

## **Chapter 2—Basic Managerial Accounting Concepts**

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### **TRUE/FALSE**

1. It is beneficial to assign indirect costs to cost objects.

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs              KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.

3. Accumulating costs is the way that costs are measured and recorded.

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs              KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs              KEY: Bloom's: Knowledge  
NOT: 1 min.

5. Assigning costs tells the accountant who spent the money.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs              KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs              KEY: Bloom's: Knowledge  
NOT: 1 min.

7. Costs are directly, *not* indirectly, associated with cost objects.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial  
Accounting Features/Costs                      KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: F  
Direct costs are those costs that can be easily and accurately traced to a cost object.

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial  
Accounting Features/Costs                      KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Cost Management | ACBSP: APC-27-Managerial  
Accounting Features/Costs                      KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial  
Accounting Features/Costs                      KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: F  
A variable cost is one that does increase in total as output increase and does not decrease in total as output decreases.

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-28-Variable and Fixed  
Costs KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-28-Variable and Fixed  
Costs KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Decision Modeling | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs              KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs              KEY: Bloom's: Knowledge              NOT: 1 min.

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

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs              KEY: Bloom's: Knowledge  
NOT: 1 min.

16. The revenue per unit is called cost.

ANS: F  
The revenue per unit is called price.

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.

18. Costs are incurred to produce future benefits.

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs              KEY: Bloom's: Knowledge              NOT: 1 min.

19. Expired costs are called assets.

ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-1              NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: F PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-1 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Decision Modeling | IMA: Business Economics |  
ACBSP: APC-27-Managerial Accounting Features/Costs KEY: Bloom's: Knowledge  
NOT: 1 min.

21. Costs can be assigned to cost objects in only one way.

ANS: F  
Costs can be assigned to cost objects in a number of ways.

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | AICPA: FN-Measurement | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: T PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-1 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-28-Variable and Fixed Costs  
KEY: Bloom's: Knowledge NOT: 1 min.

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

ANS: F  
Glue used in the manufacture of cabinets would be an example of a variable cost.

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-28-Variable and Fixed Costs  
KEY: Bloom's: Knowledge NOT: 1 min.

24. Industries that provide intangible services do *not* normally have direct contact with their customers.

ANS: F PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial  
Characteristics/Terminology KEY: Bloom's: Knowledge  
NOT: 1 min.

25. Research and development costs would be classified as product cost.

ANS: F  
Research and development costs would be classified as period costs.

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-2

NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial  
Accounting Features/Costs KEY: Bloom's: Knowledge  
NOT: 1 min.

26. Product costs include direct materials, direct labor, and selling costs.

ANS: F PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial  
Accounting Features/Costs KEY: Bloom's: Knowledge  
NOT: 1 min.

27. All product costs other than direct materials and indirect labor are called overhead.

ANS: F PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial  
Accounting Features/Costs KEY: Bloom's: Knowledge  
NOT: 1 min.

28. Direct materials can be directly traced to the goods or services being produced.

ANS: T PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial  
Accounting Features/Costs KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: F  
Any costs associated with storing, selling, and delivering the product are classified as *period* costs.

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-2  
NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs KEY: Bloom's: Knowledge  
NOT: 1 min.

30. Prime cost is the sum of direct materials cost and direct labor cost.

ANS: T PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial  
Accounting Features/Costs KEY: Bloom's: Knowledge  
NOT: 1 min.

31. Product costs are carried in inventory until the goods are finished.

ANS: F PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial  
Accounting Features/Costs KEY: Bloom's: Knowledge

NOT: 1 min.

32. Marketing costs would be classified as period costs.

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial  
Accounting Features/Costs                      KEY: Bloom's: Knowledge  
NOT: 1 min.

33. The cost of janitorial services for a factory building would be classified as indirect labor.

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial  
Accounting Features/Costs                      KEY: Bloom's: Knowledge  
NOT: 1 min.

34. Period costs are all costs that are *not* product costs, such as office supplies.

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial  
Accounting Features/Costs                      KEY: Bloom's: Knowledge  
NOT: 1 min.

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

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

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Resource Management | IMA: Business Economics | ACBSP: APC-27-Managerial  
Accounting Features/Costs                      KEY: Bloom's: Knowledge  
NOT: 1 min.

36. All manufacturing costs are classified as overhead.

ANS: F  
All manufacturing costs are classified as direct materials, direct labor, or overhead.

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs                      KEY: Bloom's: Knowledge  
NOT: 1 min.

37. For external reporting purposes, costs must be classified into only three categories.

ANS: T                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-3              NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Business Economics | ACBSP: APC-09-Financial Statements |  
ACBSP: APC-27-Managerial Accounting Features/Costs KEY: Bloom's: Knowledge  
NOT: 1 min.

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

ANS: F PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-3 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

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

ANS: T PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-3 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge NOT: 1 min.

40. Sales revenue equals the product cost per unit times the number of units sold.

ANS: F PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-3 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge NOT: 1 min.

41. Gross margin is the difference between sales revenue and cost of goods sold.

ANS: T PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-3 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge NOT: 1 min.

## MATCHING

*Select the appropriate classification for each of the following costs.*

- a. Period
- b. Product

- 1. Advertising costs
- 2. Cost accountant's salary
- 3. Factory supervisor's salary
- 4. Research and development costs
- 5. Marketing costs
- 6. Cost of shipping products to customers
- 7. Supplies for factory washroom
- 8. Assembly line worker's wages

- 1. ANS: A PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
- 2. ANS: A PTS: 1 DIF: Difficulty: Easy

- OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
3. ANS: B PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
4. ANS: A PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
5. ANS: A PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
6. ANS: A PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
7. ANS: B PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
8. ANS: B PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

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

- a. direct materials
  - b. direct labor
  - c. overhead
  - d. selling expense
  - e. administrative expense
9. cost of tires
  10. factory supplies
  11. general accounting costs
  12. factory security costs
  13. factory janitorial costs
  14. salary of chief executive officer
  15. depreciation of vehicles used by sales personnel
  16. cost of windshields used in the production process
9. ANS: A PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
10. ANS: C PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
11. ANS: E PTS: 1 DIF: Difficulty: Easy



- OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
12. ANS: C PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
13. ANS: C PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
14. ANS: E PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
15. ANS: D PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
16. ANS: A PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

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

- a. Product cost
  - b. Period cost
17. Cost of nails used by a home builder
18. Fees paid to an advertising firm
19. Sugar used in soft drink production
20. Rental cost of executive Lear jet
21. Cost of conference for sales team
22. Factory supervisor's salary
23. Fees paid to outside auditing firm
24. Factory security costs
17. ANS: A PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
18. ANS: B PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
19. ANS: A PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
20. ANS: B PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

21. ANS: B PTS: 1 DIF: Difficulty: Easy  
 OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
 Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
22. ANS: A PTS: 1 DIF: Difficulty: Easy  
 OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
 Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
23. ANS: B PTS: 1 DIF: Difficulty: Easy  
 OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
 Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.
24. ANS: A PTS: 1 DIF: Difficulty: Easy  
 OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
 Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

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

- a. per-unit prime cost
  - b. per-unit conversion cost
  - c. per-unit cost of goods manufactured
25. (direct labor + overhead)/units produced
26. (total manufacturing costs + work in process beginning – work in process ending)/units produced
27. (direct materials + direct labor)/units produced

25. ANS: B PTS: 1 DIF: Difficulty: Easy  
 OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Measurement | AICPA: FN-Decision Modeling | IMA: Business Economics |  
 ACBSP: APC-27-Managerial Accounting Features/Costs KEY: Bloom's: Knowledge  
 NOT: 1 min.
26. ANS: C PTS: 1 DIF: Difficulty: Easy  
 OBJ: LO: 2-2 | LO: 2-3 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Measurement | AICPA: FN-Decision Modeling | IMA: Business Economics |  
 ACBSP: APC-27-Managerial Accounting Features/Costs KEY: Bloom's: Knowledge  
 NOT: 1 min.
27. ANS: A PTS: 1 DIF: Difficulty: Easy  
 OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Measurement | AICPA: FN-Decision Modeling | IMA: Business Economics |  
 ACBSP: APC-27-Managerial Accounting Features/Costs KEY: Bloom's: Knowledge  
 NOT: 1 min.

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

- a. period cost
  - b. direct cost
  - c. opportunity cost
  - d. variable cost
  - e. indirect cost
  - f. fixed cost
  - g. product cost
28. A benefit given up when one alternative is chosen over another
29. A cost that stays the same in total regardless of changes in output

30. A cost that is difficult to trace to a cost object
  31. A manufacturing cost
  32. A cost that is not inventoried
  33. A cost that can be easily traced to a cost object
  34. A cost that increases in total as output increases
- 
28. ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs | ACBSP: APC-28-Variable and Fixed Costs  
KEY: Bloom's: Knowledge                      NOT: 1 min.
  29. ANS: F                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs | ACBSP: APC-28-Variable and Fixed Costs  
KEY: Bloom's: Knowledge                      NOT: 1 min.
  30. ANS: E                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs | ACBSP: APC-28-Variable and Fixed Costs  
KEY: Bloom's: Knowledge                      NOT: 1 min.
  31. ANS: G                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs | ACBSP: APC-28-Variable and Fixed Costs  
KEY: Bloom's: Knowledge                      NOT: 1 min.
  32. ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs | ACBSP: APC-28-Variable and Fixed Costs  
KEY: Bloom's: Knowledge                      NOT: 1 min.
  33. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs | ACBSP: APC-28-Variable and Fixed Costs  
KEY: Bloom's: Knowledge                      NOT: 1 min.
  34. ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs | ACBSP: APC-28-Variable and Fixed Costs  
KEY: Bloom's: Knowledge                      NOT: 1 min.

*Select the appropriate classification of the items listed below.*

- a. selling expense
  - b. administrative expense
  - c. direct materials
  - d. direct labor
  - e. overhead
- 
35. Chief of surgery's salary at a hospital
  36. Wages of assembly line workers in an automobile plant
  37. Cost of lubricating factory machinery
  38. Cost of shipping goods to customers

39. Glue used in the manufacture of furniture
  40. Cost of engines in the manufacture of airplanes
  41. Salary of chief executive officer
  42. A professor's salary at a university
- 
35. ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.
  36. ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.
  37. ANS: E                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.
  38. ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.
  39. ANS: E                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.
  40. ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.
  41. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.
  42. ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:  
APC-27-Managerial Accounting Features/Costs | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.

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

- a. Tangible
  - b. Intangible
- 
43. CPA firm
  44. Car manufacturer
  45. Law firm

46. Medical clinic
47. Bowling alley
48. Fast food restaurant
49. Video rental
50. Professional sports franchise

43. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial  
 Characteristics/Terminology                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
44. ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial  
 Characteristics/Terminology                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
45. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial  
 Characteristics/Terminology                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
46. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial  
 Characteristics/Terminology                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
47. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial  
 Characteristics/Terminology                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
48. ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial  
 Characteristics/Terminology                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
49. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial  
 Characteristics/Terminology                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
50. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial  
 Characteristics/Terminology                      KEY: Bloom's: Knowledge  
 NOT: 1 min.

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

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

51. The cost of units finished but not sold at the end of the current period
52. Direct materials + direct labor + overhead
53. The cost of units unfinished at the end of the current period
54. Beginning finished goods inventory + Cost of goods manufactured - Ending finished goods inventory
55. (direct materials + direct labor + overhead) +/- the change in work in process inventory from the beginning to the end of the current period

51. ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-2 | LO: 2-3                      NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Business Economics | IMA: Reporting | ACBSP:  
 APC-09-Financial Statements                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
52. ANS: E                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-2 | LO: 2-3                      NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Business Economics | IMA: Reporting | ACBSP:  
 APC-09-Financial Statements                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
53. ANS: A                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-2 | LO: 2-3                      NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Business Economics | IMA: Reporting | ACBSP:  
 APC-09-Financial Statements                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
54. ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-2 | LO: 2-3                      NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Business Economics | IMA: Reporting | ACBSP:  
 APC-09-Financial Statements                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
55. ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-2 | LO: 2-3                      NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Business Economics | IMA: Reporting | ACBSP:  
 APC-09-Financial Statements                      KEY: Bloom's: Knowledge  
 NOT: 1 min.

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

- a. gross margin
  - b. selling expenses
  - c. sales revenue
  - d. cost of goods sold
  - e. operating income
56. gross margin – selling and administrative expenses
  57. marketing and distributing costs
  58. price x units sold
  59. sales revenue – cost of goods sold
  60. Beginning finished goods inventory + Cost of goods manufactured - Ending finished goods inventory
56. ANS: E                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-3                      NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-27-Managerial Accounting  
 Features/Costs | ACBSP: APC-09-Financial Statements                      KEY: Bloom's: Knowledge  
 NOT: 1 min.
  57. ANS: B                      PTS: 1                      DIF: Difficulty: Easy

OBJ: LO: 2-3 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-27-Managerial Accounting  
Features/Costs | ACBSP: APC-09-Financial Statements KEY: Bloom's: Knowledge  
NOT: 1 min.

58. ANS: C PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-3 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-27-Managerial Accounting  
Features/Costs | ACBSP: APC-09-Financial Statements KEY: Bloom's: Knowledge  
NOT: 1 min.
59. ANS: A PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-3 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-27-Managerial Accounting  
Features/Costs | ACBSP: APC-09-Financial Statements KEY: Bloom's: Knowledge  
NOT: 1 min.
60. ANS: D PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-3 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-27-Managerial Accounting  
Features/Costs | ACBSP: APC-09-Financial Statements KEY: Bloom's: Knowledge  
NOT: 1 min.

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

- a. Income Statement
  - b. Cost of goods manufactured
  - c. Work in process
  - d. Gross margin
  - e. Operating income
61. Gross margin – selling and administrative expenses
62. The difference between sales revenue and cost of goods sold
63. The total cost of goods completed during the current period
64. Covers a particular period of time
65. Cost of partially completed goods
61. ANS: E PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-3 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge NOT: 1 min.
62. ANS: D PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-3 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge NOT: 1 min.
63. ANS: B PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-3 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge NOT: 1 min.
64. ANS: A PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-3 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge NOT: 1 min.
65. ANS: C PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-3 NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge NOT: 1 min.

## COMPLETION

1. Expired costs are called \_\_\_\_\_.

ANS: expenses

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial  
Characteristics/Terminology                      KEY: Bloom's: Knowledge  
NOT: 1 min.

2. \_\_\_\_\_ is the amount of cash or cash equivalent sacrificed for goods and/or services that are expected to bring a current or future benefit to the organization.

ANS: Cost

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs                      KEY: Bloom's: Knowledge                      NOT: 1 min.

3. \_\_\_\_\_ is the way that a cost is linked to some cost object.

ANS: Assigning costs

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs                      KEY: Bloom's: Knowledge                      NOT: 1 min.

4. A \_\_\_\_\_ is any item such as a product, customer, department, project, geographic region, plan and so on, for which costs are measured and assigned.

ANS: cost object

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs                      KEY: Bloom's: Knowledge                      NOT: 1 min.

5. Costs that can be easily and accurately traced to a cost object are called \_\_\_\_\_.

ANS: direct costs

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-1  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs                      KEY: Bloom's: Knowledge                      NOT: 1 min.

6. The process of assigning an indirect cost to a cost object by using a reasonable and convenient method is called \_\_\_\_\_.



PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1  
 NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
 Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

- PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-1  
 NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
 Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

- PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-1  
 NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
 Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

- PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-2  
 NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial  
 Characteristics/Terminology KEY: Bloom's: Knowledge  
 NOT: 1 min.

- PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-2  
 NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
 Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

- PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-2  
NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs      KEY: Bloom's: Knowledge      NOT: 1 min.

12. Insurance coverage, medical care, and accounting are examples of \_\_\_\_\_ performed for customers.

ANS: service activities

PTS: 1      DIF: Difficulty: Moderate      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial  
Characteristics/Terminology      KEY: Bloom's: Knowledge  
NOT: 1 min.

13. \_\_\_\_\_ equals the sum of direct materials, direct labor, and manufacturing overhead.

ANS: Total product cost

PTS: 1      DIF: Difficulty: Moderate      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs      KEY: Bloom's: Knowledge      NOT: 1 min.

14. All product costs other than direct materials and direct labor are put into a category called \_\_\_\_\_.

ANS: manufacturing overhead.

PTS: 1      DIF: Difficulty: Easy      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs      KEY: Bloom's: Knowledge      NOT: 1 min.

15. \_\_\_\_\_ is the sum of direct labor cost and manufacturing overhead cost.

ANS: Conversion cost

PTS: 1      DIF: Difficulty: Moderate      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs      KEY: Bloom's: Knowledge      NOT: 1 min.

16. \_\_\_\_\_ and \_\_\_\_\_ costs are considered period costs.

ANS:  
Selling and administrative  
selling, administrative  
administrative, selling

PTS: 1      DIF: Difficulty: Moderate      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs      KEY: Bloom's: Knowledge      NOT: 1 min.

17. Employees who convert direct materials into a product are classified as \_\_\_\_\_.

ANS: direct labor.

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting

Features/Costs

KEY: Bloom's: Knowledge

NOT: 1 min.

18. \_\_\_\_\_ is the cost of the partially completed goods that are still on the factory floor at the end of a time period.

ANS: Work in process

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Knowledge

NOT: 1 min.

19. The difference between sales revenue and cost of goods sold is known as the \_\_\_\_\_.

ANS: gross margin

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Knowledge

NOT: 1 min.

20. The \_\_\_\_\_ represents that total product cost of goods completed during the current period and transferred to finished goods inventory.

ANS: cost of goods manufactured

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Knowledge

NOT: 1 min.

## MULTIPLE CHOICE

1. Expired costs are called

- a. fixed.
- b. costs.
- c. expenses.
- d. profit.

ANS: C

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-1

NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting

Features/Costs

KEY: Bloom's: Knowledge

NOT: 1 min.

2. Assigning costs to cost objects

- a. provides information for decision making.

- b. can be accomplished in a number of ways.
- c. can be a simple or complex process.
- d. do all of these.

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
 OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
 Features/Costs              KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: B                      PTS: 1                      DIF: Difficulty: Moderate  
 OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
 Features/Costs              KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
 OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-28-Variable and Fixed  
 Costs              KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
 Features/Costs              KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
 OBJ: LO: 2-1              NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial  
 Characteristics/Terminology                      KEY: Bloom's: Knowledge  
 NOT: 1 min.

7. Assigning costs
- involves the way that a cost is linked to some cost object.
  - tells the company why the money was spent.
  - to a cost object using a reasonable and convenient method is allocation.
  - all of these.

ANS: D PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-1 NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting

Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

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

ANS: A PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-1 NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial

Characteristics/Terminology KEY: Bloom's: Knowledge

NOT: 1 min.

9. Non-manufacturing costs include
- marketing and administration.
  - direct materials.
  - indirect materials.
  - overhead.

ANS: A PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-2 NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting

Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

10. Which of the following is an example of an intangible product?
- motorcycle
  - eye exam
  - stereo
  - television

ANS: B PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-2 NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial

Characteristics/Terminology KEY: Bloom's: Knowledge

NOT: 1 min.

11. Which of the following is an example of a tangible product?
- lawn care
  - accounting services
  - customer service
  - computer

ANS: D PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-2 NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-25-Managerial Characteristics/Terminology KEY: Bloom's: Knowledge  
NOT: 1 min.

12. Costs are subdivided into what two major functional categories?

- a. opportunity and allocation
- b. fixed and variable
- c. product and non-production
- d. direct and indirect

ANS: C PTS: 1 DIF: Difficulty: Moderate

OBJ: LO: 2-2 NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

13. Product costs

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

ANS: D PTS: 1 DIF: Difficulty: Moderate

OBJ: LO: 2-2 NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

14. Which of the following would *not* be a period cost?

- a. research and development
- b. direct materials
- c. advertising costs
- d. office supplies

ANS: B PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-2 NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

15. Which of the following would be an example of a direct materials cost?

- a. engine on an airplane
- b. screws used to manufacture a lighting fixture
- c. glue used to build cabinets
- d. nails used to manufacture a table

ANS: A PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-2 NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

16. Product costs consist of

- a. period costs.
- b. indirect materials, indirect labor, and administrative costs.
- c. direct materials, direct labor, and selling costs.
- d. direct materials, direct labor, and overhead.

ANS: D PTS: 1 DIF: Difficulty: Moderate

OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

17. Which of the following is *not* an example of a direct materials cost?
- shelves on a bookcase
  - engine in a car
  - tires on a bicycle
  - nail used to manufacture a desk

ANS: D PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

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

ANS: A PTS: 1 DIF: Difficulty: Challenging  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

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

ANS: B PTS: 1 DIF: Difficulty: Moderate  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

20. Direct labor is a(n)
- product cost.
  - opportunity cost.
  - administrative cost.
  - fixed cost.

ANS: A PTS: 1 DIF: Difficulty: Easy  
OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

21. Overhead includes
- indirect labor.
  - indirect materials.
  - supplies.
  - all of these.

ANS: D PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-2 NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

22. Which of the following would *not* be included in overhead?

- a. marketing costs
- b. property taxes on the factory
- c. factory utility costs
- d. depreciation on factory machinery

ANS: A PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-2 NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

23. Indirect labor would include

- a. salary of the vice-president of marketing.
- b. salary of CEO.
- c. salary of factory supervisor.
- d. none of these are correct.

ANS: C PTS: 1 DIF: Difficulty: Moderate

OBJ: LO: 2-2 NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

24. The unit cost

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

ANS: A PTS: 1 DIF: Difficulty: Challenging

OBJ: LO: 2-2 NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

25. Prime cost is

- a. indirect materials cost and direct labor cost.
- b. direct materials cost and direct labor cost.
- c. direct labor cost and indirect labor cost.
- d. direct materials cost and indirect labor cost.

ANS: B PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-2 NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs KEY: Bloom's: Knowledge NOT: 1 min.

26. Conversion cost is the sum of

- a. product costs and period costs.
- b. selling cost and administrative costs.
- c. direct labor cost and direct materials costs.
- d. direct labor cost and overhead costs.

ANS: D PTS: 1 DIF: Difficulty: Easy



OBJ: LO: 2-2      NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs      KEY: Bloom's: Knowledge      NOT: 1 min.

27. Period costs
- are selling costs and administrative costs.
  - are used to compute product cost.
  - can be included in overhead costs.
  - are carried in inventory until the goods are sold.

ANS: A      PTS: 1      DIF: Difficulty: Moderate  
OBJ: LO: 2-2      NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs      KEY: Bloom's: Knowledge      NOT: 1 min.

28. Which of the following is an example of a period cost?
- research and development
  - selling and marketing
  - general accounting
  - all of these

ANS: D      PTS: 1      DIF: Difficulty: Moderate  
OBJ: LO: 2-2      NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs      KEY: Bloom's: Knowledge      NOT: 1 min.

29. Cost of goods manufactured equals
- the cost of indirect materials used in production.
  - the product cost of goods completed during the current period.
  - the period costs for the current period.
  - the cost of direct materials and direct labor used during the current period.

ANS: B      PTS: 1      DIF: Difficulty: Challenging  
OBJ: LO: 2-3      NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge      NOT: 1 min.

30. Cost of goods manufactured equals
- total product costs incurred during the current period + beginning work in process – ending work in process.
  - direct materials cost + direct labor cost + overhead cost.
  - sales – cost of goods sold.
  - none of these are correct.

ANS: A      PTS: 1      DIF: Difficulty: Challenging  
OBJ: LO: 2-3      NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge      NOT: 1 min.

31. The cost of the partially completed goods at the end of the period would be
- ending work in process inventory.
  - cost of goods sold.
  - beginning finished goods inventory.
  - beginning work in process inventory.

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-3              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.

32. Product costs are expensed
- when the product is finished.
  - when the product unit cost is calculated.
  - when the product is sold.
  - all of these are correct.

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-2              NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs              KEY: Bloom's: Knowledge                      NOT: 1 min.

33. Rancor Inc. had a per-unit conversion cost of \$2.50 during April and incurred direct materials cost of \$100,000, direct labor costs of \$75,000, and overhead costs of \$45,000 during the month. How many units did they manufacture during the month?
- 70,000
  - 18,000
  - 48,000
  - 30,000

ANS: C  
SUPPORTING CALCULATIONS:  
 $(\$75,000 + \$45,000) / \$2.50 = \$48,000$

PTS: 1                      DIF: Difficulty: Challenging                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-25-Managerial  
Characteristics/Terminology                      KEY: Bloom's: Application  
NOT: 2 min.

34. Lakeland Inc. manufactured 5,000 units during the month of March. They incurred direct materials cost of \$100,000 and overhead cost of \$40,000. If their per-unit prime cost was \$26.00 per unit how much direct labor cost did they incur during March?
- \$20,000
  - \$35,000
  - \$90,000
  - \$30,000

ANS: D  
SUPPORTING CALCULATIONS:  
 $(\$100,000 + \$30,000) / 5,000 = \$26.00$

$5,000 \times \$26 = \$130,000$  in total prime cost  
Prime cost consist of direct materials and direct labor, therefore if total prime cost is \$130,000 and total direct materials cost is \$100,000, then direct labor would be \$30,000.

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial  
Accounting Features/Costs                      KEY: Bloom's: Application  
NOT: 2 min.

35. During the month of January, Enterprise Inc. had total manufacturing costs of \$110,000. They incurred \$40,000 of direct labor cost and \$30,000 of overhead cost during the month. If the materials inventory on January 1 was \$3,000 less than the materials inventory on January 31, what was the cost of materials purchased during the month?
- \$37,000
  - \$43,000
  - \$40,000
  - none of these

ANS: B

SUPPORTING CALCULATIONS:

Direct materials used	\$ 40,000
Direct labor	\$ 40,000
Overhead	<u>\$ 30,000</u>
Total manufacturing costs	\$110,000

Direct materials purchased	\$ 43,000
Difference in inventory balances	<u>&lt;3,000&gt;</u>
Direct materials used	\$ 40,000

PTS: 1 DIF: Difficulty: Challenging OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs KEY: Bloom's: Application

NOT: 2 min.

36. Production costs that are *not* attached to units that are sold are reported as:
- selling expenses.
  - cost of goods sold.
  - administrative costs.
  - inventory.

ANS: D PTS: 1 DIF: Difficulty: Moderate

OBJ: LO: 2-2 NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Knowledge NOT: 1 min.

37. Information from the records of Cain Corporation for December 2011 are as follows:

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

	<u>Inventories</u>	
	<u>Dec. 1, 2011</u>	<u>Dec. 31, 2011</u>
Direct materials	\$36,000	\$42,000
Work in process	75,000	84,000
Finished goods	69,000	57,000

The conversion costs are:

- \$960,000.
- \$1,179,000.

- c. \$705,000.
- d. \$564,000.

ANS: C

SUPPORTING CALCULATIONS:

$$\$300,000 + \$405,000 = \$705,000$$

PTS: 1 DIF: Difficulty: Moderate

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | AICPA: FN-Measurement | IMA: Business Economics | ACBSP:

APC-27-Managerial Accounting Features/Costs

KEY: Bloom's: Comprehension

NOT: 2 min.

38. Information from the records of Cain Corporation for December 2011 are as follows:

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

	<u>Inventories</u>	
	<u>Dec. 1, 2011</u>	<u>Dec. 31, 2011</u>
Direct materials	\$36,000	\$42,000
Work in process	75,000	84,000
Finished goods	69,000	57,000

The prime costs are:

- a. \$960,000.
- b. \$564,000.
- c. \$705,000.
- d. \$969,000.

ANS: B

SUPPORTING CALCULATIONS:

$$\$264,000 + \$300,000 = \$564,000$$

PTS: 1 DIF: Difficulty: Moderate

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial

Accounting Features/Costs

KEY: Bloom's: Comprehension

NOT: 2 min.

**Figure 2-1.**

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

39. Refer to Figure 2-1. The per-unit conversion cost was:
- a. \$218.75
  - b. \$156.25
  - c. \$162.50
  - d. \$100.00

ANS: B

SUPPORTING CALCULATIONS:

$(\$800,000 + \$450,000)/8,000$

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs

KEY: Bloom's: Application

NOT: 2 min.

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

- a. \$1,750,000
- b. \$2,110,000
- c. \$1,300,000
- d. \$1,250,000

ANS: A

SUPPORTING CALCULATIONS:

$\$500,000 + \$800,000 + \$450,000$

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs

KEY: Bloom's: Application

NOT: 2 min.

41. Refer to Figure 2-1. The total per unit prime cost was:

- a. \$263.75
- b. \$62.50
- c. \$162.50
- d. \$156.25

ANS: C

SUPPORTING CALCULATIONS:

$(\$500,000 + \$800,000)/8,000$

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs

KEY: Bloom's: Application

NOT: 2 min.

42. Refer to Figure 2-1. What was the amount of cost of goods manufactured last month?

- a. \$1,750,000
- b. \$1,250,000
- c. \$1,300,000
- d. \$2,110,000

ANS: A

SUPPORTING CALCULATIONS:

$\$500,000 + \$800,000 + \$450,000$

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | ACBSP:

**Figure 2-5.**

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

	<u>July 1</u>	<u>July 31</u>
Materials	\$6,200	\$7,100
Work in process	\$ 700	\$1,200
Finished goods	\$3,300	\$2,700

43. Refer to Figure 2-5. What was the cost of direct materials used in July?
- \$21,000
  - \$20,100
  - \$21,900
  - \$20,500

ANS: B

**SUPPORTING CALCULATIONS:**

Materials 7/1	\$ 6,200
Purchases	21,000
Materials 7/31	<u>&lt;7,100&gt;</u>
Materials used	\$20,100

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs

KEY: Bloom's: Application

NOT: 2 min.

44. Refer to Figure 2-5. What were the total manufacturing costs in July?
- \$71,000
  - \$50,000
  - \$69,600
  - \$70,100

ANS: D

**SUPPORTING CALCULATIONS:**

Materials used	\$20,100
Direct labor	18,000
Overhead	<u>32,000</u>
Total manufacturing costs	\$70,100

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs

KEY: Bloom's: Application

NOT: 2 min.

45. Refer to Figure 2-5. What was the cost of goods manufactured for July?
- \$70,500
  - \$70,700
  - \$69,600

d. \$69,100

ANS: C

SUPPORTING CALCULATIONS:

Total manufacturing costs	\$70,100
Work in process 7/1	700
Work in process 7/31	<u>&lt;1,200&gt;</u>
Cost of goods manufactured	\$69,600

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Manual Accounting Features/Costs

KEY: Bloom's: Application

NOT: 3 min.

46. Refer to Figure 2-5. What was the cost of goods sold for July?

a. \$70,200

b. \$69,600

c. \$71,300

d. \$71,100

ANS: A

SUPPORTING CALCULATIONS:

Cost of goods manufactured	\$69,600
Finished goods 7/1	3,300
Finished goods 7/31	<u>&lt;2,700&gt;</u>
Cost of goods sold	\$70,200

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | IMA: Reporting | ACBSP: APC-27-Manual Accounting Features/Costs | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Application

NOT: 3 min.

47. Refer to Figure 2-5. If Econo Company sold 10,000 units during July and gross margin totaled \$29,800, what was the sales price per unit?

a. \$9.94

b. \$10.00

c. \$10.09

d. \$10.11

ANS: B

SUPPORTING CALCULATIONS:

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

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Manual Accounting Features/Costs

KEY: Bloom's: Application

NOT: 4 min.

**Figure 2-7.**

Gateway Company produces a product with the following per-unit costs:

Direct materials	\$11
Direct labor	8
Overhead	15

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

48. Refer to Figure 2-7. Prime cost per-unit was?
- \$19
  - \$23
  - \$34
  - \$11

ANS: A

SUPPORTING CALCULATIONS:

$$\$11 + \$8 = \$19$$

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs

KEY: Bloom's: Knowledge

NOT: 1 min.

49. Refer to Figure 2-7. Cost of goods sold last year was?
- \$47,500
  - \$25,500
  - \$14,250
  - \$51,000

ANS: B

SUPPORTING CALCULATIONS:

$$750 \times \$34$$

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Application

NOT: 1 min.

50. Refer to Figure 2-7. Total operating income last year was?
- \$29,000
  - \$51,000
  - \$25,500
  - \$3,500

ANS: D

SUPPORTING CALCULATIONS:

Sales	\$51,000
Cost of goods sold	<25,500>
Sell. and admin.	<22,000>
Operating income	3,500



PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
 KEY: Bloom's: Application NOT: 2 min.

**Figure 2-8.**

Last year Quest Company incurred the following costs:

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

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

51. Refer to Figure 2-8. Total period expense was?
- \$24,000
  - \$190,000
  - \$46,000
  - \$250,000

ANS: C

SUPPORTING CALCULATIONS:

$$\$24,000 + \$22,000 = \$46,000$$

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-2  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial  
 Accounting Features/Costs KEY: Bloom's: Application  
 NOT: 2 min.

52. Refer to Figure 2-8. Gross margin per-unit was?
- \$125
  - \$7
  - \$95
  - \$30

ANS: D

SUPPORTING CALCULATIONS:

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

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-23-Financial Statement Analysis  
 KEY: Bloom's: Application NOT: 3 min.

53. Refer to Figure 2-8. Total product costs were?
- \$190,000
  - \$100,000
  - \$150,000

d. \$236,000

ANS: A

SUPPORTING CALCULATIONS:

$\$40,000 + \$60,000 + \$90,000 = \$190,000$

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial

Accounting Features/Costs

KEY: Bloom's: Application

NOT: 1 min.

54. Refer to Figure 2-8. Conversion cost per unit was?

- a. \$50
- b. \$75
- c. \$95
- d. \$125

ANS: B

SUPPORTING CALCULATIONS:

$(\$60,000 + \$90,000)/2,000 = \$75$

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial

Accounting Features/Costs

KEY: Bloom's: Application

NOT: 1 min.

55. Cost of goods sold

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

ANS: D

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Knowledge

NOT: 1 min.

56. Which of the following would *not* be found on the income statement of a manufacturer?

- a. cost of goods sold
- b. work in process
- c. sales revenue
- d. operating income

ANS: B

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Knowledge

NOT: 1 min.

57. Which of the following would be found on the balance sheet of a manufacturer?

- a. work in process
- b. raw materials

- c. finished goods
- d. All of the these are correct

ANS: D                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-3              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-3              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-3              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: A                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-3              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-3              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-23-Financial Statement Analysis  
KEY: Bloom's: Knowledge                      NOT: 1 min.

62. Which of the following would *not* be found on an income statement of a service organization?
- a. selling expenses
  - b. cost of goods sold

- c. operating income
- d. sales revenue

ANS: B                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-3              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-3              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: C                      PTS: 1                      DIF: Difficulty: Easy  
OBJ: LO: 2-3              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: D                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-3              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.

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

ANS: C                      PTS: 1                      DIF: Difficulty: Moderate  
OBJ: LO: 2-3              NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Knowledge                      NOT: 1 min.

**Figure 2-2.**

Lonborg Co. had the following beginning and ending inventory balances for the year ended December 31, 2011:

	<u>January 1, 2011</u>	<u>December 31, 2011</u>
Materials	\$10,000	\$ 8,000
Work in Process	\$18,000	\$17,000
Finished Goods	\$21,000	\$16,500

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

67. Refer to Figure 2-2. What was the amount of cost of goods manufactured for the year?
- \$101,000
  - \$124,000
  - \$100,000
  - \$102,000

ANS: D

SUPPORTING CALCULATIONS:

Materials 1/1	\$10,000	
Purchases	<u>27,000</u>	
	37,000	
Materials 12/31	<u>&lt;8,000&gt;</u>	
Materials used		29,000
Direct labor		30,000
Overhead		<u>42,000</u>
Total manufacturing costs		101,000
Work in process 1/1		18,000
Work in process 12/31		<u>&lt;17,000&gt;</u>
Cost of goods manufactured		\$102,000

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Application

NOT: 10 min.

68. Refer to Figure 2-2. What was the amount of cost of goods sold for the year?
- \$102,000
  - \$97,500
  - \$106,500
  - \$128,500

ANS: C

SUPPORTING CALCULATIONS:

Cost of goods manufactured	\$102,000
Finished goods inventory 1/1	21,000
Finished goods inventory 12/31	<u>&lt;16,500&gt;</u>
Cost of goods sold	\$106,500

PTS: 1

DIF: Difficulty: Challenging

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Application

NOT: 15 min.

69. Refer to Figure 2-2. What were the total manufacturing costs for the year?
- \$101,000
  - \$102,000
  - \$123,000
  - \$106,500

ANS: A

SUPPORTING CALCULATIONS:

Materials used in production	\$ 29,000
Direct labor	30,000
Overhead	<u>42,000</u>
Total manufacturing costs	\$101,000

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
 KEY: Bloom's: Application NOT: 3 min.

70. Refer to Figure 2-2. What was Lonborg's operating income <loss> for the year?
- \$18,500
  - \$125,000
  - \$<3,500>
  - \$5,500

ANS: C

SUPPORTING CALCULATIONS:

Sales	\$125,000
Cost of goods sold	<u>106,500</u>
Gross margin	18,500
Sell. & admin.	<u>22,000</u>
Operating income	<3,500>

PTS: 1 DIF: Difficulty: Challenging OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
 KEY: Bloom's: Application NOT: 15 min.

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

ANS: A

SUPPORTING CALCULATIONS:

Direct materials	\$ 52,000
Direct labor	37,000
Overhead	<u>26,000</u>
Total manufacturing costs	115,000
Work in process 6/1	7,000
Work in process 6/30	<u>&lt;10,000&gt;</u>

Cost of goods manufactured \$112,000

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-3  
NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Application NOT: 3 min.

72. Talcum Inc. had materials inventory at July 1 of \$12,000. The materials inventory at July 31 was \$15,000 and the cost of direct materials used in production was \$20,000. What was the cost of materials purchased during the month?
- a. \$23,000
  - b. \$17,000
  - c. \$35,000
  - d. \$20,000

ANS: A

SUPPORTING CALCULATIONS:

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

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-3  
NAT: BUSPROG: Analytic  
STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs  
KEY: Bloom's: Application  
NOT: 3 min.

73. Kutlow Inc. had cost of goods sold of \$112,000 for the year ended December 31, 2011. The finished goods inventory on January 1, 2011 was \$28,000 and the finished goods inventory on December 31, 2011 was \$17,000. What was the amount of cost of goods manufactured for the year?
- a. \$129,000
  - b. \$101,000
  - c. \$67,000
  - d. \$113,000

ANS: B

SUPPORTING CALCULATIONS:

Finished goods 1/1	\$ 28,000
Cost of goods manufactured	<u>101,000</u>
Goods available	129,000
Finished goods 12/31	<u>&lt;17,000&gt;</u>
Cost of goods sold	\$112,000

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-3  
NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Application NOT: 3 min.

74. Andover Inc. had a gross margin for the month of February totaling \$42,000. They sold 5,000 units during the month at a sales price of \$20 per unit. What was the amount of cost of goods sold for the month?
- a. \$100,000

- b. \$42,000
- c. \$58,000
- d. none of these are correct

ANS: C

SUPPORTING CALCULATIONS:

Sales (5,000 × \$20)	\$100,000
Cost of goods sold	<u>58,000</u>
Gross margin	42,000

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
 KEY: Bloom's: Application NOT: 1 min.

**Figure 2-3.**

Bartlow, Inc. had the following income statement for the month of May.

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

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

ANS: A

SUPPORTING CALCULATIONS:

$$\$428,000 / \$428,000 = 100\%$$

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-23-Financial Statement Analysis  
 KEY: Bloom's: Knowledge NOT: 1 min.

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

ANS: D

SUPPORTING CALCULATIONS:

$$\$205,440 / \$428,000 = 48\%$$

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-23-Financial Statement Analysis



KEY: Bloom's: Application

NOT: 1 min.

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

ANS: A

SUPPORTING CALCULATIONS:

$$\$222,560/\$428,000 = 52\%$$

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-23-Financial Statement Analysis

KEY: Bloom's: Application

NOT: 1 min.

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

ANS: B

SUPPORTING CALCULATIONS:

$$\$81,320/\$428,000 = 19\%$$

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-23-Financial Statement Analysis

KEY: Bloom's: Application

NOT: 1 min.

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

ANS: A

SUPPORTING CALCULATIONS:

$$\$72,760/\$428,000 = 17\%$$

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-23-Financial Statement Analysis

KEY: Bloom's: Application

NOT: 1 min.

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

ANS: D

SUPPORTING CALCULATIONS:

$$\$68,480/\$428,000 = 16\%$$

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-23-Financial Statement Analysis  
 KEY: Bloom's: Application NOT: 1 min.

**Figure 2-4.**

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

January 1	1,260
December 31	1,040

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

ANS: B

**SUPPORTING CALCULATIONS:**

Units manufactured	97,000
Decrease in inventory balances	<u>220</u>
Units sold	97,220

PTS: 1 DIF: Difficulty: Challenging OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Measurement | IMA: Reporting | ACBSP: APC-27-Managerial Accounting  
 Features/Costs KEY: Bloom's: Application NOT: 1 min.

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

ANS: A

**SUPPORTING CALCULATIONS:**

$$1,040 \times \$112 = \$116,480$$

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
 KEY: Bloom's: Application NOT: 1 min.

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

ANS: D

SUPPORTING CALCULATIONS:

$$97,220 \times \$112 = \$10,888,640$$

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Application

NOT: 2 min.

**Figure 2-6.**

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

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

84. Refer to Figure 2-6. What was gross margin for the year?

- a. \$60,000
- b. \$100,000
- c. \$40,000
- d. none of these

ANS: C

SUPPORTING CALCULATIONS:

Operating income	\$10,000
Selling and admin.	<u>\$30,000</u>
Gross margin	\$40,000

PTS: 1

DIF: Difficulty: Challenging

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Application

NOT: 1 min.

85. Refer to Figure 2-6. What was cost of goods sold for the year?

- a. \$60,000
- b. \$40,000
- c. \$100,000
- d. none of these

ANS: A

SUPPORTING CALCULATIONS:

Sales (\$40,000/.40)	\$100,000
Gross margin	<u>&lt;40,000&gt;</u>
Cost of goods sold	60,000
Also \$40,000/.40 $\times$ .60	

PTS: 1

DIF: Difficulty: Challenging

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Application

NOT: 2 min.

86. Refer to Figure 2-6. How many units were sold during the year?

- a. 3,333
- b. 1,000
- c. 1,500
- d. 2,000

ANS: D

SUPPORTING CALCULATIONS:

Cost of goods sold  $\$60,000 / \$30 = 2,000$  units

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Cost Management | ACBSP: APC-25-Managerial Characteristics/Terminology

KEY: Bloom's: Application

NOT: 2 min.

87. Refer to Figure 2-6. What was the sales price per unit?

- a. \$50
- b. \$30
- c. \$20
- d. \$10

ANS: A

SUPPORTING CALCULATIONS:

Sales  $\$100,000 / 2,000$  units = \$50

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-23-Financial Statement Analysis

KEY: Bloom's: Application

NOT: 2 min.

88. If beginning work-in-process inventory is \$120,000, ending work-in-process inventory is \$160,000, cost of goods manufactured is \$400,000 and direct materials used are \$100,000, what are the conversion costs?

- a. \$140,000
- b. \$280,000
- c. \$300,000
- d. \$340,000

ANS: D

SUPPORTING CALCULATIONS:

$\$400,000 + \$160,000 - \$120,000 - \$100,000 = \$340,000$

PTS: 1

DIF: Difficulty: Challenging

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs

KEY: Bloom's: Application

NOT: 2 min.

89. Information from the records of Place, Inc., for December 2011 is as follows:

Sales	\$820,000
Selling and administrative expenses	140,000
Direct materials purchases	176,000
Direct labor	200,000
Factory overhead	270,000

Direct materials, December 1	24,000
Work in process, December 1	50,000
Finished goods, December 1	46,000
Direct materials, December 31	28,000
Work in process, December 31	56,000
Finished goods, December 31	38,000

Net income for the month of December is:

- a. \$644,000.
- b. \$36,000.
- c. \$636,000.
- d. \$180,000.

ANS: B

SUPPORTING CALCULATIONS:

COGM = (\$24,000 + \$176,000 – \$28,000) + \$200,000 + \$270,000 + \$50,000 – \$56,000 = \$636,000

COGS = \$636,000 + \$46,000 – \$38,000 = \$644,000

NI = \$820,000 – \$140,000 – \$644,000 = \$36,000

PTS: 1

DIF: Difficulty: Challenging

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Business Economics | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Application

NOT: 15 min.

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

Selling and administrative expenses	\$225,000
Direct materials used	397,500
Direct labor	450,000

	<u>Inventories</u>	
	<u>Dec. 1, 2011</u>	<u>Dec. 31, 2011</u>
Direct materials	\$36,000	\$42,000
Work in process	75,000	84,000
Finished goods	69,000	57,000

The cost of direct materials purchased is:

- a. \$397,500.
- b. \$403,500.
- c. \$367,500.
- d. \$405,000.

ANS: B

SUPPORTING CALCULATIONS:

\$397,500 + \$42,000 – \$36,000 = \$403,500

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Business Economics | ACBSP: APC-27-Manual

Accounting Features/Costs

KEY: Bloom's: Application

NOT: 2 min.

## PROBLEM

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

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

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

ANS:

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

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-1

NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Cost Management | ACBSP: APC-28-Variable and Fixed Costs

KEY: Bloom's: Knowledge

NOT: 2 min.

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

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

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

9. Cost of lubricating machinery
10. Wood used in production process

ANS:

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

PTS: 1 DIF: Difficulty: Moderate

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting

Features/Costs KEY: Bloom's: Knowledge

NOT: 2 min.

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

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

	<u>Product Cost</u>			<u>Period Cost</u>	
	<u>Direct</u>	<u>Direct</u>		<u>Selling</u>	<u>Administrative</u>
	<u>Materials</u>	<u>Labor</u>	<u>Overhead</u>	<u>Expense</u>	<u>Expense</u>
1. Wages of general office personnel					
2. Cost of tires					
3. Factory supervisor's salary					
4. Conference for marketing personnel					
5. Factory security guards					

6. Research and development
7. Assembly line workers
8. Company receptionist
9. Advertising cost
10. Cost of shipping vehicles to customers

ANS:

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

PTS: 1 DIF: Difficulty: Moderate

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Manual Accounting Features/Costs KEY: Bloom's: Knowledge

NOT: 3 min.

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

**Required:**

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



E. What is the cost of ending finished goods for the month?

ANS:

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

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

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

D.  $(\$96 \times 2,800) = \$268,800$

E.  $(\$96 \times 200) = \$19,200$

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Cost Management | IMA: Business Economics | ACBSP:

APC-27-Managerial Accounting Features/Costs

KEY: Bloom's: Application

NOT: 10 min.

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

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

ANS:

Direct materials = 76,000

Direct labor = 57,600 (30 employees x 160 hrs. x \$12 per hour)

Overhead = 80,000

Total cost 213,600

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

PTS: 1

DIF: Difficulty: Easy

OBJ: LO: 2-2

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | IMA: Cost Management | ACBSP: APC-27-Managerial

Accounting Features/Costs

KEY: Bloom's: Application

NOT: 5 min.

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

**Required:**

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

ANS:

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

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-2  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Measurement | IMA: Cost Management | ACBSP: APC-27-Managerial Accounting Features/Costs KEY: Bloom's: Application  
 NOT: 4 min.

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

**Required:**

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

ANS:

- A.  $(\$516,000 + \$430,000 + \$645,000)/86,000 = \$18.50$
- B.  $(\$516,000 + \$430,000)/86,000 = \$11.00$
- C.  $(\$430,000 + \$645,000)/86,000 = \$12.50$
- D.
 

Sales (86,000 × \$21)	\$1,806,000
COGS (86,000 × \$18.50)	<u>1,591,000</u>
Gross Margin	215,000
- E.
 

Gross Margin	\$ 215,000
Less: Sell. and admin.	<u>157,000</u>
Operating Income	58,000
- F.  $(80,000 \times \$18.50) = \$1,480,000$
- G.  $(6,000 \times \$18.50) = \$111,000$

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-2 | LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | IMA: Reporting | ACBSP: APC-27-Managerial Accounting Features/Costs | ACBSP: APC-09-Financial Statements KEY: Bloom's: Application NOT: 15 min.

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

**Required:**

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

ANS:

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

B.  $10,000 \times \$34 - (\$200,000 \text{ of direct labor cost}) = \$140,000$

C.  $10,000 \times \$42 - (\$200,000 \text{ of direct labor cost}) = \$220,000$

D.	Sales revenue ( $10,000 \times \$100$ )	\$1,000,000
	Cost of goods sold	<u>560,000</u>
	Gross margin	440,000

E.	Gross margin	\$ 440,000
	Less: Sell. and admin.	<u>240,000</u>
	Operating income	200,000

PTS: 1 DIF: Difficulty: Challenging

OBJ: LO: 2-2 | LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | IMA:

Reporting | ACBSP: APC-27-Managerial Accounting Features/Costs | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Application

NOT: 10 min.

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

During the month of September the following purchases were made to produce the 900 frames:

Wood- 4000 ft. at \$1.20/ft.

Glass- 400 pieces at \$5.60/piece

Cardboard- 500 pieces at \$.50/piece

**Required:**

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

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

ANS:

1. Direct materials:

Wood =	\$4,800 (4,000 x 1.20)
Glass =	2,240 (400 x 5.65)
Cardboard =	<u>250</u> (500 x .50)
	\$7,290

Direct labor:	59,840 (22 x 160 x 17)
Overhead	<u>55,000</u>
Total cost	122,130

2.  $122,130/900 = \$135.70$

3. Gross margin = sales revenue-cost of goods sold

Gross margin =  $225,000 (250 \times 900) - 122,130 = \$102,870$

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-2 | LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Cost Management | ACBSP:

APC-27-Managerial Accounting Features/Costs | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Application

NOT: 5 min.

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

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

**Required:** Prepare a Statement of Cost of Goods Manufactured

ANS:

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

Materials inventory, April 1	\$ 1,475	
Materials purchased	<u>17,000</u>	
Materials available for use	18,475	
Materials inventory, April 30	<u>1,200</u>	
Materials used		\$17,275
Direct labor		12,000

Overhead	<u>7,000</u>
Total manufacturing costs	36,275
Work in process, April 1	2,000
Work in process, April 30	<u>(2,800)</u>
Cost of goods manufactured	\$35,475

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
 KEY: Bloom's: Application NOT: 10 min.

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

	<u>June 1</u>	<u>June 30</u>
Materials	\$3,000	\$2,700
Work in process	1,000	1,275
Finished goods	2,500	1,775

**Required:**

- Calculate the cost of direct materials used during June.
- Calculate the total manufacturing cost for June.
- Calculate the cost of goods manufactured for June.
- Calculate cost of goods sold for June.

**ANS:**

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

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

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

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

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Business Economics | IMA: Reporting | ACBSP: APC-27-Managerial Accounting Features/Costs | ACBSP: APC-09-Financial Statements  
 KEY: Bloom's: Application NOT: 5 min.

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

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

**Required:**

- A. Prepare a Statement of Cost of Goods Manufactured
- B. Prepare a Statement of Cost of Goods Sold

ANS:

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

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

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

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

PTS: 1      DIF: Difficulty: Moderate      OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
 KEY: Bloom's: Application      NOT: 15 min.

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

**Required:**

- A. Compute the total sales revenue

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

ANS:

A.  $75,000 \times \$575 = \$43,125,000$

B.	Sales revenue	\$43,125,000
	Cost of goods sold	
	(75,000 × \$540)	<u>40,500,000</u>
	Gross margin	2,625,000

C.	Gross margin	\$ 2,625,000
	Selling and admin. expenses	<u>2,000,000</u>
	Operating income	625,000

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

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
 KEY: Bloom's: Application                      NOT: 5 min.

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

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

**Required:** Prepare an income statement for Baleen Company.

ANS:

Baleen Company Income Statement For the Year Ended December 31, 2011	
Sales revenue	\$120,000
Cost of goods sold*	<u>53,500</u>
Gross margin	66,500
Less:	
Selling expense	12,000
Administrative expense	<u>17,000</u>

Operating income	\$ 37,500
*Cost of goods manufactured	\$ 52,000
Finished goods inventory, Jan. 1	7,500
Finished goods inventory, Dec. 31	(6,000)

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
 KEY: Bloom's: Application                      NOT: 10 min.

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

	<u>January 1, 2011</u>	<u>December 31, 2011</u>
Materials	\$21,000	\$23,500
Work in process	17,500	8,500
Finished goods	26,000	27,000
Direct labor		\$ 40,000
Selling expenses		31,000
Sales revenue		400,000
Administrative expenses		14,500
Purchases of raw materials		62,000
Factory supervision		50,000
Factory supplies used		25,000

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

ANS:

Macon Company Income Statement For the Year Ended December 31, 2011	
Sales revenue	\$ 400,000
Cost of goods sold*	<u>182,500</u>
Gross margin	217,500
Less:	
Selling expenses	31,000
Administrative expenses	<u>14,500</u>
Operating income	\$172,000
*Cost of goods manufactured**	\$183,500
Finished goods inventory, Jan. 1	26,000
Finished goods inventory, Dec. 31	<u>(27,000)</u>
Cost of goods sold	182,500
**Purchases of raw materials	\$ 62,000
Materials inventory, 1/1	21,000
Materials inventory, 12/31	<u>(23,500)</u>
Materials used	59,500
Direct labor	40,000
Overhead (\$50,000 + \$25,000)	<u>75,000</u>



Total manufacturing costs	174,500
Work in process inventory, Jan. 1	17,500
Work in process inventory, Dec. 31	<u>(8,500)</u>
Cost of goods manufactured	\$183,500

PTS: 1                      DIF: Difficulty: Challenging                      OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
 KEY: Bloom's: Application                      NOT: 20 min.

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

Direct labor cost	\$11,500
Purchases of raw materials	20,000
Factory depreciation	7,500
Advertising	10,000
Factory property taxes	6,500
Materials inventory, 5/1	1,250
Materials inventory, 5/31	2,500
Work in process Inventory, 5/1	?
Work in process Inventory, 5/31	1,500
Cost of goods manufactured	45,850
Sales revenue	?
Executive salary cost	25,000
Finished goods inventory, 5/1	5,500
Finished goods inventory, 5/31	4,250
Operating income	67,900
Gross margin	?

**Required:** Solve for the missing amounts (?)

ANS:

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

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

Bartlow Company  
 Income Statement  
 For the Month of May

Sales revenue	\$150,000
Cost of goods sold*	<u>47,100</u>

Gross margin	102,900
Less:	
Selling expense	10,000
Administrative expense	<u>25,000</u>
Operating income	\$ 67,900
 *Cost of goods manufactured	 \$ 45,850
Finished goods inventory, 5/1	5,500
Finished goods inventory, 5/31	<u>(4,250)</u>
Cost of goods sold	\$ 47,100

PTS: 1                      DIF: Difficulty: Challenging                      OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
 KEY: Bloom's: Application                      NOT: 15 min.

17. See the following separate cases.

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

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

ANS:

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

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
 KEY: Bloom's: Application                      NOT: 10 min.

18. See the following separate cases.

	<u>Case #1</u>	<u>Case #2</u>
Purchase of materials	\$ 5,000	C

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

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

ANS:

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

PTS: 1 DIF: Difficulty: Moderate

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Application

NOT: 10 min.

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

Rancor Company Income Statement For the Month of August	
Sales revenue	\$912,200
Cost of goods sold	<u>601,920</u>
Gross margin	310,280
Less:	
Selling expense	164,160
Administrative expense	<u>63,840</u>
Operating income	\$ 82,280

**Required:**

- Calculate the sales revenue percent
- Calculate the cost of goods sold percent
- Calculate the gross margin percent
- Calculate the selling expense percent
- Calculate the administrative expense percent
- Calculate the operating income percent

ANS:

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

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-23-Financial Statement Analysis  
 KEY: Bloom's: Application NOT: 5 min.

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

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

**Required:**

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

ANS:

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

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

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-23-Financial Statement Analysis

KEY: Bloom's: Application

NOT: 10 min.

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

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

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

ANS:

Rizzuto Company Income Statement For the Month of January	
Sales revenue	\$500,000
Cost of goods sold ( $500,000 \times 62\%$ )	<u>310,000</u>
Gross margin ( $500,000 \times 38\%$ )	190,000
Less:	
Selling expense ( $500,000 \times 6\%$ )	30,000
Administrative expense ( $500,000 \times 13\%$ )	<u>65,000</u>
Operating income	95,000

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Application

NOT: 4 min.

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

Operating income percent	10.5%
Gross margin percent	30%

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

- A. Sales revenue
- B. Cost of good sold
- C. Total Selling and administrative expenses

ANS:

A. Sales Revenue = $\$44,100 / .105 = 420,000$	
B. Cost of goods sold = $420,000 \times .70 = \$294,000$	
C. Gross margin ( $420,000 \times .30$ )	126,000
Less: Selling and administrative expense	<u>81,900</u>
Operating income	44,100

PTS: 1

DIF: Difficulty: Moderate

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements

KEY: Bloom's: Application

NOT: 5 min.

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

Direct materials	\$17
Direct labor	11
Overhead	12

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

**Required:** Solve for the following:

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

ANS:

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

B. & C.	Sales revenue (3,000 × 80)	\$240,000
	Cost of goods sold	<u>120,000</u>
	Gross margin	120,000
	Less:	
	Selling and administrative expenses	<u>25,000</u>
	Operating income	\$ 95,000

D.  $17 + 11 = \$28$

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic  
STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Application                      NOT: 5 min.

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

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

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

**Required:** Solve for the following amounts.

- A. Total product cost for last month
- B. Unit product cost for last month
- C. Total period costs
- D. Gross margin for last month
- E. Operating income for last month

ANS:

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

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

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

D & E.	Sales revenue ( $20,000 \times \$18$ )	360,000
	Cost of goods sold	<u>127,000</u>
	Gross margin	233,000
	Less:	
	Selling expense	17,000
	Administrative expense	<u>12,000</u>
	Operating income	\$204,000

PTS: 1 DIF: Difficulty: Moderate

OBJ: LO: 2-3

NAT: BUSPROG: Analytic

STA: AICPA: FN-Measurement | AICPA: FN-Reporting | IMA: Reporting | ACBSP:  
APC-09-Financial Statements | ACBSP: APC-27-Managerial Accounting Features/Costs

KEY: Bloom's: Application

NOT: 5 min.

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

Factory supplies used	22,000
Depreciation on factory building	10,000
Commissions for sales personnel	32,000
Salary of company CFO	9,000
Factory janitorial costs	3,000
Research and development	5,000
Depreciation on corporate office	8,500
Advertising costs	2,500
Direct labor cost	40,000
Purchases of raw materials	15,000
Finished goods inventory units, May 1	4,000
Finished goods inventory units, May 31	6,500
Finished goods inventory, May 1	36,000
Finished goods inventory, May 31	59,865
Work in process inventory, May 1	7,500
Work in process inventory, May 31	

	3,300
Materials inventory, May 1	2,100
Materials inventory, May 31	4,200

**Required:**

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

ANS:

A.

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

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

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

C.

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

Cost of Goods Manufactured	\$92,100
Finished Goods Inventory, May 1	4,000
Finished Goods Inventory, May 31	<u>(6,500)</u>
Cost of Goods Sold	<u>\$89,600</u>

D. Number of units sold:

Finished goods inventory, May 1	434
Units finished during May	10,000
Finished goods inventory, May 31	<u>(706)</u>
Units sold during May	<u>9,728</u>

E.

Stabler Company  
Income Statement  
For the Month of May

Sales revenue (9,728 x 35)

340,480



Cost of goods sold		
		<u>89,600</u>
Gross margin		250,880
Less:		
Selling expense		
Commissions	32,000	
Advertising	<u>2,500</u>	34,500
Administrative expense		
Salary of CFO	9,000	
Research and development	5,000	
Depreciation on corporate office	<u>8,500</u>	<u>22,500</u>
Operating income		<u>193,880</u>

PTS: 1                      DIF: Difficulty: Challenging                      OBJ: LO: 2-3  
 NAT: BUSPROG: Analytic  
 STA: AICPA: FN-Reporting | IMA: Reporting | ACBSP: APC-09-Financial Statements  
 KEY: Bloom's: Application                      NOT: 30 min.

## ESSAY

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

ANS:

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

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-2  
 NAT: BUSPROG: Analytic  
 STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting Features/Costs                      KEY: Bloom's: Comprehension                      NOT: 5 min.

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

ANS:

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

PTS: 1                      DIF: Difficulty: Easy                      OBJ: LO: 2-2  
 NAT: BUSPROG: Analytic

STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-27-Managerial Accounting  
Features/Costs                      KEY: Bloom's: Comprehension                      NOT: 5 min.

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

ANS:

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

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-2  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Business Economics | ACBSP: APC-17-Inventories Reporting  
KEY: Bloom's: Comprehension                      NOT: 5 min.

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

ANS:

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

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-2 | LO: 2-3  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | AICPA: FN-Reporting | IMA: Business Economics | IMA: Reporting |  
ACBSP: APC-17-Inventories Reporting | ACBSP: APC-09-Financial Statements  
KEY: Bloom's: Comprehension                      NOT: 5 min.

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

ANS:

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

PTS: 1                      DIF: Difficulty: Moderate                      OBJ: LO: 2-3  
NAT: BUSPROG: Analytic  
STA: AICPA: BB-Industry | IMA: Reporting | ACBSP: APC-27-Managerial Accounting  
Features/Costs |                      KEY: Bloom's: Comprehension                      NOT: 5 min.

You Decide

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

How would you respond?

## Test Bank for Cornerstones of Managerial Accounting 5th Edition by Mowen

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ANS:

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

PTS: 1

DIF: Difficulty: Challenging

OBJ: LO: 2-1 | LO: 2-2 | LO: 2-3

NAT: BUSPROG: Analytic | BUSPROG: Reflective Thinking

STA: AICPA: BB-Critical Thinking | IMA: Business Applications | ACBSP: APC-27-Managerial Accounting Features/Costs

KEY: Bloom's: Comprehension

NOT: 10 min.