sales office         | \$9,000   |
| Depreciation on factory equipment    | \$16,000  |
| Factory supervisor salary            | \$50,500  |
| Sales commissions                    | \$23,000  |
| Lubricants used in factory equipment | \$3,000   |
| Insurance costs for factory          | \$21,000  |
| Wages paid to maintenance workers    | \$115,000 |
| Fabric used to upholster furniture   | \$10,000  |
| Freight-in (on raw materials)        | \$3,000   |
| Costs of delivery to customers       | \$9,000   |
| Wages paid to assembly-line workers  | \$155,500 |
| Lumber used to build product         | \$82,000  |
| Utilities in factory                 | \$54,500  |
| Utilities in sales office            | \$26,500  |

39) Prime costs for Country Furniture Company totaled

- A) \$92,000.
- B) \$247,500.
- C) \$250,500.
- D) \$368,500.

Answer: C

Explanation: C)  $\$10,000 + \$3,000 + \$155,500 + \$82,000 = \$250,500$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

40) Conversion costs for Country Furniture Company totaled

- A) \$415,500.
- B) \$250,500.
- C) \$504,500.
- D) \$362,500.

Answer: A

Explanation: A)  $\$16,000 + 50,500 + 3,000 + 21,000 + 115,000 + 155,500 + 54,500 = \$415,500$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

41) Direct material costs for Country Furniture Company totaled

- A) \$82,000.
- B) \$10,000.
- C) \$95,000.
- D) \$92,000.

Answer: C

Explanation: C)  $\$10,000 + \$3,000 + \$82,000 = \$95,000$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

42) Direct labour costs for Country Furniture Company totaled

- A) \$270,500.
- B) \$115,000.
- C) \$155,500.
- D) \$206,000.

Answer: C

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

43) Manufacturing overhead costs for Country Furniture Company totaled

- A) \$104,500.
- B) \$260,000.
- C) \$269,000.
- D) \$272,000.

Answer: B

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Rustic Living Furniture Company manufactures furniture at its Saskatoon Saskatchewan factory. Some of its costs from the past year include:

|                                      |           |
|--------------------------------------|-----------|
| Wages paid to maintenance workers    | \$60,000  |
| Fabric used to upholster furniture   | \$8,000   |
| Wages paid to assembly-line workers  | \$100,000 |
| Lumber used to build product         | \$15,000  |
| Sales commissions                    | \$7,500   |
| Insurance costs for factory          | \$21,000  |
| Freight-in (on raw materials)        | \$3,000   |
| Utilities in factory                 | \$12,000  |
| Factory supervisor salary            | \$60,000  |
| Depreciation on factory equipment    | \$18,000  |
| Utilities in sales office            | \$26,500  |
| Costs of delivery to customers       | \$8,000   |
| Depreciation on sales office         | \$1,000   |
| Lubricants used in factory equipment | \$500     |

44) Prime costs for Rustic Living Furniture Company totaled

- A) \$126,000.
- B) \$23,000.
- C) \$123,000.
- D) \$168,500.

Answer: A

Explanation: A)  $\$8,000 + \$100,000 + \$15,000 + \$3,000 = \$126,000$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

45) Conversion for Rustic Living Furniture Company totaled

- A) \$215,500.
- B) \$275,500.
- C) \$272,500.
- D) \$271,500.

Answer: D

Explanation: D)  $\$60,000 + \$100,000 + \$21,000 + \$12,000 + \$60,000 + \$18,000 + \$500 = \$271,500$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

46) Direct material for Rustic Living Furniture Company totaled

- A) \$15,000.
- B) \$26,000.
- C) \$18,000.
- D) \$23,000.

Answer: B

Explanation: B)  $\$8,000 + \$15,000 + \$3,000 = \$26,000$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

47) Direct labour for Rustic Living Furniture Company totaled

- A) \$160,000.
- B) \$220,000.
- C) \$100,000.
- D) \$107,500.

Answer: C

Explanation: C) \$100,000

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

48) Manufacturing overhead for Rustic Living Furniture Company totaled

- A) \$171,500.
- B) \$174,500.
- C) \$198,000.
- D) \$206,000.

Answer: A

Explanation: A)  $\$60,000 + \$21,000 + \$12,000 + \$60,000 + \$18,000 + \$500 = \$171,500$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

First Sporting Equipment manufactures sporting goods. Selected costs from the past year include:

|                                        |           |
|----------------------------------------|-----------|
| Plastics used to make products         | \$151,000 |
| Heating and lighting costs for factory | \$73,000  |
| Factory janitor wages                  | \$67,000  |
| Costs of shipping to customers         | \$11,000  |
| Lubricants used in factory equipment   | \$2,000   |
| Lighting costs for sales office        | \$17,000  |
| Depreciation on factory equipment      | \$23,000  |
| Office supplies for sales office       | \$4,000   |
| Insurance costs for factory            | \$15,000  |
| Maintenance worker wages               | \$99,000  |
| Freight-in (on plastics)               | \$8,000   |
| Aluminum used to make products         | \$175,000 |
| Assembly-line worker wages             | \$142,000 |
| Salaries of salespeople                | \$84,000  |

49) Inventoriable product costs for First Sporting Equipment totaled

- A) \$620,000.
- B) \$732,000.
- C) \$755,000.
- D) \$827,000.

Answer: C

Explanation: C)  $\$151,000 + \$73,000 + \$67,000 + \$2,000 + \$23,000 + \$15,000 + \$99,000 + \$8,000 + \$175,000 + \$142,000 = \$755,000$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

50) Period costs for First Sporting Equipment totaled

- A) \$116,000.
- B) \$99,000.
- C) \$201,000.
- D) \$32,000.

Answer: A

Explanation: A)  $\$11,000 + \$17,000 + \$4,000 + \$84,000 = \$116,000$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Bombardeer, an auto manufacturer, incurred the following costs last month (in thousands of dollars).

|                                        |         |
|----------------------------------------|---------|
| Interior assemblies                    | \$540   |
| Depreciation on administrative offices | 280     |
| Assembly workers' wages                | 1,340   |
| Plant utilities                        | 290     |
| Production supervisors' salaries       | 150     |
| Engine and body parts and assemblies   | 2,500   |
| Machine lubricants                     | 75      |
| Property tax on corporate offices      | 40      |
| Cost of warranty repairs               | 450     |
| Factory janitors' wages                | 90      |
| Cost of designing new plant layout     | 360     |
| Machine operators health insurance     | 130     |
| Depreciation on forklifts              | 210     |
| TOTAL                                  | \$6,455 |

51) The total manufacturing overhead costs for Bombardeer are

- A) \$945.
- B) \$1,095.
- C) \$815.
- D) \$525.

Answer: C

Explanation: C)  $\$290 + 150 + 75 + 90 + 210 = \$815$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

52) The total inventoriable product costs costs for Bombardeer are

- A) \$3,840.
- B) \$4,120.
- C) \$5,195.
- D) \$5,325.

Answer: D

Explanation: D)  $\$540 + 1,340 + 290 + 150 + 2,500 + 75 + 90 + 130 + 210 = \$5,325$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

53) The total prime costs for Bombardeer are

A) \$4,380.

B) \$4,510.

C) \$4,455.

D) \$3,040.

Answer: B

Explanation: B)  $\$540 + 1,340 + 2,500 + 130 = \$4,510$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

54) The total conversion costs for Bombardeer are

A) \$2,285.

B) \$2,155.

C) \$2,565.

D) \$1,470.

Answer: A

Explanation: A)  $\$1,340 + 290 + 150 + 75 + 90 + 130 + 210 = \$2,285$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

55) The total period costs for Bombardeer are

A) \$1,260.

B) \$770.

C) \$1,130.

D) \$1,090.

Answer: C

Explanation: C)  $\$280 + 40 + 450 + 360 = \$1,130$

Diff: 2 Type: MC

LO: 2-4

Bloom's Taxonomy: Apply

56) Differentiate between:

A. Direct materials versus indirect materials

B. Direct labour versus indirect labour

Answer: Student responses will vary but should include the following points:

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 specific units of the finished product. Examples for a furniture manufacturer include wood, leather, steel, etc. Indirect materials become part of the finished product, but their minor costs cannot conveniently be traced directly to individual units of the finished products. They are included as part of manufacturing overhead.

Examples for a furniture manufacturer include thread, glue, snaps, etc.

B. Direct labour cost is the compensation of employees who physically convert raw materials into the company's products and whose efforts can be traced directly to specific units of finished goods. Examples for a furniture manufacturer include machine operators and assemblers. Indirect labour is factory labour that is difficult to trace to individual units of specific products. Instead, the cost is included in manufacturing overhead. Examples for a furniture manufacturer include costs for forklift operators, janitors, and plant managers.

Diff: 2 Type: ES

LO: 2-4

Bloom's Taxonomy: Understand

**Match the following:**

- A) Period cost
- B) Inventoriable product cost, manufacturing overhead
- C) Inventoriable product cost, direct materials
- D) Inventoriable product cost, direct labour

57) Insurance on the plant building

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

58) Cost of shipping the furniture to the customers

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

59) Assembly line workers' wages

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

60) Depreciation on plant equipment

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

61) Salespersons' salaries

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

62) Cost of various types of wood

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

63) Insurance on delivery trucks

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

64) Plant forklift operator's salary

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

Answers: 57) B 58) A 59) D 60) B 61) A 62) C 63) A 64) B

**Match the following:**

- A) Period
- B) Product

65) Direct materials used in factory

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

66) Factory utilities

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

67) Salespersons' commissions

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

68) Salary of plant manager

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

69) Indirect materials used in factory

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

70) Depreciation expense on store equipment

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

71) Indirect labour incurred in factory

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

72) Advertising expense

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

73) Direct labour incurred in factory

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

74) Factory machinery repairs and maintenance

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

75) Depreciation expense on factory machinery

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

76) Supplies used in store

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

77) Plant insurance expired

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

Answers: 65) B 66) B 67) A 68) B 69) B 70) A 71) B 72) A 73) B 74) B 75) B 76) A 77) B

**Match the following:**

A) Selling and general expenses

B) Manufacturing overhead

C) Direct labour

D) Direct materials

78) Rent expense on factory building

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

79) Sales supplies used

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

80) Factory supplies used

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

81) Indirect materials used

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

82) Wages of assembly line personnel

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

83) Cost of primary material used to make product

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

84) Depreciation expense on office equipment

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

85) Rent expense on office facilities

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

86) Insurance expired on factory equipment

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

87) Utilities incurred in the office

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

88) Advertising expense

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

89) Taxes paid on factory building

Diff: 2 Type: MA

LO: 2-4

Bloom's Taxonomy: Understand

Answers: 78) B 79) A 80) B 81) B 82) C 83) D 84) A 85) A 86) B 87) A 88) A 89) B

## 2.5 Prepare financial statements for service, merchandising, and manufacturing companies.

1) The income statements of manufacturing companies are much less complex than those of service or merchandising companies.

Answer: FALSE

Diff: 1 Type: TF

LO: 2-5

Bloom's Taxonomy: Remember

2) The financial statements of a merchandiser are more complex than those of a manufacturer.

Answer: FALSE

Diff: 1 Type: TF

LO: 2-5

Bloom's Taxonomy: Remember

3) Service companies have the simplest accounting with regard to the income statement.

Answer: TRUE

Diff: 1 Type: TF

LO: 2-5

Bloom's Taxonomy: Remember

4) Cost of goods sold is a major expense of service companies.

Answer: FALSE

Diff: 1 Type: TF

LO: 2-5

Bloom's Taxonomy: Remember

5) The schedule of cost of goods manufactured is prepared before the income statement for a manufacturing company.

Answer: TRUE

Diff: 1 Type: TF

LO: 2-5

Bloom's Taxonomy: Remember

6) Total manufacturing costs include direct materials and direct labour, but not manufacturing overhead.

Answer: FALSE

Diff: 1 Type: TF

LO: 2-5

Bloom's Taxonomy: Remember

7) Which of the following is calculated last before operating income can be determined for a manufacturer?

A) Cost of goods available for sale

B) Cost of goods manufactured

C) Cost of goods sold

D) Cost of direct materials

Answer: C

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Remember

8) The main difference in the balance sheets of manufacturing vs. service business is in

- A) current assets.
- B) current liabilities.
- C) investments.
- D) equity.

Answer: A

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Remember

9) Which of the following would be on the balance sheet of a service company?

- A) Factory equipment depreciation
- B) Cost of goods manufactured
- C) Cost of goods sold
- D) Accounts receivable

Answer: D

Diff: 1 Type: MC

LO: 2-5

Bloom's Taxonomy: Remember

10) Which of the following would be on the income statement of a retailer?

- A) Value of inventory
- B) Cost of goods sold
- C) Accounts payable
- D) Accounts receivable

Answer: B

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Remember

11) Which of the following costs would appear on the income statements for both a merchandiser and manufacturer?

- A) Cost of goods manufactured
- B) Direct labour incurred
- C) Direct materials used
- D) Operating expenses

Answer: D

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Remember

12) A merchandiser's purchases are equivalent to a manufacturer's

- A) cost of goods manufactured.
- B) cost of goods sold.
- C) raw materials inventory.
- D) work in process inventory.

Answer: A

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Remember

Use the information below to answer the following question(s).

Olde Tyme Beverage Company's operating activities for the year are listed below.

|                     |           |
|---------------------|-----------|
| Purchases           | \$132,000 |
| Operating expenses  | 80,000    |
| Beginning Inventory | 12,000    |
| Ending inventory    | 16,000    |
| Sales revenue       | 275,000   |

13) What is the cost of goods available for sale at the Olde Tyme Beverage Company?

- A) \$128,000
- B) \$132,000
- C) \$63,000
- D) \$144,000

Answer: D

Explanation: D) Beginning Inventory \$12,000 + Purchases 132,000 = Goods Available \$144,000

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

14) What is the cost of goods sold for the year at the Olde Tyme Beverage Company?

- A) \$144,000
- B) \$132,000
- C) \$128,000
- D) \$63,000

Answer: C

Explanation: C) Beginning Inventory \$12,000 + Purchases 132,000 = Goods Available \$144,000 - Ending Inventory 16,000 = 128,000

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

15) What is the gross profit for the year at the Olde Tyme Beverage Company?

- A) \$147,000
- B) \$143,000
- C) \$67,000
- D) \$195,000

Answer: A

Explanation: A) Beginning Inventory \$12,000 + Purchases 132,000 = Goods Available \$144,000 - Ending Inventory 16,000 = 128,000 Cost of Goods Sold \$275,000 - \$128,000 = \$147,000

Diff: 3 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Towpath Tennis & Recreation's operating activities for the year are listed below:

|                     |           |
|---------------------|-----------|
| Purchases           | \$150,000 |
| Operating expenses  | 62,000    |
| Beginning Inventory | 27,000    |
| Ending inventory    | 32,000    |
| Sales revenue       | 302,000   |

16) What is the cost of goods available for sale at Towpath Tennis & Recreation?

- A) \$145,000
- B) \$150,000
- C) \$90,000
- D) \$177,000

Answer: D

Explanation: D)  $\$27,000 + \$150,000 = \$177,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

17) What is the cost of goods sold for the year at Towpath Tennis & Recreation?

- A) \$177,000
- B) \$150,000
- C) \$145,000
- D) \$90,000

Answer: C

Explanation: C)  $\$27,000 + \$150,000 = \$177,000 - \$32,000 = \$145,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

18) What is the gross profit for the year at Towpath Tennis & Recreation?

- A) \$157,000
- B) \$152,000
- C) \$95,000
- D) \$240,000

Answer: A

Explanation: A)  $\$27,000 + \$150,000 = \$177,000 - \$32,000 = \$145,000$ .

Then  $\$302,000 - \$145,000 = \$157,000$

Diff: 3 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

19) Which of the following, in addition to cost of goods manufactured, is needed to compute the cost of goods sold for a manufacturer?

- A) Beginning work in process inventory less ending work in process inventory
- B) Ending work in process inventory less beginning work in process inventory
- C) Beginning finished goods less ending finished goods
- D) Ending finished goods less beginning finished goods

Answer: C

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Remember

20) For a manufacturer, beginning work in process would be equal to

- A) cost of goods manufactured + ending work in process inventory - manufacturing costs incurred in the period.
- B) cost of goods manufactured - ending work in process inventory + manufacturing costs incurred in the period.
- C) ending work in process inventory + manufacturing costs incurred in the period.
- D) manufacturing costs incurred in the period - ending work in process inventory.

Answer: A

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Remember

*Use the information below to answer the following question(s).*

Express Company reports the following data for its first year of operation.

|                                      |           |
|--------------------------------------|-----------|
| Cost of goods manufactured           | \$475,000 |
| Work in process inventory, beginning | 0         |
| Work in process inventory, ending    | 140,000   |
| Direct materials used                | 110,000   |
| Manufacturing overhead               | 185,000   |
| Finished goods inventory, ending     | 101,000   |

21) What are the total manufacturing costs to account for at Express Company?

- A) \$615,000
- B) \$475,000
- C) \$295,000
- D) \$529,000

Answer: A

Explanation: A)  $\$475,000 + 140,000 = \$615,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

22) What is the cost of goods sold at Express Company?

- A) \$475,000
- B) \$374,000
- C) \$770,000
- D) \$514,000

Answer: B

Explanation: B)  $\$475,000 - \$101,000 = \$374,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

*Use the information below to answer the following question(s).*

Active Apparel Company reports the following data for its first year of operation.

|                                      |           |
|--------------------------------------|-----------|
| Cost of goods manufactured           | \$500,000 |
| Work in process inventory, beginning | 0         |
| Work in process inventory, ending    | 120,000   |
| Direct materials used                | 85,000    |
| Manufacturing overhead               | 100,000   |
| Finished goods inventory, ending     | 72,000    |

23) What are the total manufacturing costs to account for at Active Apparel Company?

- A) \$620,000
- B) \$500,000
- C) \$685,000
- D) \$493,000

Answer: A

Explanation: A)  $\$500,000 + \$120,000 = \$620,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

24) What is the cost of goods sold at Active Apparel Company?

- A) \$500,000
- B) \$428,000
- C) \$685,000
- D) \$548,000

Answer: B

Explanation: B) Calculations:  $\$500,000 - \$72,000 = \$428,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

25) Direct labour for a company was \$132,000; manufacturing overhead was \$275,000; and direct materials were \$253,000. Conversion costs would total

- A) \$385,000.
- B) \$660,000.
- C) \$407,000.
- D) \$528,000.

Answer: C

Explanation: C)  $\$275,000 + 132,000 = \$407,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

26) Direct labour for a company was \$132,000; manufacturing overhead was \$275,000; and direct materials were \$253,000. Prime costs would total

- A) \$407,000.
- B) \$385,000.
- C) \$660,000.
- D) \$528,000.

Answer: B

Explanation: B)  $\$132,000 + 253,000 = \$385,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

*Use the information below to answer the following question(s).*

Readers Unlimited sells books. The following information summarizes the company's operating expenses for the year:

|                                 |           |
|---------------------------------|-----------|
| Purchases                       | \$90,000  |
| Operating expenses              | \$53,000  |
| Beginning merchandise inventory | \$12,000  |
| Ending merchandise inventory    | \$15,000  |
| Sales revenue                   | \$172,000 |

27) What is the cost of goods available for sale at Readers Unlimited?

- A) \$105,000
- B) \$82,000
- C) \$87,000
- D) \$102,000

Answer: D

Explanation: D)  $\$90,000 + 12,000 = \$102,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

28) What is operating income at Readers Unlimited?

- A) \$32,000
- B) \$87,000
- C) \$93,000
- D) \$29,000

Answer: A

Explanation: A)  $\$90,000 + 12,000 = 102,000 - 15,000 = 87,000$ ;

Next  $\$172,000 - 87,000 = 85,000 - 53,000 = \$32,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

29) What is gross profit at Readers Unlimited?

- A) \$32,000
- B) \$82,000
- C) \$85,000
- D) \$119,000

Answer: C

Explanation: C)  $\$90,000 + 12,000 = 102,000 - 15,000 = \$87,000$ .

Next  $\$172,000 - 87,000 = 85,000$

Diff: 3 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

*Use the information below to answer the following question(s).*

Summerville Company sells office supplies. The following information summarizes the company's operating activities for the year:

|                          |         |
|--------------------------|---------|
| Utilities for the store  | \$8,000 |
| Sales commissions        | 11,000  |
| Sales revenue            | 151,000 |
| Purchases of merchandise | 73,000  |
| January 1 inventory      | 27,000  |
| Rent for store           | 12,000  |
| December 31 inventory    | 23,000  |

30) What is cost of goods sold at Summerville Company?

- A) \$73,000
- B) \$93,000
- C) \$100,000
- D) \$77,000

Answer: D

Explanation: D)  $\$27,000 + 73,000 = 100,000 - 23,000 = \$77,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

31) What is operating income at Summerville Company?

- A) \$143,000
- B) \$43,000
- C) \$58,000
- D) \$47,000

Answer: B

Explanation: B)  $\$151,000 - 77,000 = 74,000 - 8,000 - 11,000 - 12,000 = \$43,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

32) What is gross profit at Summerville Company?

- A) \$43,000
- B) \$82,000
- C) \$74,000
- D) \$58,000

Answer: C

Explanation: C)  $\$151,000 - 77,000 = 74,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

33) What is total operating expense at Summerville Company?

- A) \$20,000
- B) \$19,000
- C) \$31,000
- D) \$23,000

Answer: C

Explanation: C)  $\$8,000 + 11,000 + 12,000 = \$31,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

*Use the information below to answer the following question(s).*

Back Yards Inc. sells lawn furniture. The following information summarizes the company's operating expenses for the year:

|                                 |           |
|---------------------------------|-----------|
| Purchases                       | \$101,000 |
| Operating expenses              | \$75,000  |
| Beginning merchandise inventory | \$32,000  |
| Ending merchandise inventory    | \$37,000  |
| Sales revenue                   | \$257,000 |

34) What was cost of goods sold at Back Yards Inc.?

- A) \$133,000
- B) \$96,000
- C) \$106,000
- D) \$81,000

Answer: B

Explanation: B)  $\$101,000 + 32,000 = 133,000 - 37,000 = \$96,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

35) What was gross profit at Back Yards Inc.?

- A) \$(171,000)
- B) \$156,000
- C) \$161,000
- D) \$182,000

Answer: C

Explanation: C)  $\$101,000 + 32,000 = 133,000 - 37,000 = \$96,000$

Next  $\$257,000 - 96,000 = \$161,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

36) What was operating income for the year at Back Yards Inc.?

- A) \$86,000
- B) \$81,000
- C) \$96,000
- D) \$76,000

Answer: A

Explanation: A)  $\$101,000 + 32,000 = 133,000 - 37,000 = \$96,000$

Next  $\$257,000 - 96,000 = \$161,000 - 75,000 = \$86,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

37) What was the value of goods available for sale at Back Yards Inc.?

- A) \$138,000
- B) \$156,000
- C) \$133,000
- D) \$96,000

Answer: C

Explanation: C)  $\$101,000 + 32,000 = \$133,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

*Use the information below to answer the following question(s).*

Selected financial information for Sunnydale Manufacturing is presented in the following table (000s omitted).

|                                     |         |
|-------------------------------------|---------|
| Sales revenue                       | \$4,000 |
| Purchases of direct materials       | 500     |
| Direct labour                       | 450     |
| Manufacturing overhead              | 620     |
| Operating expenses                  | 700     |
| Beginning raw materials inventory   | 150     |
| Ending raw materials inventory      | 170     |
| Beginning work in process inventory | 320     |
| Ending work in process inventory    | 310     |
| Beginning finished good inventory   | 250     |
| Ending finished goods inventory     | 200     |

38) What was direct materials used at Sunnydale Manufacturing?

- A) \$500
- B) \$480
- C) \$650
- D) \$520

Answer: B

Explanation: B)  $\$150 + 500 = 650 - 170 = \$480$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

39) What was cost of goods manufactured at Sunnydale Manufacturing?

- A) \$1,560
- B) \$1,540
- C) \$1,580
- D) \$1,550

Answer: A

Explanation: A)  $\$480 + 450 + 620 = 1,550 + 320 - 310 = \$1,560$

Diff: 3 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

40) What was cost of goods sold at Sunnydale Manufacturing?

- A) \$680
- B) \$1,570
- C) \$1,510
- D) \$1,610

Answer: D

Explanation: D)  $\$480 + 450 + 620 = 1,550 + 320 - 310 = \$1,560 + 250 - 200 = \$1,610$

Diff: 3 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

41) What was operating income at Sunnydale Manufacturing?

- A) \$1,690
- B) \$2,430
- C) \$3,300
- D) \$4,000

Answer: A

Explanation: A)  $\$4,000 - 1,610 = 2,390 - 700 = \$1,690$

Diff: 3 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

42) Selected information regarding a company's most recent quarter follows (all data in thousands).

|                                     |       |
|-------------------------------------|-------|
| Beginning work in process inventory | \$130 |
| Cost of goods manufactured          | \$320 |
| Direct materials used               | \$170 |
| Direct labour                       | \$90  |
| Ending work in process inventory    | \$140 |

What was manufacturing overhead for the quarter?

- A) \$70
- B) \$260
- C) \$310
- D) \$60

Answer: A

Explanation: A)  $\$320 - 130 + 140 = 330 - 170 - 90 = \$70$

Diff: 3 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

43) Selected information regarding a company's most recent quarter follows (all data in thousands).

|                                     |         |
|-------------------------------------|---------|
| Direct labour                       | \$450   |
| Beginning work in process inventory | \$320   |
| Ending work in process inventory    | \$310   |
| Cost of goods manufactured          | \$1,560 |
| Manufacturing overhead              | \$620   |

What was direct materials used for the quarter?

- A) \$770
- B) \$1,570
- C) \$460
- D) \$480

Answer: D

Explanation: D)  $\$1,560 - 320 + 310 = 1,550 - 450 - 620 = \$480$

Diff: 3 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

44) Selected information regarding a company's most recent quarter follows (all data in thousands).

|                                 |         |
|---------------------------------|---------|
| Operating expenses              | \$700   |
| Gross profit                    | \$2,390 |
| Sales revenue                   | \$4,000 |
| Ending finished goods inventory | \$200   |
| Cost of goods manufactured      | \$1,560 |

What was cost of goods sold?

- A) \$1,610
- B) \$1,740
- C) \$1,060
- D) \$860

Answer: A

Explanation: A)  $\$4,000 - 2,390 = \$1,610$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

45) Selected information regarding a company's most recent quarter follows (all data in thousands).

|                                 |         |
|---------------------------------|---------|
| Operating expenses              | \$700   |
| Gross profit                    | \$2,390 |
| Sales revenue                   | \$4,000 |
| Ending finished goods inventory | \$200   |
| Cost of goods manufactured      | \$1,560 |

What was the beginning finished goods inventory?

- A) \$1,740
- B) \$250
- C) \$1,060
- D) \$860

Answer: B

Explanation: B)  $\$4,000 - 2,390 = \$1,610 + 200 = 1,810 - 1,560 = \$250$

Diff: 3 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

46) Selected information regarding a company's most recent quarter follows (all data in thousands).

|                                   |         |
|-----------------------------------|---------|
| Sales revenue                     | \$4,000 |
| Beginning raw materials inventory | \$150   |
| Direct materials used             | \$350   |
| Purchases of direct materials     | \$500   |
| Direct labour                     | \$450   |
| Manufacturing overhead            | \$620   |

What was the ending raw materials inventory?

- A) \$300
- B) \$970
- C) \$350
- D) \$850

Answer: A

Explanation: A)  $\$150 + 500 = 650 - 350 = 300$

Diff: 3 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Montreal Industries Inc. had the following activities during the year:

|                                     |          |
|-------------------------------------|----------|
| Direct materials:                   |          |
| Beginning inventory                 | \$50,000 |
| Purchases                           | 154,000  |
| Ending inventory                    | 26,000   |
| Direct manufacturing labour         | 40,000   |
| Manufacturing overhead              | 30,000   |
| Ending work-in-process inventory    | 10,000   |
| Beginning work-in-process inventory | 2,000    |
| Ending finished goods inventory     | 40,000   |
| Beginning finished goods inventory  | 60,000   |

47) What is Montreal's cost of direct materials used during the year?

- A) \$204,000
- B) \$178,000
- C) \$128,000
- D) \$218,000

Answer: B

Explanation: B)  $\$50,000 + \$154,000 - \$26,000 = \$178,000$

Diff: 2 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

48) What is Montreal's cost of goods manufactured during the year?

- A) \$268,000
- B) \$248,000
- C) \$240,000
- D) \$238,000

Answer: C

Explanation: C)  $\$178,000 + \$40,000 + \$30,000 + \$2,000 - \$10,000 = \$240,000$

Diff: 3 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

49) What is Montreal's cost of goods sold during the year?

- A) \$260,000
- B) \$232,000
- C) \$200,000
- D) \$240,000

Answer: A

Explanation: A)  $\$60,000 + \$240,000 - \$40,000 = \$260,000$

Diff: 3 Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

*Use the information below to answer the following question(s).*

Frazer Inc. had the following activities in the year:

|                                     |           |
|-------------------------------------|-----------|
| Direct materials:                   |           |
| Beginning inventory                 | \$100,000 |
| Purchases                           | 308,000   |
| Ending inventory                    | 52,000    |
| Direct manufacturing labour         | 80,000    |
| Manufacturing overhead              | 60,000    |
| Ending work in process inventory    | 20,000    |
| Beginning work in process inventory | 4,000     |
| Ending finished goods inventory     | 80,000    |
| Beginning finished goods inventory  | 120,000   |

50) What is Frazer's cost of goods manufactured?

- A) \$536,000
- B) \$496,000
- C) \$480,000
- D) \$476,000

Answer: C

Explanation: C)  $(\$100,000 + \$308,000 - \$52,000) + \$80,000 + \$60,000 + \$4,000 - \$20,000 = \$480,000$

Diff: 3   Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

51) What is Frazer's cost of goods sold?

- A) \$520,000
- B) \$464,000
- C) \$440,000
- D) \$400,000

Answer: A

Explanation: A)  $\$120,000 + \$480,000 - \$80,000 = \$520,000$

Diff: 2   Type: MC

LO: 2-5

Bloom's Taxonomy: Apply

Use the information below to answer the following question(s).

Ontario Industries Inc. had the following activities during the year:

|                                          |          |
|------------------------------------------|----------|
| Direct materials:                        |          |
| Beginning inventory                      | \$40,000 |
| Purchases                                | 165,000  |
| Ending inventory                         | 32,000   |
| Direct manufacturing labour              | 46,000   |
| Manufacturing overhead                   | ?        |
| Ending work-in-process inventory         | 12,000   |
| Beginning work-in-process inventory      | ?        |
| Ending finished goods inventory          | ?        |
| Beginning finished goods inventory       | 80,000   |
| Cost of goods manufactured               | 242,000  |
| Manufacturing costs incurred             | 248,000  |
| Cost of goods sold                       | 247,000  |
| Total manufacturing costs to account for | 254,000  |

52) What is the amount of Ontario Industries Inc.'s ending finished goods inventory?

- A) \$55,000
- B) \$75,000
- C) \$70,000
- D) \$65,000

Answer: B

Explanation: B)  $\$247,000 - \$242,000 - \$80,000 = \$75,000$

|                                         |                  |
|-----------------------------------------|------------------|
| Direct materials:                       |                  |
| Beginning inventory                     | \$40,000         |
| Purchases                               | 165,000          |
| Ending inventory                        | 32,000           |
| Direct materials used                   | \$173,000        |
| Direct manufacturing labour             | 46,000           |
| Manufacturing overhead                  | 29,000           |
| Manufacturing costs incurred            | \$248,000        |
| Beginning work-in-process inventory     | 6,000            |
| Total manufacturing cost to account for | \$254,000        |
| Ending work-in-process inventory        | 12,000           |
| Cost of goods manufactured              | <u>\$242,000</u> |
|                                         |                  |
| Beginning finished goods inventory      | \$80,000         |
| Cost of goods manufactured              | 242,000          |
| Ending finished goods inventory         | 75,000           |
| Cost of goods sold                      | <u>\$247,000</u> |

Diff: 3 Type: MC

LO: 2-5

Bloom's Taxonomy: Analyze

53) What is the amount of the manufacturing overhead incurred at Ontario Industries Inc.?

- A) \$41,000
- B) \$35,000
- C) \$23,000
- D) \$29,000

Answer: D

Explanation: D)  $\$248,000 - \$173,000 - \$46,000 = \$29,000$

Diff: 3 Type: MC

LO: 2-5

Bloom's Taxonomy: Analyze

54) What is the amount of the beginning work-in-process inventory at Ontario Industries Inc.?

- A) \$1,000
- B) \$5,000
- C) \$12,000
- D) \$6,000

Answer: D

Explanation: C)

D)  $\$254,000 - \$248,000 = \$6,000$

Diff: 3 Type: MC

LO: 2-5

Bloom's Taxonomy: Analyze

55) Use the appropriate letter(s) to indicate if the following costs would be found on the income statement of a:

- A. service company.
- B. merchandising company.
- C. manufacturing company.

You may use more than one letter for each answer.

- \_\_\_\_\_ Revenue
- \_\_\_\_\_ Salaries expense
- \_\_\_\_\_ Customer service expense
- \_\_\_\_\_ Cost of goods manufactured
- \_\_\_\_\_ Cost of goods sold

Answer:

- A, B, C Revenue
- A, B, C Salaries expense
- A, B, C Customer service expense
- C Cost of goods manufactured
- B, C Cost of goods sold

Diff: 2 Type: SA

LO: 2-5

Bloom's Taxonomy: Remember

56) Compute the missing amounts.

|                                     | <b>Miami Company</b> | <b>Orlando Company</b> |
|-------------------------------------|----------------------|------------------------|
| Sales                               | \$200,000            | (D)                    |
| Cost of Goods Sold                  |                      |                        |
| Beginning Inventory                 | (A)                  | 60,000                 |
| Purchases and Freight-In            | 118,000              | (E)                    |
| Cost of goods available for sale    | (B)                  | 180,000                |
| Ending Inventory                    | 4,000                | 4,000                  |
| Cost of goods sold                  | 120,000              | (F)                    |
| Gross Margin                        | 80,000               | 224,000                |
| Selling and Administrative Expenses | (C)                  | 170,000                |
| Operating Income                    | 24,000               | (G)                    |

Answer:

- A) 6,000       $124,000 - 118,000 = 6,000$   
B) 124,000     $120,000 + 4,000 = 124,000$   
C) 56,000     $80,000 - 24,000 = 56,000$   
D) 400,000     $224,000 + 176,000 = 400,000$   
E) 120,000     $180,000 - 60,000 = 120,000$   
F) 176,000     $180,000 - 4,000 = 176,000$   
G) 54,000     $224,000 - 170,000 = 54,000$

Diff: 3    Type: SA

LO: 2-5

Bloom's Taxonomy: Analyze

57) Dino Company sells collectibles. The following information summarizes Dino's operating activities for the most recent year:

|                                  |          |
|----------------------------------|----------|
| Merchandise inventory, beginning | \$10,000 |
| Merchandise inventory, ending    | 7,000    |
| Purchases                        | 95,000   |
| Operating expenses               | 65,000   |
| Sales revenue                    | 180,000  |

Required: Prepare an income statement for the most recent year.

Answer:

| Dino Company                        |          |           |
|-------------------------------------|----------|-----------|
| Income Statement                    |          |           |
| Year Ended December 31              |          |           |
|                                     |          |           |
| Sales revenue                       |          | \$180,000 |
| Cost of good sold:                  |          |           |
| Beginning inventory                 | \$10,000 |           |
| Purchases                           | 95,000   |           |
| Cost of goods available for sale    | 105,000  |           |
| Ending inventory                    | 7,000    |           |
| Cost of good sold:                  |          | 98,000    |
| Gross profit                        |          | \$82,000  |
| Selling and administrative expenses |          | 65,000    |
| Operating income                    |          | \$17,000  |

Diff: 3   Type: SA

LO: 2-5

Bloom's Taxonomy: Apply

58) Swirzoff Company sells office supplies. The following information summarizes Swirzoff's operating activities for the past year:

|                          |         |
|--------------------------|---------|
| Utilities for store      | 6,000   |
| Rent for store           | 8,000   |
| Sales commissions        | 4,500   |
| Purchases of merchandise | 54,000  |
| Inventory, ending        | 20,500  |
| Inventory, beginning     | 30,000  |
| Sales revenue            | 108,000 |

Required: Prepare an income statement for Swirzoff Company, a merchandiser, for the year ended December 31.

Answer:

| Swirzoff Company                 |          |           |
|----------------------------------|----------|-----------|
| Income Statement                 |          |           |
| Year Ended December 31           |          |           |
|                                  |          |           |
| Sales revenue                    |          | \$108,000 |
| Cost of goods sold:              |          |           |
| Beginning inventory              | \$30,000 |           |
| Purchases of merchandise         | 54,000   |           |
| Cost of goods available for sale | 84,000   |           |
| Ending inventory                 | 20,500   |           |
| Cost of goods sold:              |          | 63,500    |
| Gross profit                     |          | \$44,500  |
| Operating expenses:              |          |           |
| Utilities expense                | \$6,000  |           |
| Rent expense                     | 8,000    |           |
| Sales commissions expense        | 4,500    | 18,500    |
| Operating income                 |          | \$26,000  |

Diff: 3 Type: SA

LO: 2-5

Bloom's Taxonomy: Apply

59) South State Company used \$71,000 of direct materials and incurred \$37,000 of direct labour costs during 2014. Indirect labour 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 expense 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.

Required: Prepare a schedule of cost of goods manufactured for South State Company for the year ended December 31.

Answer:

| South State Company                                |          |           |                  |
|----------------------------------------------------|----------|-----------|------------------|
| Schedule of Cost of Goods Manufactured             |          |           |                  |
| Year Ended December 31                             |          |           |                  |
| Beginning work in process inventory                |          |           | \$ 5,500         |
| Add:                                               |          |           |                  |
| Direct materials used                              |          | \$ 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 expense                               | 7,900    |           |                  |
| Property taxes                                     | 2,600    | 24,200    |                  |
| Total manufacturing costs incurred during the year |          |           | 132,200          |
| Total manufacturing costs to account for           |          |           | 137,700          |
| Less: Ending work in process inventory             |          |           | (7,500)          |
| Cost of goods manufactured                         |          |           | <u>\$130,200</u> |

Diff: 3 Type: SA

LO: 2-5

Bloom's Taxonomy: Apply

60) The following information is available for the Petree Corporation for last year:

- Raw materials inventory decreased \$4,000 from the beginning of the year to the end of the year.
- Raw materials inventory on December 31(end of year) was 50% of raw materials inventory on January 1 (beginning of year).
- Beginning work in process inventory was \$145,000.
- Ending finished goods inventory was \$65,000.
- Purchases of direct materials were \$154,700.
- Manufacturing overhead was 50% of the cost of direct labour.
- 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(beginning of year)
- b) Work in process inventory on December 31(end of year)
- c) Direct labour incurred
- d) Manufacturing overhead incurred
- e) Direct materials used
- f) Raw materials inventory on January 1(beginning of year)
- g) Raw materials inventory on December 31(end of year)

Note to students: The solutions to this problem are not necessarily calculated in alphabetical order.

Answer:

- a)  $\text{Cost of goods sold} = \$246,400 + \$156,000 = \$402,400$   
 $\$402,400 + \$65,000 - \$308,000 = \$159,400$
- b)  $\text{Cost of goods manufactured} = \$246,400 / .80 = \$308,000$   
 $\$246,400 + \$145,000 - \$308,000 = \$83,400$
- c)  $\$158,700 + X + 0.5X = \$246,400$   
 $1.5X = \$87,700$   
 $X = \$58,467$
- d)  $\$58,467 \times .5 = \$29,233$
- e)  $\$8,000 + \$154,700 - \$4,000 = \$158,700$
- f)  $X = \text{January 1 materials inventory}$   
 $\$4,000 = .5X$   
 $X = \$8,000$
- g)  $\$8,000 - \$4,000 = \$4,000$

Diff: 3 Type: SA

LO: 2-5

Bloom's Taxonomy: Apply

61) The following amounts were taken from the general ledger of the Excellent Manufacturing Company. Compute the cost of goods manufactured and the cost of goods sold for the company for the year.

|                                        |          |                                  |          |
|----------------------------------------|----------|----------------------------------|----------|
| Raw materials inventory - beg. of year | \$50,000 | Depreciation - plant & equipment | \$26,000 |
| Raw materials inventory - end of year  | 56,000   | Repairs and maintenance - plant  | 8,000    |
| Work in process inv. - beg. of year    | 100,000  | Insurance on plant               | 18,000   |
| Work in process inv. - end of year     | 70,000   | General and administration exp.  | 25,000   |
| Finished goods inv. - beg. of year     | 36,000   | Indirect labour                  | 30,000   |
| Finished goods inv. - end of year      | 50,000   | Direct labour                    | 164,000  |
| Purchase of direct materials           | 30,000   | Marketing expenses               | 40,000   |

Answer:

| Excellent Manufacturing Company                    |           |           |            |
|----------------------------------------------------|-----------|-----------|------------|
| Schedule of Cost of Goods Manufactured             |           |           |            |
| Beginning work in process inventory                |           |           | \$ 100,000 |
| Add: Direct materials used                         |           |           |            |
| Beginning raw materials inventory                  | \$ 50,000 |           |            |
| Purchase of direct materials                       | 30,000    |           |            |
| Available for use                                  | 80,000    |           |            |
| Ending raw materials inventory                     | (56,000)  |           |            |
| Direct materials used                              |           | \$ 24,000 |            |
| Direct labor                                       |           | 164,000   |            |
| Manufacturing overhead:                            |           |           |            |
| Indirect labor                                     | \$ 30,000 |           |            |
| Insurance on plant                                 | 18,000    |           |            |
| Depreciation - plant & equipment                   | 26,000    |           |            |
| Repairs and maintenance - plant                    | 8,000     | 82,000    |            |
| Total manufacturing costs incurred during the year |           |           | 270,000    |
| Total manufacturing costs to account for           |           |           | 370,000    |
| Less: Ending work in process inventory             |           |           | (70,000)   |
| Cost of goods manufactured                         |           |           | \$ 300,000 |

| Excellent Manufacturing Company              |            |
|----------------------------------------------|------------|
| Schedule of Cost of Goods Sold               |            |
| Beginning finished goods inventory           | \$ 36,000  |
| Cost of goods manufactured*                  | 300,000    |
| Cost of goods available for sale             | 336,000    |
| Ending finished goods inventory              | (50,000)   |
| Cost of good sold                            | \$ 286,000 |
| *From schedule of cost of goods manufactured |            |

Diff: 3 Type: SA

LO: 2-5

Bloom's Taxonomy: Apply

62) Makeit, a start-up manufacturing company, had a bookkeeper who left suddenly, leaving rather incomplete accounting records for the last month of his employment. You have been hired to sort out the puzzle. Assume Makeit's raw materials inventory contains only direct materials. You have the following information available:

|                                       |         |
|---------------------------------------|---------|
| Work in process inventory, April 30   | \$3,000 |
| Finished goods inventory, April 1     | 8,600   |
| Direct labour in April                | 6,000   |
| Purchases of direct material in April | 18,000  |
| Work in process inventory, April 1    | 0       |
| Revenues in April                     | 54,000  |
| Gross profit in April                 | 24,000  |
| Direct materials used in April        | 16,000  |
| Raw materials inventory, April 30     | 6,000   |
| Manufacturing overhead in April       | 12,600  |

Find the following amounts:

- A. Cost of goods sold in April.
- B. Beginning raw materials inventory.
- C. Ending finished goods inventory.

Answer:

- A. \$30,000
- B. \$4,000
- C. \$10,200

Calculations:

|                                                 |               |               |                |
|-------------------------------------------------|---------------|---------------|----------------|
| <b>Beginning work in process inventory</b>      |               |               | 0              |
| Add: Direct materials used                      |               |               |                |
| Beginning raw materials inventory               | \$4,000       |               |                |
| Purchase of direct materials                    | <u>18,000</u> |               |                |
| Available for use                               | 22,000        |               |                |
| Ending raw materials inventory                  | (6,000)       |               |                |
| <b>Direct materials used</b>                    |               | \$16,000      |                |
| <b>Direct labour</b>                            |               | 6,000         |                |
| <b>Manufacturing overhead</b>                   |               | <u>12,600</u> |                |
| <b>Total manufacturing costs for the month</b>  |               |               | <u>34,600</u>  |
| <b>Total manufacturing costs to account for</b> |               |               | 34,600         |
| <b>Less: ending work in process inventory</b>   |               |               | <u>(3,000)</u> |
| <b>Cost of goods manufactured</b>               |               |               | 31,600         |

|                                    |                 |
|------------------------------------|-----------------|
| Beginning finished goods inventory | \$8,600         |
| + Cost of goods manufactured       | <u>31,600</u>   |
| = Cost of goods available for sale | 40,200          |
| - Ending finished goods inventory  | <u>(10,200)</u> |
| = Cost of goods sold               | 30,000          |

Diff: 3 Type: SA

LO: 2-5

Bloom's Taxonomy: Apply

63) Buildit, a start-up manufacturing company, had a bookkeeper who left suddenly, leaving rather incomplete accounting records for the last month of his employment. You have been hired to sort out the puzzle. Assume Buildit's raw materials inventory contains only direct materials. You have the following information available:

|                                       |         |
|---------------------------------------|---------|
| Work in process inventory, April 30   | \$4,200 |
| Finished goods inventory, April 1     | 9,300   |
| Direct labour in April                | 5,000   |
| Purchases of direct material in April | 12,000  |
| Work in process inventory, April 1    | 1,000   |
| Revenues in April                     | 42,000  |
| Gross profit in April                 | 19,000  |
| Direct materials used in April        | 14,000  |
| Raw materials inventory, April 30     | 4,500   |
| Manufacturing overhead in April       | 8,200   |

Find the following amounts:

- A. Cost of goods sold in April.
- B. Beginning raw materials inventory.
- C. Ending finished goods inventory.

Answer:

- A. \$23,000
- B. \$6,500
- C. \$10,300

Calculations:

|                                                 |               |              |                |
|-------------------------------------------------|---------------|--------------|----------------|
| <b>Beginning work in process inventory</b>      |               |              | 1,000          |
| Add: Direct materials used                      |               |              |                |
| Beginning raw materials inventory               | \$6,500       |              |                |
| Purchase of direct materials                    | <u>12,000</u> |              |                |
| Available for use                               | 18,500        |              |                |
| Ending raw materials inventory                  | (4,500)       |              |                |
| <b>Direct materials used</b>                    |               | \$14,000     |                |
| <b>Direct labour</b>                            |               | 5,000        |                |
| <b>Manufacturing overhead</b>                   |               | <u>8,200</u> |                |
| <b>Total manufacturing costs for the month</b>  |               |              | <u>27,200</u>  |
| <b>Total manufacturing costs to account for</b> |               |              | 28,200         |
| <b>Less: ending work in process inventory</b>   |               |              | <u>(4,200)</u> |
| <b>Cost of goods manufactured</b>               |               |              | 24,000         |

|                                    |                 |
|------------------------------------|-----------------|
| Beginning finished goods inventory | \$9,300         |
| + Cost of goods manufactured       | <u>24,000</u>   |
| = Cost of goods available for sale | 33,300          |
| - Ending finished goods inventory  | <u>(10,300)</u> |
| = Cost of goods sold               | \$23,000        |

Diff: 3 Type: SA

LO: 2-5

Bloom's Taxonomy: Apply

64) Homeco, a start-up manufacturing company, had a bookkeeper who left suddenly, leaving rather incomplete accounting records for the last month of his employment. You have been hired to sort out the puzzle. Assume Homeco's raw materials inventory contains only direct materials. You have the following information available:

|                                     |         |
|-------------------------------------|---------|
| Work in process inventory, May 30   | \$9,300 |
| Finished goods inventory, May 1     | 12,000  |
| Direct labour in April              | 13,100  |
| Purchases of direct material in May | 26,900  |
| Work in process inventory, May 1    | 3,200   |
| Revenues in May                     | 61,000  |
| Gross profit in May                 | 27,500  |
| Direct materials used in May        | 31,600  |
| Raw materials inventory, May 30     | 9,800   |
| Manufacturing overhead in May       | 17,300  |

Find the following amounts:

- A. Cost of goods sold in May.
- B. Beginning raw materials inventory.
- C. Ending finished goods inventory.

Answer:

- A. \$33,500
- B. \$14,500
- C. \$34,400

Calculations:

|                                                 |               |               |                |
|-------------------------------------------------|---------------|---------------|----------------|
| <b>Beginning work in process inventory</b>      |               |               | \$3,200        |
| Add: Direct materials used                      |               |               |                |
| Beginning raw materials inventory               | \$14,500      |               |                |
| Purchase of direct materials                    | <u>26,900</u> |               |                |
| Available for use                               |               | 41,400        |                |
| Ending raw materials inventory                  |               | <u>9,800</u>  |                |
| <b>Direct materials used</b>                    |               | \$31,600      |                |
| <b>Direct labour</b>                            |               | 13,100        |                |
| <b>Manufacturing overhead</b>                   |               | <u>17,300</u> |                |
| <b>Total manufacturing costs for the month</b>  |               |               | <u>62,000</u>  |
| <b>Total manufacturing costs to account for</b> |               |               | 65,200         |
| <b>Less: ending work in process inventory</b>   |               |               | <u>(9,300)</u> |
| <b>Cost of goods manufactured</b>               |               |               | 55,900         |

|                                    |                 |
|------------------------------------|-----------------|
| Beginning finished goods inventory | \$12,000        |
| + Cost of goods manufactured       | <u>55,900</u>   |
| = Cost of goods available for sale | 67,900          |
| - Ending finished goods inventory  | <u>(34,400)</u> |
| = Cost of goods sold               | \$33,500        |

Diff: 3 Type: SA

LO: 2-5

Bloom's Taxonomy: Apply

65) Redat, a start-up manufacturing company, had a bookkeeper who left suddenly, leaving rather incomplete accounting records for the last month of his employment. You have been hired to sort out the puzzle. Assume Redat's raw materials inventory contains only direct materials. You have the following information available:

|                                      |         |
|--------------------------------------|---------|
| Work in process inventory, June 30   | \$6,400 |
| Finished goods inventory, June 1     | 12,600  |
| Direct labour in June                | 11,000  |
| Purchases of direct material in June | 14,600  |
| Work in process inventory, June 1    | 2,900   |
| Revenues in June                     | 62,000  |
| Gross profit in June                 | 21,000  |
| Direct materials used in June        | 17,300  |
| Raw materials inventory, June 30     | 5,600   |
| Manufacturing overhead in June       | 19,400  |

Find the following amounts:

A. Cost of goods sold in June.

B. Beginning raw materials inventory.

C. Ending finished goods inventory.

Answer: A. \$41,000

B. \$8,300

C. \$15,800

Calculations:

|                                                 |         |        |         |
|-------------------------------------------------|---------|--------|---------|
| <b>Beginning work in process inventory</b>      |         |        | \$2,900 |
| Add: Direct materials used                      |         |        |         |
| Beginning raw materials inventory               | \$8,300 |        |         |
| Purchase of direct materials                    | 14,600  |        |         |
| Available for use                               | 22,900  |        |         |
| Ending raw materials inventory                  |         | 5,600  |         |
| <b>Direct materials used</b>                    |         | 17,300 |         |
| <b>Direct labour</b>                            |         | 11,000 |         |
| <b>Manufacturing overhead</b>                   |         | 19,400 |         |
| <b>Total manufacturing costs for the month</b>  |         |        | 47,700  |
| <b>Total manufacturing costs to account for</b> |         |        | 50,600  |
| <b>Less: ending work in process inventory</b>   |         |        | 6,400   |
| <b>Cost of goods manufactured</b>               |         |        | 44,200  |

|                                    |          |
|------------------------------------|----------|
| Beginning finished goods inventory | \$12,600 |
| + Cost of goods manufactured       | 44,200   |
| = Cost of goods available for sale | 56,800   |
| - Ending finished goods inventory  | 15,800   |
| = Cost of goods sold               | \$41,000 |

Diff: 3 Type: SA

LO: 2-5

Bloom's Taxonomy: Apply

66) Certain item descriptions and amounts are missing from the monthly schedule of cost of goods manufactured below and the income statement of Schredlink Manufacturing. Fill in the missing items.

| Schredlink Manufacturing Company  |             |             |           |
|-----------------------------------|-------------|-------------|-----------|
| a. _____<br>b. _____ July 31      |             |             |           |
| Beginning c. _____                |             |             | \$ 42,000 |
| Add: Direct d. _____              |             |             |           |
| Beginning raw materials inventory | \$ e. _____ |             |           |
| Purchases of direct materials     | 102,000     |             |           |
| f. _____                          | 156,000     |             |           |
| Ending raw materials inventory    | (46,000)    |             |           |
| Direct g. _____                   |             | \$ h. _____ |           |
| Direct i. _____                   |             | j. _____    |           |
| Manufacturing overhead            |             | 40,000      |           |
| Total k. _____ costs l. _____     |             |             | 332,000   |
| Total m. _____ costs n. _____     |             |             | o. _____  |
| Less: Ending p. _____             |             |             | (50,000)  |
| q. _____                          |             |             | r. _____  |

| Schredlink Manufacturing Company |  |            |              |
|----------------------------------|--|------------|--------------|
| s. _____<br>t. _____ July 31     |  |            |              |
| Sales revenue                    |  |            | \$ u. _____  |
| Cost of goods sold:              |  |            |              |
| Beginning v. _____               |  | \$ 230,000 |              |
| w. _____                         |  | x. _____   |              |
| Cost of goods y. _____           |  | z. _____   |              |
| Ending aa. _____                 |  | bb. _____  |              |
| Cost of goods sold               |  |            | 418,000      |
| Gross Profit                     |  |            | 508,000      |
| cc. _____ expenses:              |  |            |              |
| Marketing expense                |  | 198,000    |              |
| Administrative expense           |  | dd. _____  | 308,000      |
| ee. _____ income                 |  |            | \$ ff. _____ |

Answer:

| Schredlink Manufacturing Company                                 |                     |                      |                      |
|------------------------------------------------------------------|---------------------|----------------------|----------------------|
| a. <i>Schedule of Cost of Goods manufactured</i>                 |                     |                      |                      |
| b. <i>Month Ended, July 31</i>                                   |                     |                      |                      |
| Beginning c. <i>work in progress inventory</i>                   |                     |                      | \$ 42,000            |
| Add: Direct d. <i>materials used</i>                             |                     |                      |                      |
| Beginning raw materials inventory                                | \$ e. <b>54,000</b> |                      |                      |
| Purchases of direct materials                                    | 102,000             |                      |                      |
| f. <i>Available for use</i>                                      | 156,000             |                      |                      |
| Ending raw materials inventory                                   | (46,000)            |                      |                      |
| Direct g. <i>materials used</i>                                  |                     | \$ h. <b>112,000</b> |                      |
| Direct i. <i>labour</i>                                          |                     | j. <b>180,000</b>    |                      |
| Manufacturing overhead                                           |                     | 40,000               |                      |
| Total k. <i>manufacturing costs l. incurred during the month</i> |                     |                      | 332,000              |
| Total m. <i>manufacturing costs n. to account for</i>            |                     |                      | o. <b>374,000</b>    |
| Less: Ending p. <i>work in process</i>                           |                     |                      | (50,000)             |
| q. <i>Cost of goods manufactured</i>                             |                     |                      | r. <b>\$ 324,000</b> |

| Schredlink Manufacturing Company<br>s. <i>Income Statement</i><br>t. <i>Month</i> July 31 |  |                      |                                 |
|-------------------------------------------------------------------------------------------|--|----------------------|---------------------------------|
| Sales revenue                                                                             |  |                      | \$ u. <b>926,000</b>            |
| Cost of goods sold:                                                                       |  |                      |                                 |
| Beginning v. <i>finished goods inventory</i>                                              |  | \$ 230,000           |                                 |
| w. <i>Cost of goods manufactured</i>                                                      |  | x. <b>324,000</b>    |                                 |
| Cost of goods y. available for sale                                                       |  | z. <b>554,000</b>    |                                 |
| Ending aa. <i>Finished goods inventory</i>                                                |  | bb. <b>(136,000)</b> |                                 |
| Cost of goods sold                                                                        |  |                      | <u>418,000</u>                  |
| Gross Profit                                                                              |  |                      | 508,000                         |
| cc. <i>Operating</i> expenses:                                                            |  |                      |                                 |
| Marketing expense                                                                         |  | 198,000              |                                 |
| Administrative expense                                                                    |  | dd. <b>110,000</b>   | 308,000                         |
| ee. <i>Operating</i> income                                                               |  |                      | \$ ff. \$ <b><u>200,000</u></b> |

Diff: 3 Type: SA

LO: 2-5

Bloom's Taxonomy: Analyze

67) Certain item descriptions and amounts are missing from the monthly schedule of cost of goods manufactured below and the income statement of HiHoist Manufacturing. Fill in the missing items.

| HiHoist Manufacturing Company     |             |                  |           |
|-----------------------------------|-------------|------------------|-----------|
| a. _____                          |             | b. _____ July 31 |           |
| Beginning c. _____                |             |                  | \$ 58,000 |
| Add: Direct d. _____              |             |                  |           |
| Beginning raw materials inventory | \$ e. _____ |                  |           |
| Purchases of direct materials     | 116,000     |                  |           |
| f. _____                          | 165,000     |                  |           |
| Ending raw materials inventory    | (51,000)    |                  |           |
| Direct g. _____                   |             | \$ h. _____      |           |
| Direct i. _____                   |             | j. _____         |           |
| Manufacturing overhead            |             | 60,000           |           |
| Total k. _____ costs l. _____     |             |                  | 359,000   |
| Total m. _____ costs n. _____     |             |                  | o. _____  |
| Less: Ending p. _____             |             |                  | (58,000)  |
| q. _____                          |             |                  | r. _____  |

| HiHoist Manufacturing Company |  |                  |              |
|-------------------------------|--|------------------|--------------|
| s. _____                      |  | t. _____ July 31 |              |
| Sales revenue                 |  |                  | \$ u. _____  |
| Cost of goods sold:           |  |                  |              |
| Beginning v. _____            |  | \$ 263,000       |              |
| w. _____                      |  | x. _____         |              |
| Cost of goods y. _____        |  | z. _____         |              |
| Ending aa. _____              |  | bb. _____        |              |
| Cost of goods sold            |  |                  | 431,000      |
| Gross Profit                  |  |                  | 527,000      |
| cc. _____ expenses:           |  |                  |              |
| Marketing expense             |  | 212,000          |              |
| Administrative expense        |  | dd. _____        | 332,000      |
| ee. _____ income              |  |                  | \$ ff. _____ |

Answer:

| HiHoist Manufacturing Company                                    |                     |                                |                     |
|------------------------------------------------------------------|---------------------|--------------------------------|---------------------|
| a. <i>Schedule of Cost of Goods manufactured</i>                 |                     | b. <i>Month Ended, July 31</i> |                     |
| Beginning c. <i>work in progress inventory</i>                   |                     |                                | \$ 58,000           |
| Add: Direct d. <i>materials used</i>                             |                     |                                |                     |
| Beginning raw materials inventory                                | \$ e. <b>49,000</b> |                                |                     |
| Purchases of direct materials                                    | 116,000             |                                |                     |
| f. <i>Available for use</i>                                      | 165,000             |                                |                     |
| Ending raw materials inventory                                   | (51,000)            |                                |                     |
| Direct g. <i>materials used</i>                                  |                     | \$ h. <b>114,000</b>           |                     |
| Direct i. <i>labour</i>                                          |                     | j. <b>185,000</b>              |                     |
| Manufacturing overhead                                           |                     | 60,000                         |                     |
| Total k. <i>manufacturing costs l. incurred during the month</i> |                     |                                | 359,000             |
| Total m. <i>manufacturing costs n. to account for</i>            |                     |                                | o. <b>417,000</b>   |
| Less: Ending p. <i>work in process</i>                           |                     |                                | (58,000)            |
| q. <i>Cost of goods manufactured</i>                             |                     |                                | r. <b>\$359,000</b> |

| HiHoist Manufacturing Company<br>s. <i>Income Statement</i><br>t. <i>Month</i> July 31 |  |                      |                         |
|----------------------------------------------------------------------------------------|--|----------------------|-------------------------|
| Sales revenue                                                                          |  |                      | \$ u. <b>958,000</b>    |
| Cost of goods sold:                                                                    |  |                      |                         |
| Beginning v. <i>finished goods inventory</i>                                           |  | \$ 263,000           |                         |
| w. <i>Cost of goods manufactured</i>                                                   |  | x. <b>359,000</b>    |                         |
| Cost of goods y. <i>available for sale</i>                                             |  | z. <b>622,000</b>    |                         |
| Ending aa. <i>Finished goods inventory</i>                                             |  | bb. <b>(191,000)</b> |                         |
| Cost of goods sold                                                                     |  |                      | 431,000                 |
| Gross Profit                                                                           |  |                      | 527,000                 |
| cc. <i>Operating</i> expenses:                                                         |  |                      |                         |
| Marketing expense                                                                      |  | 212,000              |                         |
| Administrative expense                                                                 |  | dd. <b>120,000</b>   | 332,000                 |
| ee. <i>Operating</i> income                                                            |  |                      | \$ ff. <b>\$195,000</b> |

Diff: 3 Type: SA

LO: 2-5

Bloom's Taxonomy: Analyze

68) Certain item descriptions and amounts are missing from the monthly schedule of cost of goods manufactured below and the income statement of Redlink Manufacturing. Fill in the missing items.

| Schredlink Manufacturing Company  |             |                  |           |
|-----------------------------------|-------------|------------------|-----------|
| a. _____                          |             | b. _____ July 31 |           |
| Beginning c. _____                |             |                  | \$ 22,000 |
| Add: Direct d. _____              |             |                  |           |
| Beginning raw materials inventory | \$ e. _____ |                  |           |
| Purchases of direct materials     | 56,000      |                  |           |
| f. _____                          | 81,000      |                  |           |
| Ending raw materials inventory    | (25,000)    |                  |           |
| Direct g. _____                   |             | \$ h. _____      |           |
| Direct i. _____                   |             | j. _____         |           |
| Manufacturing overhead            |             | 21,000           |           |
| Total k. _____ costs l. _____     |             |                  | 168,000   |
| Total m. _____ costs n. _____     |             |                  | o. _____  |
| Less: Ending p. _____             |             |                  | (27,000)  |
| q. _____                          |             |                  | r. _____  |

| Schredlink Manufacturing Company |  |                  |              |
|----------------------------------|--|------------------|--------------|
| s. _____                         |  | t. _____ July 31 |              |
| Sales revenue                    |  |                  | \$ u. _____  |
| Cost of goods sold:              |  |                  |              |
| Beginning v. _____               |  | \$ 117,000       |              |
| w. _____                         |  | x. _____         |              |
| Cost of goods y. _____           |  | z. _____         |              |
| Ending aa. _____                 |  | bb. _____        |              |
| Cost of goods sold               |  |                  | 213,000      |
| Gross Profit                     |  |                  | 261,000      |
| cc. _____ expenses:              |  |                  |              |
| Marketing expense                |  | 101,000          |              |
| Administrative expense           |  | dd. _____        | 157,000      |
| ee. _____ income                 |  |                  | \$ ff. _____ |

Answer:

| Schredlink Manufacturing Company                                 |                   |                                |                     |
|------------------------------------------------------------------|-------------------|--------------------------------|---------------------|
| a. <i>Schedule of Cost of Goods manufactured</i>                 |                   | b. <i>Month Ended, July 31</i> |                     |
| Beginning c. <i>work in progress inventory</i>                   |                   |                                | \$ 22,000           |
| Add: Direct d. <i>materials used</i>                             |                   |                                |                     |
| Beginning raw materials inventory                                | \$ <i>137,000</i> |                                |                     |
| Purchases of direct materials                                    | 56,000            |                                |                     |
| f. <i>Available for use</i>                                      | 81,000            |                                |                     |
| Ending raw materials inventory                                   | (25,000)          |                                |                     |
| Direct g. <i>materials used</i>                                  |                   | \$ h. <i>56,000</i>            |                     |
| Direct i. <i>labour</i>                                          |                   | j. <i>91,000</i>               |                     |
| Manufacturing overhead                                           |                   | 21,000                         |                     |
| Total k. <i>manufacturing costs l. incurred during the month</i> |                   |                                | 168,000             |
| Total m. <i>manufacturing costs n. to account for</i>            |                   |                                | o. <i>190,000</i>   |
| Less: Ending p. <i>work in process</i>                           |                   |                                | (27,000)            |
| q. <i>Cost of goods manufactured</i>                             |                   |                                | r. <i>\$163,000</i> |

| Schredlink Manufacturing Company<br>s. <i>Income Statement</i><br>t. <i>Month</i> July 31 |  |                         |                           |
|-------------------------------------------------------------------------------------------|--|-------------------------|---------------------------|
| Sales revenue                                                                             |  |                         | \$ u. <del>474,000</del>  |
| Cost of goods sold:                                                                       |  |                         |                           |
| Beginning v. <i>finished goods inventory</i>                                              |  | \$ 117,000              |                           |
| w. <i>Cost of goods manufactured</i>                                                      |  | <u>x. 163,000</u>       |                           |
| Cost of goods y. available for sale                                                       |  | z. <del>280,000</del>   |                           |
| Ending aa. <i>Finished goods inventory</i>                                                |  | bb. <del>(67,000)</del> |                           |
| Cost of goods sold                                                                        |  |                         | <u>213,000</u>            |
| Gross Profit                                                                              |  |                         | 261,000                   |
| cc. <i>Operating</i> expenses:                                                            |  |                         |                           |
| Marketing expense                                                                         |  | 101,000                 |                           |
| Administrative expense                                                                    |  | <i>dd. 56,000</i>       | 157,000                   |
| ee. <i>Operating</i> income                                                               |  |                         | \$ ff. <del>104,000</del> |

Diff: 3 Type: SA

LO: 2-5

Bloom's Taxonomy: Analyze

69) Eschliman Manufacturing Company had the following account balances for the quarter ending September 30, unless otherwise noted:

|                                                  |          |
|--------------------------------------------------|----------|
| Amortization of manufacturing equipment          | \$88,000 |
| Amortization of office equipment                 | 41,200   |
| Direct manufacturing labour                      | 160,000  |
| Direct materials used                            | 126,000  |
| Finished goods inventory (July 1)                | 180,000  |
| Finished goods inventory (September 30)          | 170,000  |
| General office expenses                          | 101,800  |
| Indirect manufacturing labour                    | 62,000   |
| Indirect materials used                          | 28,000   |
| Marketing distribution costs                     | 10,000   |
| Miscellaneous plant overhead                     | 45,000   |
| Plant utilities                                  | 30,800   |
| Property taxes on plant building                 | 9,600    |
| Property taxes on salespersons' company vehicles | 4,000    |
| Work-in-process inventory (July 1)               | 46,800   |
| Work-in-process inventory (September 30)         | 57,000   |

Required:

- Prepare a cost of goods manufactured schedule for the quarter.
- Prepare a cost of goods sold schedule for the quarter.

Answer:

a.

| Eschliman Manufacturing Company         |              |                  |
|-----------------------------------------|--------------|------------------|
| Cost of Goods Manufactured Schedule     |              |                  |
| For the Quarter Ending September 30     |              |                  |
| Direct materials used                   |              | \$126,000        |
| Direct manufacturing labour             |              | 160,000          |
| Manufacturing overhead                  |              |                  |
| Amortization of mfg. equip.             | \$88,000     |                  |
| Indirect mfg. labour                    | 62,000       |                  |
| Indirect materials                      | 28,000       |                  |
| Miscellaneous plant overhead            | 45,000       |                  |
| Plant utilities                         | 30,800       |                  |
| Property taxes on building              | <u>9,600</u> | <u>263,400</u>   |
| Manufacturing costs incurred            |              | \$549,400        |
| Add beginning work-in-process inventory |              | 46,800           |
| Total manufacturing costs               |              | \$596,200        |
| Less: ending work-in-process inventory  |              | <u>57,000</u>    |
| Cost of goods manufactured              |              | <u>\$539,200</u> |

b.

Eschliman Manufacturing Company  
Cost of Goods Sold Schedule  
For the Quarter Ending September 30

|                                    |                         |
|------------------------------------|-------------------------|
| Beginning finished goods inventory | \$180,000               |
| Cost of goods manufactured         | <u>539,200</u>          |
| Cost of goods available for sale   | \$719,200               |
| Ending finished goods inventory    | <u>170,000</u>          |
| Cost of goods sold                 | <u><u>\$549,200</u></u> |

Diff: 3    Type: SA

LO: 2-5

Bloom's Taxonomy: Apply

70) The following information is taken from the records of Britton Company for March:

Purchases:

|                             |             |
|-----------------------------|-------------|
| Direct materials            | \$9,000,000 |
| Indirect materials          | 200,000     |
| Office supplies             | 420,000     |
| Sales                       | 36,000,000  |
| Salaries and Benefits:      |             |
| Selling and administrative  | 4,000,000   |
| Direct manufacturing labour | 6,000,000   |
| Rent*                       | 4,000,000   |
| Utilities*                  | 1,200,000   |
| Advertising                 | 700,000     |

|                    |                |                 |
|--------------------|----------------|-----------------|
| Inventories:       | <u>March 1</u> | <u>March 31</u> |
| Direct materials   | \$4,400,000    | \$1,600,000     |
| Indirect materials | 500,000        | 600,000         |
| Office supplies    | 150,000        | 180,000         |
| Finished goods     | 24,000,000     | 16,000,000      |

\* Of these costs, 60 percent are assigned to manufacturing and 40 percent to selling and administration.

Required:

- Prepare a schedule of cost of goods manufactured.
- Prepare an income statement for the month.

Answer:

a.

Britton Company  
Cost of Goods Manufactured Schedule  
For March

Direct materials:

|                                     |                  |                     |
|-------------------------------------|------------------|---------------------|
| Beginning inventory                 | \$4,400,000      |                     |
| Purchases of direct materials       | <u>9,000,000</u> |                     |
| Cost of direct materials available  | \$13,400,000     |                     |
| Ending inventory                    | <u>1,600,000</u> |                     |
| Direct materials used               |                  | \$11,800,000        |
| Direct manufacturing labour         |                  | 6,000,000           |
| Manufacturing overhead:             |                  |                     |
| Rent (60%)                          | \$2,400,000      |                     |
| Utilities (60%)                     | 720,000          |                     |
| Indirect materials                  |                  |                     |
| (\$200,000 + \$500,000 - \$600,000) | <u>100,000</u>   | <u>3,220,000</u>    |
| Cost of goods manufactured          |                  | <u>\$21,020,000</u> |

b.

Britton Company  
Income Statement  
For the Month of March

|                                     |                   |                            |
|-------------------------------------|-------------------|----------------------------|
| Sales                               |                   | \$36,000,000               |
| Cost of goods sold                  |                   |                            |
| Beginning inventory                 | \$24,000,000      |                            |
| Cost of goods manufactured          | <u>21,020,000</u> |                            |
| Cost of goods available for sale    | \$45,020,000      |                            |
| Ending inventory                    | <u>16,000,000</u> | <u>29,020,000</u>          |
| Gross margin                        |                   | \$6,980,000                |
| <u>Other costs</u>                  |                   |                            |
| Supplies                            |                   |                            |
| (\$420,000 + \$150,000 - \$180,000) | \$390,000         |                            |
| Selling and administrative salaries | 4,000,000         |                            |
| Rent (40%)                          | 1,600,000         |                            |
| Utilities (40%)                     | 480,000           |                            |
| Advertising                         | <u>700,000</u>    | <u>7,170,000</u>           |
| Operating Income <Loss>             |                   | <u><u>\$ (190,000)</u></u> |

Diff: 3   Type: SA

LO: 2-5

Bloom's Taxonomy: Apply

71) Manitoba Industries Inc. had the following account balances at the end of the current year:

|                                          |          |
|------------------------------------------|----------|
| Direct materials:                        |          |
| Beginning inventory                      | \$13,000 |
| Purchases                                | ?        |
| Ending inventory                         | 17,000   |
| Direct manufacturing labour              | ?        |
| Manufacturing overhead                   | 28,000   |
| Cost of goods manufactured               | 210,000  |
| Beginning work-in-process inventory      | 11,000   |
| Ending finished goods inventory          | 17,000   |
| Beginning finished goods inventory       | ?        |
| Ending work-in-process inventory         | ?        |
| Manufacturing costs incurred             | 213,000  |
| Cost of goods sold                       | 215,000  |
| Total manufacturing costs to account for | 224,000  |
| Direct materials used                    | 118,000  |

Required:

Determine the amounts for direct material purchases, direct manufacturing labour, ending work-in-process inventory, and beginning finished goods inventory.

Answer:

|                                         |                  |
|-----------------------------------------|------------------|
| Direct materials:                       |                  |
| Beginning inventory                     | \$13,000         |
| Purchases                               | 122,000          |
| Ending inventory                        | 17,000           |
| Direct materials used                   | \$118,000        |
| Direct manufacturing labour             | 67,000           |
| Manufacturing overhead                  | 28,000           |
| Manufacturing costs incurred            | \$213,000        |
| Beginning work-in-process inventory     | 11,000           |
| Total manufacturing cost to account for | \$224,000        |
| Ending work-in-process inventory        | 14,000           |
| Cost of goods manufactured              | <u>\$210,000</u> |
|                                         |                  |
| Beginning finished goods inventory      | \$22,000         |
| Cost of goods manufactured              | 210,000          |
| Ending finished goods inventory         | 17,000           |
| Cost of goods sold                      | <u>\$215,000</u> |

Diff: 3 Type: SA

LO: 2-5

Bloom's Taxonomy: Analyze

## 2.6 Describe costs that are relevant and irrelevant to decision making.

1) Differential cost is the difference in cost between two alternatives.

Answer: TRUE

Diff: 1 Type: TF

LO: 2-6

Bloom's Taxonomy: Remember

2) Decision making is guided only by differential costs.

Answer: FALSE

Diff: 2 Type: TF

LO: 2-6

Bloom's Taxonomy: Remember

3) Irrelevant factors should be considered when making decisions.

Answer: FALSE

Diff: 1 Type: TF

LO: 2-6

Bloom's Taxonomy: Remember

4) You are trying to decide whether or not to sell back your accounting textbook at the end of the class.

The cost you paid for the book is relevant to your decision.

Answer: FALSE

Diff: 2 Type: TF

LO: 2-6

Bloom's Taxonomy: Remember

5) Sunk costs are a major part of the decision making process.

Answer: FALSE

Diff: 1 Type: TF

LO: 2-6

Bloom's Taxonomy: Remember

6) Costs resulting from product design are locked in.

Answer: TRUE

Diff: 2 Type: TF

LO: 2-6

Bloom's Taxonomy: Understand

7) \_\_\_\_\_ information is that which differs between alternatives and can affect the future.

A) Historical

B) Irrelevant

C) Predictable

D) Relevant

Answer: D

Diff: 2 Type: MC

LO: 2-6

Bloom's Taxonomy: Understand

8) Which of the following represents a sunk cost?

- A) A historical cost that is never relevant
- B) A historical cost that is always relevant
- C) An outlay expected to be incurred in the future
- D) A cost that is relevant to any decision

Answer: A

Diff: 2 Type: MC

LO: 2-6

Bloom's Taxonomy: Remember

9) Subtracting the costs of one alternative from the costs of the other alternative would be called the \_\_\_\_\_ cost.

- A) sunk
- B) imported
- C) differential
- D) alternative

Answer: C

Diff: 2 Type: MC

LO: 2-6

Bloom's Taxonomy: Remember

10) When deciding to buy a new computer, the irrelevant cost is the

- A) cost of the new computer.
- B) cost of the old computer.
- C) games that come with the new computer.
- D) warranty on the new computer.

Answer: B

Diff: 2 Type: MC

LO: 2-6

Bloom's Taxonomy: Understand

11) When making a decision to buy a new computer, the irrelevant costs are the

- A) differential costs.
- B) relevant costs.
- C) qualitative characteristics.
- D) sunk costs.

Answer: D

Diff: 2 Type: MC

LO: 2-6

Bloom's Taxonomy: Understand

12) A company is deciding whether to purchase production equipment which can produce units more quickly than the current equipment. Which of the following costs would be relevant to its decision?

- A) The cost of the new equipment
- B) The salary of the factory manager
- C) The cost of raw materials
- D) The original purchase price of the current machinery

Answer: A

Diff: 2 Type: MC

LO: 2-6

Bloom's Taxonomy: Understand

13) A restaurant is facing a decision about whether it should bake its own dinner rolls or whether it should continue to purchase the dinner rolls from a local bakery. Which of the following costs would be relevant to its decision?

- A) The salary of the restaurant manager
- B) The purchase price of the dinner rolls purchased from the local bakery
- C) The price the restaurant sells the dinner rolls for
- D) The original purchase price of the current machinery

Answer: B

Diff: 2 Type: MC

LO: 2-6

Bloom's Taxonomy: Understand

14) A company is deciding whether to purchase hybrid cars for its salespeople or gasoline-engine cars. Which of the following costs is irrelevant to its decision?

- A) The cost per gallon of gasoline
- B) The purchase price of the hybrid model
- C) The purchase price of the gasoline-engine model
- D) The book value of the current fleet of sales vehicles

Answer: D

Diff: 2 Type: MC

LO: 2-6

Bloom's Taxonomy: Understand

15) Jansen Industries is considering replacing a machine that is presently used in its production process. The following information is available:

|                                            | Old Machine | Replacement Machine |
|--------------------------------------------|-------------|---------------------|
| Original cost                              | \$25,000    | \$35,000            |
| Remaining useful life in years             | 1           | 5                   |
| Current age in years                       | 5           | 0                   |
| Book value                                 | \$5,000     |                     |
| Current disposal value in cash             | \$3,000     |                     |
| Future disposal value in cash (in 5 years) | \$0         | \$2,000             |
| Annual cash operating costs                | \$7,000     | \$4,000             |

Which of the information provided in the table is irrelevant to the replacement decision?

- A) The annual operating cost of the old machine
- B) The original cost of the old machine
- C) The current disposal value of the old machine
- D) The future disposal value of the replacement machine
- E) The remaining useful life of the old machine

Answer: B

Diff: 2 Type: MC

LO: 2-6

Bloom's Taxonomy: Understand

16) You have the opportunity to attend a Leafs game either at home in Toronto against the Buffalo Sabres or in Buffalo. You can travel to the Toronto game using your weekly TTC bus pass which cost \$36.00 when purchased to travel to school each week. If you attend the game in Buffalo your share of the cost of travelling with a group of friends by car will be \$23.00. The cost of a ticket in Buffalo is \$45.00. In Toronto you will have to acquire the ticket from a scalper at the cost of \$85.00. The cost of hot dogs and beer at the Toronto game will be \$60.00. The same food and beverages in Buffalo will cost \$38.00. You must decide which game to attend.

Required:

- A. Which if any of the listed costs above are not relevant to your decision?
- B. What are the total relevant costs of attending the game in Toronto?
- C. What are the total relevant costs of attending the game in Buffalo?
- D. What is the differential cost involved in your decision?

Answer: A. The cost of the bus pass.

B.  $\$85 + \$60 = \$145$

C.  $\$45 + \$38 + \$23 = \$106$

D.  $\$145 - \$106 = \$39$

Diff: 2 Type: SA

LO: 2-6

Bloom's Taxonomy: Apply

17) You are planning to buy a new car. Based on your market research you have narrowed the decision to a choice between a Honda Civic and a Toyota Corolla. Since you are indifferent between the two vehicles you decide to base your decision on relevant cost only. You will be trading in your current vehicle which you purchased used a year ago. You expect to keep the new vehicle for five years. You have gathered the following data for use in your decision:

| VEHICLE                                                  | HONDA CIVIC | TOYOTA COROLLA |
|----------------------------------------------------------|-------------|----------------|
| Purchase Price                                           | \$14,990    | \$15,450       |
| Insurance (5 years)                                      | \$21,670    | \$19,680       |
| Annual operating costs                                   | \$3,800     | \$3,800        |
| Purchase price of current vehicle                        | \$8,000     | \$8,000        |
| Trade-in allowance for current vehicle                   | \$5,600     | \$6,300        |
| Sales tax                                                | \$1,220     | \$1,190        |
| Expected sales value of new vehicle at end of five years | \$8,300     | \$7,100        |

Required:

- Which if any of the listed costs above are not relevant to your decision?
- What are the total relevant costs and allowances of purchasing the Civic?
- What are the total relevant costs and allowances of purchasing the Corolla?
- What is the differential cost involved in your decision?

Answer: A. Purchase price of current vehicle - \$8,000 and annual operating costs

B.  $\$14,990 - \$5,600 + \$1,220 + \$21,670 - \$8,300 = \$23,980$

C.  $\$15,450 - \$6,300 + \$1,190 + \$19,680 - \$7,100 = \$22,920$

D.  $\$23,980 - \$22,920 = \$1,060$

Diff: 3 Type: SA

LO: 2-6

Bloom's Taxonomy: Apply

18) White Water Tours is considering the purchase of a new tour boat. They are faced with choosing between the Wave Runner and the Split Hull models. The boats are comparable on performance and both meet the company's needs equally. Both boats have an expected useful life of five years at which time they will be sold. The following information has been gathered to assist in making the purchase decision:

|                                              | WAVE RUNNER | SPLIT HULL |
|----------------------------------------------|-------------|------------|
| Purchase price                               | \$110,350   | \$121,900  |
| Fuel cost over useful life                   | 29,680      | 28,430     |
| Insurance cost over useful life              | 60,000      | 60,000     |
| Estimated repairs and maintenance            | 15,490      | 17,380     |
| Revenue generated over useful life           | 575,000     | 575,000    |
| Estimate selling price at end of useful life | 22,750      | 18,500     |

Required:

- Which if any of the listed costs above are not relevant to your decision?
- What are the total relevant costs of purchasing the Wave Runner?
- What are the total relevant costs of purchasing the Split Hull?
- What is the differential cost involved in your decision?

Answer: A. Insurance cost (\$60,000) and Revenue Generated (\$575,000)

B.  $\$110,350 + 29,680 + 15,490 - 22,750 = \$132,770$

C.  $\$121,900 + 28,430 + 17,380 - 18,500 = \$149,210$

D.  $\$142,910 - 132,770 = \$16,440$

Diff: 3 Type: SA

LO: 2-6

Bloom's Taxonomy: Apply

19) A student is considering whether to finish their university program in four consecutive years, or take a year off and work for some extra cash.

Required:

- a. Identify at least two revenues or costs that are relevant to making this decision. Explain why each is relevant.
- b. Identify at least two costs that would be considered sunk costs for this decision.
- c. Comment on at least one qualitative consideration for this decision.

Answer:

a. Relevant revenues/costs are those that differ between the alternatives of continuing with university or taking a year off from university and working. Relevant costs for continuing your college education without a break include:

1. Earnings lost next year due to the hours you are not able to work because of classes and homework.
2. As a result of graduating a year earlier, higher wages will be earned a year earlier as well.

b. Sunk costs for this decision include:

1. Amounts paid for university tuition and books during the past two years.
2. Amounts committed for university tuition and books for the remaining two years.

c. A qualitative consideration would include having different activities and priorities than your friends who are students, graduating later than students who started university the same time you did, and retaining information over the year off from school.

Diff: 2 Type: SA

LO: 2-6

Bloom's Taxonomy: Apply

20) Differentiate between relevant and irrelevant costs and give an example using both.

Answer: When making a decision, those costs that differ between alternatives are relevant costs. Costs that do not differ between alternatives are irrelevant. For example, when deciding to buy a new car, the cost of the cars under consideration is relevant as is the insurance cost for each car. If they both have the same fuel economy ratings, then the cost of gasoline is irrelevant to the decision.

Diff: 2 Type: ES

LO: 2-6

Bloom's Taxonomy: Understand

**Match the following:**

A) Irrelevant

B) Relevant

21) Cost of insurance on a new vehicle when evaluating purchase of new vehicle

Diff: 2 Type: MA

LO: 2-6

Bloom's Taxonomy: Understand

22) Cost of roof repair made on rental property last year when evaluating sale of rental property

Diff: 2 Type: MA

LO: 2-6

Bloom's Taxonomy: Understand

23) Original cost of old equipment that is being evaluated for replacement

Diff: 2 Type: MA

LO: 2-6

Bloom's Taxonomy: Understand

24) Cost of new equipment that is under evaluation to replace used equipment

Diff: 2 Type: MA

LO: 2-6

Bloom's Taxonomy: Understand

25) Accumulated depreciation on old equipment being evaluated for replacement

Diff: 2 Type: MA

LO: 2-6

Bloom's Taxonomy: Understand

26) Cost of previous year's insurance policy on old equipment being evaluated for replacement

Diff: 2 Type: MA

LO: 2-6

Bloom's Taxonomy: Understand

Answers: 21) B 22) A 23) A 24) B 25) A 26) A

**Match the following:**

- A) Sunk cost
- B) Prime costs
- C) Differential cost
- D) Direct costs
- E) Average cost
- F) Marginal cost
- G) Variable costs
- H) Indirect cost

27) The combination of direct materials and direct labour

Diff: 2 Type: MA

LO: 2-6

Bloom's Taxonomy: Remember

28) Costs that change in total in direct proportion to changes in volume

Diff: 2 Type: MA

LO: 2-6

Bloom's Taxonomy: Remember

29) A cost that relates to the cost object, but cannot be traced to it

Diff: 2 Type: MA

LO: 2-6

Bloom's Taxonomy: Remember

30) A cost that has already been incurred

Diff: 2 Type: MA

LO: 2-6

Bloom's Taxonomy: Remember

Answers: 27) B 28) G 29) H 30) A

**2.7 Classify costs as fixed or variable, and calculate total and average costs at different volumes.**

1) Fixed costs stay constant in total over a wide range of activity levels.

Answer: TRUE

Diff: 1 Type: TF

LO: 2-7

Bloom's Taxonomy: Remember

2) All costs contain both a fixed and a variable part.

Answer: FALSE

Diff: 2 Type: TF

LO: 2-7

Bloom's Taxonomy: Understand

3) The total cost of a product equals the total fixed costs plus the average variable costs.

Answer: FALSE

Diff: 2 Type: TF

LO: 2-7

Bloom's Taxonomy: Understand

4) A marginal cost is the cost of making one more unit of a product.

Answer: TRUE

Diff: 1 Type: TF

LO: 2-7

Bloom's Taxonomy: Remember

5) Average costing should be used to forecast costs at different levels of production.

Answer: FALSE

Diff: 1 Type: TF

LO: 2-7

Bloom's Taxonomy: Remember

6) Total variable costs

A) remain the same as production decreases.

B) remain the same as production increases.

C) go down as production decreases.

D) remain the same no matter if production increases or decreases.

Answer: C

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Understand

7) The cost of making one more unit is called

A) marginal cost.

B) unit cost.

C) variable cost.

D) fixed cost.

Answer: A

Diff: 1 Type: MC

LO: 2-7

Bloom's Taxonomy: Remember

8) Farm Supply plans to make 10,000 tractors at its plant. Fixed costs are \$1,000,000 and variable costs are \$500 per tractor. What is the average cost per tractor?

A) \$600

B) \$500

C) \$100

D) \$1,500

Answer: A

Explanation: A)  $\$500 + (\$1,000,000/10,000) = \$600$

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Apply

9) A(n) \_\_\_\_\_ cost is one whose total amount changes in direct proportion to a change in volume.

- A) fixed
- B) irrelevant
- C) mixed
- D) variable

Answer: D

Diff: 1 Type: MC

LO: 2-7

Bloom's Taxonomy: Remember

10) Which of the following is an example of a fixed cost for a manufacturer?

- A) Salary of plant manager
- B) Sales commissions
- C) Direct materials
- D) Delivery costs

Answer: A

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Understand

11) Which of the following describes the way in which variable costs per unit behave?

- A) They will decrease as production increases.
- B) They will increase as production decreases.
- C) They will remain the same as production levels change.
- D) They will decrease as production decreases.

Answer: C

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Understand

12) Which of the following describes the way in which total variable costs behave?

- A) They remain the same as production levels change.
- B) They will decrease as production decreases.
- C) They will decrease as production increases.
- D) They will increase as production decreases.

Answer: B

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Understand

13) Which of the following describes the way in which total fixed costs behave?

- A) They will remain the same as production levels change.
- B) They will decrease as production decreases.
- C) They will decrease as production increases.
- D) They will increase as production decreases.

Answer: A

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Understand

14) Which of the following describes the way fixed costs per unit behave?

- A) They will remain the same as production levels change.
- B) They will decrease as production decreases.
- C) They will increase as production increases.
- D) They will increase as production decreases.

Answer: D

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Understand

15) Variable costs

- A) are fixed in total as production levels change.
- B) are fixed per unit and vary in total as productions levels change.
- C) decrease per unit as production volume increases.
- D) vary per unit of output as production levels change.

Answer: B

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Understand

*Use the information below to answer the following question(s).*

Sanjay Company has monthly fixed costs of \$112,000. The variable costs are \$5.00 per unit. The sales price per unit is \$20.00 and they sold 8,000 units.

16) Sanjay Company's average fixed costs per unit will be

- A) \$19.00 per unit.
- B) \$5.00 per unit.
- C) \$14.00 per unit.
- D) \$15.00 per unit.

Answer: C

Explanation: C)  $112,000 / 8,000 = 14$

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Apply

17) Sanjay Company's total variable costs will be

- A) \$112,000.
- B) \$160,000.
- C) \$120,000.
- D) \$40,000.

Answer: D

Explanation: D)  $8,000 \times \$5.00 = \$40,000$

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Apply

18) Sanjay Company's total sales revenue will be

- A) \$160,000.
- B) \$120,000.
- C) \$112,000.
- D) \$8,000.

Answer: A

Explanation: A)  $\$20.00 \times 8,000 = \$160,000$

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Apply

*Use the information below to answer the following question(s).*

Paris Plastics has monthly fixed costs of \$90,000, while its variable costs are \$4.00 per unit. The sales price per unit is \$16.00 and Paris Plastics sold 12,000 units.

19) Paris Plastics' average fixed costs per unit will be

- A) \$11.50 per unit.
- B) \$4.00 per unit.
- C) \$7.50 per unit.
- D) \$12.00 per unit.

Answer: C

Explanation: C)  $90,000/12,000 = \$7.50$

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Apply

20) Paris Plastics' total variable costs will be

- A) \$90,000.
- B) \$192,000.
- C) \$144,000.
- D) \$48,000.

Answer: D

Explanation: D)  $\$4.00 \times 12,000 = \$48,000$

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Apply

21) Paris Plastics' total sales revenue will be

- A) \$192,000.
- B) \$144,000.
- C) \$90,000.
- D) \$54,000.

Answer: A

Explanation: A)  $12,000 \times \$16.00 = \$192,000$

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Apply

22) A company has fixed costs of \$75,000 per month. If sales double from 5,000 to 10,000 units during the month, fixed costs will

- A) remain the same.
- B) double.
- C) be cut in half.
- D) increase slightly.

Answer: A

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Understand

23) A company produces toy airplanes at a variable cost of \$21 per toy. If 6,000 toys are produced at a total variable cost of \$126,000, the total variable cost at 4,000 toys will be

- A) \$126,000.
- B) \$84,000.
- C) \$210,000.
- D) \$86,000.

Answer: B

Explanation: B)  $4,000 \times \$21.00 = \$84,000$

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Apply

24) Smythe Manufacturing produces food processors. Their total fixed costs are \$50,000. Its variable costs are \$75.00 per food processor. As production of food processors increases, fixed costs will

- A) stay the same per unit.
- B) decrease as sales increase.
- C) increase as sales decrease.
- D) decrease per unit as sales increase.

Answer: D

Diff: 2 Type: MC

LO: 2-7

Bloom's Taxonomy: Understand

25) A company's total costs are calculated by

- A) subtracting total fixed costs from total variable costs.
- B) subtracting total variable costs from total fixed costs.
- C) adding total fixed costs to total variable costs.
- D) subtracting total fixed costs and total variable costs from sales.

Answer: C

Diff: 1 Type: MC

LO: 2-7

Bloom's Taxonomy: Remember

Use the information below to answer the following question(s).

Macadamia Co. produced and sold 40,000 units last year. **Per unit** revenue and costs were as follows:

|                                   |         |          |
|-----------------------------------|---------|----------|
| Revenue                           |         | \$100.00 |
| Cost of Goods Sold:               |         |          |
| Direct Materials                  | \$15.00 |          |
| Direct Labour                     | 30.00   |          |
| Variable Manufacturing Overhead   | 20.00   |          |
| Fixed Manufacturing Overhead      | 10.00   |          |
| Total Cost of Goods Sold          |         | 75.00    |
| Gross Margin                      |         | \$25.00  |
| Selling and Administrative Costs: |         |          |
| Sales Commissions (10% of Sales)  | \$10.00 |          |
| Administrative Salaries           | 20.00   |          |
| Total Selling and Administrative  |         | 30.00    |
| Operating Income <Loss>           |         | <\$5.00> |

Fixed manufacturing overhead and administrative salaries are fixed costs. The per unit amounts are based on last year's production.

26) Calculate last year's operating income when the company produced and sold 40,000 units.

- A) \$0
- B) \$(200,000)
- C) \$(500,000)
- D) \$(800,000)
- E) \$(1,000,000)

Answer: B

Explanation: B)  $40,000 \times [100 - (15 + 30 + 20 + 10)] - [40,000 \times (20 + 10)] = \$<200,000>$

Diff: 3 Type: MC

LO: 2-7

Bloom's Taxonomy: Apply

27) Calculate this year's operating income if the company plans to produce and sell 50,000 units.

- A) \$50,000
- B) \$0
- C) \$(250,000)
- D) \$(550,000)
- E) \$250,000

Answer: A

Explanation: A)  $50,000 \times [100 - (15 + 30 + 20 + 10)] - [40,000 \times (20 + 10)] = \$50,000$

Diff: 3 Type: MC

LO: 2-7

Bloom's Taxonomy: Apply

28) Calculate this year's operating income if the company plans to produce and sell 60,000 units.

- A) \$150,000
- B) \$0
- C) \$(300,000)
- D) \$(650,000)
- E) \$300,000

Answer: E

Explanation: E)  $60,000 \times [100 - (15 + 30 + 20 + 10)] - [40,000 \times (20 + 10)] = \$300,000$

Diff: 3 Type: MC

LO: 2-7

Bloom's Taxonomy: Apply

29) Getting to school for your 8 A.M. class doesn't leave much time for breakfast, and you are quite hungry by the time class ends. It is a long walk to the cafeteria, the lines are long once you get there, and you find yourself having to decide between having breakfast and getting to your next class on time. Many of your friends have expressed the same problem. The administration has agreed to let you set up a table just outside the building where you will sell various snacks for \$1 each. You have agreed to pay the administration \$500 per month and salaries to your friends to run the business will be another \$500 per month. It will cost you 50 cents each to buy the pre- packaged snacks. You believe you can sell 2,000 snack packs per month.

- a. What are the total fixed costs per month?
- b. What are the total variable costs per month?
- c. What is the fixed cost per snack pack?
- d. What is the variable cost per snack pack?
- e. What is the average cost per snack pack?
- f. What is the average profit margin per snack pack?
- g. Based on your analysis, should you start the snack pack business?

Answer:

- a. \$1,000 (\$500 + \$500)
- b. \$1,000 (50 cents  $\times$  2,000 snack packs)
- c. 50 cents (\$1,000/2,000 snack packs)
- d. 50 cents (given in the problem)
- e. \$1.00
- f. \$0 (\$1 - 50 cents - 50 cents)

g. No, if looked at only from a financial viewpoint. Unless the selling price can be increased or the costs decreased, no profit is being generated. There could be other reasons to start the business such as learning about running a business, helping out your friends, or generating good will among the other students.

Diff: 2 Type: SA

LO: 2-7

Bloom's Taxonomy: Apply

30) The owner of Willy's Wonderful Burger Stand is concerned because the stand has been averaging only 3,000 burger sales per month, the stand and staff can make 6,000 burgers per month. The variable cost of each burger (buns, meat, etc.) is \$2.50. Monthly fixed costs are (taxes, licenses, space rent and salaries) are \$7,500. The owner (Willy Wonderful) wants cost information about different volumes so that he can make some operating decisions.

Required: Fill in the following chart to provide Willy with the information he wants.

| Monthly burger sales            | 2,500    | 3,000    | 5,000    |
|---------------------------------|----------|----------|----------|
| Total fixed Costs               | \$ _____ | \$ _____ | \$ _____ |
| <u>Total variable cost</u>      | \$ _____ | \$ _____ | \$ _____ |
| <u>Total costs</u>              | \$ _____ | \$ _____ | \$ _____ |
| Fixed cost per burger           | \$ _____ | \$ _____ | \$ _____ |
| <u>Variable cost per burger</u> | \$ _____ | \$ _____ | \$ _____ |
| <u>Average cost per burger</u>  | \$ _____ | \$ _____ | \$ _____ |
| Sales price per burger          | \$5.00   | \$5.00   | \$5.00   |
| Average profit per burger       | \$ _____ | \$ _____ | \$ _____ |

Answer:

| Monthly burger sales            | 2,500           | 3,000           | 5,000           |
|---------------------------------|-----------------|-----------------|-----------------|
| Total fixed Costs               | \$7,500         | \$7,500         | \$7,500         |
| <u>Total variable cost</u>      | <u>\$6,250</u>  | <u>\$7,500</u>  | <u>\$12,500</u> |
| <u>Total costs</u>              | <u>\$13,750</u> | <u>\$15,000</u> | <u>\$20,000</u> |
| Fixed cost per burger           | \$3.00          | \$2.50          | \$1.50          |
| <u>Variable cost per burger</u> | <u>\$2.50</u>   | <u>\$2.50</u>   | <u>\$2.50</u>   |
| <u>Average cost per burger</u>  | <u>\$5.50</u>   | <u>\$5.00</u>   | <u>\$4.00</u>   |
| Sales price per burger          | \$5.00          | \$5.00          | \$5.00          |
| Average profit per burger       | <u>(\$0.50)</u> | <u>\$0.00</u>   | <u>\$1.00</u>   |

Diff: 2 Type: SA

LO: 2-7

Bloom's Taxonomy: Apply

31) The owner of Willy's Wonderful Burger Stand is concerned because the stand has been averaging only 3,000 burger sales per month, the stand and staff can make 6,000 burgers per month. The variable cost of each burger (buns, meat, etc.) is \$2.50. Monthly fixed costs are (taxes, licenses, space rent and salaries) are \$7,500. The owner (Willy Wonderful) believes he could sell 5,000 burgers per month if he cuts the sales price from \$5.00 to \$4.75 per burger. How much extra profit (above the current level) would he generate if he decreased the sales price?

Answer: New profit =  $(5,000 \times \$4.75) - (5,000 \times \$2.50) - \$7,500 = \$3,750$

Current profit =  $(3,000 \times \$5.00) - (3,000 \times \$2.50) - \$7,500 = \$0$

Increased profit =  $\$3,750 - \$0 = \$3,750$

Diff: 2 Type: SA

LO: 2-7

Bloom's Taxonomy: Apply

32) The owner of Fat Man's Sausage Cart is concerned because the stand has been averaging only 5,500 sausage sales per month, the stand and staff can make 7,000 sausages on a bun per month. The variable cost of each sausage (buns, meat, etc.) is \$3.50. Monthly fixed costs are (taxes, licenses, space rent and salaries) are \$10,000. The owner (Big Bob) wants cost information about different volumes so that he can make some operating decisions.

Required: Fill in the following chart to provide Bob with the information he wants.

| Monthly sausage sales            | 3,000    | 5,000    | 7,000    |
|----------------------------------|----------|----------|----------|
| Total fixed Costs                | \$ _____ | \$ _____ | \$ _____ |
| <u>Total variable cost</u>       | \$ _____ | \$ _____ | \$ _____ |
| <u>Total costs</u>               | \$ _____ | \$ _____ | \$ _____ |
| Fixed cost per sausage           | \$ _____ | \$ _____ | \$ _____ |
| <u>Variable cost per sausage</u> | \$ _____ | \$ _____ | \$ _____ |
| <u>Average cost per sausage</u>  | \$ _____ | \$ _____ | \$ _____ |
| Sales price per sausage          | \$7.50   | \$7.50   | \$7.50   |
| Average profit per sausage       | \$ _____ | \$ _____ | \$ _____ |

Answer:

| Monthly sausage sales            | 3,000           | 5,000           | 7,000           |
|----------------------------------|-----------------|-----------------|-----------------|
| Total fixed Costs                | \$10,000        | \$10,000        | \$10,000        |
| <u>Total variable cost</u>       | <u>\$10,500</u> | <u>\$17,500</u> | <u>\$24,500</u> |
| <u>Total costs</u>               | <u>\$20,500</u> | <u>\$27,500</u> | <u>\$34,500</u> |
| Fixed cost per sausage           | \$3.33          | \$2.00          | \$1.43          |
| <u>Variable cost per sausage</u> | <u>\$3.50</u>   | <u>\$3.50</u>   | <u>\$3.50</u>   |
| <u>Average cost per sausage</u>  | <u>\$6.83</u>   | <u>\$5.50</u>   | <u>\$4.93</u>   |
| Sales price per sausage          | \$7.50          | \$7.50          | \$7.50          |
| Average profit per sausage       | <u>\$0.67</u>   | <u>\$2.00</u>   | <u>\$2.57</u>   |

Diff: 2 Type: SA

LO: 2-7

Bloom's Taxonomy: Apply

33) The owner of Fat Man's Sausage Cart is concerned because the stand has been averaging only 5,500 sausage sales per month, the stand and staff can make 7,000 sausages on a bun per month. The variable cost of each sausage (buns, meat etc.) is \$3.50. Monthly fixed costs are (taxes, licenses, space rent and salaries) are \$10,000. The owner (Big Bob) believes he could sell 7,000 sausages per month if he cuts the sales price from \$7.50 to \$7.00 per sausage. How much extra profit (above the current level) would he generate if he decreased the sales price?

Answer: New profit =  $(7,000 \times \$7.00) - (7,000 \times \$3.50) - \$10,000 = \$14,500$

Current profit =  $(5,500 \times \$7.50) - (5,500 \times \$3.50) - \$10,000 = \$12,000$

Increased profit =  $\$14,500 - \$12,000 = \$2,500$

Diff: 2    Type: SA

LO: 2-7

Bloom's Taxonomy: Apply

34) The owner of Spicy's Gourmet Popcorn is concerned because the stand has been averaging sales of only 7,500 cartons per month, the stand and staff can make 15,000 cartons of popcorn per month. The variable cost of each carton is \$1.50. Monthly fixed costs are (taxes, licenses, space rent and salaries) are \$10,000. The owner wants cost information about different volumes so that he can make some operating decisions.

Required: Fill in the following chart to provide Bob with the information he wants.

| Monthly carton sales            | 7,500    | 10,000   | 15,000   |
|---------------------------------|----------|----------|----------|
| Total fixed Costs               | \$ _____ | \$ _____ | \$ _____ |
| <u>Total variable cost</u>      | \$ _____ | \$ _____ | \$ _____ |
| <u>Total costs</u>              | \$ _____ | \$ _____ | \$ _____ |
| Fixed cost per carton           | \$ _____ | \$ _____ | \$ _____ |
| <u>Variable cost per carton</u> | \$ _____ | \$ _____ | \$ _____ |
| <u>Average cost per carton</u>  | \$ _____ | \$ _____ | \$ _____ |
| Sales price per carton          | \$5.50   | \$5.50   | \$5.50   |
| Average profit per carton       | \$ _____ | \$ _____ | \$ _____ |

Answer:

| Monthly carton sales            | 7,500           | 10,000          | 15,000          |
|---------------------------------|-----------------|-----------------|-----------------|
| Total fixed Costs               | \$10,000        | \$10,000        | \$10,000        |
| <u>Total variable cost</u>      | <u>\$11,500</u> | <u>\$15,000</u> | <u>\$22,500</u> |
| <u>Total costs</u>              | <u>\$21,250</u> | <u>\$25,000</u> | <u>\$32,500</u> |
| Fixed cost per carton           | \$1.33          | \$1.00          | \$0.67          |
| <u>Variable cost per carton</u> | <u>\$1.50</u>   | <u>\$1.50</u>   | <u>\$1.50</u>   |
| <u>Average cost per carton</u>  | <u>\$2.38</u>   | <u>\$2.50</u>   | <u>\$2.17</u>   |
| Sales price per carton          | \$5.50          | \$5.50          | \$5.50          |
| Average profit per carton       | <u>\$2.67</u>   | <u>\$3.00</u>   | <u>\$3.33</u>   |

Diff: 2 Type: SA

LO: 2-7

Bloom's Taxonomy: Apply

35) The owner of Spicy's Gourmet Popcorn is concerned because the stand has been averaging sales of only 7,500 cartons per month, the stand and staff can make 15,000 cartons of popcorn per month. The variable cost of each carton is \$1.50. Monthly fixed costs are (taxes, licenses, space rent and salaries) are \$10,000. The owner believes he could sell 15,000 cartons per month if he cuts the sales price from \$5.50 to \$5.00 per carton. How much extra profit (above the current level) would he generate if he decreased the sales price?

Answer:

New profit =  $(15,000 \times \$5.00) - (15,000 \times \$1.50) - \$10,000 = \$42,500$

Current profit =  $(7,500 \times \$5.50) - (7,500 \times \$1.50) - \$10,000 = \$20,000$

Increased profit =  $\$42,500 - \$20,000 = \$22,500$

Diff: 2 Type: SA

LO: 2-7

Bloom's Taxonomy: Apply

36) Big Island Coffee Co. produced and sold 120,000 units last year. **Per unit** revenue and costs were as follows:

|                                   |         |          |
|-----------------------------------|---------|----------|
| Revenue                           |         | \$35.00  |
| Cost of Goods Sold:               |         |          |
| Direct Materials                  | \$20.00 |          |
| Direct Labour                     | 3.00    |          |
| Variable Manufacturing Overhead   | 2.00    |          |
| Fixed Manufacturing Overhead      | 1.00    |          |
| Total Cost of Goods Sold          |         | 26.00    |
| Gross Margin                      |         | \$9.00   |
| Selling and Administrative Costs: |         |          |
| Sales Commissions (10% of sales)  | \$3.50  |          |
| Administrative Salaries           | 6.00    |          |
| Total Selling and Administrative  |         | 9.50     |
| Operating Income <Loss>           |         | <\$0.50> |

Fixed manufacturing overhead and administrative salaries are fixed costs. The per unit amounts are based on last year's production.

Required:

Calculate this year's operating income if the company plans to produce and sell 200,000 units.

Answer:  $200,000 \times [35 - (20 + 3 + 2 + 3.50)] - [120,000 \times (1 + 6)] = \$460,000$

Diff: 3 Type: SA

LO: 2-7

Bloom's Taxonomy: Apply

37) Differentiate between fixed and variable costs and give an example of each.

Answer: Fixed costs stay constant in total over a wide range of activity levels. For instance, the rent on a factory is the same whether 10,000 products are produced each month or 1,000 products are produced. Variable costs change in total in direct proportion to changes in volume. If the variable cost of producing one item is \$1, and if 10,000 units are produced, the cost will be \$10,000 and if only 1,000 units are produced, the cost will be only \$1,000.

Diff: 2 Type: ES

LO: 2-7

Bloom's Taxonomy: Understand

38) How are average cost and marginal cost computed?

Answer: The average cost is the total cost divided by the number of units produced. Marginal cost is the cost of making one more unit.

Diff: 2 Type: ES

LO: 2-7

Bloom's Taxonomy: Understand

**Match the following:**

- A) Variable costs
- B) Sunk cost
- C) Average cost
- D) Differential cost
- E) Marginal cost
- F) Indirect cost
- G) Direct costs

39) The total cost divided by the total volume

Diff: 1 Type: MA

LO: 2-7

Bloom's Taxonomy: Remember

40) The difference in cost between two alternative courses of action

Diff: 1 Type: MA

LO: 2-7

Bloom's Taxonomy: Remember

41) The combination of direct labour and manufacturing overhead costs H) Conversion costs

Diff: 1 Type: MA

LO: 2-7

Bloom's Taxonomy: Remember

42) The cost of producing one more unit

Diff: 1 Type: MA

LO: 2-7

Bloom's Taxonomy: Remember

43) Costs that can be traced to the cost object

Diff: 1 Type: MA

LO: 2-7

Bloom's Taxonomy: Remember

Answers: 39) C 40) D 41) H 42) E 43) G